

Report of the Board of Directors on the Company's Business Activities and Statement of Financial Position for 2014

Consolidated Results of Operations*

Despite the difficult environment of permanently low interest rates and a highly competitive environment, Česká spořitelna enjoyed one of its best results in its long history. **The year 2014 was exceptional not only by the size of the net profit but also by a number of small and major successes** in various areas of banking business.

The key autumn event for Česká spořitelna and its clients was the **start-up of the personal banking service under the brand BLUE**. New unique retail projects and tools, such as Loan 5+5, Dobrá rada (Good Advice) or Videobanker were launched during the year. **The aim of the laboratory branch, which launched its activities in Plzeň Lochotín, is the live testing of a new service model**, expanding self-service devices for routine banking operations and improving the quality of provided advisory services. In January 2014, **Česká spořitelna was the first bank** in the Czech Republic to **present sale of mortgages via Facebook** and repeated this successful sale in June 2014. Despite low interest rates, Česká spořitelna is able to successfully offer to clients a large scale of investment instruments headed by mutual funds, and bring about a remarkable yield.

Česká spořitelna develops an IT environment that allows running new **exceptional applications for clients**, such as the mobile application for corporate and business clients "BUSINESS 24" and Lístkomat, thanks to which the clients may arrange for meetings at branches or withdraw directly a virtual ticket. Česká spořitelna is also preparing intensively for paperless operations.

Česká spořitelna is successful in major commercial transactions and trades, such as bond issues of the Czech corporations Net4Gas or Pegas Nonwovens, whereas **Net4Gas was the largest Czech crown emission of corporate bonds for the last decade**. The Bank has been successfully developing the programme TOP INNOVATIONS, which is focused on financing of innovative projects and developing activities of companies and makes use of advantageous programmes offered by the European Investment Bank or the European Investment Fund. In cooperation with the parent Erste Group Bank, Česká spořitelna successfully implemented the initial public offering (IPO) of shares of the Lobkowicz Group Breweries. This was a key transaction in the Czech capital market, upholding the role of Česká spořitelna as the leading stock issue manager in the Czech Republic. Česká spořitelna participated in the arrangement of the long-term club funding for Škoda Transportation, a leading European manufacturer of means of transport.

Česká spořitelna applies a disciplined approach to its operating expenses, which decreased for the sixth consecutive year. **Česká spořitelna won** for the eighth year running **the prestigious award "Bank of the Year"**, granted by **The Banker magazine** from the Financial Times media group. **The expert jury** of the competition Best Innovator 2014 organised by **A.T. Kearney appreciated Česká spořitelna's approach to innovations** and declared it the "Major Surprise of the Competition". Last but not least, Česká spořitelna feels its social responsibility to the society, which is reflected in the educational activities of the Foundation Depositum Bonum, the Floccus Award of the Foundation of Česká spořitelna or the winning of the award "Bank without Barriers".

Income Statement

As of 31 December 2014, Česká spořitelna reported consolidated net profit after minority interests of **CZK 15.1 billion** under International Financial Reporting Standards. The net result decreased by 3% compared to net profit of CZK 15.6 billion in 2013. Although the net profit dropped, this was one of the most profitable years in the history of Česká spořitelna. **The operating result,**

* Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a.s. ("ČSPS Transformed Fund"), including additional pension insurance funds with state contribution in Pillar III, was deconsolidated from the consolidated unit of Česká spořitelna as of 31 March 2014. The ČSPS Transformed Fund continues to be managed by the ČS Financial Group via Česká spořitelna – penzijní společnost, a.s.

which demonstrates the bank's power to generate profit, kept its stable level of CZK 22.9 billion.

Due to the growth of equity and the decreased profit, the return on equity ("ROE") indicator dropped to 14.5%. The return on assets ("ROA") indicator grew to 1.7% due to a reduction of the balance sheet amount. In 2013, these values were 16.2% and 1.6%, respectively. Profit before taxes and minority interests (gross profit) decreased by 4% year-on-year to CZK 18.7 billion.

Net profit and operating result (CZK billion)

	2010	2011	2012	2013	2014
Net profit	12.1	13.6	16.6	15.6	15.1
Operating result	26.7	25.6	25.3	22.9	22.9
Cost/Income (%)	41.1	41.8	41.9	45.0	44.3

Lower net interest income, the favourable impact of an ongoing reduction in operating expenses, an increase of trading result and a reduction of other operating result, all impacted the Bank's consolidated results.

Total operating income comprising net interest income, net fee and commission income, net trading result, dividend income and rental income dropped slightly, i.e. 1% to CZK 41.1 billion. The share of non-interest income in total operating income increased to 35%. **Operating expenses continued to decrease, by 3% in 2014 to CZK 18.2 billion.** Operating expenses for 2014 and for the comparable period newly contain also a statutory contribution to the Deposits Insurance Fund in the amount of CZK 0.9 billion. **Thanks to the decrease of the expenses, the cost/income ratio improved from 45.0% to 44.3%.**

Net interest income traditionally represents for the major part of operating result. The interest rates in the Czech market and throughout Europe have been long kept at the historically lowest level. Since November 2012 the Czech National Bank base rate has remained at a historic low of 0.05% (technically zero); **therefore, even the growth of client loans did not outweigh further decrease of interest margins.** The net interest margin on interest-bearing assets dropped from 3.61% to 3.53%. Given these circumstances, net interest income dropped by 2% to CZK 26.7 billion.

Credit transactions generate more than 80% of interest income. **The portfolio of loans and receivables to customers increased year-on-year by 2%**, with mortgage loans the fastest growing component. Although Česká spořitelna successfully improved the interest margins of retail mortgages and kept stable margins for corporate segment, the achieved interest margins reflect the highly competitive banking environment. Interest income from loans and receivables to customers thus fell 5% to CZK 24.9 billion.

Interest income from held-to-maturity debt securities, which was the second most important item, has also decreased. This was due to the maturity of bonds with higher interest yield in the course of the years 2013 and 2014. On the other hand, **Česká spořitelna managed to reduce interest expense on its own bonds**, which was due to a decrease of their volume, and on deposits.

Composition of operating income (CZK billion)

	2010	2011	2012	2013	2014
Net interest income*	30.4	31.2	29.7	28.1	27.5
Net fee and commission income	12.2	12.4	11.8	11.3	11.3
Net trading result	2.9	0.5	2.2	2.2	2.3

* Net interest income includes dividend income and rental income

Net fee and commission income, another substantive component of operating result, witnessed a stable development and totalled CZK 11.3 billion in 2014, which is the same result as in the comparable period. **Net fee and commission income from securities transactions and management of client assets reported positive development** due particularly to increased client interest in investment or pension funds. Sales of insurance products were also successful.

The year-on-year drop of net income from payment transfers and lending business is affected by falling prices of financial services due to continuously growing use of internet banking and discounted programmes and products by clients. Despite the year-on-year growth in the volume and number of

card transactions (for instance, the volume of card transactions executed by Česká spořitelna's cards increased in 2014 by further 9%), income from card transactions did not increase adequately, mainly due to growing fees paid to card associations. **Net fee and commission income from payment transfers is the primary source of total net fee income, representing more than one half of the total.**

Česká spořitelna once again reported an outstanding net trading result. **Net trading and fair value result grew year-on-year by 5%** to CZK 2.3 billion. Income from trading in securities, particularly from their sales and result from assets at fair value is behind this good result. In contrast, profit from derivatives and foreign exchange transactions decreased.

Rental income, including primarily rental income from investment properties and dividend income from shares held by Česká spořitelna, have kept their stable level and have contributed together CZK 0.8 billion to total operating result.

Composition of operating result (CZK billion)

Net interest income	26.7	65%
Net fee and commission income	11.3	27%
Net trading result	2.3	6%
Rental income and dividend income	0.8	2%

Rigorous and consistent cost management was reflected in further decrease of operating expenses by 3% to CZK 18.2 billion. Expressed in absolute terms, this represents savings of almost CZK 0.5 billion. Hence, Česká spořitelna has been continuously reducing its operating expenses for six consecutive years. **General administrative expenses** (operating expenses) **comprising** personnel expenses, other administrative expenses, depreciation and amortisation and newly also the **deposit insurance contribution**, which is also reported in the comparable period.

Personnel expenses of Česká spořitelna dropped year-on-year by 4% to CZK 8.6 billion, due primarily to a decrease of headcount in 2013. Personnel expenses represent almost one half of all general administrative expenses.

The total volume of other administrative expenses was successfully reduced by 2% to CZK 7.3 billion, **particularly due to a reduction of expenditure on office space and business transactions**, which comprise, for instance, material consumption, cash circulation costs, or costs of production of chip cards. **The factors behind cost reduction include namely new procurement procedures for suppliers and setup of banking processes, which increase effectiveness of the Bank's activities.** In contrast, IT expenses increased due to the implementation of projects evoked by requirements of regulatory authorities. Another increase was reported by the statutory contribution to the Deposits Insurance Fund. At 31% of total other administrative expenses, data processing (IT) expenses continued to be the single largest item. This is followed by expenses for office space at 19%, statutory contribution to the Deposits Insurance Fund at 13%, advertising and marketing costs at 12% and transactions costs at 11%.

Depreciation and amortisation of tangible/intangible fixed assets reports a long-term decrease, falling slightly 1% to CZK 2.3 billion in comparison with 2013 due to lower tangible asset depreciation for real estate and hardware.

Structure of operating expenses (CZK billion)

Personnel expenses	8.6	47%
Other administrative expenses	6.4	35%
Statutory deposits insurance contribution	0.9	5%
Depreciation and amortization	2.3	13%

Net gains/losses from financial assets and liabilities not measured at fair value through profit or loss reached CZK 0.1 billion and fell year-on-year by almost one third, primarily due to lower realized gains on held-to-maturity financial assets.

Net impairment loss on financial assets not measured at fair value through profit or loss (i.e. net charge for provisions for balance sheet credit risks) reached CZK 3.7 billion, which corresponds to a

slight year-on-year increase by 2 %. **Thanks to the foregoing, the provisioning coverage of non-performing loans improved to the high level of 80%.**

The decrease of the balance of other operating result is caused by a number of factors, such as gains and losses from the revaluation and sale of fixed assets, creation and release of other provisions, impairment of tangible assets, risk insurance, revenue from non-banking services, etc.

Statement of Financial Position

The consolidated balance sheet total of CZK 902.6 billion at 31 December 2014 represents a year-to-year decrease by 7%. This significant decrease was caused by the deconsolidation of the ČSPS Transformed Fund in the volume of CZK 50.7 billion. Absent the effect of the deconsolidation, the balance sheet total would have been reduced by 2%.

In a year-to-year comparison, assets also changed in structure and **the volume of loans and receivable to customers** and the portfolio of available-for-sale financial assets **saw an increase**, while the volume of loans and receivables to credit institutions, including deposits with the Czech National Bank (CNB), and held-for-trading financial assets fell. Absent the effect of the ČSPS Transformed Fund, **deposits from customers** and the volume of total equity increased slightly on the liabilities' side of the statement of financial position. The volume of deposits from banks and of the Bank's debt securities issued fell.

	2010	2011	2012	2013	2014
Total assets (CZK billion)	881.6	892.6	920.4	968.7	902.6

Assets

Loans and receivables to customers are the most important part of active business and generate the largest portion of operating result. **The total volume of net loans and receivables to customers increased by 2% to CZK 500.0 billion in 2014** owing mostly to an increase in mortgage loans.

Given the growth in client loans and decrease in deposits due to the deconsolidation of the ČSPS Transformed Fund, the proportion of net client loans to client deposits increased from 67.3% to 73.5%. Absent the effect of the ČSPS Transformed Fund, this share would have represented 72.3% in 2013. Net loans and receivables to customers account for 55% of all lending transactions.

	2010	2011	2012	2013	2014
Proportion of net client loans to client deposits	65.7%	69.3%	66.8%	67.3%	73.5%

The volume of net loans and receivables to households and unit owners associations (SVJ) totalled CZK 285.7 billion, representing year-on-year growth of 4% or CZK 11.2 billion. Mortgage loan business has continued its successful growth record. **Considerably low interest rates, a favourable real estate market and, above all, Česká spořitelna's active loan policy yielded** growth of more than 8% (to CZK 167.2 billion) **in the household mortgage loan portfolio**. In absolute terms, the portfolio grew by CZK 12.1 billion.

Despite growing demand for consumer financing, it has not yet prevailed over the repayment volume; therefore, the total volume of consumer lending provided by the Bank, including overdraft and credit card loans, reported a 5% drop to CZK 66.2 billion. Low mortgage rates have negatively impacted the client's interest in construction savings loans, the total volume of which contracted year-on-year by 5% to CZK 35.3 billion (net value).

	2010	2011	2012	2013	2014
Net loans and receivables to customers (CZK billion)	440.9	465.6	470.9	489.2	500.0

Net consolidated loans and receivables to corporate clients reported a stable development in comparison with 2013. Their total volume amounted to CZK 194.0 billion, which indicates a slight decrease of nearly 1%. The most favourable development was reported by corporate mortgage loans, and both leasing companies of Česká spořitelna, sAutoleasing and Erste leasing, were also successful.

Loans and advances to the public sector and municipal clients reported a relatively significant growth, with their total net value increasing year-on-year by 5% to CZK 20.4 billion.

The quality of the loan portfolio again reported year-on-year improvement in 2014. The share of non-performing loans on the total loan portfolio fell year-on-year from 4.6% to 4.4%. **The risk profile of the loan portfolio has been improved, among others, by the continuously growing share of mortgage loans** to households. The coverage of risky loans by credit provisions increased to 80%, representing a year-on-year growth of two percentage points in comparison with 2013. The total loan portfolio coverage, including collateral, is close to 119%.

Loans and receivables to credit institutions fell year-on-year to almost one half and amounted to CZK 38.5 billion. Absent the effect of deconsolidation of the ČSPS Transformed Fund, they would have been reduced by one third.

The aggregate balance of the portfolio of financial assets at fair value, available-for-sale securities and held-to-maturity securities decreased 4% year-on-year to CZK 256.6 billion. Absent the effect of deconsolidation of the ČSPS Transformed Fund, it would have grown 8%. This was due primarily to an increase in the volume of available-for-sale securities.

Bonds comprise as much as 99% of the securities portfolio. **Česká spořitelna prefers to purchase bonds issued by government institutions**, which account for a total of 91% of all bonds. The proportion of bonds issued by financial institutions is 8%. Securities and investment certificates make up only 1%, or CZK 1.6 billion, of the portfolio. **In the interest of maintaining stable net interest income, bonds in the held-to-maturity portfolio account for more than 59%** of the securities portfolio.

The volume of investment property has been reduced intentionally and fell 12% year-on-year to CZK 7.3 billion. **The objective of investment property is to generate rental income.** Česká spořitelna also invests in investment property funds (within the Financial Group) open to institutional investors and focused on the Czech and Slovak markets.

The aggregate balance of property, equipment and other assets and intangible assets decreased 3% year-on-year to CZK 17.0 billion, of which land and buildings comprise 69%. Intangible assets increased 8% to CZK 3.6 billion due, in particular, to licenses and software acquisitions. Amount of tangible assets fell 5% to CZK 13.4 billion. The aggregate proportion of tangible and intangible assets to total assets is 2%.

Structure of assets (CZK billion)

Net loans and receivables to customers	500.0	55%
Financial assets	256.6	29%
Loans and advances to credit institutions and the CNB	93.0	10%
Property and equipment and intangible assets	17.0	2%
Other assets	36.0	4%

Liabilities

Deposits from customers (primary) have traditionally been the key source of funding for Česká spořitelna's lending: these currently comprise 75% of all liabilities, meaning that Česká spořitelna is considerably independent on interbank funding. Client deposits, including those measured at fair value, totalled CZK 680.4 billion. Deposits from customers fell 6% year-on-year due to the deconsolidation of the ČSPS Transformed Fund with the client savings amounting at the end of 2013 to CZK 49.8 billion. Absent this effect, the client deposits volume would have increased 0.5%. The high volume of deposits from customers also contributes to the strong liquid position of Česká spořitelna.

Long-term customer deposit growth testifies to the trust shown in Česká spořitelna. Absent the effect of deconsolidation of the ČSPS Transformed Fund, **deposits from households and unit owners associations** grew 4% to CZK 515.4 billion. Deposits on Giro Accounts and Personal Accounts ("Osobní účet" and „Osobní konto“) have increased. Savings products, such as ČS Savings, are also popular. In contrast, construction savings deposits decreased.

Corporate client deposits (excluding unit owners associations) increased 6% in 2014 to CZK 114.9 billion, solely on current accounts. In contrast, public sector deposits fell significantly 29% to CZK 50.2 billion due to the high volume of loans accepted in repo transactions in 2013, which decreased year-on-year by CZK 11.3 billion.

Foreign currency deposits grew to 6% of total client deposit volume; the euro is the currency of choice, followed by the US dollar.

	2010	2011	2012	2013	2014
Deposits from customers (CZK billion)	670.3	672.3	704.5	726.6	680.4

The balance of deposits from banks measured at amortised costs comprising loans, term deposits and current account balances fell 25% year-on-year to CZK 54.6 billion for the year ended 31 December 2014. A significant reduction in interbank loans was also attributable to a decrease in loans received in repo transactions.

The total volume of debt securities issued decreased 22% year-on-year to CZK 23.8 billion, including issued structured bonds at fair value and subordinated debt. A number of mortgage bonds, senior and subordinated debt issues gradually fell due, hence the decrease. The total value of mortgage bonds as a stable and long-term source of funding for mortgage transactions in the consolidated balance sheet is CZK 19.2 billion.

In past years, Česká spořitelna issued subordinated bonds to shore up its capital base. **Given its strong capital adequacy associated with the addition of retained earnings to equity, total subordinated debt was reduced to CZK 0.3 billion through gradual repayment.**

Equity attributable to owners of the parent, comprising subscribed capital, capital reserves, the legal and statutory reserve, revaluation gains or losses (especially on the cash flow hedges and portfolio of available-for-sale securities), exchange rate differences and retained earnings, **totalled CZK 107.8 billion**. In a year-to-year comparison, equity reported further increase of 7% due, in particular, to an increase in retained earnings. The equity attributable to owners of the parent represents 12% of all sources.

Standalone capital adequacy ratio reported to the CNB in compliance with applicable rules **reached 17.7%**. The Bank did not use the possibility offered in Article 26/2 of the CRR directive, and did not include interim profit and credit risk adjustments in the original Tier 1 capital in its report to the CNB for 2014. The Bank meets the capital adequacy in accordance with all CNB's requirements. In 2013, the standalone capital adequacy ratio of the Bank was also 17.7%. The total capital used in the calculation of capital adequacy amounted to CZK 75.5 billion and the risk exposure to CZK 426.0 billion, compared with CZK 75.7 billion and CZK 426.7 billion, respectively, for 2013.

Structure of liabilities (CZK billion)

Deposits from customers	680.4	75%
Deposits from banks	54.6	6%
Debt securities issued	23.8	3%
Other liabilities	36.0	4%
Equity attributable to owners of the parent	107.8	12%

Business Activity

Retail Banking

Retail banking services offered by Česká spořitelna and its subsidiaries are used by 5 million clients. An entity with such large and diversified clientele is hard to be found in any market in the Czech Republic. **A key to the maintenance of such wide client base**, whose requirements regarding service quality and efficiency will increase with the passage of time, **is to offer services via client-focused segments.**

Years past have shown that the targeted segmentation of services accounts for an essential increase in client satisfaction. An example is the Erste Premier service, focusing on clients who seek the highest service quality, or the new service “Blue”, launched in autumn 2014, targeting clients with their own vision which they wish to realise. The retail banking objective for future years is to maintain and to enhance the leading position in the client base, particularly by improving the quality of segmented service, a focus on profiling services to small and medium-sized enterprises and adjusting the product offer to the broadest private clientele.

Beside the large client base, retail banking in Česká spořitelna may be also proud of its large scale of products covering all possible needs of its clients in the field of financial services. Anyone perceives as natural the offer of current accounts and savings products on the deposits side, or, on the loans side, the offer of housing services, where the **CS Mortgage won the award of the best mortgage in 2014**, as well as different consumer financing variants, including consumer loans, credit cards, overdraft and American mortgages. **Česká spořitelna has a large and developed portfolio of investment services**, beginning with numerous types of mutual funds, through real estate investments and pension savings up to individualised portfolio management. Last but not least, Česká spořitelna also offers insurance products. Each product is updated regularly as a part of improvement of services and client approach.

In addition to banking services, the Financial Group of Česká spořitelna has begun to offer to its clients further products allowing them to reduce their living costs and helping increase their wealth. The first **example of this kind is the sale of cheaper energies by the subsidiary Erste Energy Services.**

In accordance with its new strategy, Česká spořitelna focuses on the development of digital banking, serving clients by means of distribution channels best suited for them, offering custom-made products and services at the places where they actually need them. **The ultimate aim is to provide to clients continuously increasing and better quality**, to motivate employees towards improvement of customer satisfaction and **to improve the perceived quality of services provided by the Bank to its clients.**

Products and services by segment

Česká spořitelna presented in autumn an innovation in the form of a new private banking service offered under the brand **BLUE**, which is designated for people for whom the quality of their life is a priority and who have their own vision which they wish to realise.

BLUE brings about a new standard to the private banking services. It is entirely unique with regard to its complexity and ability to resolve effectively all financial needs of the client. **Using BLUE, the clients will obtain high quality and flexible banking service, with regular replacement of products and services in accordance with their current** needs, where they will receive professional advice concerning the solution of their financial situation and obtain interesting information from the world of finance.

The basis of the BLUE service is the private banker, who takes regular care of the client and his finances, prepares a Personal Financial Plan, representing a strategy for the client to achieve his financial objectives. The Bank’s flagship product is the Private Account ČS, which offers everything a client could need for daily cash management. Together with the new brand, clients may use special “BLUE” debit and credit cards.

BLUE also rewards clients for their activity. Every client using selected products of Česká spořitelna can receive the entire BLUE service for free.

Another novelty brought by BLUE is the **Busy banking service, offered to clients who have their own banker at the branch but do not want to visit them personally with every minor problem.** The banker informs them by telephone, e.g. about the approaching expiration of a guaranteed deposit and agrees with them on further steps; thereafter, the banker will take all such steps and the client will only approve the relevant request in SERVIS 24.

Clients using the BLUE service who are busy or cannot visit the branch **may use the Virtual Branch service.** By the end of 2014, the Virtual Branch had as many as 1,200 satisfied clients in its

portfolio. These clients use services of their own private banker by telephone, e-mail and internet banking, all within extended business hours, each business day from 7 am to 10 pm.

Clients using the BLUE service expect high quality of provided services; therefore, **the Bank provides a unique Quality Guarantee**: if a client is unhappy with the quality of a service, the fee for that service will be refunded. At 140 selected branches of Česká spořitelna, BLUE service clients are looked after by 580 private bankers and 50 investment specialists.

A part of the updated strategy of Česká spořitelna consists of the multichannel distribution of products; the first significant step in this direction is the establishment of the **experimental branch in Plzeň-Lochotín**, where the Bank **tests a new method of services to retail clients**. Such new service methods do not consist only in a modern appearance of the branch, but particularly in a new method of interaction with clients, aiming at a reduction of routine transactions executed at the branch, which consequently offers the consultants an opportunity to carry on sales discussions with clients about more complex topics in order to increase customer satisfaction and sales effectiveness. Successfully tested activities will be further spread among the branch network. The result of the first phase of this project is a significant reduction of the waiting period for cash services at the branch, as well as growing client satisfaction.

Another output of the experimental branch is the videobanker service, which is designated primarily for clients who do not use payment cards and internet banking. At the first glance, the device looks as a touch screen ATM. Client verification is made by means of the identity card and specimen signature. The client is then connected to the videobanker, sees him on the screen and the videobanker sees the client. Both of them can naturally communicate discreetly by means of earphones. The clients appreciate most the speed and the related savings of their time; they need not stand in the queue to the counter, the service is operated on Monday to Friday from 8 am to 6 pm. The videobanker service is perceived by clients as very simple and accessible and the clients also appreciated the professional and humane approach of videobankers.

Česká spořitelna launched in October a service under the title **Za důvěru (For Loyalty)**, which is designated for both new and existing clients. Subject to the fulfilment of simple conditions, the **client receives a free account**. By the end of 2014, 110 thousand of these programmes were activated.

At the year-end, Česká spořitelna prepared a new type of insurance for senior clients, which will be sold at selected branches in the first quarter of 2015. The Bank also supports IT education of seniors and their knowledge of banking products.

The **Erste Premier brand provides above-standard banking services** in Česká spořitelna. This service is designated for clients with higher income or net wealth that need a proactive approach of the banker, who becomes the client's advisor in all areas of his finances. Comprehensive **top-notch** banking service provided in the Bank's own branches, based on high quality and professional level of all provided services and with regard to client needs also on consistent discretion of the service, is a must.

In 2014, the number of Premier Centres grew to twelve, which improved the accessibility for a larger client group. New Premier Centres were opened in Liberec and Prague 6. Premier Centres are situated in a total of nine cities - Brno, Ostrava, Plzeň, Hradec Králové, Olomouc, České Budějovice and Liberec and four of them in Prague. By the end of 2014, the Bank served more than 20 thousand Erste Premier clients.

The essence of the Erste Premier service remains the same as in the previous year; despite that, the Bank prepared several innovations, such as the use of remote on-line signature via SERVIS 24. This further simplifies the services provided to clients, because they can discuss their requirements with their Premier Banker over the telephone and can confirm them from any place where they have access to their internet banking.

Another innovation is the new You Invest fund with a variant focused on investment for children, "Me To You Invest". **Investments constitute a substantial part of the Erste Premier service; therefore, consulting services are further developed in this area**. Drafting of personal financial plans represented in 2014 one of the key pillars of Erste Premier.

Supplementary services have also further developed. Clients receive a periodical quarterly Premier Magazine, which provides information about upcoming innovations, news from the world of finance and lifestyle, including introduction of Erste Premier clients. Other developments concerned The Premier Benefit Club, which has further increased the number of business partners offering benefits to Premier clients. The club prepared regularly special offers of social events, relaxation and offers for the whole families of Premier clients. Such offers are presented in its monthly Newsletter.

The correct direction of the development of the Erste Premier service is checked by Česká spořitelna directly with clients through relationship bankers, as well as by satisfaction surveys. Thanks to this approach, the Bank obtains suggestions of further development and confirms real satisfaction of its Premier clients.

The private banking service offered under the Erste Private Banking brand represents the top quality offer to clients of Česká spořitelna, which provides under this brand private banking services for the richest clientele, focused on financial investment. Erste Private Banking provides comprehensive service for important clients, first-class advisory services, an individual approach to each client and maintains a personal relationship with the client through private bankers, based on professionalism, trust and discretion.

Despite the slight increase of the number of Erste Private Banking clients, the **value of managed assets increased significantly** both in aggregate and from individual client perspective. Erste Private Banking continues to be focused on the offer of the management of private client portfolios by professional portfolio managers with the knowledge of the Czech and the international financial market.

Erste Private Banking clients also participate in further development of the services by means of feedback given through their bankers and by satisfaction surveys. It is encouraging that Erste Private Banking clients are those who express their confidence and thanks.

Financing of Private Housing Needs

In 2014, Česká spořitelna once more achieved success at the mortgage loan market. Clients' interest in mortgage loans has been continuing. The interest rates, which had been low, decreased further, the real estate market continues to be favourable and **Česká spořitelna's ever active lending policy was supported by qualified advisors and regular special offers.**

Česká spořitelna was very innovative. **In January, it became the first bank in the Czech market to introduce mortgage sales via Facebook.** This unique event met with major success particularly among young clients and was therefore repeated in June. Thanks to both events, people took up mortgage loans in the total value of more than CZK 1.4 billion. **This innovation was also appreciated by the professional jury, which granted to the Bank the FLEMA Media Awards for the best use of digital media.**

In the course of the year, Česká spořitelna included in its offer a new “Hypotéka na pronájem” (Rental Mortgage), designated for financing the purchase of a residential building or a family home with non-residential premises, a flat or a recreation facility under favourable terms of the housing loan and to rent out such premises. Moreover, **Česká spořitelna prepared for entrepreneurs the “Obratová hypotéka” (Turnover Mortgage),** which allows documenting income for the purpose of assessment of a loan application on the basis of turnover shown in the tax return. Thanks to this product, real estate investments have become much more convenient for entrepreneurs.

The ČS Mortgage also allows quick funding of the construction of assembled homes and simplified financing of the purchase of cooperative or municipal flats without using another property as a collateral. **In case of refinancing a mortgage loan provided by another bank, Česká spořitelna guarantees favourable interest rate for up to one year in advance.**

Another opportunity is the Premium Mortgage, which rewards client loyalty by guaranteeing a 0.3% interest rate discount for the first fixing period and rewarding clients for their loyalty by a financial premium paid at the beginning of each subsequent fixing period, which may be used by the clients for any purpose.

Another permanent benefits of the ČS Mortgage include the absence of arrangement and loan administration fees, the possibility to postpone repayment or to change the instalments, the appraisal made on-line at the branch, the possibility to quickly draw money, to use money during construction without presenting the invoices and the possibility to obtain funds up to 100% of the value of the pledged property.

As a part of its autumn Mortgage Days, Česká spořitelna offered to its clients as the sole bank operating in the Czech market the fixing of the current favourable interest rate for up to 10 years. The 10-year guarantee of the low interest rate ensures long-term stability of instalments regardless of potential growth of inflation. At the end of the year, Česká spořitelna prepared a new Advent calendar, where the clients could obtain every day a selected benefit in relation to their mortgage, whether a guaranteed interest rate, free real estate appraisal or other complementary services.

In 2014, Česká spořitelna provided more than 22 thousand housing mortgage loans in the total volume of CZK 35.5 billion. **Česká spořitelna also won the appreciation of experts, who assessed its mortgage as the best** in the highly competitive market and granted it the Fincentrum award “**2014 Mortgage**”.

The total portfolio of mortgages to private individuals – households increased 8% year-on-year to CZK 167.2 billion, a significant year-to-year increase of more than CZK 12 billion. The number of mortgage loans exceeded 140 thousand and the average maturity is 23 years; residual maturity is 19 years. **The key indicator of the average loan-to-property value of the entire portfolio reached 65.9%.**

Mortgage loans portfolio (CZK billion)	2010	2011	2012	2013	2014
Portfolio of mortgages to private individuals - households	117.5	127.6	139.2	155.1	167.2
Portfolio of Stavební spořitelna ČS loans	45.1	41.7	39.5	37.6	36.4

Stavební spořitelna České spořitelny is another important provider of home financing loans. Given the upswing in mortgage loans in recent years, there has been less of a demand for construction savings loans as a partial replacement for mortgage loans. The total portfolio of bridging loans and constructing savings loans fell by 3% to CZK 36.4 billion. Bridging loans represent 69% of the portfolio. The total number of loans at the end of 2014 exceeded 151 thousand.

Financing the needs of private individuals

Although the volume of provided consumer loans has been growing for the second consecutive year and reached CZK 21.6 billion in 2014, it has not yet reached the pre-crisis values. Česká spořitelna focused in 2014 primarily on further expansion of sales via alternative distribution channels and presented as the first bank in the Czech market a loan which earns money to clients.

Throughout the year 2014, Česká spořitelna presented a number of innovative offers with the aim of attracting client interest and offering to clients something extra. In spring, it was the guarantee of reduction of monthly instalments or payment of CZK 1,000 to clients who signed up for Loans Consolidation, which represents consolidation of more loans to a single loan with a lower monthly instalment. If Česká spořitelna failed to offer to the client a lower instalment upon such consolidation, it compensated the client's time spent at the branch by a lump-sum remuneration of CZK 1,000.

At mid-year, the bank offered to clients who use the SERVIS 24 Mobilní banka (Mobile Bank) application **a possibility to arrange for the loan and overdraft by means of mobile phone.** Thanks to this innovation, the clients may execute a Loan Agreement by a few clicks and may have the money available immediately on their current account. Another innovation presented by the Bank was the on-line web application by means of which the client can file a loan application conveniently and comfortably from his own home.

In autumn, Česká spořitelna presented a unique offer of unsecured loans. It is the first loan that will increase the value of money. **The Bank will reward the client for each duly paid instalment by an amount equal to 5% of the regular monthly instalment, which will also bear interest at a high 5% rate on a special savings account.** Once the client has repaid the entire loan, he will receive the whole amount and may use it for any purpose. This attractive offer proved to be very interesting for the

clients. The 14% year-to-year increase of new sales in the fourth quarter exceeded even the market growth dynamic.

An important part of support of credit cards sales was the tying of credit cards to the programme Za důvěru (For Loyalty). Within the scope of this programme, the client may obtain from Česká spořitelna together with the credit card maintenance of the account free of charge. **Another important step was the launching of the sale of credit stickers in November**, supported by a rewards campaign. Total number of newly sold cards increased 30% year-on-year. **The credit sticker is a contactless credit card** in the form of a sticker for the fastest payment method, which is always at hand. For instance, it can change a mobile phone to a contactless payment instrument.

The total volume of consumer loans including credit cards and overdraft facilities fell 5% year-on-year to CZK 66.2 billion. This indicates that, despite an increase in the volume of new consumer loans, such increment is not yet enough to cover the payment of earlier loans.

	2010	2011	2012	2013	2014
Total volume of consumer loan portfolio (CZK billion)	82.6	77.5	72.5	69.7	66.2

Private Account

The Česká spořitelna Private Account or, in case of the BLUE service, the Česká spořitelna Personal Account is the cornerstone of the product and service portfolio for the Bank's private clientele. The fully variable and flexible Private Account ČS satisfies demand for an individualised account that can successfully adapt to a client's changing needs.

The ČS Private Account represents the concept of a single account for a lifetime. This account is designed for all clients: children, teenagers, students, families and seniors. Naturally, the basic package includes services such as a payment card and online or mobile account access. Complementary services are prepared based on the individual needs of clients. **As regards Private Accounts, the Bank has focused on rewarding current clients** within the above-mentioned programme **Za důvěru**, on offers to new clients, simplification of product portfolio of accounts and naturally on new account functionalities, such as the multicurrency debit card and a number of other improvements.

Thanks to the programme Za důvěru, the current and new clients may obtain maintenance of the Private Account free of charge under simple conditions and for an unlimited period of time. The programme is very popular and over 110 thousand clients acquired this benefit by the end of 2014. Thanks to its sponsoring of the key sports event in 2014, the Olympic Games in Sochi, Česká spořitelna prepared an attractive offer for new clients, which were based on success of Czech sportsmen at the Games. Since these Olympic Games were the most successful winter Olympic Games for the Czech Republic, the marketing campaign was also one of the most successful campaigns, which resulted in the opening of more than 32 thousand new Private Accounts.

BLUE clients used the ČS Personal Account, which is a modern account offering to clients for a single price all services required for active management of their daily finances, together with all Private Banking Benefits. Discounted complementary services, such as withdrawals abroad, foreign payments, a savings account, etc., may be purchased to the ČS Personal Account.

The Private Account Premier is used by clients who are served within the Erste Premier network. The Private Account Premier offers exclusive services. Discretion, top-flight advisory, the premium services of a Premier Banker and a comfortable environment are assured.

At the 2014 year end, **nearly 2.5 million clients were using a Česká spořitelna Private Account or Personal Account**, a **substantial year-to-year increase of more than 154 thousand**. The volume of cash deposits increased year-on-year by 24% to a total of CZK 204.2 billion.

	2010	2011	2012	2013	2014
Private Accounts (in thousands)	2,102	2,265	2,295	2,380	2,534

Investment Products

Česká spořitelna's long-term strategy is to target the needs of clients and present investment solutions that go as far as possible toward meeting their demands and expectations. Product innovation emphasises comprehensibility and quality.

The permanent environment characterised by low interest rates on classical banking products continued to be favourable in 2014 for investment of Česká spořitelna. The possibility of obtaining better yield than the yield available in case of saving deposits attracted client attention, which was reflected positively in an increase of sales of investment products. **Investors were most interested in more conservative investments products**, preferring lower market risks over the maximum achievable yield. This trend is documented by the volume of sold bonds, which exceeded CZK 11.5 billion, with government savings bonds accounting for CZK 0.7 billion.

Low interest rates are also reflected in the creation of structured products, primarily Premium Deposits and structured deposits, deriving their premium yields from the developments in the stock, commodity or currency market with the minimum 100% return on the nominal value. Despite those complicated circumstances, the volume of new sales of Premium Deposits exceeded CZK 2.8 billion. The total Premium Deposits balance at the 2014 year end was CZK 8.9 billion, a 30% decrease year-on-year.

Stock markets also performed well and created interesting investment opportunities for more dynamic investors, drawing their attention to direct equity investment. Clients not wishing to submit buy or sell orders electronically can do so on the Prague Stock Exchange or a foreign stock exchange (including limit orders) at Česká spořitelna branch offices or by phone. **The total turnover of shares transacted in this manner exceeded CZK 1.2 billion in 2014.**

Investment certificates offered by Česká spořitelna **did also very well**. Clients were particularly interested in Bonus Certificates and the Turbo long and Turbo short. The total volume of certificates traded by clients in 2014 was CZK 0.7 billion. The sale of physical gold was also attractive for clients, who purchased via Česká spořitelna in 2014 gold ingots for investment purposes worth close to CZK 90 million.

The year 2014 was favourable again for open-end mutual funds offered by Česká spořitelna. The continuing favourable sentiment of past years, which is based on low interest rates, supported growing sales of funds, particularly of mixed portfolios. **The inflow of finances to the funds relied again on the important component of regular investments.** The total share of regularly sent funds accounted for 23% of the total sales of retail mutual funds. Nearly one of every two investors invested regularly in 2014 and the number of such investors is still rising. The average value of a regular investment amounted to CZK 2,733.

In summary, the year 2014 can be considered as very positive in the financial markets; risky assets, as well as interest-rate investment instruments did well. Positive macroeconomic and corporate data, particularly from the US, encouraged willingness of investors to invest in more risky assets. **An attractive 21.8% increase in value was generated by the Top Stocks fund**, which is focused on global developed markets. In contrast, the year 2014 does not come as favourable for Central and Eastern Europe; particularly the Russian market performance was adversely affected by sanctions and in the last quarter also by weakening of the rouble related to a sharp fall of oil prices. Hence, Sportrend, which is focused on this region, fell by 9.91%.

Bond markets, including the domestic bond market, witnessed a positive development; the prices of high-quality bonds were growing with decreasing interest rates. This pleased mainly the holders of Sporobond certificates, whose funds increased by 6.4%.

Mixed mutual funds of Investiční společnost ČS also performed well; all their risky profiles increased investor funds by a percentage ranging from 2.9 in case of the Conservative Mix to 7.7% in the most risky mixed fund Stock Mix. It is also worth pointing to the **major interest of investors in the investments in the Conservative Mix**, whose assets increased last year by CZK 7.9 billion.

The total volume of assets managed by the funds of Investiční společnost České spořitelny increased in 2014 by 24%, in absolute numbers by CZK 13.1 billion to CZK 68.1 billion.

Volume of assets managed by funds of Investiční společnost ČS (CZK billion):

2010	2011	2012	2013	2014
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59.1 51.3 50.3 55.0 68.1

Together with its subsidiary REICO investiční společnost ČS, Česká spořitelna offers retail clients the possibility of investing in commercial real estate through the ČS real estate investment fund, an open-ended mutual fund. The **ČS real estate investment fund is the largest real estate fund for retail clients in the Czech Republic with capital of CZK 3.8 billion**. The portfolio of ČS real estate investment fund was expanded in March 2014 by a new acquisition of the Qubix building in Prague-Pankrác. It is a high quality commercial real estate property mainly comprising office space. The total number of buildings in the fund grew to nine commercial properties. Thanks to this acquisition, over 80% of the value of the real estate portfolio of the funds consists of the properties of the highest investment degree. The value of the funds invested in the ČS real estate fund increased in 2014 by 3.6% and in the last five years by 3.4% p.a. The generated yield confirmed the stable long-term performance of the funds. This is also evident from its performance curve, which has been showing for almost 6 years a positive growth. Over 19 thousand clients invested in the fund in 2014. **Values of the buildings in the fund portfolio were stable in 2014 with a significant potential for their long-term stability.**

Savings Products

Supplementary pension insurance in the third pillar is the most popular and steadily growing form of long-term savings, which is provided in the Group of Česká spořitelna by ČS-penzijní společnost. Although the supplementary pension insurance in the Transformed Fund was closed to new clients, the **volume of client deposits in the Transformed Fund again reported high growth, of 11% year-on-year to CZK 55.8 billion**.

The volume of finance in complementary pension insurance (DPS) in the third pillar, which is designated for new clients, continued to grow in 2014 in all managed funds. The volume of funds in the **mandatory Conservative Participation Fund, which is the largest fund in the DPS market**, increased three-fold in 2014, i.e. to CZK 1.3 billion. ČS-penzijní společnost was the first pension insurance company which met in its Balanced Participation Fund and Dynamic Participation Fund (even in advance) the mandatory obligation to collect in each fund within 2 years after obtaining the licence to operate the fund at least CZK 50 million. The increase in value of client funds invested in DPS is among the highest in the markets and will reach in 2014 in case of the Transformed Fund one percentage point over the annual inflation rate.

Hence, Česká spořitelna - penzijní společnost has become the leader in the DPS market. More than 50 thousand clients decided in 2014 to invest in pension security with ČS-penzijní společnost, and the number of DPS clients grew to 67 thousand. As regards the number of clients, the DPS market share of ČS-penzijní společnost exceeds 30%.

In November 2014 the Czech Government decided to cancel pension savings in the second pillar. In connection with the cancellation of the second pillar, Česká spořitelna - penzijní společnost decided not to expose its clients to short-term investment risks and the deposits in all pension funds are not and will not be invested in accordance with long-term financial strategies and will continue to be deposited in the money market.

Total assets managed by ČS-penzijní společnost as of 31 December 2014 amounted to CZK 57.7 billion, which represents a 14% year-on-year increase.

Volume of assets managed by ČS-penzijní společnost (CZK billion):

2010	2011	2012	2013	2014
32.4	38.1	42.5	50.7	57.7

Construction savings deposits with Stavební spořitelna ČS continue to constitute the most significant savings product by volume. At the 2014 year end, Stavební spořitelna ČS administered more than 790 thousand construction savings accounts for its clients with a target amount in excess of CZK 193 billion and a sum saved of CZK 82.4 billion, a 13% drop year-on-year.

In November 2013, Česká spořitelna offered clients a new savings account, Savings ČS, making it easier to get a better return on deposited funds. **This new savings account is designed for both regular and irregular savings.** Deposited funds are always accessible and withdrawals bear no fees. **Savings ČS witnessed a significant increase in 2014, the number of these accounts exceeded**

200 thousand and the total savings amounted to CZK 25.6 billion. Another favourite product is the Savings Account Premier, which reached the volume of CZK 13.0 billion, an 85% year-on-year increase.

While the number of passbook accounts is consistently dropping, it still represents an impressive figure of 1.4 million passbook accounts. The volume of funds deposited on them was stabilised at CZK 59.2 billion, which represents a mere 1% decrease.

Current and term deposits in foreign currencies total CZK 9.8 billion and have remained stable over the years; the euro and US dollar are the preferred currencies .

Savings of individuals (CZK billion)

Private and Giro accounts	247.8	48%
Construction savings deposits	82.4	16%
Savings deposits including passbook accounts	112.4	22%
Term deposits	12.9	2%
Current accounts	47.8	9%
Premium deposits	8.9	2%
Other deposits	3.2	1%

Small Enterprises and Entrepreneurs

Active building the Bank-client relationship in the small enterprise and entrepreneur segment has long been a priority in an effort to support the perception of Česká spořitelna as a bank for this market segment. The Bank wants to work side-by-side with these clients and offer valuable advice on how to save money, better support enterprise growth and take more effective advantage of the banking services on offer.

In 2014, Česká spořitelna expanded the offer of current accounts for firms and entrepreneurs by the Klasik Account, which also includes overdraft, and the Maxi Account, where the basic price covers the processing of all e-transactions. Other accounts which have rapidly won client attention were the savings account for entrepreneurs and the multicurrency account with a card.

Another new item in the offer is the fast and simple unsecured loan up to CZK 500 thousand which does not require a proof of the purpose for which the money is to be used. The loan is approved within minutes and the client receives money immediately on its account. Like other clients, entrepreneurs may also use Loan Consolidation, thanks to which their monthly instalments of loans obtained from other banks will be lower. The consolidation will also make repayment of and accounting for such loans easier.

Entrepreneurs and small firms in selected key branches in each district can make use of Advisors for Entrepreneurs, who are specialised in the service of small entrepreneurs. Also available are Commercial Bankers (Acquirers, Specialists and Agro Specialists), who can provide services to representatives of small and medium-sized enterprises, including start-up businesses, at regularly organised educational events, fairs or workshops. **These advisors are able on a regional basis to cover the needs of more than 70% of clients in the entrepreneurial sector.**

The support package for start-up entrepreneurs included in 2014 not only the possibility of free use of the Entrepreneur Account Klasik for two years and of **simplifying significantly the demanding administrative procedure of incorporation of the company thanks to the partnership projectzalozfirmu.cz**, but also a possibility of repeated free business plan consultations or of using of the project prepared by the lean-canvas method with trained Commercial Bankers. As part of its support of start-up businesses, Česká spořitelna became a partner in the competition Rozjezdy roku (Start-ups of the Year), the main objective of which is to support start-up entrepreneurs to not only realise profit on their projects, but also, among other things, to give something back to the community, offer a service that is lacking or contribute to employment.

The Bank has also expanded its package to cover independent professional clients. The offer of current accounts with better prices and of loans requiring a reduced number of documents and offered for reduced prices was supplemented by a loan designated for starting-up physicians lacking business history, who take over a medical practice, furnish their consulting rooms, etc.

The investment loan defended its first place in the Business Loans category of the Zlatá koruna survey, which means that Česká spořitelna offers the best loan product for firms and entrepreneurs. Despite the strong competition of new banks, Česká spořitelna continues to hold a 30% market share in the segment of entrepreneurs and small firms.

The cornerstone transaction banking product for the small entrepreneur and small enterprise client segment is the successful Commercial Account ČS. The number of these accounts is fast approaching the one hundred thousand mark. The total balance increased 17% year-on-year to CZK 26.8 billion. The Commercial Account is not used by entrepreneurs alone; one third of account holders are legal entities or non-profit organisations.

The total loan portfolio for entrepreneurs and commercial clients with turnover of up to CZK 30 million was CZK 58.6 billion at 31 December 2014, a 4% increase year-on-year.

Portfolio of loans and receivables to entrepreneurs and small enterprises (CZK billion, gross value for the bank)

2010	2011	2012	2013	2014
59.8	59.6	55.7	56.5	58.6

Card Programme

The total number of issued active payment cards of Česká spořitelna exceeded 3.1 million at the year-end 2014, with credit cards accounting for 0.3 million. **The total volume of payments made by Česká spořitelna's cards increased 9% year-on-year to CZK 114.7 billion.** Clients executed on average 77 transactions per card, 52 of which with vendors. Average annual per-card spending at vendors exceeded CZK 36 thousand.

Number of active cards (in thousands)	2010	2011	2012	2013	2014
Number of active cards	3,230	3,174	3,178	3,234	3,144
of which: number of credit cards	442	392	348	319	290

The popularity of card payments for internet purchases has been growing every year. The total volume of purchases made by Česká spořitelna's cards for the whole year 2014 amounted to CZK 7.3 billion. This was one of the reasons why **Česká spořitelna introduced the 3D Secure service** (Verified by Visa, MasterCard SecureCode), which make online purchases much more secure due to the cardholder verification. The verifying method used by the Bank is a non-recurrent password, which is sent to the client during on-line payment by means of a text message.

ČS card transactions executed with vendors (issuing)	2010	2011	2012	2013	2014
Volume of payment transactions with ČS cards in CZK billion	82.4	90.5	98.1	105.0	114.7
Number of payment transactions with ČS cards in millions	95.9	109.3	121.8	140.0	166.1

Česká spořitelna was a partner of the Czech Olympic team for winter Olympic Games in Sochi. In this respect, the Bank prepared interesting offers for clients, such as a fan account with a specially designed debit card Visa Classic. **The Visa Europe association awarded Česká spořitelna** for this project the **title Best Card Issuer** in the second year of the Visa Awards competition. The Bank also offered to Erste Premier clients a new debit card MC World Elite with an elegant black colour design with a decent matted surface and a silver logo.

A new credit card insurance type has been offered since the beginning of 2014. **This innovative insurance of drawn amounts with a higher coverage for clients** replaced the former insurance of repayment ability. Up to the entire outstanding amount may be reimbursed to the client. Almost 19 thousand clients have signed up for this new product in the first year of its existence.

The Bank expanded payment card services for commercial and corporate clients in the internet banking service BUSINESS 24. Clients may apply now online for a change of the limit, may block a lost or stolen card, arrange for card insurance, etc.

A non-traditional campaign "Your Card Will Also Help" was organised in August and September in cooperation with the home for visually impaired Palata. Thanks to payments made by Česká spořitelna's payment cards, the Bank donated to the Palata Home with the help of its clients more than CZK 1 million.

At the year-end 2014, almost 950 thousand clients were registered in the multi-partner bonus programme iBOD, more than 800 thousand of them were clients of Česká spořitelna. In the iBOD programme, clients collect points for the use of financial services or purchases from tens of business partners throughout the Czech Republic. Through this bonus programme, the clients acquired in 2014 i-points worth more than CZK 350 million.

In 2014, 192 million transactions totalling CZK 145 billion were carried out at Česká spořitelna payment terminals. This represents 17% growth year-on-year and a 7% increase in transaction volume. The average transaction amount is decreasing due to the increasingly frequent use of payment cards for smaller purchases and an increasing number of contactless transactions.

ČS card network transactions (acquiring)	2010	2011	2012	2013	2014
ČS network payment transaction volume in CZK billion	87.4	103.1	124.9	135.3	145.0
Number of ČS card transactions in millions	88.6	109.9	143.8	163.2	192.4

The number of contactless transactions in the payment terminals network of České spořitelny has tripled in comparison with 2013. The bank cooperates with major business partners in the area of acceptance of contactless payment cards, for example with Penny Market and BILLA, Datart, IKEA, Sportisimo, C&A Moda, PetCenter, Alpine Pro and Česká lékárna.

Česká spořitelna has long been the market leader in ATM network size in the Czech Republic. At the end of 2014, the Bank operated a total of 1,561 ATMs and payment machines. **Česká spořitelna operates more than 600 ATMs that can accommodate the visually impaired,** and these ATMs are continually increasing in number. Reading of money orders and invoices by means of bar codes has been also developing and this service is currently offered at 1,050 ATMs. **All ATMs are equipped with the chip card reading technology and meet at the same time the maximum security requirements for the elimination of risks of illegal copying (skimming) of payment cards.**

Česká spořitelna also expanded its network of deposit ATMs that, in addition to standard services, enable clients to make cash deposits to accounts with Česká spořitelna and other banks in the Czech Republic. There are currently 63 of these machines in operation. In 2014, clients made over 147 million transactions at ATMs of Česká spořitelna, with cash withdrawals accounting for 91 million of those transactions with the total amount of CZK 306.3 billion, which means that clients withdrew every hour an average amount of CZK 35 million. The average withdrawal amounted to CZK 3,364. Česká spořitelna cooperates in its network with major retail chains, such as Tesco, Kaufland, Ahold, Globus and REWE (Billa, Penny Market).

Volume of ČS ATM network withdrawals	2010	2011	2012	2013	2014
Volume of ČS ATM network withdrawals in CZK billion	303.6	311.0	310.8	307.5	306.7
Number of ČS ATM network withdrawals in millions	89.6	91.8	93.2	92.9	91.2

Erste Corporate Banking

The Erste Corporate Banking brand is a service that ties together corporate and investment banking, financial markets and asset management for Česká spořitelna clients.

The level of corporate banking at Česká spořitelna enables the Bank to best meet the needs and expectations of its commercial clients in all phases of their life cycle through customised solutions. Česká spořitelna's corporate banking is highly successful; its advisory and other services report the highest degree of client satisfaction by all national and international comparisons. The commercial business is in many respects the fastest growing activity at Česká spořitelna.

Česká spořitelna's corporate banking is a market leader in public, non-profit and municipal sector financing, real estate financing, energy and renewable energy project financing and the use of discounted funding in collaboration with the European Investment Bank (EIB), Kreditanstalt für Wiederaufbau (KfW), the European Investment Fund and national agencies such as the Czech-Moravian Guarantee and Development Bank and EGAP.

The Bank confirmed its position as a leading arranger of syndicated and club loans, participating in the majority of such transactions on the market. Česká spořitelna was first to market with electricity price hedging products as well as other energy, metals and commodities hedging products. The Bank can also be proud of the reliability of its payment system.

Česká spořitelna holds a leading position among banks and financial institutions as an active supporter of established and emerging Czech exporters. **Also in 2014, the Bank financed a number of export projects and plans of Czech enterprises in foreign markets** on virtually every continent. The Bank also actively supports SMEs acting as indispensable sub-vendors for Czech exporters. Naturally, the Bank offers a number of other banking products necessary to successfully implement export plans.

The Bank's sound business model has been acknowledged by the host of awards received over the years. Still, the most prestigious award for Česká spořitelna and Erste Corporate Banking is client feedback. **The ever-improving evaluations of client satisfaction** and experience and the high degree of loyalty clients have **confirmed that the Bank is dynamically moving forward on the right track**. Clients are well aware that Česká spořitelna is there for them in good times and worse as a long-term partner offering the right solutions and always endeavouring proactively to help handle the risks and stumbling blocks their businesses face.

Real Estate Financing

Česká spořitelna has been traditionally one of the most active banks in real estate financing, real estate investments and mortgage transactions. After many years of decline, the real estate market continues in its recovery, which started in 2013.

The aggregated non-consolidated balance of Česká spořitelna mortgages significantly exceed the two hundred billion, totalling CZK 228.2 billion at the 2014 year end for year-to-year growth of 7%. Mortgage loans grew in all segments; of this amount, loans to entrepreneurs, corporates and municipalities accounted for CZK 61.0 billion. The quality of the portfolio remains very high.

Mortgage loan portfolio (in CZK billion, gross value for the bank)	2010	2011	2012	2013	2014
Total mortgage loans	176.4	186.0	193.8	213.8	228.2
of which: mortgage loans to individuals - households	117.5	127.6	139.2	155.1	167.2
of which: mortgage loans to entrepreneurs and small enterprises	23.1	24.2	23.7	24.8	26.0
of which: mortgage loans to medium and large enterprises	35.8	34.2	30.9	33.9	35.0

Real estate financing within Erste Corporate Banking fully utilises the know-how of the group-wide Erste Group Immorent team, especially in relation to clients active in Central and Eastern Europe. **Residential construction projects and capital loans for office and retail properties with a solid track record continue to be the financing priority.**

The Bank maintained its stakes in real estate investment companies for the institutional investors CEE Property Development Portfolio 2 a.s. and Czech and Slovak Property Fund B.V. Both companies are focused mainly on the Czech and the Slovak market. The investment cycle was adapted in 2014 to reflect the existing situation in the real estate market. The seat of CEE Property Development Portfolio 2 a.s. was relocated and the internal relations of the company were changed within the scope of ongoing restructuring and at the same time several commercial and office projects of both companies in Prague and Bratislava were successfully sold. The Bank also invests in the closed-end real estate fund Emerging Europe Properties LP (formerly Discovery Group Fund 3C LP), which is currently in the second half of its investment cycle.

Medium-size Enterprises

A nationwide sales network comprising sixteen sales points associated in a network of thirteen Regional Corporate Centres is available to SMEs with annual turnover of CZK 60 million to CZK 2 billion. These regional centres, which are located in every regional seat, provide enterprises with the comprehensive top-quality services of the entire Česká spořitelna Financial Group under the Erste Corporate Banking brand.

Regional Corporate Centres serve commercial clients from the entire spectrum of industry. In addition, regional specialists in public and non-profit sector and real estate financing are available to this client

segment. **The business model is based on the specialisation of relationship managers and financial analysts in individual industries for a better understanding of the circumstances of specific client businesses**, a smoother process for meeting their needs and, no less importantly, greater efficiency. This effort has been very well received by clients, significantly strengthening Česká spořitelna's position in corporate banking.

In spring 2014, part of the SMEs portfolio was transferred under administration of the Corporate Clientele division, with the aim of enhancing further development of those enterprises, particularly by strengthening the advisory and investment banking services, know how in capital markets and other.

In 2014, Erste Corporate Banking continued the successful **TOP INNOVATION** programme of previous years and implemented in this programme 230 projects with the volume of CZK 9.4 billion (a year-on-year increase of 20%). **The programme offers funding of innovative projects and development activities of enterprises and makes use of favourable programmes offered by the European Investment Bank** or by the European Investment Fund.

Česká spořitelna is the first Czech bank to provide funding as part of the European Investment Bank and European Commission Risk Sharing Instrument programme and continues to maintain its leading position in the Czech market in the area of cooperation with such institutions. The aggregate volume of global EIB loans used by Česká spořitelna amounted to EUR 1.15 billion.

In cooperation with EIB, the Bank launched in the market a new Green Energy programme, focused on financing of energy saving investments. Projects generating at least 20% of energy savings are supported through Česká spořitelna by grants provided from funds of the European Union in an amount equal to 10% of the provided loan. By the end of 2014, Česká spořitelna granted such subsidised loans in the total amount of EUR 30 million.

In the interest of supporting enterprise start-up, innovation and growth, Erste Corporate Banking expanded in 2014 **its INOSTART programme**, established in cooperation with the Ministry of Trade and Industry, to cover the whole territory of the Czech Republic. The programme is designed to finance operating and investment needs of start-up companies and **combines preferential funding and provision of advisory services relating to enterprise start-up, creation of a business plan, legal matters, etc.** The funding provided by Česká spořitelna in the INOSTART programme amounted in 2014 to CZK 87 million.

Česká spořitelna further expanded the family of its popular TOP programmes, including **the continuation of the very successful TOP EXPORT programme** focused on sub-vendors of exporters of large investment projects. The **TOP ENERGY programme offers advisory services and funding to energy and heat generation projects.**

Česká spořitelna was the first bank in the Czech market to expand the internet banking BUSINESS 24 by adding a mobile application for commercial and corporate clients. The mobile application allows convenient and safe management of the company's accounts on the mobile phone and tablets and provides a possibility to upload and control of domestic payments, to execute of foreign exchange transactions, to have continuous information about account balances and (if required) to find a way to the nearest branch or ATM operated by Česká spořitelna.

Corporate clientele

Erste Corporate Banking serves a corporate clientele of both domestic corporations and large multinational corporations. Erste Corporate Banking provides corporate clients with a broad range of top-quality corporate banking products, including specialised investment banking products and services. **For clients with operations both in and outside the Czech Republic, Česká spořitelna together with the Erste Group is ready to serve and accompany corporate clients to the countries in which they operate.** Like the SME model, the domestic corporate segment business model was changed with the aim of better understanding the dynamics of individual industries.

After the downturn caused by the financial crisis, the signs of recovery that were already clear in previous two years continued through 2014. The majority of enterprises saw turnover return to, and in some cases surpass, pre-crisis levels. Česká spořitelna is very well prepared to respond to this

development and assist enterprises with financing or advisory services for their growth and development plans.

The year 2014 was rich in acquisition activity and **Česká spořitelna was highly active in supporting its clients with financing while providing domestic and foreign acquisition advisory services.**

Česká spořitelna responded to the uptick in demand of large enterprises for investment and operational financing. For example, the Bank won the Unipetrol Group's tender for provision of cash management services and was selected as one of the principal banks to provide banking services to the petrochemical and refinery group PKN Orlen / Unipetrol in the Czech Republic. The provided services include a three-year multipurpose revolving credit line of CZK 4 billion, an intra-day credit line of CZK 1 billion, and a comprehensive cash pooling solution for payment system in Czech crowns.

In 2014, a number of large enterprises took advantage of the favourable capital markets situation and issued corporate bonds. **Česká spořitelna assisted again with the issues of the majority of Czech corporate bonds**, such as the bonds issued by Net4Gas or Pegas Nonwovens.

Net4Gas, the operator of the Czech natural gas transmission system, issued three tranches of bonds in euro and Czech crowns in the total volume of EUR 710 million. Česká spořitelna acted as the lead co-manager, documentation and marketing bank for the issue of 6.5-year bonds of this company with the volume of CZK 7 billion, which is **the largest Czech crown issue of corporate bonds in the last decade**. The Bank also acted as a passive co-manager of the euro part of the bond issue and also became the agent and creditor in the club financing in the total volume of EUR 400 million.

Pegas Nonwovens, the leading manufacturer of nonwoven textile in the EMEA region, made an initial issue of bonds in the total volume of CZK 2.5 billion, maturing in November 2018. The actual subscription volume of this successful transaction was 2.35 times higher than planned; the strong demand consisted mostly of institutional investors, followed by Erste Private Banking clients and retail investors. **Česká spořitelna acted as the sole arranger of the issue and the exclusive counterparty in hedging of the interest rate and foreign exchange risk related to the bond issue.**

As a part of its comprehensive services to corporate clients, Česká spořitelna also provided debt advisory services and consultations regarding the acquisition and maintenance of company rating. ČEPS a.s., the state-owned operation of the Czech power transmission system, defended successfully for the third consecutive year its A2 credit rating by Moody's. By means of its Prague-based Debt & Rating Advisory department, Erste Group provided exclusive advisory services to ČEPS in acquiring the best possible rating in 2012 and has been working systematically with ČEPS in the maintenance of such rating.

Česká spořitelna, a leading innovator in Cash Management, is continuing to develop unique solutions. A prime example is @FAKTURA 24. **Česká spořitelna was the first bank on the Czech market to implement the banking standard for sending e-invoices and e-documents to end consumers** in the electronic banking applications (e-invoicing standard no. 29), enabling invoice issuers to send to the SERVIS 24 Internet banking application, beside e-invoices, also non-payment documents and offering them a possibility to activate the service. **In case of payment documents, the billing process is linked to the payment process based on an automatically generated one-time payment order.** Since the SERVIS 24 Internet banking service was launched, clients have received over 500 thousand documents. Customers can receive e-invoices, e-documents and insurance premium or subscription payment orders from ČEZ, E.ON, RWE, Kooperativa, Pojišťovna České spořitelny, SmVak Ostrava, MAFRA (Mladá fronta DNES and Lidové noviny subscriptions), ČEVAK, Right Power Energy, and Czech Radio (payment of the radio broadcast fee).

Česká spořitelna continues to be the sole bank which offers this solution on the basis of a consolidated principle and exchange of e-invoices between businesses. Electronic invoicing provides to companies the benefit of secure electronic sending of invoices and significant savings of time and costs. The **@FAKTURA 24 service has already processed over 1 million transactions.**

As a part of improvement of services provided to the corporate clientele, Česká spořitelna decided to manage more systematically client experience with Erste Corporate Banking. Therefore, it created a

team from among the existing employees in several corporate banking departments, which consistently monitors client experience and satisfaction with Erste Corporate Banking services and proposes improvement measures, participates in their introduction and in the improvement of effectiveness of internal processes and services provided to corporate clients.

Aside from the slight increase in operational financing, there was resurgence in investment, corporate acquisitions and export financing in the large multinational corporate segment, and this was also reflected in loan activity.

Loans provided to corporate clients (in CZK billion, gross value for the bank, excluding mortgage loans)	2010	2011	2012	2013	2014
Portfolio of loans to SME	58.2	68.7	75.5	79.4	76.2
Portfolio of loans to large enterprises	51.3	62.4	68.2	70.9	69.0
Portfolio of loans to large municipal clients	12.5	13.8	13.1	12.2	13.1

Service for the Public and Non-profit Sector

Česká spořitelna confirmed again in 2014 that the long-term partnership with public administration and self-administration agencies and semi-budgetary organisations established by them **is beneficial for both parties**. Its cooperation with clients is based on long-term communication and extensive knowledge of client needs. The offer of standard products and services of Česká spořitelna is appropriately complemented with services offered by its subsidiaries, such as advisory services in the field of infrastructure and subsidies or assistance in the administration of public contracts. The offer of products and services always respects current needs of clients.

Česká spořitelna participated in syndicated financing for Pražská plynárenská (Prague Gas Distribution Authority) in the amount of CZK 4.1 billion. By means of a note issue programme, the Bank provided to the statutory city of Liberec funds in the amount of CZK 0.7 billion. **Other examples of the extensive range of provided services include the hedging of oil prices and interest rate hedging of the note programme for Dopravní podnik hlavního města Prahy (Prague Transportation Authority)**, brokering of sales of electricity to the City of Sušice and Hospital of Sušice and setting an external rating for the City of Písek.

Česká spořitelna also provides financing for housing co-operatives and apartment owner associations. The product offering focuses on comprehensively meeting the needs of clients, in particular to finance renovations, privatization purchases and new home construction. Although government subsidies for apartment blocks were minimal in 2014, loans provided by Česká spořitelna increased 14% year-on-year to CZK 19.4 billion.

More than 100 new projects amounting to CZK 350 million **were financed in 2014 in cooperation with the German development bank KfW Bankengruppen as a part of the programme of Financing Energy Savings in Apartment Blocks**. The financed projects are supported by a European Union grant in the amount equal to 10% of the loan provided. This programme is unique in the Czech Republic and is only offered by Česká spořitelna. By the end of 2014, Česká spořitelna received almost 200 financing requests totalling CZK 850 million, of which loans provided amounted to CZK 600 million.

Česká spořitelna offers to its clients from the public sector and non-profit organisations individual solutions of their financial needs by means of a network of specialist banking advisors. The Bank also cooperates with its long-term partners from the non-profit sector through the Česká spořitelna Foundation. Česká spořitelna also focuses on the development of social enterprise, not only by means of special educational programmes for social enterprises and non-profit organisations but also by providing for their financial needs.

Česká spořitelna is also a strategic partner of churches and religious societies. A significant part of services to those clients focused in 2014 particularly on advisory services concerning the management of assets in relation to church restitutions.

Česká spořitelna offers public sector clients standard banking services as well as an ever more popular and always evolving **offering of comprehensive advisory services in cooperation with its subsidiary Erste GRANTIKA Advisory**. This primarily comprises advisory services in subsidies, financial matters and managerial issues.

Česká spořitelna also continues to cooperate successfully with the European Investment Bank in the public and non-profit sector. The current activity is represented by a global loan and involvement of Česká spořitelna in the subsequent grant programme launched by the European Commission under the title Municipal Infrastructure Facility.

Sale of Financial Market Products to Corporate Clients

Česká spořitelna provides financial advisory services in the Czech Republic to large international and local corporations and to SMEs.

As regards financial markets, Česká spořitelna possesses high-quality analytical and commercial background allowing providing not only reliable execution of transactions but also the analysis and advice in structuring and timing of hedging transactions. Česká spořitelna's long-term strategy, focused on offering a wide range of well-priced customized products, has proven itself by generating a slight increase in transaction volume and assuring customer satisfaction with the services provided despite a tough economy.

The interest of commercial clients focused in 2014 primarily on the exchange rate of Czech crown. The intervention regime, its length and method of its termination affected strategic decisions concerning the management of foreign exchange risk of exporting and importing companies. The intervention exchange rate, as a new parameter of hedging strategies, was manifested by an increasing demand for non-linear solutions. After several years of slump, currency options have begun to occupy once again a prominent place.

The significant decline of the prices of oil and oil derivatives in the second half of 2014 further increased client interest in hedging of commodity prices. **In addition to the established hedging of prices of motor fuels, electrical energy and gas, Česká spořitelna also performed well in the sale of hedging of industrial metals prices and agricultural commodities.**

Debt Securities and Equity Instruments Trading

In 2014, Česká spořitelna was one of the leading stock and bond traders in the Czech Republic and continues to strengthen its leading position for institutional clients. **Long-term confidence is a principal advantage of Česká spořitelna and the reason why it continues to confirm its leading position in stock trading among banking entities.** As the lead manager, Česká spořitelna launched in the market two new issues: Stock Spirits Group and Lobkowicz Group Breweries. Both issues further expanded investment opportunities. It is also important to mention that the issue of the Lobkowicz Group Breweries generated funds in the amount of CZK 368 million, which enabled the company to proceed with its further expansion plans. Hence, Česká spořitelna fulfilled one of the key capital market functions.

The Czech bond market was characterised by a decline in interest rates throughout the entire yield curve. The repo rate of shorter-term notes reached 0.05% and the longer part of the curve up to the fifteen-year bonds was aligned below 1%. Due to a decrease of interest rates, institutional investors generated once again sound profits and thanks to high capital gain on their bond portfolios, clients acquired very good return.

Financial Institutions

In 2014, Česká spořitelna continued its successful sales of products and services to current customers and, thanks to its acquisition of several high-profile clients, confirmed its position as a leading provider of value-added services to financial institutions. The Bank further deepened its cooperation with insurance companies and pension funds and developed its collaboration with investment companies and their funds. Services provided to these clients emphasised new payment methods in the area of cash management, enabling the Bank to focus on additional specialised services, like depositary or custody services and brokerage of dividend and coupon payments. The Bank achieved a further year-to-year increase in the number of clients from among non-banking financial institutions.

In the area of correspondence banking, Česká spořitelna continued to be an important provider of payment solutions in the domestic and in foreign currencies. In collaboration with the other Erste Group members and **based on the joint platform, Česká spořitelna is becoming increasingly**

involved in central European payment solutions for prominent banking institutions as well as for local banks. When it comes to custody services in Czech crowns, Česká spořitelna was successful in several difficult tenders organized by banking clients. This meant that the number of accounts kept for banks, and the volume of transactions performed via these accounts, continued to grow in 2014.

Asset Management for Institutional Clients

Česká spořitelna manages over CZK 110 billion in assets for institutional clients. Assets in custody increased in volume by nearly 13% year-on-year. Česká spořitelna's clients include mainly financial institutions, i.e. pension funds, life-and non-life insurers, health insurance companies, foundations, churches, municipalities, corporate clients, housing cooperatives and trade unions. According to the Capital Market Association, Česká spořitelna is the market leader in asset administration for third parties with the market share exceeding 60%

Once again, yield curves decreased significantly in 2014 both in the Czech Republic and in the world. The level of base interest rates fell to a technical zero. In this environment of unprecedentedly low interest rates, asset management yielded clients average returns of 2.07%, which is equal to the weighted performance of adopted benchmarks.

Depository

Česká spořitelna remained in 2014 one of the market leaders in the provision of depository services in the Czech Republic. As opposed to 2013, the number of supervised funds declined slightly from 102 to 94, mostly due to the newly adopted tax legislation, which resulted in the exit of some market subjects in the segment of qualified investor funds. **Despite the reduced number of funds the total assets managed by the depository increased by CZK 25.5 billion to CZK 203.1 billion**, a 14% increase year-on-year.

Custody

Česká spořitelna provides security custodial services not only as a depository bank or as part of client portfolio management, but also as a separate service. Clients are primarily financial institutions, corporate clients, municipalities holding equity participations and other entities investing in securities. Overall, a significant year-on-year growth was reported in asset volume, thanks to several new acquisitions, growing investments of the existing clients and strengthening foreign markets.

Settlement Agent and Securities Administration

Česká spořitelna is the most important provider of services related to settlement of dividend and coupon payments. **In 2014, the Bank brokered 846 thousand settlements at a total volume of CZK 88 billion, including buybacks of mutual fund units.** Česká spořitelna brokered, among others, payment of the dividend for ČEZ, a.s., O2 Czech Republic, a. s. and Philip Morris. Česká spořitelna has also maintained a significant position for several years now as a provider of coupon settlement and calculation agent services for bond issues. It not only maintained, but slightly improved, this position in 2014, acquiring issues of several prominent companies, such as Cetelem ČR, a.s., Pegas Nonwovens SA and České dráhy, a.s., for its portfolio as a settlement and calculation agent.

EU Office of Česká spořitelna

The activities of the EU Office of Česká spořitelna concentrated in 2014 mainly on the 10th anniversary of the entry of the Czech Republic into the European Union. On this occasion, the **EU Office of ČS organised in cooperation with the Office of the Government of the Czech Republic** and the Union of Industry and Transport **a conference "Entrepreneurial Forum: 10 Years of the Czech Republic in the EU"**, designated for corporate clients of Česká spořitelna. The conference was held in the Liechtenstein Palace in Kampa, with the participation of more than 140 guests and under the patronage of the Prime Minister Bohuslav Sobotka. In addition to the Prime Minister, the leading speaker was Herman van Rompuy, chairman of the European Council.

Another major success was witnessed by four regional conferences held in Prague, Brno, Ostrava and Hradec Králové, which were organised by EU Office jointly with Erste Grantika Advisory. The key topic was the new EU subsidy period of 2014-2020. The same topic is reflected in the report "Cohesion Policy 2014-2020 – the Most Part of Money to CEE", issued by the EU Office upon the start-up of the new EU programming period. The report won major interest of the media. Its issue was accompanied by two press conferences in Vienna and Warsaw and was provided wide media coverage almost in the entire region of Central and Eastern Europe.

The key ordinary activities included further expansion of the advisory programme Guide to Doing Business Abroad, which currently covers 18 European countries. The reader base of the main report – EU Information Monthly – has also increased; by the end of 2014, it was read by more than 20 thousand people.

Distribution Channels

Branch Network

With its 644 branches, Česká spořitelna is one of the Czech Republic's largest banking networks, offering good regional coverage and easy accessibility for all its clients. The branch network continues to be the basic executive component of the Bank's multi-channel sales model

The branch network provides a broad and comprehensive portfolio of Česká spořitelna Financial Group services and products to private clients, SMEs and individual entrepreneurs. Private banking services are provided under the new BLUE brand. Above-standard services designated for wealthier clients are provided to Ester Premium clients. The Bank's specialised advisory services respond to the needs of municipalities and offer solutions for the corporate and private financial needs of independent professional clients.

As part of its effort to optimise regional coverage by the branch network, Česká spořitelna closely monitors branch operation and analyses usage patterns. **Based on these analyses, the Bank makes changes to the network to ensure that branches are available to clients where and when they really need them** and that the Bank achieves maximum operating efficiency. In 2014, four new branches were opened, two in the Erste Premier format in Liberec and Prague 6 and two branches located in shopping centres in Olomouc and Mladá Boleslav. Ten branches were relocated to more attractive locations or places better suited to today's lifestyle of the Bank's clients. Eleven branches were closed down due to economic reasons and their clients were transferred with all their accounts and other products to the closest points of sale or to a branch of their choice.

Česká spořitelna now operates 37 branches in commercial centres and shopping malls. **Weekend hours have been introduced at thirty branches, mainly in large shopping malls.** In addition, 101 branches are equipped with a self-service zone, which is accessible to clients outside the opening hours of the branch and which enables the clients to execute basic cash and cashless transactions. The operation of the mobile branch in southern Bohemia was adjusted to provide banking services to four municipalities.

Eighteen branches throughout the Czech Republic were modernised or extensively renovated. Mobile box branches were used as a more effective temporary alternative for mid-sized bricks-and-mortar branches undergoing renovation. In 2014, these were used during renovations in locations including Úpice, Plzeň Lochotín or Náchod. **Most branch modernisation and renovation entails creating barrier-free access. To date, 374 branches have been so adapted.**

Discretion is assured at branches not only through interior design and layout elements (e.g. screens, carpeting, separated waiting and consulting areas), but also by the distance of the waiting and advisory part of the hall or through background music piped into waiting areas. Branch clients and advisors have all praised the system's installation, the music choice and the volume control options.

In 2014, the Bank continued to work with the Czech Red Cross on the unique "Friendly Places" concept in which branch employees are trained in a professional approach to handicapped clients and seniors and receive first aid training. Branch certification is a part of this programme. **Branches that are fully barrier-free and have provided training to all staff who serve handicapped clients can receive a Friendly Places certificate.** Further 26 branches received this certificates in 2014.V

Česká spořitelna has been testing since August 2014 a new branch design and client service method in the experimental branch in Plzeň Lochotín. The new form and layout of client premises should be proactively enhanced by improved processes with the aim of improving client satisfaction while increasing at the same time the effectiveness of operating expenses of the branch.

Direct banking

Direct banking is the most common way in which clients contact Česká spořitelna. More than 93% of financial transactions are conducted through direct banking channels. **In 2014, more than 100 million financial transactions totalling CZK 2.8 billion were carried out in this manner, representing a year-on-year increase of 6%.**

Numbers of non-cash direct banking transactions (CZK million)

SERVIS 24	66.8	67%
BUSINESS 24	12.1	12%
MultiCash	17.5	18%
ATMs and payment machines	3.2	3%

The number of clients of SERVIS 24 increased by 11% in 2014 to 1.76 million. Internet banking is used actively by almost 95% of users; more than one half of them have activated telephone banking. 9% of users access their account via the Mobile Bank and 4% via GSM Banking.

SERVIS 24 Internet banking has undergone another significant development. Users may now execute comprehensive management of cards beginning with the card application, through activation, election of design, a possibility of blocking or de-blocking up to the PIN display. Hence, the clients need not visit their branch to resolve card issues. From the comfort of their home clients may also arrange for a loan, overdraft or a credit card via the new service called Busy banking or complete a purchase in internet banking. Payment orders may be newly uploaded until 11 pm of the current day and the daily limit of transferred money may be reset up to CZK 1 million. **If the client lacks sufficient funds for the transaction, he will automatically obtain an offer of overdraft that can be drawn immediately.** The loan menu also offers a new possibility of increasing the loan within a couple of minutes.

Internet banking also offers its services to firms, cities and municipalities or to other legal entities. **By the end of 2014, the Bank carried on its records over 20 thousand BUSINESS 24 clients, a year-on-year increase of 14%.** More than 3 thousand clients use the MultiCash services. Česká spořitelna launched in August the Mobile Bank for corporate clients. Like in SERVIS 24, the clients of BUSINESS 24 are offered a possibility of comprehensive management of their cards. In addition, they may newly order or execute forex transactions in the foreign exchange market, guarantees or documentary transactions. There are also new available functionalities, such as keeping of the calendar of duties (e.g. tax obligations) or electronic pledging of receivables.

BUSINESS 24 Databanking, which offers to entrepreneurs and firms the possibility to send payment orders directly from their accounting systems, exceeded in 2014 the limit of 100 thousand financial transactions, transferring CZK 6 billion, which indicates a year-on-year one fifth increase.

The Mobile Bank has been offered by Česká spořitelna to its clients in the third consecutive year and is currently used by more than 150 thousand clients, who transferred in 2014 more than CZK 7 billion by means of nearly two million transactions. Viewed from this perspective, the Mobile Bank is the most dynamic payment channel in the Bank. The Mobile Bank is currently available also for smart phones using the Windows Phone operating system; the user may use the Mobile Bank on more than one device. New functionalities, such as obtaining or increasing credit products, are available. Only during the second half of 2014, clients obtained or increased via the Mobile Bank over one thousand overdraft loans, loans and credit cards. **The Mobile Bank may also be proud of its new application, particularly Listkomat, by means of which the clients may arrange for meetings at branches or obtain virtual number tickets from the q-matic system.** This is another reason why the **Mobile Bank won in 2014 the third place in the client services category of the competition Mobile Application of the Year.**

One of the direct banking channels that has shown dynamic long-term growth is payment orders via ATMs and payment machines. In 2014, the number of these transactions exceeded 3 million in number and CZK 15 billion in volume. More than 120 thousand clients use this service every month. Moreover, the Bank is able to sell travel insurance via its ATMs, and the client has an opportunity to take up the insurance in two minutes without a visit to the branch.

The number of active users of the direct banking services SERVIS 24 and BUSINESS 24 increased in 2014 to 1.76 million, which represents a nearly 11% year-on-year increase.

	2010	2011	2012	2013	2014
Number of active clients of SERVIS 24 and BUSINESS 24 (thousands)	1,319	1,410	1,476	1,591	1,760

Note: clients using more channels are counted only once

PLATBA 24 underwent a significant development in 2014. **This system provides to users of SERVIS 24 a simple payment method of purchases in e-shops and of invoices in the client portal environment.** Since its launching, 4 million orders in the volume of nearly CZK 4 billion have been executed by means of this service.

A significant benefit of direct banking is product and service sales. Nearly 300 thousand products were sold through this channel in 2014, 90% of them without the need for visiting the branch. The sales that performed well were mostly the sales of overdraft loans and credit cards; however, the best results were reported in respect of provision of loans to individuals. The Bank began selling loans through external call centres, and users of SERVIS 24 Internetbanking have also a new opportunity to increase by themselves their loans, or to complete in this application the purchase of credit products requested by telephone.

The overall growth in the use of direct banking will continue in the years to come. In 2014, direct banking recorded 174 million client visits and contacts, accounting for 91% of all client contacts or visits to the Bank. SERVIS 24 Internetbanking reported the most visits (114 million) followed by the Česká spořitelna website (with 34 million visits) and the Mobile Bank (14 million logins).

Non-commercial Activities

People

Česká spořitelna's employees are its most important resource in determining a healthy direction and ensuring success of the Bank in a highly competitive environment. **Česká spořitelna believes that its qualified, high-quality, satisfied and professional employees always motivated to perform to the best of their abilities, are its competitive advantage.** The Bank thus offers employees fair employment conditions, a friendly workplace and educational opportunities.

The Česká spořitelna employee training and development strategy focuses on greater utilisation of potential through development programmes and projects. Staff development is based on an Internal Training Catalogue comprising a targeted selection of educational and training activities reflecting the needs of the Bank's employees and managers. The comprehensive offering comprises class tutitions, e-learning, self-study materials and progress measurement tools. **Training is open to every Bank employee and specifically supports the principle of a self-learning organisation.**

Česká spořitelna has been working with its talented employees. In 2014, it set up a concept of identification and development of potential successors to the positions of commercial team leaders, area retail banking managers and working team leaders in the operating areas of the headquarters. Furthermore, the talent programmes Operating Academy and Commercial Banking Academy were run. As regards central programmes, the talent programme Expert and the annual Graduate Programme have been running since January 2014.

As a part of the use of modern development tools, Česká spořitelna has prepared a set of interesting instruments: the mini application "Amosův tahák" (Amos's Help List), which assists employees in the planning of their development in accordance with the new Erste Group competencies, and the e-library Safari books, used mainly by IT specialists to study technical literature. Sociomapping is a tool for which the Banks holds a license and which uses certified facilitators to help the teams in Česká spořitelna develop, use effective communication means and cooperate. The number of employees coached in Coaching Cafés increased by 15% and the portfolio of development tools used by internal coaches has expanded.

One of the key development programmes and projects is the Diversitas programme designed to support work/life balance and equal opportunities for all male and female employees of Česká spořitelna. **In its projects**, the Bank creates favourable conditions for return of parents from maternity or parental leave, **offers help to the handicapped and otherwise disadvantaged employees**, and promotes the work/life balance, equal number of men and women in managerial positions and opens at the same time an inter-generation dialogue within the Bank.

Thanks to the Project Stork, parents on maternity or parental leave have an opportunity to attend up to eight annual meetings with Česká spořitelna, where they learn the Bank news and meet the top managers. They also discuss legal issues, are provided personal counselling and participate in various workshops.

Within the scope of the Project Gender – Equal Opportunities, Česká spořitelna launched a development programme Satori for talented women in the Bank. The Programme includes mainly mentoring, training, workshops and development activities. At the same times, a group of successful women in managerial positions directed by the board of directors, the LL (Ladies Leaders) Group, which has been formed, has issued a biographical electronic library. The Satori and LL programmes are linked to improve cooperation on strategic tasks of the Bank, particularly in connection with the new MIDI strategy.

The project Transition – Without Barriers resolves problems of employees with disabilities, who are provided within the scope of this programme with special working aids, such as keyboards or chairs. Česká spořitelna organised internships for people with disabilities across all its departments. **The Bank also participated in the programme Job Fair without Barriers** and cooperated with the Ministry of Labour and Social Affairs in the **creation of a manual for work with employees with disabilities**. The Wise Owl project held three meetings with the 50+ year category of employees, which discussed specific needs of employees belonging to this age group. Česká spořitelna also established a Third Age University. The project Flexible Calendar deals with the expansion of flexible working hours across the Bank.

In 2014, Česká spořitelna prepared 23 recruitment events for potential employees. The Bank also participates in job fairs focusing on the presentation of job opportunities, organises Days with Česká spořitelna and has prepared a number of lectures and workshops at universities in various Czech cities.

Average staff headcount decreased year-on-year by 180 to 10,471, of which 74% are women. 10% of employees work part-time and the bank has also successfully integrated 150 mothers after their return from maternity leave. Average length of employment rose to 10.6 years and average employee age increased to 39.5 years. Employees older than 50 years of age represent 16% of the population of Česká spořitelna.

Average staff headcount	2010	2011	2012	2013	2014
Staff headcount of the ČS* Financial Group	10,744	10,556	10,760	10,651	10,471
Staff headcount of Česká spořitelna*	10,163	9,485	9,640	9,550	9,405

* The average restated staff headcount including employees of other Erste Group companies (the expatriates)

Service Quality

A key service quality goal of Česká spořitelna is the continuous improvement and enhancement of the quality of services provided to clients. The level of services provided by the Bank to its clients is monitored throughout the year by the short-term measurement of client experience, focusing primarily on the Net Promoter Score (NPS). The aim of this quantitative research is to obtain information about the experience of retail clients of Česká spořitelna at a branch immediately after their visit.

Moreover, long-term customer experience is measured every half year and the outcomes help determine the objectives of individual Bank departments. **Client loyalty is measured via the NPS method, which monitors the willingness of clients to recommend the products and services of Česká spořitelna to their friends.** An analysis of the reasons for recommendation / non-recommendation enables the Bank to alter products and services to better suit clients. As the NPS method is used in other sectors, too, the results can be compared to those of other local and international companies.

These measurements are supplemented by the mystery shopping, which allows obtaining a comprehensive and independent view of client experience. Naturally, the Bank resolves the basic causes of client complaints, searches for the most frequent problematic product and service areas, which are negatively perceived by clients and seeks solutions of the identified problems.

A complaint is a manifestation of client dissatisfaction with a service, product or conduct, which is communicated to the Bank. It is in the Bank's interest to record every one of these complaints, even those that are resolved immediately. A key element in the complaints resolution process is the Client Care Centre in Prostějov, which is responsible for overall complaint resolution. The team also strives continuously to ensure the most convenient and highly professional way of compliant resolution for the clients.

A team of ombudsmen is available to Česká spořitelna clients through various communication channels. Clients can call 956 717 718 or e-mail ombudsman@csas.cz, come in for a personal consultation, send letters or contact the Office of the Ombudsman through Facebook ČS. Team members resolve client issues in Czech, English and German. **Ombudsmen handle the most complicated cases that might impact the activity of multiple bank departments** and which are often associated with reputational risk. They can also convene expert groups of employees from various Bank departments to individually assess client compensation claims. In 2014, the team of ombudsmen resolved in cooperation with other Bank departments complaints of clients relating to phishing attacks on their account. Česká spořitelna communicates with clients who are victims of such attacks and ensures individual assessment of each such case.

In 2014, the average submission resolution period by the ombudsman team reached 10.4 days and client satisfaction with complaint resolution increased by three percentage points to 76%. In 2014, the ombudsman team staff resolved 100 cases in collaboration with the Czech National Bank and 59 cases with the Financial Arbitrator of the Czech Republic.

In 2014 the main areas of client complaints or requests for an ombudsman opinion were banking products and services fees, unapproved loans and loan restructuring and debt collection, withdrawal and securing of mortgage loans. Further complaints related to the non-functioning or comprehensibility of products or services.

Another important factor of the quality of services provided to clients is the quality of internal services provided within the Bank. The level of quality of internal services provided mutually by the Bank's departments is measured by custom-made questionnaires. In 2014, the Bank focused on the evaluation of its headquarters with regard to the provision of support to commercial departments, The results of this measurement constitute the basis for the assessment of the quality of delivery against the internal client's expectations; the output is the SLI (Service Level Index).

Project Management

Česká spořitelna successfully realises its strategic goals through projects. The benefits are reflected in greater client satisfaction, higher revenue, greater operational efficiency and risk mitigation.

The majority of projects deal with the development and implementation of new technologies and products for clients. **Česká spořitelna endeavours to offer regularly to its clients innovative services that are both new and reliable**, e.g. in the areas of internet and mobile banking, sale of mortgages, or the new service model at the branch. Annually, dozens of projects are carried out at Česká spořitelna.

Česká spořitelna also works with Erste Group Bank on group projects whose general aim is to fully utilise the commercial potential of central European markets in all segments, take advantage of economies of scale and cost synergies, concentrate ancillary services within the Group, and achieve comparability of performance measurement and risk management.

The project portfolio is closely tied to the Bank's business strategy. First steps towards the implementation of the new MIDI 17 strategy have been taken, such as the launching of the pilot

operation of six video terminals, **the Blue service clients need not sign agreements at the branch but may execute them electronically (via the Busy banking).**

The Bank opened in August 2014 an experimental branch in Plzeň Lochotín with the aim of live testing of the new service model for retail banking clients. The new service method should meet the three basic objectives: to improve customer satisfaction, to work most effectively and to increase sales.

The project Dobrá rada (Good Advice) represents a major benefit for clients. This concept **provides to advisors the relevant sales tips and service requirements of each specific client**, which facilitates communication and consulting at the personal meeting. This is the first step to the effective use of client data and creation of the relevant offer for the individual client needs.

Another important project providing benefits to retail clients is the card with the multicurrency function, which can be provided to clients together with the ČS Personal Account, Private Account Premier, ČS Commercial Account and ČS Business Account, and which will enable the clients to withdraw by means of a single card funds from the CZK account and from all foreign exchange accounts included in this service.

An application for sale of mortgage loans has been launched in the branch network. This application increases the effectiveness of the sales process by the introduction of a high level of automation in the assessment of application, generation of documents and uploading mortgages in the product systems of the Bank. The mortgage processing procedure also uses the application model Jednotná fronta (Single Front), which allows effective management of allocation of tasks to members of the approval and documentation team. Thanks to this new application, Česká spořitelna may optimise the mortgage selling process, reduce error frequency and respond more effectively to changes in the mortgage market.

A brand new website has been launched to cover the needs of Erste Corporate Banking, which will facilitate fast and easy orientation in the offered products and market segments. The application BUSINESS 24 Mobile Bank, which has been launched to the market for corporate clients, is available at GooglePlay and AppStore. Thanks to this new application, the client may easily, quickly and conveniently send money from the telephone or tablet or may find out whether a payment has arrived. **Corporate clients using the BUSINESS 24 internet banking were offered by Česká spořitelna a number of innovations in 2014:** a significant expansion of functionalities relating to bank guarantees and documentary transactions, including secured transfer of documents or interactive communication between the client and the Bank, active payment card operations, uploading orders, an overview of open transactions or display of confirmations of transactions executed in the foreign exchange market.

Reporting of open derivative transactions to the Register of Trading Data was launched in February 2014 and was expanded in August by information required for hedging and valuation of transactions. At the same time, the Bank carried out an analysis of requirements relating to clearing of transactions through the central counterparty based on technical standards issued in 2014 by ESMA (European Securities and Markets Authority). The Bank also set up a new COREP and FINREP reporting in accordance with the EBA (European Banking Authority) methods.

A major legislative change in 2014 was the implementation of the new Civil Code and the Business Corporations Act in the internal processes and client contractual documents. Expressed in figures, it meant analysing more than 2 thousand sections of the law, which resulted in the adjustment of 340 contractual templates, 140 internal regulations and training of 5 thousand employees in changes of the affected processes. **These changes had a considerable impact on the Bank's IT systems. An example can be the complete change of the method of communication with cadastral authorities, which is currently carried on solely through data boxes**, or the required automated processing of execution petitions in respect of passbook accounts, whose number has increased significantly due to the change of the law. The implementation of the new Civil Code also led to the November launch of the pilot operation for processing of legislative duties of the Bank, specifically the processing of executions in accordance with the new rules.

A significant shift in the automatic enforcement in retail banking was brought by the introduction of set-offs, enabling the Bank to set off in real time the balances on the client's accounts with his due loan or card payables. The virtualisation of specialised departments and headquarter sections took place in 2014. All users at the headquarters have access to the virtual environment, which is used particularly for testing and access to certain specific applications.

The pilot operation of the new application eSpis (eFile), with the aim of shifting Česká spořitelna towards paperless bank, was launched at seven branches and the foundations of the new central storage facility were laid down in Hradec Králové. The eSpis application will provide an overview of all client documentation and the new storage facility will have the capacity of up to 100 kilometres of documentation, which will allow future centralisation of all paper client documentation in a single place and simplify and reduce the costs of internal processes.

Another important step was the relocation of selected processing procedures from Prague to Pardubice. **A total of 250 employees of Česká spořitelna have moved into a modern barrier-free office in the Vinice building.**

Economic and Strategic Analyses

The Economic and Strategic Analysis Team's responsibilities are divided into three areas. The first is strategic planning and banking sector analysis. These analyses and associated documentation become an integral part of the drafting and review of the Česká spořitelna Financial Group plan. The area of equities analyses covers twelve companies in Central and Eastern Europe, primarily in the media and utilities sectors. The third area comprises macroeconomic analyses resulting in prognoses of foreign exchange and interest rate developments. The equities and macro groups also offer investment strategy advice to clients in addition to analyses and prognoses. Analyses are published online at www.investicnicentrum.cz. The set of regular analytical reports issued with daily to quarterly frequency in Czech and English now comprises 20 different products. Analysts and strategists are available to a selected group of Česká spořitelna Financial Group clients for consultation.

Security Policy

Česká spořitelna attaches a great deal of importance to its security policy. The Bank operates an independent security department charged with overseeing the investigation of operational risks and maintaining IT and physical security focusing on potential violations of bank secrecy and their prevention and Business Continuity Management ("BCM"). **The Bank's work here is chiefly concerned with preventing all adverse events or inappropriate conduct jeopardising the security of clients and employees or the assets of Česká spořitelna Financial Group companies.**

The aim of the Česká spořitelna security policy is to mitigate operational and security risks. Any criminal activity of Bank clients or employees constitutes a priority reference point when evaluating and administering warnings in software applications, assessing methodological procedures and assessment of new Bank development projects.

The significant rise in cyber-attacks with banking-specific Trojan horses and phishing continued in 2014 as well. The Bank paid much attention to information campaigns targeting clients and internal users with the aim of continuous improvement of security awareness. **Under the auspices of the Bank Association, Česká spořitelna participated in the preparation and introduction of the system of rapid information exchange between banks and blocking of fraudulent payments** and developed at the same time online security monitoring of internet banking transactions. Under the auspices of the Banking Association, the Bank also focused on the preparation and definition of the implementing decrees to the Cyber Security Act.

The development of external violent crimes continued to be positive in 2014. **The number of robbery attacks reached its record low and was the lowest in the last 20 years.** The bounty obtained by robbers in 2014 also reached its record low. Unfortunately, the number of attacks on ATMs increased in 2014; however, the robbers came away empty-handed. Three attacks were carried out by means of an explosive gas. Such attacks are particularly dangerous because they represent, by their nature, a public threat. It can be said in general that the results of Česká spořitelna in the field of physical security are exceptionally good compared to the rest of the Czech banking sector.

The Bank also handles client complaints concerning violations of bank secrecy and uses transaction monitoring in the prevention of unauthorised employee access to information. The personal security courses “Management Psychology and Personal Security” and “Practical Security” are also prevention oriented. Naturally, the Bank also monitors workplace health and safety and fire safety in compliance with its statutory obligations.

Activity in the area of business continuity management was one of the priorities of ensuring secure and smooth operation of Česká spořitelna. **The business continuity management system is aimed at the maintenance of tolerable level of critical process and activities in case of unscheduled and unforeseen serious emergencies.** Česká spořitelna strives to make the key BCM principles a part of its corporate culture and social responsibility, The Bank analyses and assesses serious threats to the operational and business continuity, which it takes into account in the checking and testing of planned measures. At the same time, the Bank responds to legislative and regulatory requirements, with a particular emphasis on the protection of critical infrastructure elements and emergency plans of supply of outsourced services.

Internal Audit

Internal Audit of Česká spořitelna is an independent and objective assurance and consulting activity designed to add value and improve Bank processes. Internal Audit helps the Bank achieve its goals by affording a systematic approach to evaluating and improving the effectiveness of the risk management system, management and control processes and Bank management and administration. Internal Audit is responsible for assurance and advisory services and identification of areas for process improvements and methods for the achievement of company goals. Internal Audit monitors processes and activities in every department of the Bank and participates in the evaluation of the level of functionality and effectiveness of the management and control systems. Internal Audit verifies that measures arising out of audits and reviews performed are carried out and irregularities corrected. In 2014, Internal Audit provided the Bank’s management, Board of Directors, Supervisory Board and Audit Committee with reports, information and assurances concerning the risks faced by the Bank.