

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

For 2016

In 2016 Česká spořitelna continued in the mission to lead its clients to financial prosperity. It was mainly reflected in the launch of the service Moje zdravé finance (i.e. My Healthy Finance) in all branches of Česká spořitelna. Moje zdravé finance represents a long-term advisory service in respect of family finances - to support the clients in their financial needs, to save money and to improve their prosperity. An integral part of the service Moje zdravé finance is the interconnection of digital banking and branches - Česká spořitelna is always fully available to the client, 24 hours a day, 7 days a week.

In 2016, Česká spořitelna continued in the successful provision of mortgage loans. The volume of the newly provided mortgages reached a record level - **never before has Česká spořitelna provided more new mortgage loans in one year**. The total volume of the mortgage loan portfolio exceeded the amount of CZK 200 billion in September.

The favourable economic situation and attractive product offer had an impact also on the year-on-year growth of the consumer loan portfolio. **Česká spořitelna thus confirmed its number one position in the consumer loan market.**

In the corporate banking, in its TOP INOVACE program, Česká spořitelna reached a record annual growth of financing of corporate clients' innovation and development programs. The TOP INOVACE program, together with the guarantee line of the European Investment Fund InnovFin, is a key solution for well-established companies with innovative potential. Česká spořitelna's specialized solutions cover the companies' full life cycle. For starting business, Česká spořitelna is the only bank in the Czech Republic that offers its unique program INOSTART.

In 2016, Česká spořitelna succeeded in delivering an excellent result in mutual funds distribution. Česká spořitelna became number one in the Czech Republic, with a market share of more than one quarter, this owing both to its top-quality mutual funds offered to its clients and by excellent work of advisors.

Consolidated Financial Results

Income Statement

Year 2016 was very successful with respect to development of net profit and significant growth of loan book. Growing Czech economy benefits from positive households' and companies' expectations and from gradually increasing real wages, which are reflected in development of long-term household consumption, growth of industrial production and volume of new contracts.

Česká spořitelna reported consolidated net profit after taxes and minority interests in the amount of CZK 15.5 billion as of 31 December 2016 (in compliance with international financial reporting standards). In 2015, the net profit amounted to CZK 14.3 billion. The year-on-year increase is 8%. **The amount of the net profit reported is again a top-class result in Czech banking market.**

The return on equity (ROE)^{1*} remained broadly unchanged at 12.9% (in 2015, ROE was 13.0%). The return

^{1*}ROE is calculated as a proportion of the net profit for the financial year to the average monthly volume of equity (2016: CZK 120,331 million; 2015 CZK 109,885 million)

on assets (ROA)^{2**} was kept at a stable level of 1.5%. The profit before taxes and minority interests (gross profit) increased by 5% year-on-year to CZK 18.9 billion.

Net profit and operating result (CZK billion)

	2012	2013	2014	2015	2016
Net profit	16.6	15.6	15.1	14.3	15.5
Operating result	25.3	22.9	22.9	21.2	20.1
Cost/Income Ratio (%)	41.9	45.0	44.3	46.8	47.5

The consolidated result was positively **influenced mainly by the growing volumes of client loans**, improving **quality of the loan portfolio and reduction of operating expenses**. The profit increased also thanks to a one-off income from sale of Visa Europe shares in the amount of CZK 1.4 billion before tax.

Total operating income comprising net interest income; net fee and commission income; dividend income; net trading and fair value result; net result from equity method investment and rental income dropped by 4% to CZK 38.2 billion. **The drop in net fee and commission income** affected by regulation of interchange fees and drop in rental income from investment properties **contributed the most to the decrease of operating income**.

The operating expenses comprise the personnel expenses, other administrative expenses and depreciation and amortisation. Česká spořitelna managed to reduce operating expenses **by 2% to CZK 18.1 billion** mainly thanks to successful cost management and decline in contribution to the Deposits Insurance Fund (driven by new calculation rules stipulated by Czech National Bank).

The operating result, defined as the difference between the operating income and the operating expenses, decreased by 5% year-on-year to CZK 20.1 billion. Taking into consideration the development of the operating income and operating expenses, the cost/income ratio slightly grew from 46.8% to 47.5%.

The net interest income traditionally represents the largest, full two-third share on the operating income. **The present favourable economic situation of households and companies in the Czech Republic and their optimistic prospects into near future have been reflected in the significant increase of loans**. The net volume of client loans grew year-on-year by 8%. However, **persistently low interest rates in whole Europe** going down to even negative values and the competition pressure cause yet **further dropping of interest margins**. Loans and bonds with a higher interest income gradually mature and are being replaced by new loans and bonds with lower interest income. The net interest margin in relation to the interest bearing assets decreased year-on-year from 3.31% to 3.12%. **Česká spořitelna reduced the interest expenses on deposits** by selective repricing and changes in its balance sheet structure.

For these reasons, the net interest income decreased only by 1% to CZK 25.5 billion compared to 2015.

Composition of operating income (CZK billion)

	2012	2013	2014	2015	2016
Net interest income	29.0	27.3	26.7	25.9	25.5
Net fee and commission income	11.8	11.3	11.3	10.3	9.3
Net trading result	2.2	2.2	2.3	2.8	2.9
Others	0.7	0.8	0.8	0.8	0.5

The net fee and commission income fell year-on-year by 9.2% to CZK 9.3 billion. **The EU regulations on interchange fees for card-based payment transactions have a major impact on the decreasing fee income**, although the purchasing volumes of goods and services paid with the cards of Česká spořitelna

^{2**} ROA is calculated as a proportion of the net profit for the financial year to average monthly volume of assets (2016: CZK 1,032,046 million; 2015 CZK 936,504 million)

increased year-on-year by 12%.

The decrease of the fee and commission income is caused also by lower income from the provided financial services **as the clients tend to use less expensive forms of the services** and products. On the other hand, the fee income from investment products, in particular from asset management, increased thanks to growing volumes of assets under management.

Net trading and fair value result grew year-on-year by 1.1% to CZK 2.9 billion. Česká spořitelna increased mainly the income from foreign-currency operations, securities trading and fair value assets.

Rental income from investment properties and other operating leases dropped in line with expectation by one third to CZK 0.5 billion compared to 2015. The drop is caused by a gradual sale of the investment properties portfolio.

The total share of the non-interest-bearing income in the operating income represents 33%, compared to 35% in 2015.

Structure of operating income (CZK billion)

Net interest income	25.5	67%
Net fee and commission income	9.3	24%
Net trading result	2.9	7%
Others	0.5	2%

The total operating expenses dropped year-on-year by 2% to CZK 18.1 billion. This category comprises personnel expenses, other administrative expenses, including the statutory contribution into the Deposits Insurance Fund and depreciation and amortisation.

The personnel expenses that represent more than a half of operating expenses, increased year-on-year by 4% to 9.2 billion mainly driven by increase of variable salaries and creation of restructuring provision for streamlining and reorganization in headquarters.

The other administrative expenses dropped by 10% to CZK 6.8 billion, which was mainly driven by lower contribution into the Deposits Insurance Fund and successful cost management leading to reductions mainly in expenses for office space, office operating expenses, advertising and marketing. The continuing cost saving measures were mainly compensated by increasing regulatory expenses and development of new digital applications and projects.

Depreciation and amortisation of tangible and intangible fixed assets continued in a long-term decrease, going down by 2% to CZK 2.1 billion in comparison with 2015 due to lower depreciation for properties, hardware and office equipment.

Structure of operating expenses (CZK billion)

Personnel expenses	9.2	50%
Other administrative expenses	6.8	38%
Depreciation and amortisation	2.1	12%

Net gains/losses from financial assets and liabilities not measured at fair value through profit or loss reached CZK 1.4 billion, as it **includes** the above-mentioned **one-off income from sale of Visa Europe shares** in the amount of CZK 1.4 billion before tax held in the portfolio of available-for-sale 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 1.9 billion (down by 28% year-on-year). A rapid growth of

volumes in the low-risk segments, **decreasing default rates for private individuals and successful restructuring** and collection of claims mainly in the corporate segment **had a positive impact on improvement of quality of the loan portfolio**.

The proportion of credit risk coverage by provisions increased year-on-year and reached 83% and **the overall coverage of credit risks, including collaterals increased to 116%**. In 2015, these figures were 73% or 105%, respectively.

The other operating result is influenced by a number of factors, including one-off factors such as impairment of tangible assets, sale of card acquiring business, creation and release of provisions for off-balance sheet credit risks and other risks, etc.

The other operating result includes also the yearly mandatory contribution into the Resolution Fund (single bank crisis resolution fund) which is a part of the Financial Market Guarantee Fund. **The total contribution into the Financial Market Guarantee Fund** including the contribution into the Deposits Insurance Fund **amounted to CZK 0.6 billion in 2016**.

Statement of Financial Position

As at 31 December 2016, total consolidated balance sheet has for the first time in history exceeded the amount of one trillion (year-on-year increase by 11% compared to 2015). In a year-on-year comparison, the structure of assets changed, with an increase of the volume of loans provided to customers, increase of the cash balances at central bank, as well as assets held to maturity. On the liabilities side of the balance sheet, deposits from customers went up, as well as deposits from banks.

	2012	2013	2014	2015	2016
Balance sheet total (CZK billion)	920.4	968.7	902.6	959.6	1,066.5

Assets

Loans provided to customers represent the most important part of assets and generate the largest portion of operating income. **The total net volume of loans and receivables to customers increased in 2016 by 8% to CZK 577.5 billion**, and in absolute figures, it represents an amount of CZK 44.9 billion.

Loan book in 2016 was developing successfully across various client segments and products, mostly due to an increase in mortgage loans, consumer loans, corporate loans, leasing loans and loans for financing commercial properties. The proportion of net client loans to client deposits slightly decreased from 74.6% to 73.2%.

	2012	2013	2014	2015	2016
Proportion of net client loans to client deposits	66.8%	67.3%	73.5%	74.6%	73.2%

The volume of net loans provided to households amounted to CZK 330.6 billion, representing a year-on-year growth of 9%, i.e. CZK 27.2 billion. **The growing volume of loans provided to households was achieved primarily thanks to mortgage loans**. Demand for mortgage loans increased in 2016 and it was a record year for the entire mortgage market in the Czech Republic.

The growing real household income, the lowest interest rates ever and Česká spořitelna's active lending policy resulted in a record volume of newly provided mortgage loans of CZK 57.0 billion, which represents a growth by 15%. **Thanks to new mortgage loans, the gross portfolio of household mortgage loans exceeded the amount of CZK 200 billion in September 2016**. Year-on-year increase was 12% and in absolute figures, the portfolio went up by CZK 22.8 billion to CZK 209.6 billion.

The increased household consumption is reflected in the increased demand for consumer loans. **The gross volume of consumer lending reached** the turnover point after the previous years' decline and in the year-on-year comparison it grew by 1% to the total amount of **CZK 64.5 billion**.

The increased demand for loans, mainly loans for apartments and properties reconstructions, was reflected in the changing trend of loans provided to households by Stavební spořitelna ČS. The volume of such loans in the amount of CZK 35.3 billion (in net value) reported a slight year-on-year increase by 1% compared to 2015.

	2012	2013	2014	2015	2016
Net loans and receivables to customers (CZK billion)	470.9	489.2	500.0	532.5	577.5

Net consolidated loans to companies and corporate clients reported a significant growth by 9% compared to 2015 and reached an amount of CZK 227.7 billion. **The increase accounted primarily for the loans for financing of commercial properties and loans to large corporate clients** (it was also supported by both leasing companies of Česká spořitelna, s Autoleasing and Erste Leasing, as well as Factoring ČS).

The quality of the loan portfolio again reported a significant year-on-year improvement in 2016 (share of non-performing loans over total loans **decreased year-on-year from 4.1% to 3.2%**).

Cash and cash balances at central bank increased significantly again, by 56% to CZK 173.1 billion compared to 2015. The major part is represented by deposits with CNB in the amount of CZK 146.7 billion. **Placement of excess liquidity with the Czech National Bank** mostly in the form of short term deposits **is mainly affected by limited alternative investment opportunities** on the Czech market.

Loans and receivables to credit institutions fell year-on-year by more than one third and amounted to CZK 22.3 billion.

The portfolio of other trading assets, financial assets designated at fair value, available-for-sale securities and held-to-maturity securities in the aggregated balance of CZK 257.2 billion increased by 7% compared to 2015. **The increase occurred mainly in volume of held-to-maturity financial assets**, comprising mainly of government bonds, and in volume of other trading assets. The volume of reverse repo loans concluded mainly with CNB (reported within other trading assets) experienced a most significant increase.

Bonds comprise as much as 97% of such financial assets portfolios. **Česká spořitelna prefers to purchase bonds issued by government institutions**, which represents a share of 87% of all bonds. Equity instruments make up only CZK 1.4 billion and loans, mainly reverse repo loans, make up CZK 7.3 billion.

The volume of investment properties was reduced in connection with the sale of these investments and compared to 2015 decreased by 52%, reaching an amount of CZK 2.4 billion.

The aggregate balance of property and equipment and intangible assets decreased on a year-on-year basis by 9%, to CZK 14.7 billion. However, the value of intangible assets increased by 8% to CZK 4.3 billion, with respect to software and IT licenses related to the development of new digital applications.

Structure of assets (CZK billion)		
Net loans to customers	577.5	54%
Financial assets portfolio	257.2	24%
Loans to credit institutions and cash balances at CNB	195.4	18%
Property and equipment and intangible assets	14.7	2%
Other assets	21.7	2%

Liabilities

Deposits from customers (primary deposits) have traditionally been the key source of funding: these currently **comprise 74% of all liabilities**, meaning that Česká spořitelna is considerably independent on interbank funding. Client deposits, including those measured at fair value, totalled CZK 788.9 billion, increased year-on-year by 11% or in the absolute amount of CZK 75.0 billion. The high volume of deposits from customers also contributes to the strong liquidity position of Česká spořitelna.

Long-term customer deposit growth demonstrates trust of clients in Česká spořitelna. **Deposits from households grew by 9% and reached total amount of CZK 579.9 billion.** Thanks to the low interest rates, demand deposits significantly prevail, representing 83%.

Deposits on current accounts increased by 13% to CZK 298.6 billion compared to 2015. **The savings product ČS Savings is still popular** as it more than doubled its balance. The major products among term deposits are building savings deposits and term passbooks. While the building savings decreased by 7% year-on-year to CZK 69.7 billion, passbooks slightly grew, by 1% to CZK 60.0 billion.

Corporate client deposits recorded a significant increase by 15% in 2016, to CZK 151.7 billion, representing growth of current account balances as well as short-term deposits. Also public sector liabilities increased by 13% to CZK 57.4 billion, of which CZK 1.4 billion are loans received as a part of repo transactions. **Such increase is supported by excess of liquidity of the clients deposited with Česká spořitelna.**

	2012	2013	2014	2015	2016
Deposits from customers (CZK billion)	704.5	726.6	680.4	713.8	788.9

The total volume of debt securities issued decreased compared to 2015 by 41%, to CZK 9.2 billion. **The decrease was mainly caused by gradual maturity of issued mortgage bonds.**

The equity attributable to the Bank's shareholders, comprising subscribed capital, additional Tier 1 capital (AT1), capital reserves, cash flow hedge reserve, available-for-sale reserve, currency translation and retained earnings, **totalled CZK 121.6 billion.** In a year-on-year comparison, equity reported a slight increase of 1%. **The equity attributable to the Bank's shareholders represented 11% of all sources.**

The capital adequacy ratio Tier 1+2 for the consolidated regulatory unit (CRR) of Česká spořitelna reached 20.1% as of 31 December 2016. In 2015 the capital adequacy ratio was 21.3%. The total capital used in the calculation of capital adequacy amounted to CZK 101.9 billion and the total risk exposure amounted to CZK 507.1 billion. In 2015, these figures were CZK 99.9 billion and CZK 468.3 billion, respectively.

Structure of liabilities (CZK billion)

Deposits from customers	788.9	74%
Deposits from banks	114.3	11%
Debt securities issued	9.2	1%
Other liabilities	32.5	3%
Equity attributable to the Bank's shareholders	121.6	11%

Business Activities

Retail Banking

Česká spořitelna is the largest and most important retail bank in the Czech market. Retail banking services

offered by Česká spořitelna and its subsidiaries are used by 4.7 million clients.

Since November 2016, Česká spořitelna has been offering its unique service Moje zdravé finance (My Healthy Finance) in all of its branches.

Moje zdravé finance (MZF)

The benefits of the Moje zdravé finance service for the clients are compelling. **Good advice and tools for sound financial management support the clients in their financial needs, to save money and to improve their prosperity.** The clients save money by reducing their expenses and the advisors then suggest the most appropriate solutions of existing clients' needs. They advise the clients how the saved money can be turned into responsible investments. The client's family budget thus gets better and the client is better prepared for any unexpected situations. **Thanks to advisory services and care, the clients' living standard gets improved** which is the main objective of Česká spořitelna. With respect to Česká spořitelna's founders, Moje zdravé finance service fulfils the mission of Česká spořitelna - to lead its clients to financial prosperity.

As part of Moje zdravé finance, the client gets two accounts with all daily banking tools and unlimited number of transactions. The first account is connected to the MZF service and the client can give the other account to anyone else. For the accounts, the client gets a Visa Classic card of a special design of the MZF service. If the client uses MZF and ČS Savings at the same time, he/she can establish up to 9 savings envelopes in the MZF Application (or in the Internet banking SERVIS 24). Another advantage is that an active client may use the MZF service for free, subject to meeting simple conditions. **Conclusion of an agreement for the MZF service is very simple; it takes only 5 minutes and one signature.**

An important part of the MZF service is a unique MZF web application. **With the MZF application, the client gets a general overview of the client's finances** which enables the client to avoid unnecessary expenses and save extra money. The MZF application has a whole range of functionalities which are very simply displayed and everything can be found in one place.

The application Moje zdravé finance shows all expenses which are electronically recorded by the Bank to the clients' account. The expenses are **sorted automatically by type (such as accommodation expenses, food, clothing, transport etc.)**. Based on demographic indexes such as marital status, place of residence or income level, the application shows how other clients with the same living circumstances manage their money.

Useful non-financial services are another part of the service Moje zdravé finance. **The MZF clients get more favourable prices of gas and electricity compared with major power suppliers, which help them reduce their regular monthly expenses.** Non-financial services are sold exclusively by specialists from ČS do domu, the subsidiary of Česká spořitelna.

One of the successful new products connected with the MZF service is Peníze na klik (Click for Your Money) which is in fact a simple loan for repeated borrowing of smaller amounts. **The client determines what amount is able to repay on a monthly basis and the Bank sets the amount of the client's reserve accordingly.** The instalment are in such amount not to burden the client's budget, but at the same time providing fast repayment.

Digitalization came to the branch network through using biometry. Today, the client affixes his/her digital signature in each branch of Česká spořitelna. Advisors in the branches are fitted with modern technology equipment, with ipads, notebooks and smart phones. **Moreover, free Wi-fi connection to the Internet is available in all branches** as a matter of course. The advisors can immediately show any digital application, give any advice on such applications, and if the client has a problem or a particular question, it can be solved at the branch immediately.

Moje zdravé finance keeps on improving based on feedbacks from clients and bank advisors. **Introduction of MZF in all branches significantly and abruptly increased the number of clients.** By the end of 2016, more than 160 thousand clients had the service activated.

Erste Premier and Erste Private Banking

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 expect **an individual approach, top professional level and exclusive services** which are demanding, prestigious, unique and strictly discrete.

As part of the Erste Premier service, the clients are in care of Premier bankers who are professional advisors and qualified experts in all areas of banking products and services. They actively tackle the individual client needs. They provide for complex financial planning, investment and loan consultancy and solve the issues of security.

The key to use the Erste Premier services is the Premier personal account which was designed as an exceptional product conforming to all needs and requirements of the clients. It comprises the full scale of banking products and services, from the account maintenance and management, comfort electronic banking, use of the prestigious Premier cards to the access to an overdraft with an over-standard limit. In 2016, the volume of balances on the Premier personal accounts increased by 57%, to CZK 20.0 billion.

Other favourite Premier products include, among others, Premier savings, Visa Infinite card which is the most prestigious card by Visa, with a luxurious design and an exceptional scale of over-standard services. **In terms of the credit services, the Premier clients use the most the Premier mortgage** with the best available interest rate.

Česká spořitelna offers the Erste Premier services in the exclusive environment of thirteen Premier centres across the Czech Republic of unified modern design. In 2016, two new Premier centres were established in Ústí nad Labem and in Jihlava. A discrete conference room with a high level of privacy is available in all centres. **The Erste Premier clients may use conference rooms in any Premier centre in the Czech Republic.** An added value of the Erste Premier services is the Premier Benefit Club. As the Club members, the clients may participate in various social events.

The private banking service offered under the **Erste Private Banking** brand represents the top quality offer to clients of Česká spořitelna, providing **services to the richest clientele, focused on financial investment.** Erste Private Banking provides comprehensive service through a personal relationship with the client based on professionalism, trust and discretion.

Other advantages of the Erste Private Banking service include investment advisory services, **above-standard return on financial investments due to Česká spořitelna's active management** on capital markets, individually managed portfolios, possibility to invest into the best international mutual funds of several managers, or tailor-made investment solutions using the most appropriate instruments available. The Erste Private Banking clients can also use high-quality economic and strategic analyses produced by the macroeconomic team or the EU Office of Česká spořitelna. The clients of Erste Private Banking are also automatically entitled to use Erste Premier products for which they receive additional benefits.

Financing of Private Housing Needs

The year 2016 was the most successful year ever in terms of providing mortgage loans. Low interest rates of mortgage loans, favourable economic situation of the Czech households and their growing real income had a major influence on the high demand for mortgage loans. Considering the low interest rates, the high demand resulted also from the lack of any other appropriate investment opportunities.

The offer of long-term fixation terms for 8 and 10 years with favorable rates providing clients with low fixed instalments for more years ahead was a success. Growth of mortgages with longer fixation terms increased from one to tens of percent.

During the year, Česká spořitelna prepared various benefits related to mortgage loans, such as action rates or real estate appraisal or other additional services for free. Since August 2016, clients of Česká spořitelna are **able to refinance mortgage loans provided by other banks online. It takes 15 minutes** to fill in the application and during the whole process, online mortgage specialist is available. Refinancing is free from a processing fee and the client does not even have to submit the real estate appraisal.

In the whole year 2016, Česká spořitelna contracted more than 28 thousand new mortgage loans in the total amount of CZK 57.0 billion, which represents a year-on-year increase of new mortgages by 15%. In 2016, an average mortgage amount grew again and exceeded the amount of CZK 2.0 million.

From all the above-mentioned reasons, not speaking of many others, Česká spořitelna's Mortgage won in 2016 the award of the best mortgage in the Czech market.

The total portfolio of mortgages to private individuals exceeded the amount of CZK 200 billion in September 2016. In the end of 2016, it reached CZK 209.6 billion, which represents a year-on-year increase by 12%, i.e. 22.8 billion in absolute figures.

Mortgage loans portfolio (CZK billion, gross value)	2012	2013	2014	2015	2016
Portfolio of mortgages to private individuals - households	139.2	155.1	167.2	186.8	209.6
Portfolio of Stavební spořitelna ČS loans	39.5	37.6	36.4	35.4	36.0

Stavební spořitelna České spořitelny is another important provider of home financing loans. The whole home financing market registered not only a high demand for purchase of real estates, but also an increased interest of the clients in renovations and reconstructions of their properties. Namely in this segment Stavební spořitelna ČS has an irreplaceable position. **Real estate renovations or reconstructions were the leading force in the increase of Stavební spořitelna ČS business.** The cooperation with housing co-operatives and owners' associations has also successfully continued in the form of financing their investment projects associated with the housing of their members.

Compared to 2015, the total gross portfolio of the loans of Stavební spořitelna ČS increased by 2%, to CZK 36.0 billion. The loan **Úvěr od Buřinky** which **won Zlatá koruna (Golden Crown) award for 2016** contributed to this excellent result.

Financing the needs of private individuals

Thanks to the growing real household income, the household consumption grows as well, which is reflected also on the consumer loan market. Consumer lending represents a high priority for Česká spořitelna, and as the leader on the consumer loan market, also provided an attractive offer in 2016. **Česká spořitelna came up with innovative products using new technologies which were very successful.**

In April, Česká spořitelna introduced its unique online Půjčka bez papíru aneb peníze na účtu do 15 min (Paperless loan thus money on your account in 15 minutes). Besides its prompt speed, this loan can be linked to another four free items: document-free, free from processing fee, free from fee for extraordinary instalment or premature repayment and free from obligatory insurance. **It is primarily designated for potential lenders who do not have an account opened with Česká spořitelna** but it can be also utilized by Česká spořitelna's clients. Půjčka bez papíru is truly unique. It was confirmed also by the award granted by the international company Finalta for the best online loan in Europe.

In June, Peníze na klik (Click for Your Money) was introduced, a simple loan for repeated borrowings of small amounts. **Peníze na klik is a responsible alternative** for not always favorable **micro-loans in the Czech market**. Based on experience of Česká spořitelna, many people do not put any money aside as a reserve for unexpected expenses, and in contingencies, they must settle such unexpected expense under pressure and not favourably. Česká spořitelna therefore advises them to put aside at least a small amount each month and create their own available financial reserve. If they do not have it yet, **Česká spořitelna offers them an immediate solution in the form of a simple loan Peníze na klik**.

In August, Česká spořitelna significantly improved the conditions of its Úvěř (Loan). **In case of newly provided Loans, the Bank waives up to 15 last instalments**. This offer is a bonus for those who regularly repay the loan. It was a reaction of Česká spořitelna to the feedback from its clients for whom the waiver of instalments is the most attractive benefit of loans. Besides Balíček flexibility (Flexibility Package) which is provided to loans for free and contains increase or reduction of monthly instalment up to 50%, it makes it one of the most attractive loans in the market.

The total amount of newly provided loans (including new loans repaid in 2016) reached the level of CZK 33.5 billion, with the number of loans of almost 170 thousand, namely thanks to strong sales in the second half of the year. The volume of newly provided loans significantly increased year-on-year by 20%.

The year 2016 was such a success that the consumer financing development reached a turnover point. The year-on-year increase was only 1%; however, the changing tendency is already clear. For the first time since 2009, the total portfolio of consumer loans including credit cards, American mortgages and overdrafts increased to CZK 64.5 billion.

	2012	2013	2014	2015	2016
Total volume of consumer loan portfolio (CZK billion, gross value)	72.5	69.7	66.2	63.8	64.5

Accounts

A brand new account comes along with Moje zdravé finance, representing the most advantageous offer for the clients - besides for advisory services, the MZF application, Zdravá karta (Healthy Card) and non-financial services, the clients get the opportunity to have instantly two accounts. Subject to certain conditions, the account is maintained for free. The account can be opened very quickly, in only 5 minutes. **The account is a complex payment account for private purposes, which meets the requirements of clients of any age**. The account is used by children, young people, students, families and seniors.

	2012	2013	2014	2015	2016
Private Accounts (in thousands)	2,295	2,380	2,534	2,713	2,671

Investment Products

Creating investment products for retail clients is primarily oriented on targeting the needs of clients and meeting their demands and expectations. **Česká spořitelna emphasises comprehensibility, simplicity and transparency of investment solutions**, as well as the highest possible probability of achieving interesting yields.

Financial markets development in 2016 was varied and volatile. In the beginning of the year, there was an abrupt stock correction due to concerns of slowing down of the Chinese economy. In the middle of the year, the U.K. surprisingly decided to leave the EU and at the end of the year, Donald Trump was unexpectedly elected as the U.S. president. For the whole year, the U.S. shares were growing and the investors' optimistic outlooks were supported by accelerated expectations of growth of future companies' profits. The European

market, on the other hand, slightly dropped which corresponds with lagging expectations of the European companies concerning the growth of their profits. A key role in development in the financial markets was still played by central banks, with the European Central Bank confirming the continuance of quantitative easing. The U.S. Central Bank increased its base interest rate again after a year in December 2016 and informed it would be increasing rates much faster in 2017.

In 2016, stock markets presented an interesting investment opportunity also for more dynamic investors, drawing their attention to direct equity investment. The total turnover of stock transactions through such instructions in 2016 reached the amount of almost CZK 2 billion.

Investment certificates offered by Česká spořitelna did also very well. **Clients were particularly interested in Bonus Certificates, Index Certificates and the Turbo long and Turbo short.** The total volume of certificates traded by clients in 2016 was CZK 260 million. The sale of physical gold was also attractive for clients, who purchased via Česká spořitelna in 2016 gold ingots for investment purposes worth more than CZK 155 million.

The continued environment of low interest rates and the investors' desire for more dynamic investments contributed to very good sales of mutual funds. In such market conditions, **Česká spořitelna reached excellent results in sales of open-end mutual funds and became number one in the Czech Republic,** with more than 25% share (according to AKAT CR). Česká spořitelna became the market leader not only thanks to the high-quality funds it offers to its clients but also thanks to an excellent work of advisors. Česká spořitelna is a distributor mainly of mutual funds of Erste Asset Management, Czech Republic branch and Reico investiční společnost České spořitelny.

More than one third of investors make regular investments through Česká spořitelna. The average value of a regular investment increased again and amounted to CZK 3,128.

The stock funds offered by Česká spořitelna showed good performance. The most successful fund was Sporotrend oriented to Central and Eastern Europe markets which grew by 15.3%. **A long-term successful Top Stocks had the biggest new inflow of CZK 2.0 billion.**

The trades and performance of mixed funds were also favourable. **The youngest mixed fund for retail investors Optimum** which portfolio includes a real estate part **attracted more than CZK 4.9 billion** of new financial inflows and grew by 0.96%. The largest mixed fund Conservative Mix increased by 1.58% in 2016, while managing the assets exceeding the amount of CZK 19.0 billion. Life cycle funds performed also well: ČS fond životního cyklu 2020 (+1.68%) and ČS fond životního cyklu 2030 (+3.34%).

The total volume of assets of retail funds managed by the Czech branch of Erste Asset Management at the end of 2016 amounted to more than CZK 94.3 billion, which represents an increase of 10%. The growth of assets results primarily from the positive development of the markets and the continued interest of investors who were looking for higher returns by investing into the funds.

Volume of assets managed by funds of Erste Asset Management, Czech Republic branch and Reico investiční společnost České spořitelny (CZK billion)

	2012	2013	2014	2015	2016
EAM ČR	50.3	55.0	68.1	85.4	94.3
Reico ISČS	4.9	6.0	6.5	8.2	13.1

Česká spořitelna, together with its subsidiary REICO investiční společnost ČS, offers retail clients the possibility to invest into 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.**

The year 2016 was very successful for the ČS real estate investment fund. **The volume of the fund's equity significantly increased year-on-year by 60%, to CZK 13.1 billion.** At the end of 2016, the total number of real properties in the fund grew to 10 commercial buildings, 8 of them in the Czech Republic and 2 of them in Slovakia.

Savings Products

Complementary pension insurance and supplementary pension insurance are the most popular and steadily growing forms of long-term savings, which are provided by ČS-penzijní společnost.

The complementary pension insurance (i.e. doplňkové penzijní spoření, DPS) is designated for new clients. The volume of assets under management continued to grow significantly in all managed funds. **The sum of balances of all DPS funds increased year-on-year by 71%, to CZK 6.0 billion.** The volume of funds in the Conservative Participation Fund, which is the largest fund in the DPS market, increased by 62% in 2016, to CZK 4.4 billion. ČS-penzijní společnost kept its position of the leader in the DPS market, with a share of almost 30%.

Although the supplementary pension insurance in the Transformed Fund ČSPS was closed to new clients and the number of participants is slowly decreasing, **the volume of client deposits in the Transformed Fund again reported high growth, of 7% year-on-year to CZK 64.4 billion.**

In total, 923 thousand unique participants are saving with ČS-penzijní společnost, with the total volume of invested funds in the amount of CZK 71.0 billion, which represents a year-on-year increase by 10%.

Česká spořitelna - penzijní společnost makes it possible for the clients to conclude a contract for complementary pension insurance also via Internet, through a new application. With this application, the clients are able to conclude their contracts not only from their PCs but also from their cell phones or tablets.

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

2012	2013	2014	2015	2016
42.5	50.7	57.7	64.4	71.0

Building savings deposits with Stavební spořitelna ČS continue to **constitute the most significant savings product by volume.** At the end of 2016, the total amount of deposits was CZK 69.7 billion, representing a year-on-year decrease of 7%. The decrease was caused primarily by the termination of building savings contracts after the expiry of their 6-year cycle.

Passbooks represent classical and still popular deposit products. The volume of funds deposited on passbook accounts increased year-on-year by 1%, to CZK 60.0 billion. Another popular product is the savings account Spoření ČS, designed for both regular and irregular savings where the deposited funds are always available to the clients at their account. The total savings with the product Spoření ČS and other savings products amounted to CZK 77.9 billion. **In the environment of low interest rates, clients prefer demand deposits,** with term deposits and deposits redeemable at notice recording a decline.

Savings of households (CZK billion)

Private accounts	298.6	51%
Building savings deposits	69.7	12%
Savings deposits including passbook accounts	137.9	24%
Term deposits	4.3	1%
Current accounts	67.0	12%
Premium deposits	2.0	0%
Other deposits	0.3	0%

Micro and small Entrepreneurs (MSE)

The structure of clients in the MSE segment is highly diversified, covering not only individual entrepreneurs and self-employed people, freelancers and small enterprises, but also small associations of residential unit owners, housing associations, non-profit organizations, etc.

Česká spořitelna offers MSE clients its professional services with added value, focusing on building **long-term active relationship** between the bank and the client. **The bank cooperates with the client over the entire client's business life.** From the start-up of the client's business, Česká spořitelna assists in clients' development, resolving the client's needs and problems all that based on partner relationships which are seen by Česká spořitelna as key for joint success of the bank and its clients.

Because of the diversity of the MSE segment, the services are diversified based on the group where the client belongs and based on what is beneficial for the particular group. **Advisors for entrepreneurs**, in cooperation with branch advisors, started **working** more and more **with self-employed people and small entrepreneurs.** Companies and major entrepreneurs are served by corporate bankers, supported by junior corporate bankers. **Each corporate banker already has his client portfolio and in turn, each client has his corporate banker.** They work with the clients on a long-term basis, becoming each other's partner.

The Bank is a partner of the competition Rozjezdy roku (Start-ups of the Year) and offers new entrepreneurs the comfort of experts specializing in the issues of starting enterprises, with a possibility of free consultations of their business plans and discussing their business intentions. Several regional start-up oriented events were held in 2016.

In a pilot operation, MSE clients may already use the Busy banking services for unsecured loans. **Busy banking allows for conclusion of a contractual relationship with the client** based on the client's telephone or e-mail request, **with on-line signature** in the Internet banking **SERVIS 24.**

Another novelty in 2016 was a multi-currency payment card. Those clients who have received a debit payment card for their Czech crown account and at the same time have one or more current accounts in foreign currencies, can use the payment card for foreign-currency transactions which get accounted on the respective foreign-currency accounts. **The clients' payments in foreign currencies are thus not subject to conversion to Czech crowns.**

The number of entrepreneur accounts and corporate accounts exceeds 95 thousand. The total balance on these accounts increased year-on-year by 10% to CZK 33.5 billion. Corporate accounts are not used only by entrepreneurs, but also by legal entities and non-profit organizations

The total loan portfolio for micro and small entrepreneurs at 31 December 2016 amounted to CZK 51.8 billion. Compared to 2015, Česká spořitelna re-segmented communal loans to small towns and municipalities from the MSE portfolio to the communal clients' portfolio.

Portfolio of loans to micro and small entrepreneurs (CZK billion, gross value)

Mortgage loans	28.3	54%
Loans by Stavební spořitelna ČS	5.0	10%
Leasing loans	0.3	1%
Other loans	18.2	35%

Card Program

At the end of 2016, the total number of active payment cards of Česká spořitelna amounted to 2.9 million, with credit cards accounting for 0.2 million. Thanks to the service Moje zdravé finance, the payment card is not

just a payment tool as the MZF application can provide the clients with an overview of what they pay for with their cards and where. The total volume of payments made by Česká spořitelna's cards with vendors significantly increased by 12% year-on-year to CZK 139.3 billion. The average spending reached CZK 636.

Number of active cards (in thousands)	2012	2013	2014	2015	2016
Number of active cards	3,178	3,234	3,144	3,119	2,946
of which: number of credit cards	348	319	290	269	210

In September, Česká spořitelna introduced an exceptional transparent credit card with an absolutely unique interest calculation, changing the established custom. The transparent card is user-friendly. An interest-free period applies also to ATM withdrawals, interest and prices are synoptic. For all parameters, adjustments and price reductions were made. Moreover, its design is very original. **Instead of a percentage rate, interest is calculated by a fixed sum of CZK 10 for each full unpaid CZK 500 upon the maturity date.** The clients can always know in advance how much money the card will cost them if they do not use the interest-free period of up to 55 days. Moreover, from each card payment on the Internet or abroad, the card returns 1% back. In only 4 months in the end of the year, 75 thousand clients acquired the transparent credit.

In the fourth year of annual Visa Awards, Česká spořitelna received the award Best Acquirer of the Year 2016 for the best acceptance of payment cards and the award Best Proposal 2016. The award is granted by the company Visa, acknowledging Česká spořitelna as the leader in the area of contactless payments, product offer as part of Moje zdravé finance service and Česká spořitelna was prized also for the implementation of contactless payment projects in municipal transport.

ČS card transactions executed with vendors (issuing)	2012	2013	2014	2015	2016
Volume of payment transactions with ČS cards in CZK billion	98.1	105.0	114.7	124.2	139.3
Number of payment transactions with ČS cards in millions	121.8	140.0	166.1	190.5	218.9

From the total number of 218.9 million transactions made by Česká spořitelna cards with vendors, 183.8 million were contactless, i.e. almost 84%.

Česká spořitelna has long been the market leader in ATM network size in the Czech Republic. At the end of 2016, the Bank operated a total of 1,624 ATMs and payment machines. In the course of 2016, the Bank installed mainly new payment machines (the Bank operates 212 of them at the moment) and dual ATMs. In 2016, card holders made 87.3 million cash withdrawals at ATMs of Česká spořitelna, in the total amount of CZK 314.3 billion. The average withdrawal amounted to CZK 3,599.

Volume of ČS ATM network withdrawals	2012	2013	2014	2015	2016
Volume of ČS ATM network withdrawals in CZK billion	310.8	307.5	306.7	306.2	314.3
Number of ČS ATM network withdrawals in millions	93.2	92.9	91.2	88.6	87.3

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 and dual ATMs that, in addition to standard services, enable clients to make cash deposits to accounts or passbooks with Česká spořitelna and to accounts opened with other banks in the Czech Republic. There are currently 149 of deposit ATMs in operation, in which the clients made 1.4 million deposits in the amount of CZK 16.8 billion.

Number of ATMs, deposit ATMs and payment	2012	2013	2014	2015	2016
	1,466	1,530	1,561	1,589	1,642

machines

Since June 2016, UnionPay card holders may withdraw money from Česká spořitelna's ATM network. UnionPay is a banking association serving the largest group of card holders globally and has a strong position also in Asian countries, growing significantly in Russia as well.

In the beginning of June 2016, the company Global Payments, the world's leading provider of payment processing technology services seated in the USA and CaixaBank, the largest Spanish bank in terms of the market share, together with Erste Group accomplished establishment of their joint-venture Global Payments s.r.o. On the conditions of the agreement, Global Payments and Caixa Bank hold a majority 51% share and Erste Group holds the remaining 49% share. The new company provides payment services to vendors in the Czech Republic, Romania and Slovakia. The partnership of CaixaBank, Erste Group and Global Payments brings two strong international partners into these countries which will assure a high standard of services for vendors and clients, a whole range of advantages and access to main innovations and technologies.

Social Banking

Social economy is on the rise in the Czech Republic and Česká spořitelna is optimistic about its future development. Although at its beginning since September 2015, **Česká spořitelna's social banking program has been developing faster than expected**. In 2016, it funded 74 projects of non-profit organizations and entrepreneurs with a social outreach, in the total amount of CZK 209 million. One-fourth of the cases were even new clients of the bank.

Česká spořitelna supports socially oriented profit and non-profit organizations to be able to grow, develop and multiply their positive impacts on the society. Through the social banking program, Česká spořitelna **offers them development and acceleration programs, mentoring and coaching** so that the organizations can verify in a safe environment the viability and financial sustainability of their business plans. This is provided mainly by the accelerator Impact First (www.impactfirst.cz). Students may apply their plans of solving social problems in business ways in the contest Social Impact Award (www.socialimpactaward.cz). The Bank implements both accelerators together with the company Impact HUB.

Non-profit organizations are led to financial stability in the fund-raising academy FRIN (www.frin.cz), which is implemented by the Bank together with the Czech Fundraising Centre (fundraising is raising financial or other means for charitable activities). **The accelerators prove as the greatest added value and are just the unique service which Česká spořitelna can offer to the target group**. In 2016, 40 organizations took part in some of the three accelerators.

Erste Corporate Banking

Erste Corporate Banking (ECB) operates within Česká spořitelna as a modern bank for corporate clients in all phases of their life cycle. ECB offers above the standard services and solutions both for medium and large enterprises, municipalities and public sector, and for multinational corporations or financial institutions. **On sound principles, Erste Corporate Banking builds strong and long-term partnership.**

Erste Corporate Banking offers its clients comprehensive solutions tailored to their specific needs: from investment, acquisition and project financing, through the support of export activities, advisory services with respect to mergers and acquisitions, to launching the corporations on bond or stock markets or purchase and sale of electricity, hedging of the prices of electricity, metals and other commodities. ECB offers unique tailor made solutions to bigger enterprises and corporations in all product groups. **For small and medium-size enterprises (SME), ECB is available in 13 regional corporate centres** of Česká spořitelna. The Bank offers specialised programmes for the SME segment, as well as solutions for various industrial sectors and corporate situations, from the purchase of corporations to the development of export or innovations. Thanks

to the electronic banking and the corporate cash management products the bank is available online to its corporate clients. **Erste Corporate Banking also has its own web portal at www.erstecorporatebanking.cz.**

The added value of Erste Corporate Banking services consists in the **teams of sector specialists, focusing on specific product solutions**. The Bank has experts in the field of European funds management, financial advisory services or renewable resources. It helps clients analyze and suggest comprehensive hedging and restructuring strategies on financial markets in the area of energy, commodities, interest rates and exchange rates, including those in still exotic currencies.

Erste Corporate Banking of Česká spořitelna is a market leader in public, non-profit and municipal sector financing, energy and project financing including renewable resources, **export financing or the use of discounted funding** in collaboration with the European Investment Bank (EIB), Kreditanstalt für Wiederaufbau (KfW), the European Investment Fund (EIF) and national agencies such as the Czech-Moravian Guarantee and Development Bank (ČMZRB) and the Export Guarantee and Insurance Corporation (EGAP).

The Bank confirmed its position as a leading arranger of syndicated and club loans, participating in the majority of such transactions on the Czech market, often in the significant role of the arranger or a co-arranger. Long term Česká spořitelna has also been proving its ability to deliver financing solutions combining bond issues and bank loan. It continues its long-term collaboration with selected players on the private equity market, which together with the unique product proposition and expert knowledge concentrated in the extensive team of experts-specialists is a major factor why **Česká spořitelna holds a leading position in the area of acquisition financing or debt re-capitalization of companies**.

Real Estate Financing

Česká spořitelna has been traditionally one of the most active banks in real estate financing, real estate investments and mortgage transactions. **In 2016, the real estate market of residential and commercial properties continued in its steep recovery and Česká spořitelna was through its services present in most important transactions**. The non-consolidated balance of all real estate loans provided by Česká spořitelna amounted to CZK 278.3 billion gross by the end of 2016, which corresponds to the 10% year-to-year increase. Mortgage loans reported growth in all segments with the amount of CZK 68.8 billion of the total amount being the loans for entrepreneurs, corporations and municipal clients. The quality of the portfolio remains very high both from the point of view of rating or balanced portfolio structure and from the point of view of the quality of financed assets.

The fact that the year 2016 was really successful for the real estate financing team has been also proven by the victory in the category The Bank of the Year within the CIJ Awards Czech Republic. Only **Česká spořitelna was awarded this prestigious award for the second time in the sixteen-year history**. CIJ Awards are awards awarded by the international real estate magazine called CIJ Journal. The victory of Česká spořitelna was decided by votes of 500 real estate experts and clients. They evaluated both the bank participation in the most important transactions and the approach of the real estate financing team members to the clients.

Mortgage loan portfolio (in CZK billion, gross value for the bank)	2012	2013	2014	2015	2016
Total mortgage loans	193.8	213.8	228.2	252.0	278.3
of which: mortgage loans to individuals - households	139.2	155.1	167.2	186.8	209.6
of which: mortgage loans to entrepreneurs and small enterprises	23.7	24.8	26.0	26.8	28.3
of which: mortgage loans to medium and large enterprises	30.9	33.9	35.0	38.4	40.5

Small and Medium enterprises (SME)

A nationwide sales network comprising fifteen sales points of Regional Corporate Centres is available to medium-size enterprises in the Czech Republic, with the annual turnover ranging between CZK 60 million and CZK 2 billion. These regional centres, which are located in every regional seat, including four offices

in Prague, provide enterprises with the comprehensive top-quality services of the entire Česká spořitelna Financial Group under the Erste Corporate Banking brand.

In the SME segment the bank focused on the significant speeding up the approval and administrative processes aimed at the radical change so that corporate bankers are able to process client needs especially in the field of financing within several days. A significant simplification was realized in requesting required data from clients. **Within the Regional corporate centres the team of bankers has specialized:** the group of SE bankers will further focus on specific needs of the small enterprises clients whereas the ME bankers profiling better corresponds to the requirements of medium enterprises. This specialization in conjunction with the consistent segmentation resulted in straightening and the simplification of processes. Another positive point is getting closer to a client, which is supposed to be reflected in the future namely in faster responding to client needs, better services and consequently increasing the client satisfaction.

In the interest of supporting enterprise start-up, innovation and growth, Erste Corporate Banking, in cooperation with the Ministry of Trade and Industry, expanded its **INOSTART programme designed to finance operating and investment needs of start-up companies** and combining 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 during its existence amounted to CZK 300 million.

Corporate Clients

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 specialized investment banking products and services. For corporate 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.

In 2016, the volume of loan transactions in the corporate client segment significantly increased, confirming good condition of the Czech economy and the optimistic mood of Czech corporations. **In addition to increase of the operating financing, revival was also reported in the area of investments, corporate acquisitions and export financing,** which was also reflected in the increased activity in the area of loans. Česká spořitelna is very well prepared to respond to this trend and assist corporations to achieve their development plans, providing help by means of financing or advisory services.

The exports of Czech companies have been reporting a very positive development thus encouraging the demand for export financing. **Česká spořitelna provided financing to ŠKODA ELECTRIC a.s. by means of buyout of receivables** from an important client. It is a case of the receivables for the third delivery of 25 pieces of trolleybuses within the five-year export contract for the delivery of 125 pieces of trolleybuses whereas the first and the second delivery were also financed by Česká spořitelna. The transaction was insured by EGAP.

The year 2016 was again rich in acquisitions and Erste Corporate Banking was very active in supporting its clients' financing needs and also in providing advisory services in relation to both domestic and foreign acquisitions. **Česká spořitelna participated with the** amount of USD 30 million in the **senior secured facility for Avast Software** at the acquisition of AVG Technologies and refinancing of existing indebtedness of both entities in the total amount of USD 1.685 billion. Avast Software is a Czech digital security company headquartered in Prague, Czech Republic, that develops anti malware and other internet security solutions. Avast holds the biggest share of the world market for online security applications. Avast products protect more than 400 million PC and mobile users worldwide.

Česká spořitelna has also successfully co-arranged a new Term Loan Facility in the amount of EUR 15 million for co-financing of an investment into new self-standing cookers production facility and

a Working Capital Facility in the amount of CZK 250 million for financing of general corporate purposes. The participation of Česká spořitelna amounted to EUR 7.5 million and CZK 125 million respectively.

Česká spořitelna granted EUR 230 million Credit Facility for the **general corporate purposes of Hyundai Motor Manufacturing Czech s.r.o.**, a member of Hyundai Motor Group, the world leading automotive producer.

In 2016 **Česká spořitelna acted as one of Arrangers and Original lenders for the new EUR 125 million term loan and revolving credit facilities for members of WITTE GROUP**. The new club facilities will be used for the refinancing of existing club and bilateral financing as well as general corporate purposes and future expansion of the group. WITTE GROUP is a global automotive supplier developing and producing locking and latching systems.

In 2016, a number of large corporations took advantage of the favourable situation on capital markets and entered the market with their issue of corporate bonds. **Česká spořitelna again assisted in the issue of most bonds of Czech corporations**, such as ČEPS. It also co-acted as the only arranger of the CZK issue of the Polish group MCI Capital and in the role of Joint Lead Manager & Sole Active Bookrunner for inaugural bond issuance of Česká zbrojovka in the amount of CZK1.5 billion. Česká zbrojovka is one of the largest firearms producers in the World, offering its products to law enforcement authorities and for civilian use in more than 90 countries worldwide.

In relation to the long-standing relationship with České dráhy Česká spořitelna acted as a national rail operator's exclusive ratings adviser. **The advisory role of Česká spořitelna was critical for České dráhy rating upgrades from Baa3 to Baa2 with stable outlook**, which helped the company to successfully refinance its older debt at lower costs.

Loans provided to corporate clients (in CZK billion, gross value for the bank)*

Portfolio of loans to large enterprises	94.0	41%
Portfolio of loans to SME	73.9	32%
Portfolio of corporate mortgages	40.5	18%
Portfolio of loans to large municipal clients	21.8	9%

* in comparison with 2015 re-segmentation between individual portfolios took a place

Česká spořitelna, as a leading innovator in cash management, continued to develop unique solutions. A prime example is @FAKTURA 24. **At the end of 2016, more than 400 thousand end clients had the electronic invoicing service @FAKTURA 24 activated in their Internet banking application** for 712 thousand contractual bills (electricity, water, gas, insurance, savings and newly also local fees for dogs or waste disposal).

Corporate clients sent to the electronic banking using the @FAKTURA 24 service in 2016 almost 800,000 transactions. Accepting e-invoices, e-documents, billing notices or payment instructions can be used by the end of 2016 by customers of ČEZ, E.ON, innogy, Kooperativa, Pojišťovna České spořitelny, SmVak Ostrava, ČEVAK, AXA penzijní společnost, Česká spořitelna – penzijní společnost, Stavební spořitelna České spořitelny and newly also clients of Česká podnikatelská pojišťovna and the town of Tábor. **Česká spořitelna is still the only bank that offers solutions based on consolidation principle and an exchange of e-invoices among companies**. Electronic invoicing provides companies with the benefit of secure electronic sending of invoices, as well as significant savings of time and costs.

The year 2016 was highly successful also for the service PLATBA 24, which is an on-line payment generated from the environment of the client's Internet banking. **Newly, clients of Česká spořitelna may use PLATBA 24 while shopping in e-shops, which use the payment gate of the Global Payments provider**, which is the most often used payment gate in the Czech Republic. The service PLATBA 24 enables end customers to pay in as many as 2,600 online stores already. In 2016 the service PLATBA 24 was used at least once

by 457 thousand of end customers. In 2016, clients used PLATBA 24 for executing more than 2.77 million transactions in the total volume of CZK 3.6 billion. The number of payments increased year-on-year by 31%, and their volume increased by as much as 36%.

Service for the Public and Non-profit Sector

Česká spořitelna thanks to its long-term partnership with clients among state organizations, public administration, local self-governments, allowance and non-profit organizations **has proven to be a leader in banking and financial services for clients of the public and non-profit sector.**

In 2016 **Česká spořitelna** financed a number of important projects. Within financing Pražská plynárenská **it was the leading manager of the bond issue in the amount of CZK 2.7 billion and the arranger of refinancing the concern members** in the total amount of CZK 6.3 billion. Within the exchange programme it provided funding of CZK 1.67 billion to the statutory city of Liberec. By funding the deliveries of new Škoda 15T ForCity trams in the amount of CZK 4.6 billion it significantly participated in the restoration of the Prague transport infrastructure; it assisted Dopravní podnik Praha fixing price for the purchase of 30 million of diesel liters for 2016 and hedging the exchange rate in the amount of EUR 32 million.

In 2016 the innovative **project** of **Česká spořitelna** called **Smart city** successfully continued. It helps clients – municipalities **prepare for and finance smart solutions making most aspects of the city life easier and more pleasant** for its inhabitants, visitors and entrepreneurs. This managed to start more than 30 smart projects in the fields of local administration, health care, transport, energy and waste treatment.

Erste Grantika Advisory, the subsidiary of **Česká spořitelna**, helping **clients among the public sector** especially with the **preparation and management of tendering procedures**, providing subsidy and management consulting and the application of proven management tools to ensure principles of an efficient and effective office has been an integral part of consulting services within the Financial group of **Česká spořitelna**.

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. **Česká spořitelna** possesses high-quality analytical and commercial background and infrastructure allowing it to provide not only reliable execution of their purchase orders 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 customized products, has proven itself being a proper and appreciated business model **bringing** – despite difficult market conditions – **growing amounts of transactions and the satisfaction of clients with provided services.**

The year 2016 was another year of the CNB's intervention regime for the exchange rate of the Czech crown. This intervention, together with the uncertainty regarding its duration, has significantly affected the behavior of corporate clients in the area of currency risk management. Thus, **clients across all segments again expressed increased demand for hedging instruments** with the settlement date longer than 18 months.

Debt Securities and Equity Instruments Trading

In 2016, **Česká spořitelna** was again one of the leading stock and bond traders in the Czech Republic and **continues to strengthen its leading position for institutional clients.** The position of the Bank's leader among stock and bond brokers is in particular strengthened by the long-term confidence of clients. This reputation together with the high diversity and the quality of services encourages newly established entities among asset managers to establish business contacts with **Česká spořitelna** as the best choice.

The main factor affecting bond trading was the continuing ČNB intervention supporting the Czech Crown, yield pressure especially in the shorter end of the yield curve and the continuation of the quantitative easing by the European Central Bank in the form of purchase of government and corporate bonds. In summer 2016

yields reached their historical minimums at medium and longer periods. Short-term government bond had to face a permanent purchase pressure mostly from the part of foreign investors and they reached the historically lowest values by the end of the year, when for example the two-year government bond was traded for the negative yield of -1,2 %. **Česká spořitelna** was again one of the most active dealers with CZK bonds in the primary market and **has maintained its long-term position of the primary dealer with the government bonds of the Czech Republic.**

Financial Institutions

Česká spořitelna continued its successful sales of products and services to current customers and, thanks to its acquisition of several high-profile entities, confirmed its position as a leading provider of value-added services to financial institutions. **Česká spořitelna** further developed and deepened its cooperation with insurance companies, pension funds, investment companies and **achieved a dominant position on the developing market of non-bank payment institutions.** When providing services to the segment of financial institutions it emphasized new payment methods in the area of cash management and financial market products as well as specialized services such as depository, custody and brokerage of dividend and coupon payments.

In the area of correspondence banking, the year 2016 saw a significant increase of Česká spořitelna's realized transactions and number of banking clients using the products focused on the provision of payment solutions in Czech crowns and foreign currencies. **Česká spořitelna** has been very intensively cooperating with the other members of Erste Group Bank and through a joint platform **offers its clients comprehensive payment solutions within the entire region of Central Europe.**

Asset Management for Institutional Clients

Česká spořitelna manages almost CZK 115 billion of institutional clients' assets. **In terms of volume of the managed assets, the most important clients of Česká spořitelna's Asset Management** are clearly **financial institutions**, i.e. pension funds, life- and non-life insurers. Further increase in the share of the investment by churches as well as the extension of the portfolio of clients with other important city districts have been important steps. The asset management clients continue to include dozens of foundations, further housing cooperatives, trade unions and corporate entities.

The interest component was the main driver of the appreciation in 2016. The tactical investments in the field of corporate bonds were clear winners. Generally, it can be said, that the interest bearing instruments (apart from cash) continued to provide the positive market appreciation, while yield curves kept dropping reaching new and new minimums whether due to the low inflation rate or speculations caused by the currency intervention obligation of ČNB. The stock component developed differentially. Higher appreciation was provided by the stock of developing economies over those of developed countries. The share of real estate investment, so typical of portfolios of clients under asset management, again provided the positive yield of more than 2 %. In total, more than 90 % managed portfolios closed the 2016 calendar year with the positive appreciation. **Over 80 % managed portfolios also exceeded the set market benchmarks.**

Depository

The year 2016 was for Česká spořitelna as funds depository affected by the fading consolidation in the segment of the funds of qualified investors. Together with the termination of the activity of funds of the second pillar of the pension system it resulted in increasing number of depository clients only by 2 funds, which correspond to the 2 % increase. In spite of that the **assets of funds under the depository control increased by 14 % to CZK 253.8 billion.**

Custody

Česká spořitelna provides activities in the field of custodial services and the management of investment tools not only as a depository bank of funds or as a part of client portfolio management, but also as a separate service. Clients are primarily financial institutions as well as number of corporate clients from the public sector, for whom

Česká spořitelna prepares the solution related to the domestic or foreign securities, both documentary and bookshares. Overall, a year-to-year growth was reported in 2016 in the asset volume, thanks primarily to the significant increase in the segment of foreign clients investing in the domestic investment instruments.

EU Office/Knowledge Centre of Česká spořitelna

The activity of the EU Office/Knowledge Centre has with the successful extension and monitoring trends in individual sectors connected itself to a number of departments of Česká spořitelna, to which it supplies analyses required for their activity. These materials are also used by the clients of Česká spořitelna. **The centre during 2016 prepared about fifty sector analyses including 14 big studies covering the whole sectors** such as the Outlook of the Czech construction industry, Pharmaceutical industry in the Czech Republic, Automotive in the Czech Republic, Accommodation facilities for seniors or Technical services in the Czech Republic. The monthly magazine Trendovník on activities, trends and novelties in potentially prospective sectors has been getting a high number of readers.

The monthly EU news have been extended with the new section called “Brussels Inside”, in which a member of the European economic and social committee Petr Zahradník describes and comments on what is going on in the European Union. Another column called the EU Series presents the possibilities of directing European subsidies, information about calls and examples of successful applicants with the Erste Grantika Advisory, which participates in the given column. The number of monitored countries with the consulting program Guide for doing business abroad has extended to 25 countries including the newly monitored countries such as Iran, Trinidad and Tobago, Ghana, Indonesia, Angola or Kazakhstan.

The EU Office/Knowledge Centre of Česká spořitelna is active on the investment web, it co-organizes conferences (e.g. Industry 4.0, Financing innovations in the Czech Republic, the Dependence of the Czech economics on the automotive industry, Future of the currency politics) or cooperates with colleges and universities such as UJEP, Newton College, VŠE or VŠB. Prepared materials are freely available on the Česká spořitelna website.

Distribution Channels

Branch Network

With its 561 branches, Česká spořitelna is one of the Czech Republic’s largest banking networks, offering good regional coverage and the easy accessibility for all its clients. The branch network continues to be the basic stable executive business and advisory component of the Bank’s multi-channel sales model. **The branch network is complemented by the most extensive networks of withdrawal ATMs, deposit ATMs and transaction terminals in the Czech market in the total amount of 1,642.** An integral part of the multi-channel sales model is the connection of physical advisors with the good, fast, safe and innovative digital banking. **The long-term strategy of Česká spořitelna is maintaining the best availability for clients both in the real and digital world.**

Within optimizing the regional coverage of the branch network, **Česká spořitelna has been carefully monitoring** the operation of branches, performing the analysis of their use and based on this analysis adjusts the branch network **so that branches are available to clients in time and at place where they will really take use of them** and at the same time so that the maximum operation efficiency is achieved.

Regarding the Moje zdravé finance service the branch network has been going through an extensive change. The location of branches changes and also – through creating a suitable and purposeful advisory environment – their appearance and use changes too. **Česká spořitelna is gradually changing the whole branch network to adapt it to the recent trends in providing banking services.**

New branches support the Moje zdravé finance service in several ways, which **facilitate the activities**

of the branch manager and **advisors at meeting with clients**. Advisors have no fixed place – they do not sit waiting for clients to approach them. They address them actively instead. Thanks to discreet meeting rooms they can offer to clients the premises for comfortable and undisturbed consulting meetings.

Already now the whole branch network is equipped with the free WiFi called “Your Sporitelna Free“. The network is of course secured and the clients may use it during their visit to the branch for free for an unlimited time. **In 69 branches there is also a new sales and consulting channel available in the form of the videoconference**. It is intended for example for the sales of non-finance services or consulting regarding mortgage.

Digital bank

Digital banking is the second pillar of the long-term strategy to maintain the highest possible availability of services for clients combining the physical presence and the digital bank. Already now the digital banking is by far the most frequent method of the client contact with the bank. The objective of the digital bank is to bring services to the client on the high technological level, which will be simple, easily controllable and available 24 hours a day and 7 days a week.

During 2016 Česká spořitelna presented a number of very interesting applications. In April, it offered the **FRIENDS 24** mobile application, which **brings a unique method of the payment of small amounts among people on the principle of the peer-to-peer payment**. The application FRIENDS 24 is unique that the **client does not need to know the account number. It is enough for him to have a mobile phone and just any contact** such as phone, e-mail, Facebook, or WhatsApp for that matter. In this way payments to friends can be made within 10 seconds anytime and anywhere and the recipient even does not need to have his account in Česká spořitelna. The application is free of charge for downloading in the official stores of App Store a Google Play.

At the same time Česká spořitelna presented another novelty - online Loan without paper or money to your account within 15 minutes. It is the first loan in the market, which can be easily arranged online from the beginning to the end – from CZK 20,000 to CZK 200,000. It is primarily intended for interested persons, who do not have any account with Česká spořitelna but may of course be used also by Česká spořitelna clients

Since the middle of the year all branches of Česká spořitelna have used the biometric signature of the client documentation. **At the biometric signing, the clients use** a special device, so called **signpad** or tablet **instead of a paper document**. In addition to the signature shape this electronic pad also detects a number of other unique signature characteristics, e.g. the speed, pressure and its course in time. **Biometric signing is faster, less demanding in terms of the administrative and also saves environment significantly**.

The expert jury at the digital marketing conference Webtop100, where the best websites in the Czech market are proclaimed every year, awarded Česká spořitelna in the microsite section. Česká spořitelna placed second and third with the websites „Big bank, big possibilities“ and „Loan without the paper“.

Internet banking, namely SERVIS 24 and BUSINESS 24 for entrepreneurs form a backbone of the digital bank. By the end of 2016 the number of activated users of the direct banking SERVIS 24 and BUSINESS 24 achieved 1.74 million, which corresponds to the 5 % increase.

	2012	2013	2014	2015	2016
Number of active clients of SERVIS 24 and BUSINESS 24 (thousands)	1,476	1,591	1,629	1,661	1,739

Note: clients using several channels are only included once

In the public opinion poll called the Mobile application of 2016 SERVIS 24 Mobilní banka succeeded. In the Client service category it placed second and was evaluated as the best among banking applications.

The application quality was evaluated by the general public, i.e. its users. **SERVIS 24 Mobilní banka is used by almost 250,000 clients.**

As the first one in the Czech market **Česká spořitelna has extended its Internet banking BUSINESS 24 with the mobile application for corporate and business clients.** BUSINESS 24 Mobilní banka allows for a comfortable and safe business accounts control. In June, the BUSINESS 24 Internet banking significantly improved the possibility of the online display of guarantee details thanks to implementing a new module of the corporate system for entering and processing banking guarantees.

As early as in 2015 Česká spořitelna launched as the first bank the barrier-free web site called www.bankabezbarier.cz. **Česká spořitelna provides the handicapped clients with a number of special services.** Thanks to the bankabezbarier website all the information for the disabled is at one place and is easily to orientate. At the web preparation the bank cooperated with Konto Bariéry, Sjednocená organizací nevidomých a slabozrakých (SONS) (United organization of blind and weak eyed) and with Pražská organizace vozíčkářů (POV) (Prague Wheelchair Users Organization). Websites are divided according to the particular handicap. There are section here dedicated to bodily disabled, hearing disabled and blind and weak eyed. The whole web is adapted to readers, information for deaf are translated to the sign language.

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 its employees fair employment conditions, a friendly workplace and educational opportunities.** For this purpose, it has every year implemented a number of initiatives to support the integration of the personal and working life and equal opportunities with the aim to strengthen conditions for the permanent and satisfactory partnership between employees and Česká spořitelna as an employer.

Within the Diversitas complete program and its partial projects more than 100 women got involved in various development programs and initiatives for the support of their career development. **Česká spořitelna has become the key partner of important local events for the support of the diversity in the top management** such as the Festival to all women, the worldwide FCEM conference organized by the Association of female managers and entrepreneurs, The company of the year in terms of equal opportunities, Equilibrium Alumni Conference etc. Since the February 2016 the examples of the diversification include also the board of Česká spořitelna, where Daniela Pešková has been appointed and is responsible for retail banking.

In the field of supporting disabled people the bank has already for the sixth year implemented the development program called The magnificent five. **Disabled participants from the general public had the opportunity to** strengthen their skill for example in the field of presentation skills, IT skills or financial literacy and consequently **complete an expert short term internship.** Česká spořitelna extended the possibility of providing ergonomic aids both to disabled employees and employees with serious health problems, who are not classified as disabled.

In the field of supporting return of parents back to the work the number of partner facilities providing care for pre-school children in Prague and in regions has been extended. **The Internet portal for parents at the maternal and parental leave was innovated and at the internal social network a special discussion community has been established for parents.** The parents also have the extended possibility of the e-learning education. The bank organized five meetings for them both in Prague and in the regions.

In the area of the inter-generational dialogue Česká spořitelna successfully implemented the new year of the reverse mentoring connecting employees at the age of under 30 and with employees at the age of over 50, who thanks to it mutually enrich themselves. **In the field of the integration of the private and professional life ever more flexible forms of work have been used.** As a new form of inspiring meetings the dialogue related to the LGBT issue (sexual minority or gender identity persons) in the career and in relation to the clients called Rainbow Talks was started.

Česká spořitelna focuses on searching for and addressing new talents. One of the used forms has been the big **communication campaign, which presents the brand of Česká spořitelna** as an employer in the new form. **Under the slogan “Big bank, big opportunities”** employees shared their stories, especially in the online environment. The campaign was very successful and managed to significantly increase the number of visitors and new users in its new recruitment website called *velkemoznosti.cz*. It reported also another success gaining the second place in the prestigious competition WebTop100 in the Microsite category. The My potential development programme continued and has been extended with new locations. The bank has prepared more than 30 recruitment events including working fairs in universities, Days with Česká spořitelna or workshops for students focused on searching for job opportunities and creating the professional profile.

The employee development in Česká spořitelna presents the long-term and comprehensive education system, which leads people to increasing their competences with the aim to support their career growth. The employee development is based on adaptation programs and related expert and talent programs.

The average staff headcount decreased by 2% to 10,371 employees. Česká spořitelna itself had the average headcount of 9,346. 73% of all employees are women, 8% of employees work part-time. **The Bank has successfully integrated 146 employees after their return from parental leave.** The average length of employment slightly increased to 10.2 years and the average employee age rose to 40.2 years. Employees older than 50 years represent 18% of the population of Česká spořitelna.

Average staff headcount	2012	2013	2014	2015	2016
Staff headcount of the ČS* Financial Group *	10,760	10,651	10,471	10,536	10,371
Staff headcount of Česká spořitelna *	9,640	9,550	9,405	9,492	9,346

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

Service quality

Česká spořitelna was the first commercial entity, which offered its clients the possibility to address the office of the ombudsman team, whose mission is to protect the interests of clients, look for fair solutions and correct bank errors, which are the reason for frequent complaints. **Due to the client response**, e.g. this quotation: “At the moment when we almost fell completely down, you managed with your determination to get us up again”, **Česká spořitelna believes that it has managed to fulfill its mission in the long-term period.**

The ombudsman team has been solving the escalated complaints for 15 years. These are the events when a client feels, that the result he/she obtained in the branch, client centre or another part of the bank is not sufficient. It also deals with client requests related to difficult life situations and further more complicated cases requiring deeper expertise.

The solution of complaints is directly related to the evaluation of their basic causes, the removal of which is consequently worked on across the bank with the goal to continually improve client experiences with the products and services of Česká spořitelna.

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. The second area is the stock analysis, within which selected marketable companies from the Czech Republic and the CEE region are covered as well as the strategic analysis

of the stock development in the main markets. The third area are the macro-economic analyses leading to projections of exchange rates and interest rates development. In the stock and macro-economic part Česká spořitelna offers its clients also investment strategy in addition to the analyses and projections.

Analyses are published at special website investicnicentrum.cz. The group of regular analytic reports now includes 20 various products with the daily to quarterly frequency in the Czech and English languages. **Analysts and strategists are available for consulting for the selected group of clients of the Financial group of Česká spořitelna.**