

Report of the Board of Directors on the Company's Business Activities and Statement of Financial Position For 2015

In 2015, Česká spořitelna entered a very interesting stage of its history. This single year **interconnected its long history, successful present and attractive future**. First, **Česká spořitelna celebrated its 190th birthday on 12 February 2015**. Česká spořitelna's legal predecessor, the Savings Treasury for the Capital City of Prague and for Bohemia, started its activities in 1825, with the aim of helping the poorer population and teaching them to think of the future and take care of their financial resources. Česká spořitelna was established based on the model of Erste Oesterreichische Spar-Casse operating at that time in Vienna. In 2000, when Erste Bank became its parent company, Česká spořitelna thus symbolically returned back to its roots.

In November 2015, **Česká spořitelna** was chosen by the expert jury as **the winner** in the main category **Fincentrum Bank of the Year 2015** for the sixth time **and became the most often awarded bank in this category**. For the twelfth time running, Česká spořitelna also received the main award of the general public, becoming the Most Trusted Bank of the Year 2015.

In the meantime, **in the course of summer 2015, Česká spořitelna introduced the future of its banking advisory services in the pilot mode**. With a clear reference to its history and with the aim of developing long-term and lifelong partnership with its clients, based on trust, Česká spořitelna introduces its service *Moje zdravé finance* (My Healthy Finances). The new form of banking advisory services helps clients better manage their money, teaches them better manage their household budget, assists them in reducing their costs of living, resolves their needs and dreams and contributes to the growth of their wealth. Bank advisors talk to the clients in order to become good guides in the world of the client's finances.

Consolidated Results of Operations

Income Statement

In the demanding economic environment of low interest rates, Česká spořitelna has proven its financial strength when it **reported consolidated net profit after the distribution of minority interests in the amount of CZK 14.3 billion as of 31 December 2015** in compliance with applicable international financial reporting standards. In the environment of the Czech banking market, this is again a top-class result, although in comparison with 2014 when the net profit amounted to CZK 15.1 billion, the operating result dropped by 5%.

The return on equity (ROE) fell to 13.0% due to the increase of equity and reduction of profit. Similarly, the return on assets (ROA) fell to 1.5% due to the increase of the balance sheet amount and reduction of the profit. In 2014, these figures amounted to 14.5% and 1.7%, respectively. The profit before taxes and minority interests (gross profit) decreased by 4% year-on-year to CZK 17.9 billion.

Net profit and operating result (CZK billion)

	2011	2012	2013	2014	2015
Net profit	13.6	16.6	15.6	15.1	14.3
Operating result	25.6	25.3	22.9	22.9	21.2
Cost/Income (%)	41.8	41.9	45.0	44.3	46.8

The consolidated result is affected in particular by the drop of the net interest income and net fee and commission income, the result was positively influenced mainly by the growing trading result and drop of the risk expenses associated with the improved quality of the credit portfolio.

Total operating income comprising net interest income, net fee and commission income, net trading result, dividend income and rental income dropped by 3% to CZK 39.7 billion. **The operating income dropped, because not even the accelerated growth of the volume of the provided credits could not revert the negative development of the net interest income**. The drop in net fee and commission income was partially compensated by the growth of the net trading result.

The operating costs comprise the personnel costs, other administrative costs and depreciation and amortisation of assets. **A slight increase of the operating costs** by 2% to CZK 18.6 billion **reflects the investments in the development of new digital applications** and projects aimed at compliance with applicable regulatory requirements. The operating profit, defined as the difference between the operating income and the operating costs, decreased by 8% year-on-year to CZK 21.2 billion. Taking into consideration the development of the operating income and operating costs, the cost/income ratio grew from 44.3% to 46.8%.

The net interest income traditionally represents the largest, almost two-third share on the operating income and almost 80% of interest income is generated from credit transactions. **The favourable economic situation of households and firms in the Czech Republic has been reflected in the sharp increase of loans.** The net volume of client loans grew year-on-year by 6.5%. However, not even this growing volume of loans could eliminate the effect of the historically low interest rates.

The base interest rate of CNB has been at its historic low of the technical zero, i.e. 0.05%, since November 2012, the 3-month PRIBOR dropped down to 0.29% **and there have even been negative interest rates occurring on the Czech financial market.** The decrease of interest income from debt securities in the held-to-maturity portfolio is also associated with the maturity of bonds with a higher interest income.

The decrease of interest income was partially compensated by the reduction of the interest expenses on the client deposits and thanks to the decrease of their volume also by the reduction of the interest expenses on the Bank's own issued bonds. For these reasons, the net interest income decreased by 3% to CZK 25.9 billion. The net interest margin in relation to the interest bearing assets decreased from 3.53% to 3.31%, but has remained stable since the end of Q1 2015.

Composition of operating income (CZK billion)

	2011	2012	2013	2014	2015
Net interest income *	31.2	29.7	28.1	27.5	26.7
Net fee and commission income	12.4	11.8	11.3	11.3	10.3
Net trading result	0.5	2.2	2.2	2.3	2.8

* Net interest income includes dividend income and rental income

Another important component of the operating result is the net fee and commission income. In 2015, the net fee and commission income fell by 9.3% to CZK 10.3 billion. **The decrease of the fee and commission income is caused mainly by the fact that the clients tend to use less expensive forms of the services and products,** including special price offers and packages. The lower fee and commission income also reflected the fee holidays offered with respect to retail loans.

Although the volumes of goods and services purchases paid with the cards of Česká spořitelna increased year-on-year by 8% and the volumes of transactions carried out within the network of payment terminals of Česká spořitelna increased by 7%, the **net fee and commission income was negatively affected by the EU regulations** in the field of card payment fees.

On the other hand, positive trend was reported in the growing **fee income from investment products** and from securities transactions that have been growing **thanks to the shift of the clients' interest from deposits to products with potentially higher returns,** in particular the popular mutual funds managed by Erste Asset Management and offered through all distribution channels of Česká spořitelna. The fees received by Česká spořitelna for the administration and custody of deposited values also reported a successful development.

Česká spořitelna once again reported an outstanding net trading result. **Net trading** and fair value **result significantly grew** year-on-year by 23 % to CZK 2.8 billion. This successful result reflects the profit from derivate transactions affected on one hand by the changed methodology of derivate evaluation introduced in Q1 2015 and supported on the other hand by higher income from derivate transactions carried out with the clients.

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.

Structure of operating income (CZK billion)

Net interest income*	25.9	65%
Net fee and commission income	10.3	26%
Net trading result	2.8	7%
Rental income and dividend income	0.8	2%

The general administrative expenses (operating expenses) comprise personnel expenses, other administrative expenses, including the statutory contribution to the Deposits Insurance Fund and depreciation and amortisation of assets. **After continuous decrease six years in a row, the operating expenses reported an increase in 2015** by 2% to CZK 18.6 billion.

The personnel expenses that represent almost a half of operating expenses, increased year-on-year by 2% to 8.8 billion. This increase reflects in particular the higher contributions to supplementary pension insurance and life insurance and higher contributions to the employees' meal vouchers.

The increase of the other administrative expenses results in particular from the increased expenses on information technologies, mainly in connection with the growing **expenses on the development and deployment of new digital applications, as well as expenses on projects associated with ensuring compliance with applicable regulatory requirements**. On the other hand, the Bank succeeded in reducing expenses on material consumption and consulting and legal services. At 33% 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%.

The increase of the administrative expenses also resulted from the growing **statutory contribution to the Deposits Insurance Fund** that **for the first time exceeded the amount of CZK1 billion** and compared to 2014 grew by 8% as a result of the increased volume of insured deposits.

Depreciation and amortisation of tangible/intangible fixed assets reports a long-term decrease, falling by 5% to CZK 2.2 billion in comparison with 2014 due to lower tangible asset depreciation for hardware and office equipment.

Structure of operating expenses (CZK billion)

Personnel expenses	8.8	47%
Administrative expenses	6.6	36%
Statutory deposits insurance contribution	1.0	5%
Depreciation and amortization	2.2	12%

Net gains/losses from financial assets and liabilities not measured **at fair value** through profit or loss reached CZK 0.4 billion, **growing** three times on a year-on-year basis **thanks to the higher realized income from the sale of government bonds** in the portfolio of available-for-sale financial assets and from the financial liabilities at their amortised cost.

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 2.6 billion, which corresponds to a year-on-year **increase by 29%**. This is the result of the growing Czech economy, continuously improving quality of the credit portfolio and several successful restructurings of claims in the corporate segment. After the implementation of the new definition of risk credits prescribed by the European Banking Authority (EBA), the proportion of risk credit coverage by provisions reaches the comfort level of 73%, with the overall coverage of credit risks, including hedging, representing 105%.

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

Statement of Financial Position

The consolidated balance sheet total of CZK 959.6 billion at 31 December 2015 represents a year-to-year increase by 6%. In a year-to-year comparison, the structure of assets changed, with an **increase of the volume of loans provided to customers**, increase of the amount of vault cash and cash held at central banks, as well as assets held to maturity. The volume of other portfolios of financial assets fell. **On the liabilities side of the balance sheet, deposits from customers saw an increase**, as well as deposits from banks and the Bank's equity. The amount of financial liabilities at their fair value fell.

	2011	2012	2013	2014	2015
Balance sheet total (CZK billion)	892.6	920.4	968.7	902.6	959.6

Assets

Loans provided to customers represent the most important part of active business and generate the largest portion of operating result. **The total net volume of loans and receivables to customers increased in 2015 by 6% to CZK 532.5 billion**, owing mostly to an increase in mortgage loans, loans provided to large corporations and to loans for financing commercial properties.

The proportion to net client loans to client deposits increased from 73.5% to 74.6%. Net client loans account for 55% of all active transactions.

	2011	2012	2013	2014	2015
Proportion of net client loans to client deposits	69.3%	66.8%	67.3%	73.5%	74.6%

The volume of net loans provided to households amounted to CZK 303.5 billion, representing a year-on-year growth of 6%, i.e. CZK 17.8 billion. This primarily reflects the **continued successful years in mortgage loan business**. The lowest interest rates ever, growing real wages and, above all, Česká spořitelna's active loan policy yielded growth of the gross portfolio of household mortgage loans by 12%, to CZK 186.8 billion. In absolute figures, the portfolio saw an increase by CZK 19.7 billion.

The demand for consumer financing has been slowly growing and the **volume of cash consumer lending has reached the turnover point** and in the year-to-year comparison has even slightly grown. Despite this, the overall gross volume of consumer lending in the Bank's balance, including overdraft and credit card loans, reported a year-to-year drop by 4%, to CZK 63.8 billion. Low mortgage rates have negatively impacted the client's interest in construction savings loans that reported a slight decrease by 1% compared to 2014 to CZK 34.8 billion (net value).

	2011	2012	2013	2014	2015
Net loans and other receivables to customers (CZK billion)	465.6	470.9	489.2	500.0	532.5

Net consolidated **loans to corporate clients reported a solid growth by 8%** compared to 2014 and reached an amount of CZK 209.1 billion. The increase accounted primarily for the loans to large corporate clients and loans for financing of commercial properties. Both leasing companies of Česká spořitelna, sAutoleasing and Erste leasing, were successful, as well as Factoring ČS. The overall net value of loans provided to governmental institutions and municipal clients reported a year-on-year improvement by 5%, to CZK 20.4 billion.

The quality of the loan portfolio again reported a significant year-on-year improvement in 2015. The share of risky loans on the total loan portfolio fell year-on-year from 4.4% to 4.1%. The value for 2015 already reflects the application of the new definition of risk loans according to EBA. Without this impact, the proportion of risk loans would drop as much as to 3.5%.

The item of vault cash and cash with the central bank increased twofold in 2015, amounting to CZK 111.0 billion. This resulted from the placement of excess liquidity with the Czech National Bank in the form of one-day term deposits.

Loans and other receivables to banks fell year-on-year by 10% and amounted to CZK 34.7 billion.

The aggregate balance of the portfolio of financial assets at fair value, available-for-sale securities and held-to-maturity securities decreased by 6% compared to 2014, to CZK 240.7 billion. **The drop was mainly attributable to the fall of the volume of available-for-sale securities in connection with the sale of government bonds.** Only the portfolio of financial assets held to maturity reported an increase.

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 89% of all bonds. The proportion of bonds issued by financial institutions is 8%. Securities and investment certificates make up only 1%, i.e. CZK 2.8 billion. In order to maintain stable net interest income, bonds in the held-to-maturity portfolio account for two thirds of the overall portfolio of financial assets.

The volume of investments in real estate property has been intentionally reduced in connection with the gradual sale of these investments and compared to 2014 fell by 33%, reaching an amount of CZK 4.9 billion. **The objective of investments in real estate property is to generate rental income.** Česká spořitelna also invests in investment property funds open to institutional investors and focused on the Czech and Slovak markets, operating within the Financial Group.

The aggregate balance of tangible and intangible assets decreased on a year-on-year basis by 4%, to CZK 16.3 billion, of which land and buildings comprise 67%. **The value of intangible assets increased** by 10% to CZK 4.0 billion, in particular with respect to software **in connection with the development of new digital applications.** The value of tangible assets fell by 8% to CZK 12.3 billion. The aggregate proportion of tangible and intangible assets to total assets is less than 2%.

Structure of assets (CZK billion)

Net loans to customers	532.5	55%
Financial assets portfolio	240.7	25%
Receivables against banks and the CNB	145.7	15%
Tangible and intangible assets	16.3	2%
Other assets	24.4	3%

Liabilities

Deposits from customers (primary) have traditionally been the key source of funding for Česká spořitelna's active business transactions: 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 713.8 billion, meaning that in the course of 2015 their volume increased by 5%, representing in the absolute value CZK 33.4 billion. The high volume of deposits from customers also contributes to the strong liquid position of Česká spořitelna.

Long-term customer deposit growth testifies the trust of citizens in Česká spořitelna. **Deposits from households** grew by 3% and reached the aggregate amount of **CZK 531.6 billion**. Thanks to the low interest rates, request deposits significantly prevail, representing almost 80%. Deposits on personal accounts ("Osobní účet" and "Osobní konto") are increasing. The savings product ČS Savings is also popular. The major products among term deposits are construction savings deposits and term passbooks. The construction savings deposits fell last year due to the termination of construction savings contracts after the expiry of their 6-year cycle.

Corporate client deposits recorded a significant increase by 15% in 2015, to CZK 131.7 billion, practically solely on current accounts, which indicates that corporate clients deposit their excess liquidity with Česká spořitelna. Public sector liabilities show a stable development, remaining at the level of CZK 50.6 billion, of which CZK 5.9 billion represents loans received as a part of repo transactions.

Foreign currency deposits grew to 7% of total client deposit volume; the euro is the currency of choice, followed to a smaller extent by the US dollar.

	2011	2012	2013	2014	2015
Deposits from customers (CZK billion)	672.3	704.5	726.6	680.4	713.8

The balance of deposits from banks at amortised value, comprising received loans, term deposits and current accounts, significantly increased year-on-year by 54% and at the end of 2015 reached the amount of CZK 83.9 billion. **The greatest impact on the increase of interbank liabilities can be attributed to short-term and one-day term deposits** and the growth of loans received as a part of repo transactions. These amount to CZK 13.0 billion at the end of 2015.

The total **volume of issued debt securities decreased** compared to 2014 by almost one third, to CZK 15.5 billion. The decrease was caused by **a number of mortgage bonds**, real value bonds and subordinated debt **gradually falling due**. In the case of the subordinated debt issue, Česká spořitelna exercised its option right to early repayment after five years.

The equity attributable to the Bank's shareholders, comprising subscribed registered 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 120.0 billion**. In a year-to-year comparison, equity reported further increase by 11%. The amount of equity increased thanks to the growth of retained earnings and the AT1 hybrid capital issue of EUR 300 million. **Česká spořitelna decided to implement the hybrid capital issue in order to optimise its capital structure** and to stabilise the long-term euro financing. The equity attributable to the Bank's shareholders represents 13% of all sources.

The capital adequacy ratio Tier 1+2 for the consolidated regulatory unit (CRR) of Česká spořitelna reached 21.3% at 31 December 2015. In 2014 the standalone capital adequacy ratio of the Bank was 18.5%. The total capital used in the calculation of capital adequacy amounted to CZK 99.9 billion and the total risk exposure amounted to CZK 468.3 billion. In 2014, these figures were CZK 84.4 billion and CZK 456.7 billion, respectively.

Structure of liabilities (CZK billion)

Deposits from customers	713.8	74%
Deposits from banks	83.9	9%
Debt securities issued	15.5	2%
Other liabilities	26.4	2%
Equity attributable to the Bank's shareholders parent	120.0	13%

Business Activities

Retail Banking

Česká spořitelna is the largest and most important retail bank on the Czech market. Retail banking services offered by Česká spořitelna and its subsidiaries are used by more than 4.7 million clients.

Česká spořitelna has been gradually introducing a new long-term concept of healthy finances that is perceived as the future of its banking advisory services. In the course of 2015, the concept of healthy finances was transformed into the unique service Moje zdravé finance (My Healthy Finances) (MZF) that is currently offered by Česká spořitelna to its clients in 30 pilot branches. **MZF service helps clients better manage their money, assisting them to reducing their costs of living, resolving their needs and dreams and contributing to the growth of their wealth.**

The service Moje zdravé finance is based on several fundamental principles. The bank advisor meets the client on a regular basis; the meetings are planned in advance. At the regular meetings, the bank advisor and the client discuss the client's financial needs and they together **set up the financial products so that the client can use them efficiently in line with his current life situation** and so that the client can save money on the products. Door to door advisors of ČS subsidiaries offer clients possibilities to save money on non-financial services. Bank advisors direct and teach the clients to be able to execute service transactions by means of self-service, Internet and mobile banking, this saving time and money.

Products and services by segment

The wide and diversified client base of Česká spořitelna by its very nature requires services to be provided by means of a client-oriented approach by segment.

The concept of the new style of advisory activities within the scope of the service Moje zdravé finance is primarily targeted to the widest retail client base. Non-financial services, however, can be used also by clients of other segments. The first few months of the pilot operation of the service Moje zdravé finance, launched in summer 2015, confirmed the correctness of the chosen path. **The new form of bank advisory services that brings savings to people and at the same time teaches them to better manage their household budget is bringing its first fruits.** The service Moje zdravé finance is used in the pilot branches by more than 23 thousand clients who can save up to several thousand crowns a year with this service. **The success of MZF was reflected in the satisfaction level of the clients,** increased number of new clients and increase in the sales of loan products.

Česká spořitelna will continue to offer MZF service in selected pilot branches. In 2016, **the service Moje zdravé finance will be supplemented with brand new “healthy” products (Zdravé produkty).** These will include Zdravý účet (Healthy Account), Zdravá karta (Healthy Card) as a new debit card, Peníze na klik (Click for Your Money) as a revolving overdraft, and MTZ Application presenting an overview of the client's expenses and possible saving suggestions. The employees of the branches will undergo training in the course of 2016, focusing on the new principles of the advisory services provided, based on the successful testing carried out in the pilot branches. Thereafter, they will start offering the MZF service to clients, including the financial products, and through the door to door sales of the ČS subsidiary also the non-financial products.

At the end of 2014, Česká spořitelna introduced the BLUE service that is completely unique in terms of its comprehensiveness and ability to efficiently resolve all the client's financial needs. **Using BLUE, the clients obtain high quality and flexible banking service, with regular replacement of products and services in accordance with their current needs,** where they 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 remains 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 BLUE brand, clients may use special “BLUE” debit and credit cards.

BLUE also rewards clients for their activity, allowing them to receive the entire BLUE service for free. **The clients using BLUE service are demanding and expect high quality of the services provided;** for which reason, **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 the end of 2015, BLUE service was used almost by 350 thousand clients, looked after in 130 selected branches by 550 private bankers, 10 bankers in the ČS Virtual Branch and 50 investment specialists. Each fourth client uses the Personal Financial Plan.

A part of the BLUE service is also 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 only approves the relevant request in SERVIS 24. In 2015, Busy Banking was extended by the offer of insurance products. **The clients can newly use the Virtual Branch service every day, including weekends, from 07:00 a.m. to 10:00 p.m.** The Virtual Branch service is provided at the telephone number 800 400 700 to all clients of the BLUE service who are too busy or cannot visit their branch in person.

Clients can also take advantage of non-financial benefits within the scope of BLUE service, e.g. receive significant discounts at the Golf & SPA Hotel Konopiště, tickets for the biggest music festival Colours of Ostrava, discounts on mobile phones in cooperation with Alza.cz, or travel vouchers from the company NevDama. In cooperation with Forbes magazine, the Bank offered its clients inspiration, opinions and ideas of some interesting personalities.

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 October 2015, Erste Premier brand celebrated its fifth anniversary on the market. Stable increase of the number of clients, reaching already 23 thousand, confirms its stable position on the above-standard banking services for wealthy clients. In 2015, a new Erste Premier Centre was opened in Zlín. In addition to Zlín, there are four Erste Premier Centres in Prague and one in each of the following cities: Brno, Ostrava, Olomouc, České Budějovice, Plzeň, Liberec, Hradec Králové and Pardubice.

New benefits for Erste Premier clients include the possibility of cash withdrawal at all ATMs abroad free of charge, with the extension of free withdrawals also to countries outside the operation of Erste group. Another example is the application of individual exchange rates for above-limit amounts directly in SERVIS 24 or the possibility of an online application and approval of Premier Loan and overdraft. A novelty among loan products is the Premier American Mortgage with specific parameters for wealthy clients.

Investment advisory services constitute an integral part of the Erste Premier offer. The environment of low interest rates does not provide favourable possibilities for obtaining return on investments by means of standard deposit products. Thus, investment advisory services represent an ever more important pillar of this service.

The Premier Benefit Club has reported a significant growth, focusing in particular on extending benefits to regions. The Club prepared various social events for the clients, with the greatest response being received with respect to Designblok, of which Erste Premier brand has been a long-term partner. The client satisfaction with Erste Premier service, measured on a regular basis, has again shown an increase in 2015.

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.**

In 2015, Erste Private Banking focused on strengthening relations with clients and extended the offer of private bankers services also to the clients' family members. Thus, the personal banker can act as a financial secretary with respect to all financial needs of the client's family, with emphasis on each member's individual requirements. The clients of Erste Private Banking are also automatically entitled to use Erste Premier products for which they receive additional benefits.

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

Successful mortgage loan years where each year is better than the preceding one have been continuing. **The great success in 2015** on the mortgage loan market **resulted** from even lower interest rates, growing real income, favourable situation on the real estate market and in particular from the **active lending policy of Česká spořitelna, supported by qualified advisors and regular special offers.**

In 2015, more than 26 thousand households got new housing or improved their existing housing with the assistance of Česká spořitelna. In absolute numbers, this represents CZK 49.5 billion in new mortgage loans, i.e. an increase by 38% compared to 2014.

In 2015, Česká spořitelna focused on simplification of its products and processes and prepared several innovations in this area. For example, **clients now have the possibility of remote drawdown of their mortgage loan through SERVIS 24** Internet banking, from their home and without the need to physically visit the branch office. For the purpose of refinancing their mortgage loan, they are no longer required to submit evidence of their income and evaluation of the property. **Česká spořitelna guarantees a favourable interest rate for refinancing of loans provided by other banks for up to one year ahead.** A product tailored for entrepreneurs is Obratová hypotéka (Turnover Mortgage) that offers favourable conditions for self-employed clients who can evidence their income for the purpose of assessment of a loan application on the basis of turnover shown in the tax return.

Similarly as in the preceding year, Česká spořitelna was awarded for its innovations by the company Chytrý Honza in 2015. It ranked first in the Banking category with its new **Online Loan Configurator**. This application **allows business partners model the mortgage loan so that both the advisor and the client can see in real time whether or not it is possible to obtain the loan.** In addition to this award, Česká spořitelna ranked third in the category Mortgage Loan of the Year and in the competition Fincentrum Bank of the Year.

Popular special offers definitely include Mortgage Days of Česká spořitelna that last several days and are usually held twice every six months. **On these days, clients can receive a number of benefits in connection with their mortgage loan**, ranging from a guaranteed interest rate, through estimate evaluation of their property, to other additional services free of charge. The clients neither pay for the mortgage loan approval or for the mortgage account administration.

Substantial benefits are associated, for example, with Svobodná hypotéka (Free Mortgage) of Česká spořitelna that provides freedom for the clients to set up their loan and the repayment terms. **The greatest benefits of Svobodná hypotéka include the guaranteed interest rate with a long-term fixing for 8 years.** Long-term fixing ensures very low instalments for clients for a long time. Another advantage of Svobodná hypotéka is the possibility of changing instalments, which allows for reduction or increase of instalments by as much as 30%; repayment variability allows for commencing repayment after the expiry of 3 months and repayment vacation enables suspension of repayments for up to 3 months. Drawdowns without the need to submit construction invoices allow for quick provision of the money, without submitting any invoices. Thus, Svobodná hypotéka allows for using the money also on the household equipment and furnishings.

In addition to their original purpose, i.e. long-term financing of housing, mortgage loans tend to become a source of financing for short-term purposes, for example when a client is moving houses and needs to bridge the gap between the purchase of a new house and the sale of the old one.

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.

The total portfolio of mortgages to private individuals – households increased by 12% compared to 2014, to **CZK 186.8 billion**, which represents a year-on-year increase by almost CZK 20 billion. The number of mortgage loans exceeded 150 thousand. The key indicator of the average loan-to-property value of the entire portfolio reached 64.6%.

Mortgage loans portfolio (CZK billion, gross value)	2011	2012	2013	2014	2015
Portfolio of mortgages to private individuals - households	127.6	139.2	155.1	167.2	186.8
Portfolio of Stavební spořitelna ČS loans	41.7	39.5	37.6	36.4	35.4

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. Despite this fact, the volume

of newly provided loans increased by 36% compared to 2014. **The cooperation with housing cooperatives and owners' associations has also successfully continued** in the form of financing their investment projects associated with the housing of their members. The total portfolio of bridging loans and constructing savings loans fell by 3% to CZK 35.4 billion. Bridging loans represent 64% of the portfolio. The total number of loans at the end of 2015 was almost 140 thousand.

Financing the needs of private individuals

An attractive offer of consumer loans represents a high priority for Česká spořitelna, as the leader on the consumer loan market. **The total amount of newly provided loans (including new loans repaid in 2015) reached the level of CZK 28.0 billion.** The volume of newly provided loans of Česká spořitelna increased year-on-year by 8%, mainly thanks to the record breaking sales of new loans in autumn 2015.

This outstanding result was in particular supported by the attractive offer for clients. In spring 2015, the Bank repeated its successful campaign of autumn 2014 "5+5" that enables clients to repay loans and at the same time create savings that bear interest at a unique rate of 5%. During summer months, the Bank conducted a campaign with a guaranteed interest rate for new loans where the clients documented the purpose of such loans. Subsequently, in **October the Bank introduced a very successful offer of a "Loan that waives up to 12 repayments"**. This way, the Bank referred to the very popular benefit in the form of a bonus for proper repayment. The attractiveness of this offer, together with the Loan Train that automatically calculates and displays, at the time of each loan application, the offer of consolidation of all the client's existing loans, significantly contributed to the successful end of the year 2015.

Another reason for the increase of new consumer loans is the professionalism and expertise of the advisors and bankers working within the branch network. The Bank also introduced several improvements in 2015 in the process of loan sales, including a substantial improvement of the procedure of assessing the loan application. And last, but not the least, this success is attributable to the broad range of the sales channels, including not only the branch network, but also the largest ATM network of all. **Česká spořitelna is the only bank on the market that enables loan conclusion directly through ATMs, without the need to sign a contract at the branch.** Česká spořitelna offers its clients the conclusion of a loan contract also in the SERVIS 24 Internet banking or its mobile version, whereupon the money is immediately available to the client on their current account.

The total volume of consumer loans including credit cards, American mortgages and overdrafts, fell year-on-year by 4% to CZK 63.8 billion. However, the Bank has already succeeded to turn this trend in the portfolio of cash consumer loan. Compared to 2014 the portfolio of cash consumer loans has increased.

	2011	2012	2013	2014	2015
Total volume of consumer loan portfolio (CZK billion, gross value)	77.5	72.5	69.7	66.2	63.8

Private Account

The Česká spořitelna Private Account ("Osobní účet") or, in case of the BLUE service, the Česká spořitelna Personal Account ("Osobní konto") is the cornerstone of the product and service portfolio for the Bank's private clientele. **The setting of the Private Account ČS is so variable that it meets individual needs and requirements of clients of any age group.** Private Account ČS is used by children, teenagers, students, families and seniors. In other words, it is a single account for a lifetime.

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. Some of the most frequently used include Peníze stranou (Money Aside) in the form of a sub-account for putting money aside as a reserve for unexpected expenses. The money is kept aside, out of the reach of the payment card or permanent payment orders. There are also other advantages services relating to all cards for the account, such as the possibility to choose one's own picture for the card, change of the PIN code, change of the limits and unlocking/locking the card. The basic package for children, students and young clients is offered free of charge.

With the programme Za důvěru (For Your Trust), each client can have maintenance of the Private Account free of charge subject to simple conditions. The programme is very popular and at the end of 2015 there were more than 750 thousand programmes Za důvěru activated.

BLUE clients use 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.

Popular digital gadgets associated with Private Accounts include the new mobile application **Můj stav (My Status)** that **displays balances of all the client's products kept with Česká spořitelna in a quick, simple and secure manner.** The application is used not only for the access to the Private Account, but also to other products used by the client, such as card accounts, loans, mortgage loans, construction savings products, supplementary pension insurance and supplementary pension savings schemes, life insurance, investment accounts or property accounts.

At the end of 2015, **more than 2.7 million clients were using a Česká spořitelna Private Account or Personal Account, a substantial year-to-year increase of almost 180 thousand.** The volume of cash deposits increased year-on-year by 27% to a total of CZK 260.0 billion.

	2011	2012	2013	2014	2015
Private Accounts (in thousands)	2,265	2,295	2,380	2,534	2,713

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, transparency and quality, as well as **the highest possible probability of achieving interesting yields.**

Once again, central banks played a key role for the development on financial markets in 2015, aiming their measures at supporting the markets. On the other hand, the main source of nervousness was the concerns regarding the growth of Chinese economy and the turmoil on commodity markets. At the same time, the prevailing environment characterised by low interest rates on classical deposit products continued to be favourable for the investment offer 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 9.6 billion. The volume of sale of the most conservative structured deposits reached CZK 0.6 billion.

Stock markets presented an interesting investment opportunity for more dynamic investors, drawing their attention to direct equity investment. The total turnover of stock transactions in 2015 exceeded the amount of CZK 1.1 billion. **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 2015 was CZK 275 million. **The sale of physical gold was also attractive for clients,** who purchased via Česká spořitelna in 2015 gold ingots for investment purposes worth close to CZK 120 million.

Despite the diversified trend in the performance development of various classes of assets on the financial markets, the continued environment of low interest rates contributed to the strong growth of the overall sales of the mutual funds of Erste Asset Management, in particular the mixed funds. Similarly as in the preceding years, the influx of financial resources relied on the important component of regular investments. **The total share of regularly sent funds accounted almost for 38% of the total sales of retail mutual funds.** The average value of a regular investment amounted to CZK 1,876.

In the course of the whole year 2015, the global stock index recorded a slight loss of 0.7%, which means that the stock funds showed mixed performance. **The most successful fund was Top Stocks, focused mainly on developed markets** that reported a growth of 8.11% in 2015 and the fund Global Stocks that reported a growth of 7.08%.

Unlike in the preceding years, the performance of mixed funds was not so favourable, mainly due to the growth of the risk premium for the more risky bonds. The largest mixed fund, Conservative Mix, with the assets exceeding the amount of CZK 20 billion, fell by 0.65%. Similarly, other mixed funds ended the year 2015 in red numbers. **In autumn 2015, the offer of mixed funds was extended by the fund Optimum**, offering a significant **revival** of the investment strategy by means of **investments in the real estate market**. Thanks to successful sales, the assets of the fund Optimum at the end of the year exceeded the amount of CZK 1.7 billion.

On the domestic bond market, the year 2015 saw a decrease of yields of the Czech government bonds. The short end of the yield curve in the second half of the year was way down in negative numbers, which was reflected in the performance of conservative bond funds. For example, the fund Sporinvest fell by 0.21%. The funds with a longer duration were much better off; the fund Sporobond increased by 1.01%, despite the weaker performance of the investment level corporate bonds. Corporate bonds bearing high interest did not perform quite as expected, with the bond fund High Yield increasing by only 0.99%. **On the other hand, corporate bonds of companies from developing economies reached high yields and so the ČS Corporate Bond fund increased by 8.41%.**

In May 2015, Investiční společnost České spořitelny (ISČS) received an award of The European magazine **as the Best Investment Company in the Central and Eastern Europe**. In November 2015, an important organisational change took place within the scope of restructuring of the Austrian investment group Erste Asset Management GmbH (EAM), merging ISČS with EAM. Thus, ISČS was completely incorporated into EAM's organisational structure and became its branch in the Czech Republic. This merger did not in any manner affect the clients, stakeholders of the mutual funds or their investments. The funds continue to be managed in the Czech Republic. The legal successor of ISČS is Erste Asset Management GmbH that carries out its activities in the Czech Republic through its newly established branch named Erste Asset Management GmbH, Czech Republic branch (EAM ČR).

The total volume of assets managed by the funds of EAM ČR at the end of 2015 amounted to CZK 85.4 billion, which represents a significant increase by 25%. 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 means of investing in mixed funds.

Volume of assets managed by funds of Erste Asset Management, Czech Republic branch (CZK billion)

2011	2012	2013	2014	2015
51.3	50.3	55.0	68.1	85.4

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 the capital of CZK 8.2 billion.** In the course of 2015, the portfolio of ČS real estate investment fund was partially restructured. First of all, the fund sold the A. Macek building in Ostrava in April and then in December it purchased a multifunctional building Forum Business Center I in Bratislava, Slovakia. Thus, the fund still owns nine commercial properties, of which seven are located in the Czech Republic and two in Slovakia. Thanks to the new acquisition, the geographic diversification of the portfolio was increased, with more than 42% of the fund's property investments comprising of regional or foreign assets. **The value of the funds invested in the ČS real estate fund increased in 2015 by 2.3%** and in the last five years by 3.0% p.a. The generated yield confirmed the stable long-term performance of the fund that has been showing a positive growth for almost 7 years. Over 16 thousand clients invested in the fund in 2015. Values of the buildings in the fund portfolio were stable in 2015, 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 8% year-on-year to CZK 60.4 billion.**

The volume of finance in complementary pension insurance (DPS) in the third pillar, which is designated for new clients, continued to grow in 2015 in all managed funds. The volume of funds in the **mandatory Conservative Participation Fund, which is the largest fund in the DPS market,** increased two-fold in 2015, to CZK 2.7 billion.

ČS-penzijní společnost has held its position of the leader in the DPS market, with a share of almost 30%. In 2015, more than 50 thousand clients decided to invest in pension security with ČS-penzijní společnost.

In total, 950 thousand unique participants are saving with ČS-penzijní společnost, with the total volume of funds of CZK 64.4 billion, which represents a year-on-year increase by 12%.

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

2011	2012	2013	2014	2015
38.1	42.5	50.7	57.7	64.4

Česká spořitelna – penzijní společnost has succeeded in the contest Fincentrum Bank of the Year 2015, ranking first in the category of pension companies. In the prestigious contest Zlatá koruna (“Golden Crown”), its supplementary pension insurance has repeatedly ranked third place.

Construction savings deposits with Stavební spořitelna ČS continue to constitute the most significant savings product by volume. At the end of 2015, the total amount of deposits was CZK 74.6 billion, representing a year-on-year decrease by 9%. The decrease was caused primarily by the termination of construction 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 saw a slight year-on-year increase after many years, reaching the amount of CZK 59.3 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 amounted to CZK 31.7 billion, an increase by 24% compared to the end of 2014. In the environment of low interest rates, clients prefer request deposits, with term deposits and termination notice deposits recording a decline.

Current and term deposits in foreign currencies accounted for CZK 12.5 billion, which represents an increase by 27% compared to 2014. The preferred currencies are euro and US dollar.

Savings of households (CZK billion)

Private accounts	276.8	52%
Construction savings deposits	74.6	14%
Savings deposits including passbook accounts	112.0	21%
Term deposits	6.8	1%
Current accounts	56.3	11%
Premium deposits	4.0	1%
Other deposits	1.1	0%

Although the year 2015 marked the end of the extended prescription period for withdrawing money from anonymous passbook accounts, **Česká spořitelna** decided to accommodate the requests of its clients and will continue to pay out the deposits also in 2016 until further notice. Pursuant to the Banking Act, the validity of anonymous passbooks terminated at the end of 2002. Since that time, 98% of deposits have been withdrawn, but the Bank still registers anonymous passbook accounts in the volume of CZK 1.9 billion. Since 2012, all uncollected deposits on anonymous passbook accounts are the property of Česká spořitelna that is well aware of their origin and knows that they are the proceeds of honest saving of common people. For this reason, **it decided to donate all the remaining funds to the Czech society through the foundation Depositum Bonum,** founded by Česká spořitelna in

2012. The foundation focuses on improving the quality of education, in particular in the field of technical and natural sciences, and in the course of its short existence, it has succeeded to acquire high credit of the expert public.

Small Enterprises and Entrepreneurs (MSE)

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

Česká spořitelna offers MSE clients its professional services with added value, focusing on long-term active building of the relationship between the bank and the client. Thus, **it can be close to the enterprises and entrepreneurs, providing its useful advice and supporting the growth of their business**, where costs can be reduced, how banking services can be used in a more efficient way, making their business easier. Česká spořitelna wishes to become their partner, a part of their business and enable the interconnection of these entrepreneurs and small enterprises with the largest client base on the Czech market.

In the course of 2015, Česká spořitelna increased the number of its specialists working at the branches and taking care of small enterprises and entrepreneurs. Specialised entrepreneur advisors now work at more than 150 branches, allowing each entrepreneur to consult their needs with a specialised expert. Moreover, these advisors attended a number of specialised training courses to be able not only to understand the clients – entrepreneurs, but also to be able to correctly resolve their requirements.

Česká spořitelna also pays attention to starting entrepreneurs. The Bank is a partner of the competition Rozjezdzy roku (Start-ups of the Year) and **offers new entrepreneurs the comfort of experts specialising in the issues of starting enterprises**, with a possibility of free consultations of their business plans and discussing their business intentions. Thanks to the partner portal Zalozfirmu.cz, everyone can easily apply for a trades licence or establish a company and, in addition, use the Klasik Entrepreneur Account for two years without any administration fees.

Česká spořitelna extended its offer of current accounts by the **Basic Entrepreneur Account, intended for clients with a smaller number of transactions**. The Basic account contains SERVIS 24, payment card and possibly also the start-up overdraft and subject to the fulfilment of certain conditions is free of any administration fee. Thus, the Basic Entrepreneur Account supplements the existing accounts Klasik and Maxi. The Klasik account contains all basic services that clients need, including 30 transactions, it is simple and its price is transparent. Klasik account can also be extended by additional products and services, such as the company overdraft, discounts on transactions or selected insurance products. With Maxi account, clients receive the processing of all e-transactions as a part of the basic package and Maxi account can, of course, be also extended by additional products and services. The entrepreneur accounts Klasik and Maxi have become a part of the programme Za důvěru (For Loyalty), which allows clients access to the benefits of partnership with Česká spořitelna.

The Bank has also become the title partner of the competition “Česká spořitelna Entrepreneur of the Year” organised by Hospodářské noviny daily. The 10th year of the competition took place in 2015. The most successful entrepreneurs and enterprises from the whole Czech Republic present their business in this competition.

In spring and autumn 2015 campaigns were held focusing primarily on the profitable investment financing in the form of investment (capital) loans. The terms and conditions were set up primarily on a favourable price and promotion of parameters outstanding in a long-term perspective. This campaign not only generated positive response among the existing clients, but also among entrepreneurs who are not yet clients of Česká spořitelna. **The parameters of the Secured Instalment Loan (Zajištěný neúčelový úvěr) have also been modified, so that clients can now use a loan up to CZK 10 million with the repayment term up to 10 years**. Despite the strong competition in the MSE segment, Česká spořitelna maintains its 30% market share and has been receiving positive feedback from its clients in terms of satisfaction and quality.

The number of entrepreneur accounts and corporate accounts is approaching one hundred thousand. The total balance on these accounts increased year-on-year by 13% to CZK 30.3 billion. Corporate accounts are not used only by entrepreneurs, but also by legal entities and non-profit organisations.

The total loan portfolio for entrepreneurs and commercial clients with turnover of up to CZK 30 million remained stable in the course of 2015 and at 31 December amounted to CZK 58.2 billion.

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

2011	2012	2013	2014	2015
59.6	55.7	56.5	58.6	58.2

Card Programme

At the end of 2015, the total number of active payment cards of Česká spořitelna exceeded 3.1 million, with credit cards accounting for 0.3 million. **The total volume of payments made by Česká spořitelna's cards with vendors increased by 8% year-on-year to CZK 124.2 billion.** Clients executed on average 85 transactions per card, 61 of which were executed with vendors. The average annual per-card spending reached CZK 40 thousand. The popularity of card payments for internet purchases has been continuously growing, with the volume of purchases made with the cards of Česká spořitelna in the course of 2015 amounting to CZK 9 billion, i.e. the average of CZK 2,886 per card.

In the third year of Visa Awards, Česká spořitelna received the award Best Card Issuer of the Year 2015. It has thus defended its first place of the preceding year. The award is granted by the card association Visa Europe, acknowledging Česká spořitelna as the leader in the area of contactless payments and for its consistent approach to the development of contactless technology on the market.

Number of active cards (in thousands)	2011	2012	2013	2014	2015
Number of active cards	3,174	3,178	3,234	3,144	3,119
of which: number of credit cards	392	348	319	290	269

In the area of payment cards, the constant mission of Česká spořitelna is to ensure reliable and secure payments, with emphasis on speed, simplicity, comfort and strengthening of the client's trust in this payment tool. This is closely related with the attempts to transfer clients from cash transactions towards cashless transactions. In order to fulfil this goal, the Bank implemented a number of activities in 2015, mainly of motivational and educational nature. A significant progress occurs also in penetration of bank payment cards into the area of transport and mobile technologies.

ČS card transactions executed with vendors (issuing)	2011	2012	2013	2014	2015
Volume of payment transactions with ČS cards in CZK billion	90.5	98.1	105.0	114.7	124.2
Number of payment transactions with ČS cards in millions	109.3	121.8	140.0	166.1	190.5

At the beginning of 2015, Česká spořitelna presented a highly demanded innovation in the form of payment card PIN displaying in the SERVIS 24 Internet banking. **Thus, the cardholder can be reminded of their PIN code without having to request its repeated sending by mail.** Moreover, if clients apply for a new card, they can set the PIN display in their Internet banking and need not wait for their PIN to be sent by mail and collect it at the post office.

In cooperation with its subsidiary Mopet CZ, the Bank introduced the service Biip in September 2015, a unique mobile application and a secure rechargeable payment card. The Biip card is suitable for children and youth in the age group between 10 and 18 years, who receive pocket money and shop several times a month. **Biip is a useful and modern instrument for parents who want to teach their children how to manage their pocket money.** Parents can get the card even for younger children with a small amount of money and these children can use it just as a money box. For the time being, this service is only sold online through the e-shop at www.biip.cz and at the end of the year more than 800 Biip cards were issued.

In cooperation with the home for the visually impaired Palata, a non-traditional campaign was held in April and May 2015 under the slogan "Make her happy today by paying with your card". Thanks to payments made with the cards of Česká spořitelna, the Bank could donate the amount of CZK 1,018 thousand to Palata home.

In 2015, 215 million transactions totalling CZK 154.8 billion were carried out at Česká spořitelna payment terminals. This represents a year-on-year growth by 7% in transaction volume. In connection with the more frequent use of payment cards for smaller purchases and the growing number of contactless transactions, the average transaction amount has again decreased to CZK 719.

ČS card network transactions (acquiring)	2011	2012	2013	2014	2015
ČS network payment transaction volume in CZK billion	103.1	124.9	135.3	145.0	154.8
Number of ČS card transactions in millions	109.9	143.8	163.2	192.4	215.2

In 2015, Česká spořitelna introduced **mPOS**, a mobile solution that **enables card payments for products and services also at small entrepreneurs and stores**. The mPOS application was used in 2015 to perform more than 9 thousand transactions, in the average amount of CZK 1,073. To be able to provide its clients comprehensive mobile platforms, Česká spořitelna established closer cooperation with the companies Datart and Vodafone.

The extraordinary general meeting of Česká spořitelna held on 18 September 2015 approved the transfer of a part of the Merchant Acquiring branch focusing on processing payment card transactions performed through payment terminals (acquiring) to a new company established by the strategic partner Global Payments. The company Global Payments, the winner of the tender, will hold a 51% share in the joint-venture together with the Spanish Caixa Bank, while Česká spořitelna and the other members of Erste Group Bank will hold a 49% share. The joint venture is expected to commence its active operation in the 1st half of 2016.

The establishment of the joint venture results from the changes in the European regulations unifying bank fees in the EU countries, which will open the European market to global foreign corporations. Partnership with a strong international partner will enable Česká spořitelna to maintain the high standard of its services for vendors and clients and will provide benefits, such as lower transaction costs and access to the most recent global trends, innovations or new technologies.

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 1,414 ATMs and 175 payment machines. In the course of 2015, the Bank installed mainly new deposit ATMs.

Česká spořitelna operates more than 690 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 1,150 ATMs. As a part of the conceptual replacement, 114 ATMs were replaced in 2015 for brand new machines.

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 108 of these machines in operation, of which 47 are new. Česká spořitelna cooperates in its network with major retail chains, such as Tesco, Kaufland, Ahold, Globus a REWE (Billa, Penny Market).

In 2015, clients made over 147 million transactions at ATMs of Česká spořitelna, with cash withdrawals accounting for almost 89 million of those transactions with the total amount of CZK 309.5 billion. The average withdrawal amounted to CZK 3,492.

Volume of ČS ATM network withdrawals	2011	2012	2013	2014	2015
Volume of ČS ATM network withdrawals in CZK billion	311.0	310.8	307.5	306.7	309.5
Number of ČS ATM network withdrawals in millions	91.8	93.2	92.9	91.2	88.6

A widely used service is the transmission of payments through ATMs or payment machines. In 2015, clients of Česká spořitelna made almost 3.5 million payments in the total amount of CZK 18.0 billion. The average payment amount was CZK 5,184. **At the end of summer, the functionality of sale and recharging of time coupons of public transport cards was extended** to eight devices in Karlovy Vary that enable, together with 90 ATMs in the Plzeň region, to obtain and upload a public transport coupon or to recharge the electronic wallet on the card.

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 solutions both for medium and large enterprises, municipalities and public sector, and for multinational corporations or financial institutions.** On sound foundations, Erste Corporate Banking builds strong and long-term partnership.

The clients of Erste Corporate Banking can use services that highly exceed the usual standards. Thanks to electronic banking and corporate cash management products, the Bank is accessible online for corporate clients. It offers corporations 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. 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.

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. The strategy team of Client Solutions Group helps clients analyse 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 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 is a clear market leader in the area of combined financing solutions through bond issues and bank loans.** Thanks to its outstanding collaboration with the main actors on the private equity market, Česká spořitelna holds a leading position in the area of acquisition financing or debt re-capitalisation of companies.

Česká spořitelna holds a leading position among banks and financial institutions as an active supporter of established and emerging Czech exporters. **Also in 2015, the Bank financed a number of export projects and plans of Czech enterprises in foreign markets.** The Bank also actively supports SMEs acting as indispensable sub-vendors for large Czech exporters, without whom it would not be possible to carry out high quality Czech export. Naturally, the Bank also offers a number of other banking products necessary to successfully implement export plans. In addition, Česká spořitelna is one of the largest providers of bank guarantees, documentary letters of credit and documentary collections on the Czech market, thus also significantly supporting Czech export.

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 2015, the real estate market of residential and commercial properties continued in its steep recovery. **The aggregated non-consolidated balance of Česká spořitelna mortgages exceeded the level of one quarter of a trillion** and at the end of 2015 amounted to CZK 252.0 billion in gross value, which represents a year-on-year increase by 10%. Mortgage loans grew in all segments; of this amount, loans to entrepreneurs, corporate clients and municipalities accounted for CZK 65.2 billion. The quality of the portfolio remains very high.

Mortgage loan portfolio (in CZK billion, gross value for the bank)	2011	2012	2013	2014	2015
Total mortgage loans	186.0	193.8	213.8	228.2	252.0
of which: mortgage loans to individuals - households	127.6	139.2	155.1	167.2	186.8
of which: mortgage loans to entrepreneurs and small enterprises	24.2	23.7	24.8	26.0	26.8
of which: mortgage loans to medium and large enterprises	34.2	30.9	33.9	35.0	38.4

Real estate financing within Erste Corporate Banking fully utilises the know-how of the entire Erste Group in Central and Eastern Europe and newly also the close interconnection with the product groups in the area of debt and capital markets. **The projects and capital loans for existing concepts of office and retail properties with a solid track record continue to be an unchanged 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. Within the scope of the valid strategy, commercial and office projects of both funds located in Prague and Kladno, Czech Republic, and in Trenčín, Slovakia, 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 medium-size enterprises (SMEs) in all regions of 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, 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 2015, the Bank again focused on strengthening the client satisfaction in all product groups, in particular in the area of the loan process. The team of product specialists was extended, thus enabling better support for the client specialists in regions, improving the speed and availability of the services offered. Naturally, the product offer includes traditional banking products, including advisory services, but **The Bank is more and more focusing on comprehensive solutions of the needs of its corporate clients in all phases of their life cycle and even on non-financial products.** Česká spořitelna is the first and only bank in the market that offers physical purchase of electricity and natural gas.

In the ever fiercer competition environment, human capital still represents a key factor. Work with talents, for example within the scope of the programme Erste Academy, allows Česká spořitelna not only to keep its employees motivated, but also to attract perspective young graduates to join its team.

In 2015, Erste Corporate Banking continued the successful **TOP INNOVATION** programme of previous years and implemented in this programme 80 projects with the volume of CZK 2.4 billion. **The programme offers funding of innovative projects and development activities of enterprises and makes use of guarantees provided by the European Investment Fund.**

For two years now, Česká spořitelna has been providing financing in the Risk Sharing Instrument programme of the European Investment Fund (EIF) and the European Commission. Based on this experience, a new agreement was signed with EIF on the use of guarantees in the subsequent programme InnovFin, enabling this successful programme to continue in the future. Another agreement was concluded with respect to the use of a global loan from EIB in the total amount of EUR 100 million, whereby the **aggregate volume of EIB's global loans used by Česká spořitelna has reached the amount of EUR 1.25 billion.** Thus, Česká spořitelna is keeping its leading position on the Czech market in the area of cooperation with these institutions providing financing support in particular to the SME segment.

Successful allocation of financial resources continued in cooperation with EIB through the **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 14% of the provided loan. . By the end of 2015, Česká spořitelna granted such subsidised loans in the total amount of EUR 64 million.

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 185 million.

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 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 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.

In 2015, 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 slight increase of the operating financing, **revival was also reported in the area of investments, corporate acquisitions and export financing**, which was reflected also 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 volume of export of Czech corporations reported a very positive trend, thus increasing the demand for export financing. **In November 2015, Česká spořitelna concluded syndicated customer loan agreements with the Independent State of Papua New Guinea** on the construction of a new diagnostic and surgical centre of the hospital in the town Goroka, in the overall amount of EUR 46.8 million. The loan is insured by EGAP. Česká spořitelna provides financing in this case jointly with Erste Group Bank and its share on the financing is EUR 23.4 million. The exporter is the company VAMED Health Projects CZ s.r.o., a subsidiary of VAMED Engineering GmbH&Co.

The year 2015 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.

Taking into consideration the development of low interest rates and sufficient liquidity in the Czech banking sector, Česká spořitelna responded to the reviving demand for refinancing of the existing debts and re-capitalisation of companies. **Česká spořitelna, as one of the lead arrangers, provided a long-term club loan in the total amount of CZK 9.1 billion, for the purpose of re-capitalising the companies CGN Holdings S.à r.l. and CGN Holdings 2 S.à r.l.** Both these companies are fully controlled by funds managed by Macquarie Infrastructure and Real Assets, and together hold 49.96% of shares in RWE Grid Holding, a.s., the owner and operator of the natural gas distribution network covering 80% of the Czech Republic.

Česká spořitelna initiated the refinancing of the group Stock Spirits, a leading manufacturer of alcoholic beverages in the Central Europe. The aggregate financing reached the amount of EUR 200 million plus accordion in the amount of EUR 100 million. Česká spořitelna subscribed one

third of the aggregate amount and obtained a proportional allocation of EUR million based on the transaction re-subscription. The refinancing was successfully completed at the end of November 2015.

Česká spořitelna, as the mandated lead arranger, **participated in the provision of a long-term syndicated loan in the amount of EUR 500 million to Affidea group**. Affidea is a leading European provider of health care in the area of advanced diagnostic imaging and cancer treatment. The loan was used for refinancing of the group's existing debt and for supporting further expansion of Affidea group.

Česká spořitelna, as the mandated lead arranger, **also participated in the provision of a medium-term syndicated loan in the amount of CZK 12 billion to the company O2 Czech Republic a.s.** O2 is the largest integrated provider of telecommunication services on the Czech market. The loan was used for refinancing of the company's existing debt and for financing of general needs of the company, including the planned redemption of shares.

Česká spořitelna, as an arranger, was one of two banks that provided a club loan in the amount of CZK 2.15 billion for long-term financing of Česká zbrojovka a.s. The new loan in particular provided Česká zbrojovka with a greater flexibility in its financial management. Česká zbrojovka is one of the world leading manufacturers of firearms with customers in almost 90 countries worldwide.

In 2015, 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 Škoda Transportation, Pegas Nonwovens or České dráhy.

Loans provided to corporate clients (in CZK billion, gross value for the bank, excluding mortgage loans)	2011	2012	2013	2014	2015
Portfolio of loans to SME	68.7	75.5	79.4	76.2	77.6
Portfolio of loans to large enterprises	62.4	68.2	70.9	69.0	76.2
Portfolio of loans to large municipal clients	13.8	13.1	12.2	13.1	12.9

Česká spořitelna, a leading innovator in cash management, continued to develop unique solutions. A prime example is @FAKTURA 24. At the end of 2015, more than 310 thousand end clients had the electronic invoicing service **@FAKTURA 24** activated in their Internet banking application for more than 470 thousand contractual bills (electricity, water, gas, insurance, savings, radio fees or newspaper subscriptions). The drivers of the significant year-on-year increase include the bank standard of the electronic invoicing, the possibility to accept also non-payment instruments (e.g. account statements) and automatic activation of the service for selected clients. This method of setting up the service is what brings immediate saving of costs for corporate clients and, at the same time, comfort for the end customers.

In 2015, the service @FAKTURA 24 processed almost 350 thousand transactions. At the end of 2015, the receipt of e-invoices, e-documents, insurance billing notices or subscription notices could be used by the customers of ČEZ, E.ON, RWE, Kooperativa, Pojišťovna České spořitelny, SmVak Ostrava, MAFRA, ČEVAK, Right Power, Český rozhlas and newly also the clients of AXA penzijní společnost, Česká spořitelna – penzijní společnost and Stavební spořitelna České spořitelny. **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 2015 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. The service PLATBA 24 enables end customers to pay in more than 1,800 online stores already. The service **PLATBA 24 was used at least once by 750 thousand of end customers**. In 2015, clients used PLATBAY 24 for executing more than 2.1 million transactions in the total volume of CZK 2.5 billion. The number of payments increased year-on-year by 33%, and their volume increased by as much as 50%.

Service for the Public and Non-profit Sector

Česká spořitelna is one of the stable pillars for clients of the public administration and municipal self-administration segment, as well as budgetary organisations established by them and a wide range of non-profit organisations. In cooperation with its subsidiaries, Česká spořitelna takes care of all

financial needs of its clients. Great emphasis is placed on innovative approach, client satisfaction and simplification of administrative procedures.

In 2015, Česká spořitelna launched a new innovative project “**Smart City - Chytré město**” that covers **support of cities and towns in the preparation and implementation of innovative investments**, for example in the area of ensuring their energy self-reliance, reducing the environmental burden, development of alternative means of transport, communication between the self-administration authorities and citizens, etc. This support included advisory services, procurement of subsidies, financing and the solution implementation on the basis of financial infrastructure and products.

In 2015, Česká spořitelna participated in a crucial manner in the refinancing of the company Pražská plynárenská, a.s. in the amount of CZK 4.1 billion and acted as the leading manager of the issue of corporate bonds of Pražská plynárenská distribuce, a.s. in the amount of CZK 2.5 billion. It provided operational financing to Pražská energetika, a.s. in the amount of CZK 1.5 billion and financing for the statutory city of Liberec in the amount of CZK 0.96 billion in the form of an increase of the note issue programme.

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**. The volume of newly provided loans, in particular for reconstruction and repairs of residential buildings, increased by 7%. The credit exposure risk of Česká spořitelna increased year-on-year by 8%.

In cooperation with the German development bank, KfW Bankengruppen, Česká spořitelna provided loans in 2015 in the amount of almost CZK 150 million for 160 new projects within the scope of a unique programme of Financing Energy Savings in Apartment Blocks (projects with and EU grant of 10% of the provided loans). Since 2014, Česká spořitelna has already provided CZK 1.1 billion for these projects.

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.

Česká spořitelna possesses high-quality analytical and commercial background and infrastructure allowing it to provide 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 customized products, has proven itself by generating a slight increase in transaction volume and assuring customer satisfaction with the services provided despite the tough economic conditions.

The year 2015 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 behaviour 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**.

Česká spořitelna also recorded increased interest in hedging instruments for efficient management of commodity risks, in particular risks associated with oil and oil derivatives where the market has witnessed a considerable volatility once again, after the stagnation trends in 2014.

In the area of online trading, the Bank introduced to its clients a new digital trading platform ERSTE FX. Clients of Česká spořitelna will newly be able to carry out currency conversions online, including electronic confirmations. A part of the platform is the high-quality information module aggregating the most important exchange rate creating news from the markets and providing top-class analytic service of the news portal www.investicniweb.cz.

Debt Securities and Equity Instruments Trading

In 2015, 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 in the services provided by Česká spořitelna. **As the only bank in the Czech Republic, Česká spořitelna introduced a new issue on the market,** namely the issue of Kofola, a.s. The primary subscription of Kofola shares generated financial resources in the amount of CZK 140 million for the company, allowing it to carry out its intentions for further expansion on the domestic and foreign markets.

In 2015, the bond market was characterised by further decline of interest rates throughout the entire yield curve. Strong demand for short-term and medium-term government bonds, in particular from foreign investors, has shifted bond yields to negative values, up to 5-year maturity. **Česká spořitelna was once again one of the most active traders of Czech crown bonds** both on the primary and on the secondary market. In addition to other issues, it acted as the lead manager of the second bond issue of Pegas Nonwovens SA in the volume of CZK 1.1 billion, the domestic bond issue of Škoda Transportation, a.s. in the volume of CZK 2.3 billion, and the domestic bond issue of Pražská plynárenská Distribuce, a.s., a member of the concern of Pražská plynárenská, a.s., in the volume of CZK 2.5 billion. The strong demand for private issues by both foreign and local institutional clients caused that Česká spořitelna closed the year 2015 with a record breaking result in terms of traded bonds in Czech crowns.

Financial Institutions

In 2015 **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 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.** Services provided to these clients emphasised new payment methods in the area of cash management and financial market products, enabling the Bank to focus on additional specialised services, like depositary or custody services and brokerage of dividend and coupon payments.

In the area of correspondence banking, the year 2015 saw a significant increase of Česká spořitelna's 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.** In the area of custody services for banking clients, Česká spořitelna was successful in several difficult tenders, achieving a significant increase in the number of banking clients and in the volume of performed transactions.

Asset Management for Institutional Clients

Česká spořitelna manages almost CZK 120 billion in assets of institutional clients. The volume of managed assets was increasing also in 2015. **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 and health insurance companies. In terms of the number of clients, the dominant segments include foundations, churches, municipalities, or corporate clients. Asset Management provides its services also to clients among 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 of almost 60%.**

The interest component of assets of institutional clients was increasing in price. This was one of the reasons why clients achieved revenues in 2015 in the volume-weighted average of 1.43%, thus

exceeding the strategic allocation represented by relative benchmarks for a vast majority of mandates. The benchmark (index) approach would generate revenue of 0.82% for the Asset Management clients, which means that Česká spořitelna achieved an over-performance of no less than 0.61%. In addition to the basis asset management services, the asset management activities for institutional clients actively focus also on the development in the area of brokering purchases and sales (commissioning services).

Depository

Same as in the preceding years, Česká spořitelna remained in 2015 one of the market leaders in the provision of depository services in the Czech Republic. Despite the continued consolidation of the market of the qualified investor funds, the Bank was successful in acquiring new clients and the **total number of managed funds increased by 11%** to 104. During the same period, the fund assets managed by the depository increased by CZK 19.6 billion to CZK 222.7 billion, which represents a 10% 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 year-on-year growth was reported in 2015 in the asset volume, thanks primarily to the significant increase in the segment of foreign clients investing in the domestic investment instruments.

Settlement Agent and Securities Administration

Česká spořitelna is the most important provider of services related to settlement of dividend and coupon payments on the Czech market. In 2015, the Bank brokered 714 thousand settlements at the total volume of CZK 78 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., Philip Morris ČR a.s. and Bombardier Transportation Czech Republic a.s. and has for several years held leading position as a provider of coupon settlement and calculation agent services for bond issues. In 2015, the Bank has strengthened its advantage against its competitors, having acquired issues of several prominent companies for its portfolio as a settlement and calculation agent, such as Škoda Transportation, a.s., Pražská plynárenská Distribuce, a.s., member of the concern of Pražská plynárenská, a.s., and Pegas Nonwovens SA with the second issue of this company.

EU Office of Česká spořitelna

In 2015, Česká spořitelna successfully extended the activities of its EU Office with corporate banking support. Thus, the **Knowledge Centre** was established that **primarily focuses on monitoring trends in each sector and on preparation of sector-based analyses for clients** and for other departments within the Bank. Most attention was attracted by the sectors of construction, automotive, e-commerce, bakery, winegrowing or construction materials trading.

Many benefits ensued also from the cooperation with the foundation Depositum Bonum in the course of the preparation and subsequent implementation of the 3rd annual conference Czech School of the 21st century that introduced, inter alia, the Innovation Barometer of Erste Corporate Banking monitoring the innovation potential and competitiveness of the EU member states. Some of the other activities of EU Office include its cooperation with the European Commission, the Industry Association or universities. In addition to the EU Information Monthly, the main report of EU Office with a wide reader population focusing mainly on the EU affairs, another periodical – Trendovník (Trends News) – was introduced, mapping the trends and novelties in selected prospective sectors. The number of countries monitored within the scope of the advisory programme Guide to Doing Business Abroad has increased to 21. All the published materials have been successfully redesigned, unifying their appearance.

Distribution Channels

Branch Network

With its 621 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 stable **executive component of the Bank's** multi-channel sales mode **and the importance of its consulting role has been increasing.**

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 of different segments where and when they really need them** and that the Bank achieves maximum operating efficiency. The Bank also uses various geo-analytic tools for selecting correct location for its branches.

Opening of new branches in new locations continued in 2015. Taking into consideration the prevailing lifestyle of clients, 11 branches were relocated to more attractive premises. For operational and economic reasons, the operation of 22 branches was terminated and the clients of these branches were transferred, together with all their accounts and other products, to the nearest commercial points of sale or branches of their choice. Česká spořitelna now operates 37 branches in commercial centres and shopping malls. Weekend opening hours have been introduced at 30 branches, mainly in large shopping malls. The operation of the mobile branch in southern Bohemia continued and in 2015 provided banking services for four municipalities.

26 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, such as Úpice, Plzeň – Lochotín or Náchod. 103 branches are equipped with a self-service zone, accessible for clients also outside the branch's opening hours and allowing executing basic cash and cashless transactions.

Discretion is assured at branches not only through interior design and layout elements (e.g. screens, carpeting, the distance of the separated waiting and consulting areas), but also through background music piped into waiting areas. In 2015, the music system was installed in additional 142 branches, so that in total background music is used by 352 branches in the whole country. Both the clients and advisors appreciate the musical content, as well as the possibility of volume regulation at the branches. **The client satisfaction is further improved by the availability of wi-fi connection at more than 300 branches.**

Since August 2015, the Bank has been testing cashless operation at two pilot branches in Opava and Ostrava. Cash transactions at these branches are only executed through a withdrawal and deposit ATM, advisors only focus on sales and cashless transactions and educating clients in the use of self-service devices.

Direct banking

Direct banking is the most common way in which clients contact Česká spořitelna. More than 95% of financial transactions are conducted through direct banking channels. **In 2015, more than 100 million financial transactions totalling CZK 2.9 trillion were carried out in this manner, representing a year-on-year increase of 4%.**

Numbers of non-cash direct banking transactions (in millions)

SERVIS 24	67.5	67%
BUSINESS 24	12.6	13%
MultiCash	16.8	17%
ATMs and payment machines	3.5	3%

In the course of 2015, SERVIS 24 Internetbanking recorded a sharp increase of the clients' activity, where **the number of regular monthly unique visitors of Internet banking sites increased by 35%**, to 1.2 million per month.

In February 2015, Česká spořitelna launched a new version of its Internet banking SERVIS 24 and BUSINESS 24. The major new feature is the possibility to display PIN code for a given payment card directly in SERVIS 24 and the possibility to send PIN code for a new or substitute card directly into the Internet banking. PIN may only be displayed in SERVIS 24 to the authorised cardholder, based on verification through an authorisation SMS or through a client certificate. PIN cannot be changed in the Internet banking and it can only be displayed for a limited time for security reasons.

At the very end of 2015, Česká spořitelna introduced a new security system of its Internet banking SERVIS 24 and BUSINESS 24, equipped with a new tool capable of better detecting malware codes and identifying fraudulent sites or attempts for stealing the client's identification

credentials. The system is based on the products of the company F5. The new system, in combination with other security elements of the Internet banking, efficiently supplements the range of security measures used to protect the clients' data and money.

Since March 2015, the users of SERVIS 24 Mobile Bank can use a number of new features. Through the application, they can newly block or unblock their card or order a substitute card. **The possibility of blocking a payment card through a mobile phone was one of the priority requests of clients.** Based on the strong demand, the Bank has also launched the mobile application Investment Centre for users of mobile phones with Android operation system. This application enables free of charge access to up-to-date information relating to investment markets, as published at www.investicnicentrum.cz. The number of users of SERVIS 24 Mobile Bank increased in 2015 by 48%, to nearly 230 thousand.

SERVIS 24 Mobile Bank was successful in the survey Mobile Application of the Year 2015, where it **ranked third** in the client services category and **the best one among banking applications**. The quality of the application was evaluated, in addition to expert jury, also directly by the users. Thus, SERVIS 24 Mobile Bank has defended its ranking from the preceding year.

The Internet banking BUSINESS 24 provides services to corporations, towns and municipalities and other legal entities. **At the end of 2015, the Bank registered more than 20 thousand of activated clients of BUSINESS 24 service**, representing a year-on-year increase by 6%. The users of BUSINESS 24 were also able to use certain new features introduced by the Bank on the basis of their requests. For example, bulk payment templates, foreign payments SEPA, new features of Trade Finance and a number of other improvements, raising great satisfaction among clients. In order to improve the quality of BUSINESS 24 Internet banking support, a remote support service Team Viewer was launched.

As a part of the development of new digital applications, the application Můj Stav (My Status) was launched at the beginning of 2015 that displays balances and provides information of all the client's products in a quick, simple and secure manner. The application Můj Stav thus supplements the purely transactional application SERVIS 24 Mobile Bank. Another application introduced at the end of the year is the donation application Melinda. **Through Melinda, people can conveniently send their contributions generated by means of rounding the card payment amounts to various charitable projects** and non-profit organisations. Each client has full control over their contributions and the application allows for viewing how even small contributions can help.

In 2015, Česká spořitelna started to develop a new, modern, open infrastructure enabling the implementation of new business models. At the same time, a new Internet banking service George was introduced in pilot mode.

At the end of 2015, the number of active users of the direct banking services SERVIS 24 and BUSINESS 24 reached 1.66 million. 95% of users use Internet banking, one half has telephone banking activated, 14% of users can access their account through Mobile Bank and 3% of users can access their account through GSM banking.

	2011	2012	2013	2014	2015
Number of active clients of SERVIS 24 and BUSINESS 24 (thousands)	1,410	1,476	1,591	1,629	1,661

Note: clients using more channels are counted only once

In October 2015, Česká spořitelna was the first bank on the Czech market to launch its barrier-free websites www.bankabezbarier.cz. Česká spořitelna provides its handicapped clients with a number of specialised services, but these services had not been always easy to find on the Bank's websites. This was why Česká spořitelna created a special website where all the information can be found at one place and is easy to search. In the course of the website preparation, Česká spořitelna cooperated with Konto Bariéry that assisted with carrying out a survey in which respondents tested the services and their accessibility. The Bank also obtained important information by means of consultations with the organisations SONS (United Organisation of the Sightless and Weak-Eyed) and POV (Prague Wheelchair Users Organisation). The new websites are divided by various handicaps. There are specialised sections dedicated to physically handicapped, hearing handicapped or vision handicapped. The entire website is adjusted for readers; information for the hearing handicapped is interpreted in 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.**

Increasing and improving the qualification of employees who work in direct contact with the clients directly affects the clients' satisfaction level. 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 tuitions, 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.**

In 2015, the Bank carried out an analysis of the talent development management and set up a process of talent review, including the succession process linked to the performance management. Talent programmes targeted on experts, women in managerial positions and successors in the position of business team leaders were very successful. In cooperation with the branch network development team, the concept of management development was set up.

The application AMOS was used for the development of a tool for managing the adaptation process of new employees of the branch network. The adaptation, including the return of the mentoring concept, was significantly modified on the basis of the feedback received from the branch network and the management. A new concept for adaptation at the position of the business team leader was also developed and launched. The employees' satisfaction with their adaptation is measured, evaluated and continuously adjusted. Great response was received with respect to some other development tools widely used in the course of 2015, such as the conduct of workshops focused on the improvement of communication efficiency and team work (so-called social mapping), or on the management of development centres and consultations.

Česká spořitelna implements the Diversitas programme designed to support equal opportunities and work/life balance 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 Čáp (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, discuss legal issues, take advantage of personal consulting and attend various workshops. The Bank has also concluded partnerships with several kindergartens. Parents on maternal or parental leave can also newly take advantages of e-learning projects.

Within the scope of the Project Gender – Equal Opportunities, Česká spořitelna implemented a development programme SATORI for talented women. The Programme includes mainly mentoring, training, workshops and development activities associated with the establishment of relations among people, mutual exchange of information and maintenance of personal contacts, the so-called networking. **The community of successful women in senior positions**, so-called LLL (Ladies Leaders Library), **functions in the form of biographic electronic library and in the form of inspiring and networking meetings.** Česká spořitelna has become one of the four founding organisations of the initiative Exchange Meeting 4U operating under the auspices of the organisation Minerva 21, the goal of which is to interconnect women, diversity ambassadors, across various firms. The Bank is also the main partner of the mentoring programme for women Equilibrium. The development of talented women is supported by Česká spořitelna through a number of other

outsourced development programmes. **These initiatives also contributed to the fact that Česká spořitelna received the award of Equal Opportunities Firm of the Year 2015.**

Within the scope of the project Transition Without Barriers, Česká spořitelna offers the possibility of providing work and ergonomic aids for employees with disabilities, such as ergonomic keyboards or special chairs. A development programme Pět statečných (Magnificent Five) for employees with disabilities was carried out in the Bank, including also a development and professional internship. **Within the scope of this project, Česká spořitelna is continuously seeking to spread information on employing people with disabilities.**

Within the scope of the project Wise Owl, regular meetings of employees of the age group 50+ are held on a regular basis, with the main goal of developing the English language skills and the networking at work. The Bank also continues with the reverse mentoring, focused on the inter-generation dialogue between the groups of its employees older than 50 years and those younger than 30 years, with the aim of sharing the knowledge, skills and experience between these two generations.

Within the scope of the project Flexible Office, the Bank continues to promote flexible forms of work, such as in particular home office, shared jobs, part-time employment or flexible hours of work. The conditions of all these flexible forms of employment are available to all employees in the form of a methodology that clearly sets out the rules for their utilisation.

Česká spořitelna also focuses on searching and addressing new talents. It prepared 33 recruitment events for potential employees, including in particular job fairs at universities, domestic and international events organised in cooperation with various student organisations, Days with Česká spořitelna or workshops for students, focusing on searching job opportunities and compilation of profession profiles. In cooperation with secondary schools in Pardubice, the Bank prepared a new programme named My Potential. The programme interconnected managers of Česká spořitelna with high school students who together attended workshops focused on personal and professional development. The Bank actively addressed potential employees also through regional marketing campaigns and communication on social networks. All the aforementioned activities were carried out within the framework of the newly developed strategy defining the concept of Česká spořitelna brand as a demanded employer.

In the area of remuneration, Česká spořitelna extended and strengthened its system of employee benefits, implemented to a large extent through the cafeteria. Among other things, the nominal value of meal vouchers was increased and the possibility was introduced to transfer the meal vouchers to electronic form, the contribution to supplementary pension insurance or life insurance was increased, a benefit was introduced supporting language training and some of the product benefits were adjusted on a parametric basis.

The average staff headcount remained substantially stable, with a slight increase by less than 1% to 10,536. 74% of all employees are women, 10% of employees work part-time. The Bank has successfully integrated 135 mothers after their return from parental leave. The average length of employment dropped to 10.1 years and the average employee age rose to 39.9 years. Employees older than 50 years represent 17% of the population of Česká spořitelna.

Average staff headcount	2011	2012	2013	2014	2015
Staff headcount of the ČS* Financial Group	10,556	10,760	10,651	10,471	10,536
Staff headcount of Česká spořitelna*	9,485	9,640	9,550	9,405	9,492

* 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 complaint 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 where it cannot be unambiguously ascertained whether or not the Bank has committed a fault. 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 2015, the average submission resolution period by the ombudsman team reached 10.5 days and client satisfaction with complaint resolution remained at the same level as in 2014, i.e. 76%.

In 2015 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. 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 implements its strategic goals through projects. Strategic projects are aimed at increasing client satisfaction and achieving compliance with applicable regulatory and statutory requirements.

Most of customer-oriented projects respond to industry trends associated with the development of new digital technologies and products for clients. In 2015, Česká spořitelna brought its clients new reliable innovative services in the area of Internet and mobile banking, in the area of mortgage loan sale and others. Česká spořitelna also works with Erste Group Bank on group projects. Their common goal is sharing of capacities and maximising the utilisation of the commercial potential on central European markets. Many tens of projects are implemented by Česká spořitelna each year.

The future of banking consulting is associated with the unique service Moje zdravé finance (MZF) – My Healthy Finances that brings Česká spořitelna back to its original mission, i.e. help the clients. In June 2015, a pilot project of MZF was launched at selected branches. In the course of 2016,

MZF will gradually spread into the entire branch network and additional “healthy” products and services will be added into this ecosystem, such as Peníze na Klik (Click for Your Money) as a quick loan or the MZF Application allowing transparent and structured overview of the client’s income and expenses.

In 2015, Česká spořitelna started to develop a new, modern, open infrastructure enabling a more flexible implementation of new business models. As a part of this activity, a new Internet banking service George was introduced in pilot mode.

At the beginning of 2015, the application Můj Stav (My Status) was launched that provides information on the used products in a simple manner. The clients appreciate easy activation of this application, its simple security system and quick access to up-to-date information. Another application is the donation application **Melinda** that **allows for regular contributions generated from rounding up the card payments**, intended for clients who decide to make regular contributions to charitable purposes.

One of the goals of retail banking was the increase of the volume of non-secured loans. One of the significant changes was the automatic offer of consolidation where the very first results after its launch indicated sharp increase of the sales. The loan academy contributed to the extension of the advisors’ powers and competences. A number of other less significant changes followed, such as for example the simplification of the sales process or updating of the training environment.

In September 2015, a new service of prepaid card **Biip** was introduced on the market, providing parents and their children a smart solution for pocket money. At the same time, it represents an attractive tool for developing financial literacy of children and youth and assisting them in economic handling of their money. The service has the form of an **anonymous pre-paid card and a mobile application with many features**.

In 2015, Česká spořitelna extended its services in the field of exchange rates so as to be able to offer more favourable exchange rates for certain transactions also to its e-banking clients. In the field of direct marketing, the implementation of new features and a new system improved the possibilities of personified addressing of clients, as well as the creation, implementation and evaluation of the campaigns carried out.

In the course of 2015, the Bank went through evolution in the field of collaterals thanks to the launch of the Collateral Management system (COLMAN). Since April, COLMAN has been successfully operating in the segment of corporate banking and since October also in the retail banking segment and SME. Thanks to COLMAN, we know the precise collateral status of each loan and, more importantly, their development in time.

In the field of credit risk management, the Bank adopted a number of various measures in 2015 aimed at improving the control mechanisms, hedging management, data quality, detection of money laundering, rating models, etc.

After setting up the processes for registration of foreign clients for the purposes of the FATCA regulations, a new reporting to the state administration authorities was introduced in the form of regular reports on accounts kept by US taxpayers. The information is sent once a year through the Czech tax administration to the US tax authority IRS.

In connection with the new regulations of the European Banking Authority (EBA) and the Czech National Bank, new reporting requirements have been implemented in the field of credit risks. These were reflected in the amendments of definitions of events of default and in the monitoring various statuses of loan forbearance. In addition to the implementation of monitoring of new statuses in the relevant IT systems, the changes were also reflected in the applicable regulations and in the compilation of regulatory reports and data extracts by the parent Erste Group Bank. Since October 2015, this solution has also been implemented in selected subsidiaries.

In 2015, the Bank succeeded in doubling the number of processed external requests within a single Operations queue to more than two thousand requests per day. This has brought a significant improvement in quality, efficiency, speed and automation of the provided services. Among other

aspects, the cooperation between different sites within Operations has also been improved in terms of capacity sharing or mutual assistance and support.

The security system of SERVIS 24 Internetbanking and BUSINESS 24 Internetbanking has been supplemented with a tool enabling better detection of malware and identification of fraudulent sites or attempts for stealing the client's identification credentials. The system is based on the products of the company F5 and is used by the entire group of Erste Group Bank.

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 selected companies from the Czech Republic and from the Central and Eastern Europe, as well as strategic analysis of equity developments on the main markets. 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 tasks in the area of security information systems and technologies and investigation of operational risks, with a special focus 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.

Within the framework of its security policy, Česká spořitelna cooperates with the other members of the financial group and with other entities of the entire group of Erste Group Bank.

The trend of extremely low numbers of external violent crimes and robbery attacks continued in 2015. The bounty obtained by robbers in 2015 did not reach its record low, but it did not deviate in any manner from the long-term average. It is positive that the trend of high robbery detection rate continues. **Compared to preceding years, the number of attacks on ATMs slightly decreased in 2015**, and the robbers did not obtain any bounty in any of the attacks. This is what the Bank perceives as the best preventive tool against this type of criminal activities. In general, it can be said that the results of Česká spořitelna in the field of physical security are exceptionally good compared to the rest of the Czech banking sector.

In the field of security information systems and technologies, the rise in cyber-attacks with banking-specific Trojan horses and phishing continued in 2015. For this reason, the Bank supplemented the system of securing the services SERVIS 24 Internetbanking and BUSINESS 24 Internetbanking with a tool enabling better detection of malware and identification of fraudulent sites or attempts for stealing the client's identification credentials. The new system, in combination with other security elements of the Internet banking service, efficiently supplements the range of security measures contributing to the protection of the clients' data and money. Also, the Bank paid much attention to information campaigns targeting clients and internal users.

Česká spořitelna commenced works on the implementation of the General Measure defining selected systems of the Bank as the elements of critical infrastructure of the financial markets of the Czech Republic in the sense of the Cyber Security Act. The Act is subject to the supervision by the National Security Authority with which the Bank closely cooperates.

The Bank also handles client complaints concerning violations of bank secrecy. In this respect, the Bank also aims at prevention. Through security monitoring, the Bank monitors screenshots of the employees with the use of pre-defined scripts. Attention is paid also to prevention in the area of the Internet use during work hours, with a focus of specific selected objectionable sites the visiting of which might be contrary to the Employee Code of Ethics. An integral part of preventive activities is the

employee training in the field of management psychology, personal security and practical security. In the area of investigation of phishing attacks to the client accounts, the Bank investigates these attempts and also carries out educational and preventive activities aimed at the clients to help them to be able to defend themselves against such attacks.

In the field of safety and health protection at work and fire prevention, Česká spořitelna is working, in addition to standard compliance with applicable legal regulations, on continuous improvements of its safety, health protection and fire prevention management system. The adequacy of this approach is evidenced by 57 successfully passed inspections by specialised national inspection authorities.

Business continuity management activities and crisis management constitute an integral part of operation risk management. Individual tools used focus on the collection, analysis and evaluation of information regarding stability of business processes and support activities. Cooperation in this area is interlinked across the entire group of Erste Group Bank, and involves also competent regulatory authorities in order to be able to adopt preventive measures or adequately respond to potential synergy effects of any negative factors that may be detected outside the environment of Česká spořitelna. **The Bank also continuously improves the resistance of selected elements included in the critical infrastructure system and critical information infrastructure of the state.**

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 2015, 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.