

2014 FOR ČSOB: HIGHER MORTGAGE VOLUMES, GROWTH IN CORPORATE/SME SEGMENT

- **Loan portfolio grew to CZK 480 billion (+9% Y/Y)**
- **Deposits grew to CZK 585 billion (+5% Y/Y)**
- **Operating income increased by one percent Y/Y to CZK 31.4 billion**
- **Operating expenses reached CZK 15.0 billion (+1% Y/Y)**
- **Net profit came in at CZK 13.6 billion, flat Y/Y**
- **ČSOB was named the Bank of the Year 2014 and the Private Bank of the Year 2014** in the Czech Republic
- **ČSOB Private Banking was awarded by magazine Euromoney as the Best Private Bank of the year 2015** in the Czech Republic

In 2014 ČSOB Group grew in all core segments. Despite the market saturation **ČSOB managed to increase volumes, while keeping high quality of the loan portfolio.** At the end of the 2014, ČSOB had historical lowest non performing loan ratio. The most dynamic were mortgages and corporate/SME segment.

"The year 2014 was successful for us from various perspectives. From business perspective we continued to grow in loans and deposits volumes, also thanks to innovations and new products, which we introduced to our clients in 2014 and which are in some cases unique on the Czech market. We also didn't forget society and communities and we further supported various areas. In 2015 we want to continue in delivering excellent business results in main areas while further enhancing client offer and creating client-centric integrated model," commented John Hollows, Chief executive officer of ČSOB.

"Strong growth of customer business across all segments has helped us grow net interest income despite low interest rate environment. Our net fee and commission income has also grown on the back of elevated demand for investments, card transactions and bank-insurance," commented Jiří Vévoda, Chief Financial Officer, and further added: "Our low credit costs reflect our prudent and responsible underwriting standards."



The ČSOB group is the leading player in the Czech financial services industry. The ČSOB group is a part of the international bancassurance KBC group which is active in Belgium and the CEE region. In retail banking in the Czech Republic, ČSOB is operating under main recognized brands – ČSOB, Era and Poštovní spořitelna (Postal Savings Bank – PSB). ČSOB provides its services to all groups of clients, i.e. retail as well as SME, corporate and institutional clients. The ČSOB group's product portfolio includes financing housing needs (mortgages and building savings loans), insurance products, pension funds, collective investment products and asset management and specialized services (leasing and factoring). The ČSOB group is a good listener, who offers a suitable solutions, rather than mere products.

The loan portfolio (excl. ČMSS) grew across key segments and reached CZK 480bn, which means 9% Y/Y growth. Main growth areas were mortgages (+8% Y/Y), corporate loans (+12% Y/Y) and leasing (+17% Y/Y). **Group deposits** (excl. ČMSS, Pension Fund and repo operations) grew to CZK 585bn (+5% Y/Y).

Credit cost ratio decreased to 18 bps (Ytd. annualized) from 25 bps, due to increase of regular recoveries, while historical recoveries as well as new creation on outstanding loan portfolio remain stable.

Continuous growth in business volumes, volumes of card transactions and sale of investment products and higher operating expenses resulted in stable **ČSOB group's FY2014 net profit** of **CZK 13.6bn**.

The ČSOB group's **total capital ratio** (Basel III) stood at 17.5% and the (Core) Tier 1 ratio (Basel III) at 17.2% as of 31 December 2014. The **loan / deposit ratio** stood at 76.4% and the net stable funding ratio at 135.9% as of 31 December 2014.

P&L Review

Despite low interest rate environment, **the operating income** increased by 1% Y/Y to CZK 31.4bn, as a combination of higher net interest income and net fee and commission income. **Net interest income increased by 1% Y/Y**. Adjusted for deconsolidation of Transformed Pension Fund (TPF), NII would increase by 3% Y/Y. The growth was supported by growing loan volumes in all segments. The **net fee and commission income** increased by 7% Y/Y. Adjusted for deconsolidation of TPF, NFCI would increase by 4% Y/Y. The main growth drivers were higher fees in retail segment (fund management fees and card fees driven by higher volumes of transactions) and in corporate segment (mainly loan fees driven by higher volumes).

Operating expenses grew by 1% Y/Y to CZK 15.0bn as both general administrative expenses and staff expenses were slightly higher driven mainly by ICT expenses and additional staff to support business. **General administrative expenses** increased by 1% Y/Y mainly due to higher ICT expenses linked to client focused solutions and higher deposit insurance premium partly compensated by targeted savings in postage. **Staff expenses** increased slightly by 2% Y/Y, driven by annual wage adjustments and additional staff to support client business (e.g. Call center, Bank-Insurance, SME, Credits or Operations).

The **impairments on loans and receivables** declined to CZK 927m (-23% Y/Y). The **credit cost ratio** decreased Y/Y to non-sustainable 18bps (Ytd. annualized).



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Balance Sheet Review

Loan portfolio (excl. ČMSS) maintained strong growth across key segments and reached CZK 480bn at the end of 2014 mainly thanks to mortgages, corporate/SME loans and leasing.

Rebounding real estate prices and interest rates at new historical record lows helped ČSOB to **increase outstanding mortgage volumes**. In 2014 mortgages increased by 8% to CZK 214.8bn. In 2014 ČSOB provided more than 23 thousand new mortgages in the total amount of CZK 42bn and strengthened its leading market position in new sales. Portfolio of **building savings loans** remained flat Y/Y at CZK 67.1bn, while the market declined 4% Y/Y. In **consumer finance**, ČSOB achieved moderate growth on stagnating market and the outstanding volume reached CZK 19.3bn. Cash loans with interest rate discount applicable in the second half of the repayment period and redesigned approach in sale of refinancing and loan consolidation helped to improve new sales.

SME loans (which include municipalities and housing cooperatives) growth accelerated, driven in-line with ČSOB group's strategy by mid-sized and micro companies while keeping credit risk under control. At the same time, ČSOB was able to keep stable loan volume for housing cooperatives and thus confirmed its leading market position in this area. The outstanding volume in 2014 reached CZK 77.8bn (+6% Y/Y). **ČSOB Leasing** confirmed its market leading position with strong volumes growth. Outstanding volumes increased by 17% Y/Y to CZK 27.4bn, driven mainly by machinery & equipment, heavy transportation financing. **Corporate loans** increased 12% Y/Y to CZK 136.6bn driven by both plain vanilla and specialized financing and thus significantly exceeded the market. The major Y/Y loan growth has been recorded in telecommunications, energy and retail sectors. Outstanding volumes in **factoring** decreased by 1% Y/Y to CZK 4.0bn, due to lower demand before the year end.

Group deposits (excl. ČMSS, Pension Fund and repo operations) grew to CZK 585bn, the Y/Y growth was visible in both retail and corporate/SME area.

Within the total **client deposits**, current accounts reported the highest Y/Y growth, by 10%, savings deposits grew by 3% Y/Y. The volumes of **building savings deposits** remained flat Y/Y at CZK 83.1bn, as the uncertainty regarding state allowances legislation has been removed during 2014. Thus the declining trend of the last two years has stopped. The 14% Y/Y increase of the **pension fund** to 36.9bn was driven by a good performance, improved retention and increased average monthly contribution.

The ČSOB group is keeping its number 1 position in the funds market. **Asset under management (AUM)** increased by 13% Y/Y to CZK 134.8bn, of which structured/capital protected and other mutual funds improved in total by 23% Y/Y fully driven by the latter as the very low interest rates on savings accounts and bullish equity markets stimulate clients to seek other investment opportunities. There were solid new sales of mutual funds in 4Q 2014, thanks to a good performance in maturing funds.



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Risk Management Review

The **Tier 1** ratio (Basel III) reached 17.2% as of 31 December 2014, compared to 15.6% (Basel II) as of 31 December 2013, mainly thanks to 2013 net profit retention of CZK 6.2bn, increased regulatory requirements and prudent capital deployment.

Liquidity remained ample; the loan / deposit ratio stood at 76.4% as of 31 December 2014 compare to 75.9% as of 31 December 2013.

Non-performing loans decreased to 4.1% of gross loans as of 31 December 2014. The **credit cost ratio** (CCR) for 4Q 2014 decreased to 0.18% compared to 0.25% for 4Q 2013.

Please find more details on the ČSOB group's financial results in the current presentation at: <http://www.csob.cz/en/csob/Investor-relations/Stranky/Financial-and-business-results.aspx>

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Consolidated P&L (EU IFRS)

(CZK m)	FY 2013	FY 2014	Y/Y
Operating income	31,202	31,443	+1%
Net interest income	22,651	22,872	+1%
Net fee and commission income	5,608	5,979	+7%
Operating expenses	-14,808	-14,981	+1%
Impairment losses	-1,294	-975	-25%
Profit for the period (owners of the parent)	13,658	13,604	0%



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