



Press Release

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## Česká spořitelna's Consolidated Net Profit for H1 2016 Up by 12.5%, to CZK 8.2 bn. Strong Growth in Loans further Accelerated

In the first half 2016, **Česká spořitelna** reported **unaudited consolidated net profit** of **CZK 8.2 bn**, according to International Financial Reporting Standards (IFRS). In the same period last year, net profit amounted to CZK 7.3 bn. This means **an increase by 12.5% in a year-on-year comparison**. **Volume of gross loans** increased **by 7.7%** within the last 12 months, in absolute terms by CZK 40.5 bn. Total assets crossed the CZK one trillion threshold for the first time ever.

"We are very satisfied with our financial as well as business results. We are extremely pleased by the growth of loans in all key segments, which shows that Czech economy is in good shape and households and corporations trust in its good performance. The main drivers of this growth were above all **new mortgages in a volume exceeding CZK 25 bn, the highest first half-year ever**. The good result was also aided by the excellent quality of the loan portfolio, which required a lower year-on-year creation of provisions," said **Tomáš Salomon**, Chairman of Česká spořitelna's Board of Directors. "We are also proud of new products that primarily our clients appreciate – whether it be paper-free or online loan options or the simple mobile application **Friends 24** for payments among friends without having to know the account number," adds **Tomáš Salomon**.

New loan product of Česká spořitelna called **Money on Click** is a reserve always ready for online withdrawal. And **Paper-free Loan** can be obtained completely online, no need to sign any printed documentation. **Money on Click** is for our clients, **Paper-free loan** can be used by non-clients as well. Clients also appreciate that they can be **forgiven up to 12 instalments** if they repay their cash loan properly. **Mortgages**, as the main engine among loan products, are offered by the bank with interest rates starting at 1.79% p.a., with a five- and eight-year interest rate fixation and a free property valuation. An excellent market innovation is the mobile application Friends 24, with which clients can send small amounts without knowing the payee's account number, via SMS, e-mail, or messengers. A WiFi is available at all branches as a standard.

### MAIN INDICATORS

In H1 2016, **Česká spořitelna further accelerated the growth of its loans to customers**. Confidence among households and corporations in the development of the Czech economy and growth of real wages was reflected in rising long-term household consumption and growth in industrial production, which boosts demand for loans. **The gross volume of customer loans was up by 7.7% in a year-on-year comparison**. **Česká spořitelna also successfully improved the quality of loan portfolio**, which was positively reflected in net profit. The growth in net profit was also supported by one-off items, mainly by income from the sale of equity stake in Visa Europe (CZK 1.4 bn pre-tax).

In spite of the overall excellent half-year results, the **operating result** was down compared to last year's first half, by 6.1% to **CZK 10.2 bn**. The most significant factors contributing to its decline were the continued **reduction in net fee and commission income, a drop in the net trading result**, which was exceptionally high in H1 2015 due to the one-off impact of a change in the derivative evaluation methodology, and also **decreasing income from real estate lease, reflecting reduction of real estate SPVs**. For those reasons, the **cost/income ratio** was slightly up, at 46.3% from 45.6%.

Interest rates have held at their all-time lows for an extended period; nevertheless, the increasing volume of loans, decreasing interest expenses on issued debt securities and saving products are counterbalancing the impact of low interest rates. **Net interest income** amounted to **CZK 12.8 bn**, which is 1.2% less in a year-on-year comparison. **Net interest margin** related to interest-bearing assets decreased to **3.18%** from 3.34%.

**Net fee and commission income** noted a reduction by 9.2% to **CZK 4.6 bn**, having been negatively influenced by EU regulation concerning card payment fees. The drop was also caused by decreasing income from financial services, as clients increasingly use cheaper forms of service and advantageously priced programmes and products. On the other hand, income from fees for investment products was up, in particular for asset management and custodial services.

**Net trading and fair value result was down by 13.8%, to CZK 1.2 bn**. The drop was influenced by a one-off change in derivative valuation methodology adopted in H1 2015. Net of that influence, the item would have grown by 35.2%, due to higher income from trading and from FX transactions.

In a year-on-year comparison, **total operating expenses** were **down by 3.3%, to CZK 8.8 bn**. Of greatest impact was the drop in the contribution to the Deposit Guarantee Scheme, due to a change in the calculation method implied by the regulator. Česká spořitelna also successfully reduced costs on office space and material consumption due to strict cost management. Up were marketing costs and costs of information technologies, in connection with the continued digitisation of the bank and regulatory compliance.

**Net impairment loss on financial assets not measured at fair value through profit or loss** (i.e., creation of on balance risk provisions for loans and advances) amounted to **CZK 0.7 bn, which means an improvement by 50.0%** as compared to the same period last year. This good result was due to the continuously improving quality of the loan portfolio.

**Net gains from financial assets not measured at fair value** include the above-mentioned **one-off income from the sale of equity stake in Visa Europe**, amounting to CZK 1.4 bn pre-tax. Česká spořitelna exercised an option for their sale.

**Total consolidated assets** crossed the one-trillion threshold for the first time in Česká spořitelna's history, and amounted to CZK 1,037.3 bn. Compared to last year's half-year results, **they were up by 12.3%**. In a year-on-year comparison, there was a change in the structure of assets, **with the volume of loans to customers** and deposits with the Czech National Bank being up. The volume of financial assets held for trading was down. On the liability side of the balance sheet, **deposits from customers, interbank deposits, and the volume of equity** were up. The amount of own securities in issue was down.

**Equity attributable to shareholders** amounted to CZK 114.0 bn, which means an increase by 10.6%. The volume of equity was up due to an increase of retained profit and an AT1 hybrid capital issue amounting to EUR 300 m in December 2015. Group capital adequacy Tier1+2 ratio reached strong 19.6% as of 30 June 2016.

The gross volume of Group's customer loan portfolio increased by 7.7% year-on-year to CZK 569.0 bn, with balanced growth coming from retail as well as corporate segment. In retail segment the gross loan portfolio (parent bank only) amounted to CZK 310.9 bn which is an increase by 6.9% year-on-year, mainly underpinned by double-digit growth in private mortgages and slight increase in cash loans. In corporate area, gross loans grew by 6.3% year-on-year driven by robust growth of loans to large corporate clients.

Group deposits from customers amounted to CZK 763.1 bn, and grew by 10.5% compared to the same period last year. Group retail deposits increased by 6.0%, to CZK 553.0 bn. Mainly deposits in Personal and Saving accounts are growing. Corporate deposits were up by 30.4%, to CZK 138.3 bn. Public sector deposits increased by 14.9% to CZK 71.7 bn.

As at 30 June 2016, the total number of clients of ČS Group was 4.74 m. The number of activated direct-banking clients using SERVIS 24 and BUSINESS 24 amounted to 1.71 m which is an increase by 4.5% year-on-year. The overall number of active payment cards issued reached 3.02 m, of which credit cards represent 0.24 m. The volume of card transactions executed at retail outlets with Česká spořitelna's cards in H1 2016 was up by 10.9% compared to the same period of 2015, to CZK 64.3 bn. The number of Česká spořitelna ATMs and transaction terminals increased by 30, to 1,595 units.

FINANCIAL DATA		H1 2015	H1 2016	Year-on-Year Change
<b>Income statement (CZK m)</b>	Net interest income	12,933	12,774	-1.2%
	Net fee and commission income	5,115	4,646	-9.2%
	Net trading and fair value result	1,435	1,237	-13.8%
	Rental income, dividends and other income	458	315	-31.2%
	<b>Operating income</b>	<b>19,941</b>	<b>18,972</b>	<b>-4.9%</b>
	<b>Operating expenses</b>	<b>-9,084</b>	<b>-8,782</b>	<b>-3.3%</b>
	<b>Operating result</b>	<b>10,857</b>	<b>10,190</b>	<b>-6.1%</b>
	Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	143	1,423	>100%
	Net impairment loss on FA not measured at FV through P/L	-1,390	-695	-50.0%
	Other operating result	-577	-543	-5.9%
	Taxes on income	-1,713	-2,136	24.7%
	Post-tax result from continuing operations	7,320	8,239	12.6 %
	Net profit attributable to non-controlling interests	-1	1	-
	<b>Net profit attributable to owners of the parent</b>	<b>7,321</b>	<b>8,238</b>	<b>12.5%</b>
<b>Balance sheet (CZK m)</b>	Loans and receivables to customers (gross)	528,486	569,016	7.7%
	Deposits from customers	690,455	763,077	10.5 %
	Equity attributable to owners of the parent	103,118	114,044	10.6 %
<b>Ratios</b>	Return on equity (ROE)	13.3 %	13.5 %	0.2 pp
	Cost/income	45.6 %	46.3 %	0.7 pp
	Loan to deposit ratio	74.0 %	72.5 %	-1.5 pp
	Capital adequacy – Tier1+2 ratio	19.2 %	19.6 %	0.4 pp

For more details, please see [www.csas.cz](http://www.csas.cz).

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