



Press Release

Prague, 4 November 2016

Česká spořitelna's Consolidated Net Profit for The First Three Quarters 2016 Up by 7.1%, to CZK 11.9 bn. Loan Growth Acceleration Continues.

In the first three quarters of 2016, **Česká spořitelna** reported **unaudited consolidated net profit** of **CZK 11.9 bn**, according to International Financial Reporting Standards (IFRS). In the same period last year, net profit amounted to CZK 11.1 bn. This means **an increase by 7.1% in a year-on-year comparison**. **The gross volume of client loans** has increased by **8.2%** in the last 12 months, which in absolute figures means an increase by CZK 44.3 bn.

"I see the profit achieved as a success under the current market conditions, with low interest rates and significant regulatory pressure. Credit portfolio quality particularly contributed to these good results, while more effective processes have helped us maintain the decreasing trend in our operating expenses," **Tomáš Salomon**, the Chairman of the Board of Directors of Česká spořitelna stated. "I am also pleased with our trading outcome. We have achieved an **all-time high volume of new mortgages**, exceeding CZK 40 billion. With **the My Healthy Finance** service, we are helping clients improve their budget savings to better meet their needs. Clients keen on digital technologies are increasingly subscribing to our online services, reducing the need to visit a branch. Sales of **Paperless Loans** are developing well and people are also opting to refinance their mortgages online," **Tomáš Salomon** added.

In the last three quarters, Česká spořitelna presented several attractive offers, such as a transparent credit card with a simple interest rate calculation, cash loans with the possibility of a waiver of up to 15 instalments, and hence a saving of up to CZK 68,000; and a new offer of a ten-year fixed interest rate on mortgages, with interest rates starting at 1.79%. In terms of the simplification of processes, of note is a biometric signature, which increases security for the benefit of the client, but also saves time, because no documents need to be printed. Clients have already signed more than 1.1 million documents in this manner.

MAIN INDICATORS

Česká spořitelna is continuing to increase the growth in loan transactions, taking advantage of the economic situation in the Czech Republic. **Increasing household consumption, growth in real wages, and growth in industrial production** reflect the growing confidence of households and corporations in the development of the Czech economy. **The gross volume of client loans was up by 8.2%** in a year-on-year comparison. **The continuously improving quality of our loan portfolio** has a positive effect on net profit. The growth in profit was also supported by one-off items, mainly by income from the sale of equity stake in Visa Europe, amounting to CZK 1.4 bn before tax.

In spite of the overall excellent results, as compared to the same period last year, the **operating result was down by 6.1%**, to **CZK 15.2 bn**. The decrease in operating result was due to multiple factors. The most significant were the continued **reduction in net fee and commission income, a drop in the net trading result**, which was exceptionally

high last year due to the one-off impact of a change in the derivative valuation methodology, and also decreasing rental income, related to the reduction of real estate investments. For those reasons, the **Cost/Income Ratio** rose slightly, to 46.5% from 45.7%.

The prevailing low interest rates throughout Europe and competitive pressure have been causing a further drop in interest margins. The **net interest margin** related to interest-bearing assets therefore **decreased to 3.15%** from 3.33%. **Net interest income** amounted to **CZK 19.2 bn**, which is **1.3% less** in a year-on-year comparison. Pressure from low interest rates and declining yields of fixed income securities were partially mitigated by faster growing loan portfolio and by repricing of deposits.

Net fee and commission income noted a reduction **by 8.4%** in a year-on-year comparison, to **CZK 6.9 bn**. A major influence contributing to the decrease of fee income has been EU regulation concerning card payment fees. The decline 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.**

Net trading and fair value result was **down by 13.8%** in a year-on-year comparison, **to CZK 1.9 bn**. The reduction was influenced by a one-off change in derivative valuation methodology adopted last year. The bank has partially offset the decline by increasing income from FX transactions and securities trading.

Compared to the same period last year, **total operating expenses** were **down by 3.0%, to CZK 13.2 bn**. Česká spořitelna has been successfully reducing its administrative expenditures due to strategic cost management. Of greatest impact, however, was the drop in the contribution to the Deposit Guarantee Scheme, due to a change in the calculation method by the ČNB. Also down was depreciation of tangible and intangible assets. Personnel expenditures were slightly up.

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

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 1.1 bn, which means an improvement by 43.5% year-on-year. This good result was in part due to the **improving quality of the loan portfolio** and successful collection of previously written-off receivables.

Total assets have crossed the one-trillion threshold and amount to **CZK 1,085.8 bn**. Compared to last year's third quarter, it was **up by 13.2%**. In a year-on-year comparison, there was a change in the structure of assets, with the volume of loans to customers, deposits with the ČNB, and financial assets held for trading being up. On the liability side of the balance sheet, deposits from customers, deposits from banks, the volume of financial liabilities held for trading and the volume of equity were up. The amount of debt securities issued was down.

Equity attributable to owners of the parent amounted to **CZK 118.2 bn**, which means an **increase by 9.8%**. 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. Tier 1+2 capital adequacy for the Česká spořitelna Group as at 30 September 2016 amounted to 19.4%.

In 2016, **Česká spořitelna** (Group) successfully **accelerated the growth of loans**, equally so in the retail and the corporate segments. **The gross volume of the client loan portfolio increased by 8.2% year-on-year, to CZK 586.0 bn.** The gross portfolio of **retail loans (ČS only)** amounted to **CZK 319.5 bn**, which means a year-on-year **growth of 7.6%**, primarily thanks to double-digit growth in private mortgages. **Growth in large corporate loans** drove an overall increase of the **volume of wholesale (=Corporate and Group Markets) loans by 11.0%**.

Group deposits from customers amounted to **CZK 772.3 bn**, and **grew by 9.4%** compared to the same period last year. **Retail deposits increased by 6.7%, to CZK 560.9 bn.** Mainly deposits in Personal and Saving accounts are growing. **Group corporate deposits were up by 18.3%, to CZK 138.4 bn**, the reason was placing their over-liquidity with ČS. Public sector deposits increased by 14.6%, to CZK 73.0 bn.

As at 30 September 2016, the **total number of clients of ČS Group** was **4.71 m**. The number of activated direct-banking clients using **SERVIS 24** and **BUSINESS 24** amounted to **1.72 m** which is an **increase by 4.7%** year-on-year. The overall number of **active payment cards** issued reached **2.98 m**, of which credit cards represent 0.23 m. The **volume of card transactions** executed at retail outlets with Česká spořitelna's cards in the first three quarters 2016 was up by 11.0% compared to the same period of 2015, to **CZK 99.1 bn**. **The number of Česká spořitelna ATMs and transaction terminals** increased by 31, to **1,598 units**.

FINANCIAL DATA		Q1-3 2015	Q1-3 2016	Year-on-Year Change
Income statement (CZK m)	Net interest income	19,429	19,186	-1.3%
	Net fee and commission income	7,529	6,898	-8.4%
	Net trading and fair value result	2,239	1,929	-13.8%
	Rental income, dividends and other income	648	440	-32.1%
	Operating income	29,845	28,453	-4.7%
	Operating expenses	-13,635	-13,232	-3.0%
	Operating result	16,210	15,221	-6.1%
	Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	322	1,423	>100%
	Net impairment loss on FA not measured at FV through P/L	-1,883	-1,063	-43.5%
	Other operating result	-880	-599	-31.9%
	Taxes on income	-2,634	-3,057	16.1%
	Post-tax result from continuing operations	11,135	11,925	7.1%
	Net profit attributable to non-controlling interests	0	1	-
	Net profit attributable to owners of the parent	11,135	11,924	7.1%
Balance sheet (CZK m)	Loans and receivables to customers (gross)	541,613	585,955	8.2%
	Deposits from customers	706,124	772,283	9.4%
	Equity attributable to owners of the parent	107,666	118,240	9.8%
Ratios	Return on equity (ROE)	13.7%	13.2%	-0.5 pp
	Cost/income	45.7%	46.5%	0.8 pp
	Loan to deposit ratio	74.2%	73.9%	-0.3 pp
	Capital adequacy – Tier1+2 ratio	18.8%	19.4%	0.6 pp

For more details, please see www.csas.cz.

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