

## Consolidated net profit increased by 8.1% to CZK 15.5 bn, supported by one off gains.

As of 31 December 2016, **Česká spořitelna** reported **unaudited consolidated net profit** of **CZK 15.5 bn**, according to International Financial Reporting Standards (IFRS). Net profit for 2015 amounted to CZK 14.3 bn. This means **an increase by 8.1% in a year-on-year comparison**. **The gross volume of client loans** grew by **8.0%** in the last 12 months, which in absolute figures means an increase by CZK 44.2 bn. Česká spořitelna outperformed the whole market in both retail and corporate segments.

**“We consider last year to have been an undeniable success. Our financial results are excellent, in spite of the persisting low interest rate environment and increasing regulatory pressure. Great thanks are owed above all to all our employees, for the tremendous effort and care they devote to our clients. Our good results were supported by the improving quality of our loan portfolio, but also by lower administrative expenses,”** said Tomáš Salomon, Chairman of Česká spořitelna’s Board of Directors. **“Last year, we did very well in mortgage sales – we provided 28,000 mortgages to our clients, worth more than CZK 57 bn. Aside from addressing their housing needs, we also helped our clients save significant amounts in their family budgets, with the My Healthy Finance service. For those who love digital solutions, we have improved our services, such that they can deal with an increasing number of matters from the comfort of their home, or even while on the road – the personal account, the Paper-free Loan, or mortgage refinancing,”** added Tomáš Salomon.

Česká spořitelna introduced several attractive offers last year: a transparent credit card with simple interest rate calculation, cash loans with the possibility of a waiver of up to 15 instalments, and an advantageous ten-year fixed interest rate on mortgages. In autumn, it deployed the My Healthy Finance service throughout its branch network; in April, it introduced biometric signatures, which not only increase security but also save clients time – clients have already signed more than two million documents using this method. The bank did not forget about its corporate clients, either. With its Easy Loan, small and medium-sized enterprises can get an operating loan within two days, and draw down money from it within five days. The new Smart City service package supports municipalities in investing into smart solutions, such as cashless public transit payments or intelligent public lighting.

### MAIN INDICATORS

**The successful year 2016 is evident particularly in the volume of net profit and significant growth in loans.**

**Growth in household consumption, increased real wages, and expanding industrial production** demonstrated the favourable economic climate in the Czech Republic combined with household and corporate confidence in the continued development of the Czech economy. **The gross volume of client loans increased** year-on-year **by 8.0 %**.

An **improving loan portfolio quality** and decreasing administrative expenses also positively influenced net profit, as well as income from the sale of equity stake in Visa Europe amounting to CZK 1.4 bn pre-tax.

Despite the excellent results, **operating result decreased by 5.1%** compared to 2015 to CZK 20.1 bn. Several factors influence the extent of operating profit. Adverse factors included the continued **deterioration of the net fee and commission income and decreased rental income** caused by the reduction of real estate investments. A significant reduction in administrative expenses was one of the favourable factors. For the reasons listed above, the **Cost/Income Ratio** increased to 47.5% from 46.8%.

The long-term, low level of interest rates across Europe and competitive pressure continue to drive down interest margins. **The net interest margin on interest-bearing assets** declined to 3.12% from 3.31%. The continued decline in interest rates was not outweighed even by the growing volume of client loans. Income from debt securities is also decreasing as bonds with higher yields gradually mature and are replaced by current bonds with lower yields. **The net interest income** reached **CZK 25.5 bn**, which is a year-on-year **decrease by 1.4 %**. Nonetheless, the significant increase in loans, changed structure of the Česká spořitelna balance sheet and repricing of deposits partially outweigh the impact of low interest rates.

**Net fee and commission income** decreased year-on-year **by 9.2% to CZK 9.3 bn**. EU regulation imposed on commissions from card transactions was one of the significant factors driving down fee income. Reduced income from financial services also caused decline as clients increasingly adopt cheaper forms of services, special programs, and products. Alternatively, **fee income from investment products increased, especially from asset management**.

**Net trading and fair value result increased** year-on-year **by 1.1% to CZK 2.9 bn**. Česká spořitelna successfully outweighed the year-on-year negative one-off impact of the change in methodology adopted in 2015 for valuation of derivatives by increasing its profit from foreign currency transactions and trading in securities.

Compared to 2015, **total operating expenses were reduced by 2.4% to CZK 18.1 bn**. Česká spořitelna is successfully using strategic cost management to reduce its administrative expenses, such as office and business premises costs. However, the biggest impact can be attributed to reduced contributions to the Deposit Insurance Fund resulting from the amended calculation procedure prescribed by ČNB. Depreciation of tangible and intangible assets is also decreasing. Personnel expenses increased especially due to creation of restructuring provision (for a reorganization of the Bank's redundant activities), regular increase in wages and full year impact of updated fringe benefits.

**Net gains from financial assets not measured at fair value** include the one-off income from the sale of equity stake in Visa Europe, amounting to CZK 1.4 bn pre-tax.

**Net impairment loss on financial assets not measured at fair value through profit or loss** (i.e. creation on balance risk provisions for loans and advances) reached **CZK 1.9 bn, which is an improvement of 28.1%** compared to the same period last year. This good result is partly due to the **growing quality of the loan portfolio**.

**The consolidated balance sheet**, exceeding one trillion, is **CZK 1,066.5 bn**. This means an increase **by 11.1%** compared to 2015. The year-on-year comparison was influenced by the changed asset structure, increased volume of customer loans, deposits kept at ČNB, and financial assets held to maturity. Customer and interbank deposits increased on the liability side. The volume of issued debt securities was reduced.

**Equity attributable to owners of the parent** amounted to **CZK 121.6 bn**, which means an **increase by 1.3%**.

The volume of equity was up due to an increase of retained profit. Total capital ratio for the Česká spořitelna Group as at 31 December 2016 amounted to 20.1%.

In 2016, **Česká spořitelna** (Group) successfully **accelerated the growth of loans** in both, the retail and the corporate segments. The **gross volume of the client loan portfolio increased by 8.0% year-on-year, to CZK 593.0 bn**. **Retail loans (gross, ČS only)** amounted to **CZK 318.0 bn**, which means a year-on-year **growth of 5.2%** (excl. impact of resegmentation 8.2%), primarily thanks to double-digit growth in private mortgages. Higher sales of cash loans reversed declining trend in consumer loans which rose by 1.1%. **Growth in large corporate loans** drove an overall increase of the **volume of wholesale (=Corporate and Group Markets) loans by 12.8%** (excl. impact of resegmentation 8.4%),

**Group deposits from customers** amounted to **CZK 788.9 bn**, and **grew by 10.5%** compared to the end of 2015. **Retail deposits increased by 9.1%, to CZK 579.9 bn**. Mainly deposits in Personal accounts are growing. **Group corporate deposits were up by 15.2%, to CZK 151.7 bn**, the reason was placing their over-liquidity with ČS.

Public sector deposits increased by 13.3%, to CZK 57.4 bn.

As at 31 December 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 **1.74 m** which is an **increase by 4.7%** year-on-year. The overall number of **active payment cards** issued reached **2.95 m**, of which credit cards represent 0.21 m. The **volume of card transactions** executed at retail outlets with Česká spořitelna's cards in 2016 was up by 12.2% compared to the same period of 2015, to **CZK 139.3 bn**. **The number of Česká spořitelna ATMs and transaction terminals** increased by 53, to **1,642 units**.

FINANCIAL DATA		FY 2015	FY 2016	Year-on-Year Change
<b>Income statement</b> (CZK m)	Net interest income	25,864	25,512	-1.4%
	Net fee and commission income	10,254	9,308	-9.2%
	Net trading and fair value result	2,823	2,853	1.1%
	Rental income, dividends and other income	802	554	-30.9%
	<b>Operating income</b>	<b>39,743</b>	<b>38,227</b>	<b>-3.8%</b>
	<b>Operating expenses</b>	<b>-18,586</b>	<b>-18,146</b>	<b>-2.4%</b>
	<b>Operating result</b>	<b>21,157</b>	<b>20,081</b>	<b>-5.1%</b>
	Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	449	1,421	>100%
	Net impairment loss on FA not measured at FV through P/L	-2,648	-1,905	-28.1%
	Other operating result	-1,018	-672	-34.0%
	Taxes on income	-3,645	-3,470	-4.8%
	Post-tax result from continuing operations	14,295	15,455	8.1%
	Net profit attributable to non-controlling interests	2	-2	-
	<b>Net profit attributable to owners of the parent</b>	<b>14,293</b>	<b>15,457</b>	<b>8.1%</b>
<b>Balance sheet</b> (CZK m)	Loans and receivables to customers (gross)	548,836	592,992	8.0%
	Deposits from customers	713,836	788,873	10.5%
	Equity attributable to owners of the parent	119,986	121,564	1.3%
<b>Ratios</b>	Return on equity (ROE)	13.0%	12.9%	0.1 pp
	Cost/income	46.8%	47.5%	0.7 pp
	Loan to deposit ratio	74.6%	73.2%	-1.4 pp
	Total capital ratio	21.3%	20.1%	-1.2 pp

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

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