

# Česká spořitelna – H1 2020 consolidated results (unaudited, IFRS)

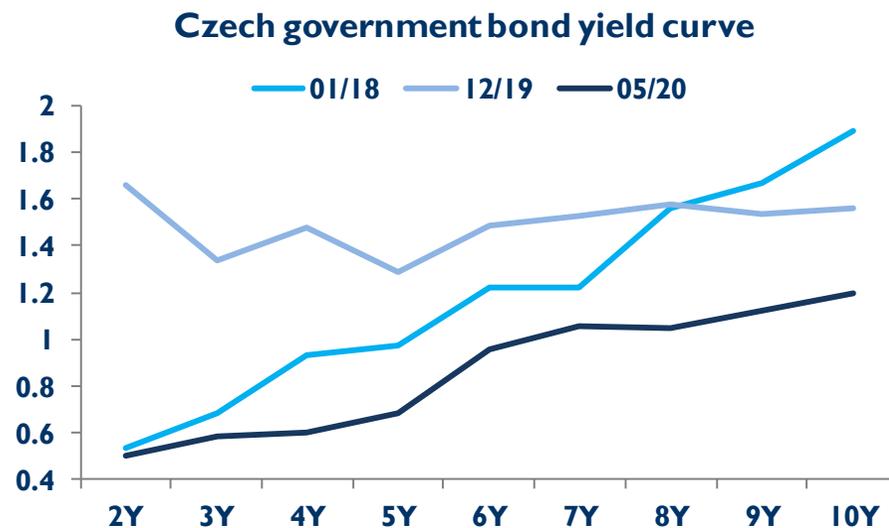
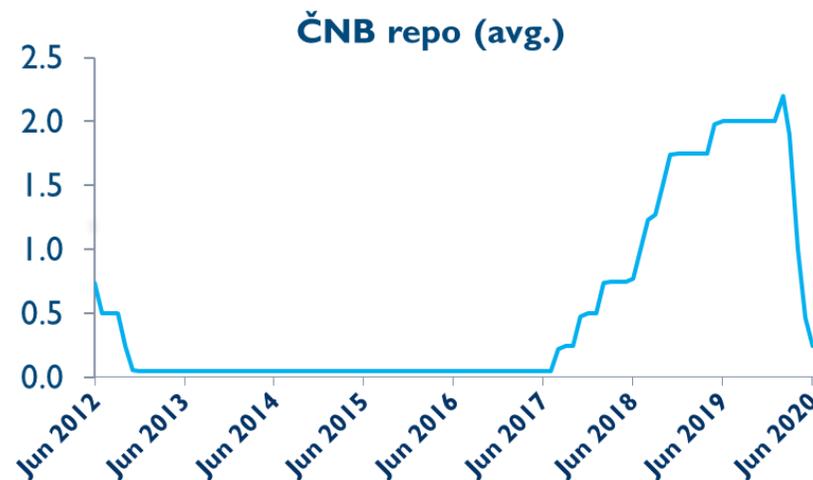
31<sup>st</sup> July 2020

**Amid COVID-19 crisis financial impact visible in H1 results,  
excellent capital and liquidity position maintained**

# Czech economy

## Recession in 2020

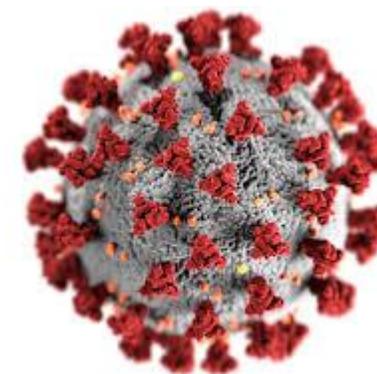
- The Czech economy is going through recession. **ČS** expects GDP to reach **-7.0%** this year, mainly due to the considerable slump in investments and net exports
- In June, the ČNB kept interest rates unchanged, mainly due to the stronger May cut and gradual recovery of both the Czech and world economy
- After the outbreak of the crisis, **EUR/CZK** weakened significantly towards 28.0 level, due to considerable capital outflow and expected monetary policy loosening. Recently, koruna has slightly corrected towards 26.7, as it was supported by slightly improved sentiment
- **Headline inflation** came in at **3.3%** in June 2020. It unexpectedly accelerated compared with May (2.9%) due to higher prices of alcohol and tobacco
- The situation in the **labour market** is expected to worsen gradually, as the fiscal support will mitigate rise in unemployment in Q2 2020
- Due to the cuts in ČNB rates and negative sentiment in markets, the **yield curve** moved downwards



# COVID-19 – Outlook

## Macroeconomic recovery expected to continue

- The crisis will hit the Czech economy significantly; however, the recovery should be the “V-shaped”. ČS expects GDP growth to arrive at -7.0% and 4.5% in 2020 and 2021, respectively
- Macroeconomic uncertainty has increased considerably. For example, prolonged period of restrictive measures or slower GDP recovery in the Euro Area would imply lower GDP growth in Czechia for both years. With this respect, lower economic activity in the Eurozone would negatively affect pro-cyclical sectors in the Czech economy (e.g. automotive)
- Unemployment rate was the lowest among the EU countries before the crisis (2%). During H1 2020, ČS expects it could increase only slightly, due to fiscal supportive measures. However, it should increase in H2 2020 and H1 2021 closer to 5%
- If the economic recovery starts in the Q2/Q3 turn, the spillover of the crisis into inflation should not be so significant. In this respect, ČS expects the average inflation to arrive at 2.9% and 1.9% in 2020 and 2021, respectively



Note: Further information about fiscal, monetary and Česká spořitelna's measures on slides [36-37](#)

## Executive summary – Solid liquidity and capital position

### Net profit

Net profit decreased by 47.1% y/y to CZK 4.6 bn

### Operating result

Operating result declined by 10.1% y/y (or CZK 1.1 bn), impact of COVID-19 crisis was mitigated by resilient business model supported by persistent growth of loans and deposits

- Operating income was down by 4.2% y/y due to decrease in net fee and commission income (-10.6%) and net trading result (-46.8%)
- Operating expenses were higher by 2.7% in H1 2020, caused mainly by rising personnel expenses
- Cost/income ratio grew by 3.3pp y/y to 49.0%

### Capital ratio & Capital

Total capital ratio improved by substantial 4.7pp y/y to 25.3%, Tier 1 ratio increased to 24.9%, well above minimum regulatory capital requirements

### Liquidity

Loan/deposit ratio at 66.6%, driven by substantial inflow of deposits

# Executive summary – Continuous loan growth, asset quality strong

## Lending

Group customer loans (gross) excluding reverse repo operations increased by 4.6%\* y/y (or by CZK 33.8 bn) as at 30<sup>th</sup> June 2020, driven mainly by private mortgages

- Private mortgages loans outstanding grew by 8.9% y/y (or by CZK 23.7 bn)
- Loans to commercial real estate up by 12.0%, partly affected by FX fluctuations
- Consumer loans increased by 3.8% compared to June 2019
- Loans to MSEs (commercial loans) rose by 4.6% y/y

## Asset quality

Impairment result from financial instruments (creation of CZK 3.6 bn on and off-balance) driven by expected credit losses as a consequence of further economic deterioration

- Share of NPLs at stable 1.9% (1.8% in June 2019)
- NPL coverage at sufficient 112%

## Investments

Assets in domestic and foreign mutual funds up by 6.9% y/y (q/q development +7.7% affected by recovery on financial markets). Assets in pension funds of ČSPS rose by 10.3% y/y

# Financing the COVID-19 recovery

## Retail banking

Česká spořitelna realized **40,274 instalment postponements** on the basis of a legislative act (**under the state moratorium**) and **42,598 instalment postponements** were individual (**out of the state moratorium**). Overall, the postponed instalments were worth CZK 2.8 bn

## Corporate banking

The loan portfolio of the entire corporate sector rose by 0.6%, thank in part to the revaluation of EUR assets, due to the strengthening of the EUR exchange rate to the CZK. Česká spořitelna made it possible for companies to postpone instalments and to draw loans in the COVID programmes (bank loans with the guarantee from the Czech-Moravian Guarantee and Development Bank) designed to help companies overcome the adverse impact of coronavirus measures on their business

Česká spořitelna realized **2,910 instalment postponements** on the basis of a legislative act (**under the state moratorium**) and **2,296 instalment postponements** were individual (**out of the state moratorium**)

Within **COVID II programme**, Česká spořitelna approved 856 loan requests worth CZK 3.18 bn. Out of this, 739 requests worth CZK 2.56 bn have been realized

Within **COVID Praha programme**, Česká spořitelna approved 89 loan requests worth CZK 473 million. Out of this, 78 requests worth CZK 388 million have been realized

Within **COVID III programme**, Česká spořitelna approved 200 loan requests worth CZK 633 million. Out of this, 151 requests worth CZK 354 million have been realized

*Note: Figures as at mid-July 2020*

# Other business

## Digitization

During the coronavirus crisis, some 100,000 clients who had, until that time, preferred cash transactions, started to take advantage of the possibility of making card payments. Those clients had accounted for a third of the total number of Spořitelna's purely cash-based customers. The share of cashless payments in all payments made by Spořitelna's clients was roughly 40% at the end of H1 2020

## Branches

The sharp increase in cashless payments and steady growth in advisory services, which today account for some 90% of all client interactions at Spořitelna's branches, has accelerated the transition of some branches to a cashless mode, creating yet more room for advisory services. The number of cashless branches has tripled over the first half of this year. While there were merely about four dozens of cashless branches early in 2020, more than one third of all branches were transformed to cashless by the end of H1

## Loans & Mortgages

Despite the pandemic, the first half of 2020 was successful in terms of mortgage lending at Česká spořitelna. Spořitelna remains one of the largest players on the mortgage market, with a current market share around 27%. With all mortgages, the Bank is newly offering its clients the service of Arranging the Filing of a Pledge Registration Request at the Land Register, which saves clients a trip to the Land Register



# Česká spořitelna's digital world

## George

The use of George mobile banking also increased during the coronavirus crisis, and, on average, people have started using it every day

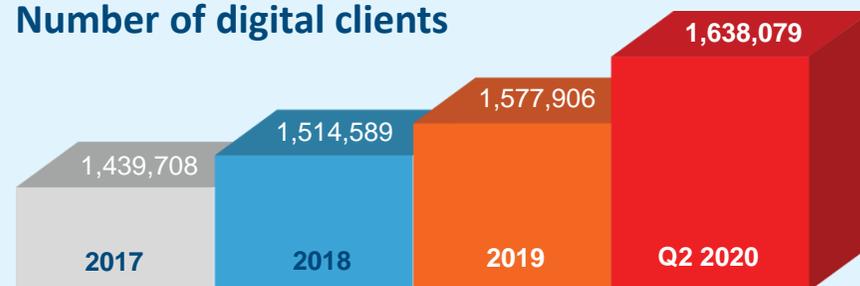
Spořitelna continued to improve its application and to expand its functionalities. In H1, clients were given the option to enter the most frequent requests with respect to mortgages through George – a mortgage draw-down request, request for an adjustment in the instalment amount, change in property insurance, extraordinary payment, or change in the number of the account from which the mortgage is being paid

Since February, George has made it possible to invest in more than 80 mutual funds online. In stage one, George will enable active online transactions involving mutual funds. At the next stage, it will support active transactions with bonds and equities

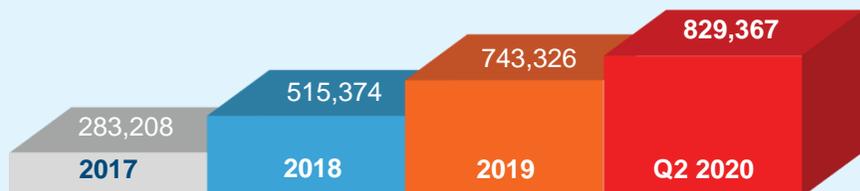
Another innovation presented by George in H1 was supplementary pension savings that clients can arrange via their Internet banking. Clients can also adapt their new pension savings through George (changes in monthly contributions, changes in authorised and designated persons)



## Number of digital clients



## Number of mobile digital clients



## Volume of payments made via mobile application George (in CZK bn)



# Presentation topics

## ➤ Česká spořitelna

- Financial performance

## ➤ Macroeconomic developments

- Economic trends in details

## ➤ Banking market

- Czech banking market developments
- Česká spořitelna market shares

## ➤ Appendix

# Income statement (CZK m)

	I-6 19	I-6 20	Change	Change
Net interest income	14,657	14,688	0.2%	31
Net fee and commission income	4,450	3,977	-10.6%	-473
Dividend income	48	9	-81.3%	-39
Net trading result	1,492	793	-46.8%	-699
Gains/losses from financial instruments measured at FV through profit or loss	55	391	>100.0%	336
Rental and other income	151	110	-27.2%	-41
General administrative expenses	-9,534	-9,793	2.7%	-259
Gains/losses from derecognition of financial instruments not measured at FV through profit or loss	8	0	-	-8
Impairment result from financial instruments	199	-3,577	-	-3,776
Other operating result	-680	-803	-18.1%	-123
Pre-tax result from continuing operations	10,846	5,795	-46.6%	-5,051
Taxes on income	-2,136	-1,189	-44.3%	947
Net result attributable to non-controlling interests	10	1	-90.0%	-9
<b>Net result attributable to owners of the parent</b>	<b>8,700</b>	<b>4,605</b>	<b>-47.1%</b>	<b>-4,095</b>
Operating income	20,853	19,968	-4.2%	-885
Operating expenses	-9,534	-9,793	2.7%	-259
<b>Operating result</b>	<b>11,319</b>	<b>10,175</b>	<b>-10.1%</b>	<b>-1,144</b>
Cost/Income ratio	45.7%	49.0%		
Return on equity*	14.4%	6.5%		

\* Since FY 2019 change in the methodology of ROE calculation. AT1 deducted from equity; previous values restated

## Balance sheet – Assets (CZK m)

Assets	Dec 19	Jun 20	Change	Change
Cash and cash balances	40,526	54,606	34.7%	14,080
Financial assets held for trading	9,705	13,670	40.9%	3,965
Non-trading financial assets at FV through profit or loss	3,531	3,315	-6.1%	-216
thereof Loans and advances to banks	645	203	-68.5%	-442
thereof Loans and advances to customers	795	837	5.3%	42
Financial assets at FV through other comprehensive income	21,166	21,596	2.0%	430
Financial assets at amortised cost	1,351,296	1,538,939	13.9%	187,643
Debt securities	218,907	254,608	16.3%	35,701
Loans and advances to banks	411,650	528,053	28.3%	116,403
Loans and advances to customers	720,739	756,278	4.9%	35,539
Finance lease receivables	1,875	1,651	-11.9%	-224
Hedge accounting derivatives	980	4,229	>100%	3,249
Property, equipment and right-of-use assets	12,543	11,922	-5.0%	-621
Investment property	2,282	2,282	0.0%	0
Intangible assets	5,801	5,671	-2.2%	-130
Trade and other receivables	5,797	5,720	-1.3%	-77
Other assets	3,148	3,724	18.3%	576
<b>Total assets</b>	<b>1,458,650</b>	<b>1,667,325</b>	<b>14.3%</b>	<b>208,675</b>

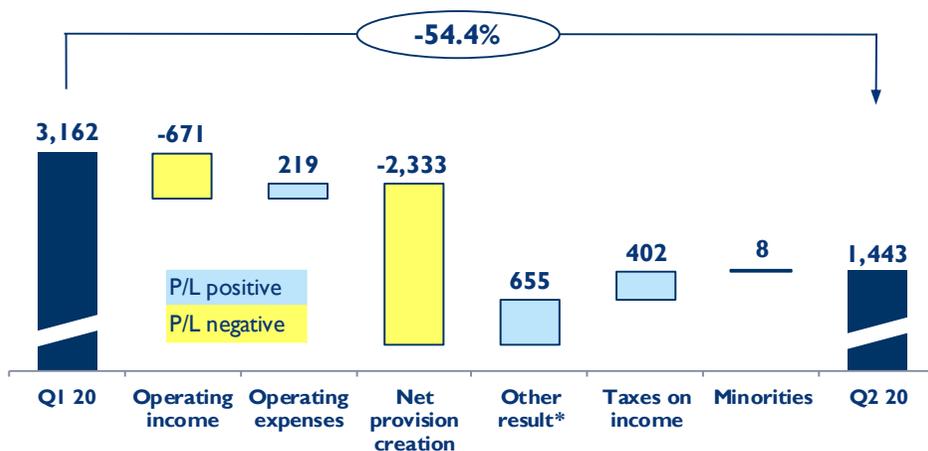
## Balance sheet – Liabilities (CZK m)

Liabilities and equity	Dec 19	Jun 20	Change	Change
Financial liabilities held for trading	9,794	14,135	44.3%	4,341
Financial liabilities at fair value through profit or loss	3,557	4,657	30.9%	1,100
Deposits from customers	3,557	4,657	30.9%	1,100
Financial liabilities at amortised cost	1,294,989	1,489,040	15.0%	194,051
Deposits from banks	292,111	337,120	15.4%	45,009
Deposits from customers	993,257	1,140,628	14.8%	147,371
Debt securities issued	5,634	6,067	7.7%	433
Other financial liabilities	3,987	5,225	31.1%	1,238
Lease liabilities	3,187	3,027	-5.0%	-160
Hedge accounting derivatives	2,180	264	-87.9%	-1,916
Provisions	2,697	2,870	6.4%	173
Other liabilities	4,907	7,199	46.7%	2,292
<b>Total equity</b>	<b>137,339</b>	<b>146,133</b>	<b>6.4%</b>	<b>8,794</b>
Equity attributable to non-controlling interests	210	210	0.0%	0
Equity attributable to owners of the parent	137,129	145,923	6.4%	8,794
<b>Total liabilities and equity</b>	<b>1,458,650</b>	<b>1,667,325</b>	<b>14.3%</b>	<b>208,675</b>

# Financial performance – Executive summary

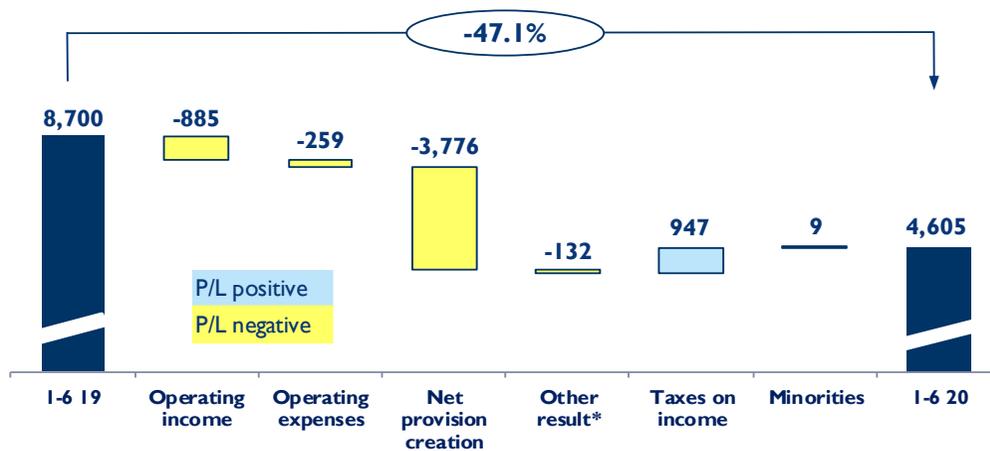
## Net profit reached CZK 4.6 bn

Q/Q net profit reconciliation (CZK m)



- Operating income decreased by 6.5% attributed to lower net interest income (-11.3% q/q) and net fee and commission income (-11.3% q/q) affected by impact of COVID-19, partially offset by net trading result and gains from financial instruments measured at FVTPL
- Creation of risk provision driven by expected credit losses as a consequence of further economic deterioration and several corporate defaults due to COVID-19 impact
- Q/Q improvement in operating expenses due to payment to Deposit Insurance Fund in Q1 2020 (CZK 0.3 bn)
- Other result q/q development caused by booking of contribution for 2020 to Recovery and Resolution Fund in Q1 2020 (CZK 0.8 bn)

Y/Y net profit reconciliation (CZK m)



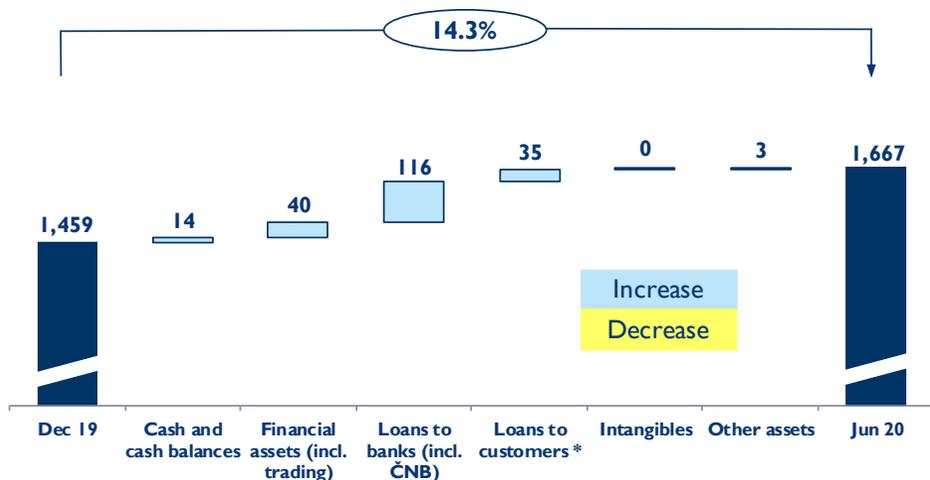
- Operating income went down by 4.2% due to decrease in net fee and commission income (-10.6%) and net trading result (-46.8%) in Q1 2020. Y/Y development of net trading result was affected by decline of FX business and negative valuation effects
- Operating expenses rose by 2.7% impacted by increase in personnel expenses and rise of depreciation and amortisation
- Development of risk provision driven by expected credit losses as a consequence of further economic deterioration and several corporate defaults due to COVID-19 impact
- Slight decline of other result\* attributed to higher contribution to Recovery and Resolution Fund in Q1 2020

\* Includes Gains/losses from derecognition of financial instruments not measured at FV through profit or loss and Other operating result

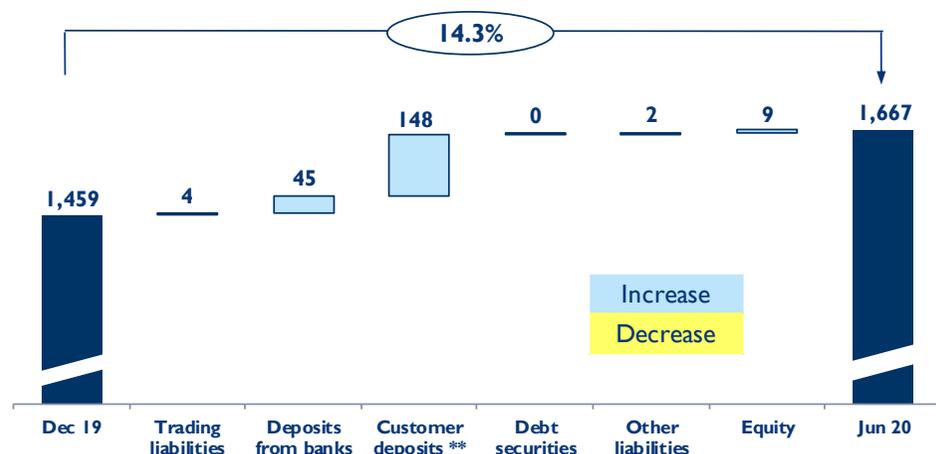
# Financial performance – Executive summary

## Balance sheet rose by 14.3% in H1 2020

YTD total asset reconciliation (CZK bn)



YTD total liability reconciliation (CZK bn)



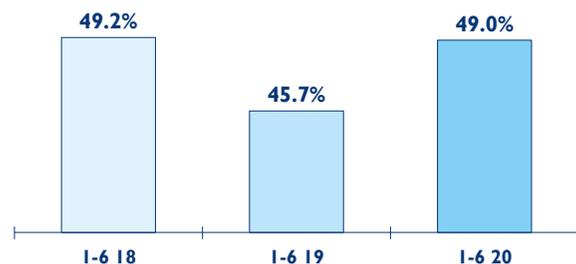
- The assets development driven by growth of all items, mainly loans to banks
- Net customer loans\* increased by 4.8% in H1 2020
- Loans to banks supported by reverse repo operations with ČNB increased by 28.1% (or CZK 116 bn)

- The main driver of growth on liability side of B/S was customer deposits
- Group customer deposits increased by 14.8% in H1 2020
  - Deposits in ČS bank grew by 16.2%, driven by deposits from private individuals (+8.0%); deposits from public sector went up significantly due to short term repo operations; corporate deposits declined by 3.0%
- Deposits from banks (credit institutions) rose by 15.4% (or CZK 45.0 bn) in H1 2020

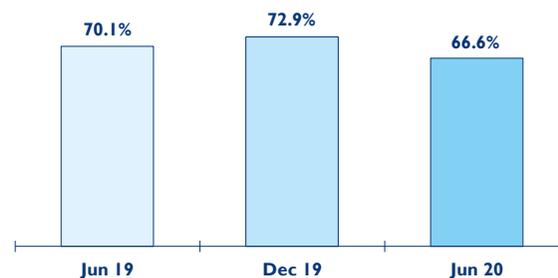
# Financial performance – Executive summary

## Excellent capital position

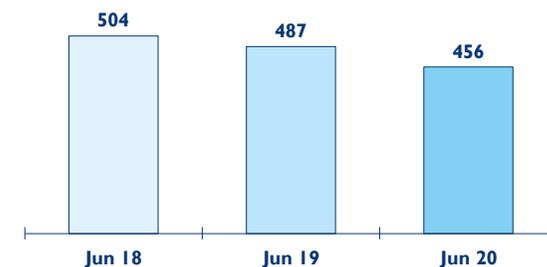
Cost/income ratio



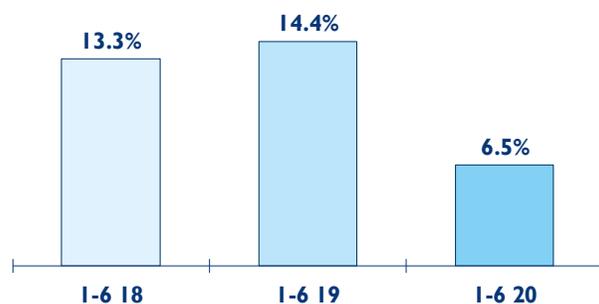
Loan\*/deposit\*\* ratio



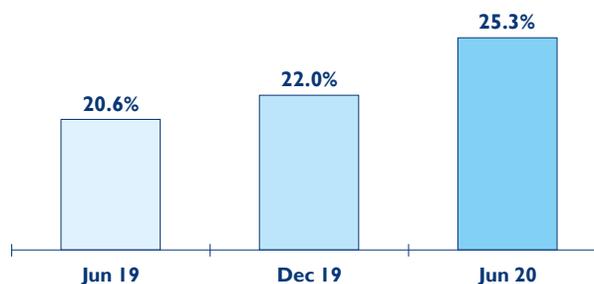
Number of branches



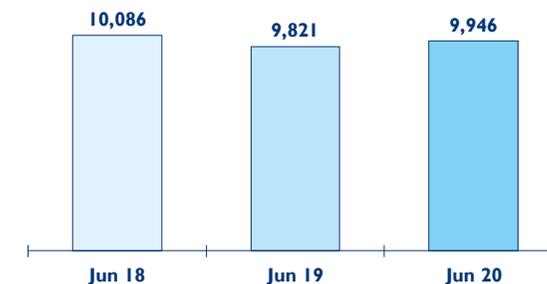
ROE\*\*\*



Total capital ratio



Number of employees (eop)



\* Includes loans and advances at amortised cost, loans and advances at FV through profit or loss, finance lease receivables and trade and other receivables

\*\* Includes deposits from customers at amortised cost, deposits from customers at FV through profit or loss and lease liabilities to customers

\*\*\* Since 2019 change in the methodology of ROE calculation. AT1 deducted from equity; previous values restated

## Net interest income – Stable development of NII

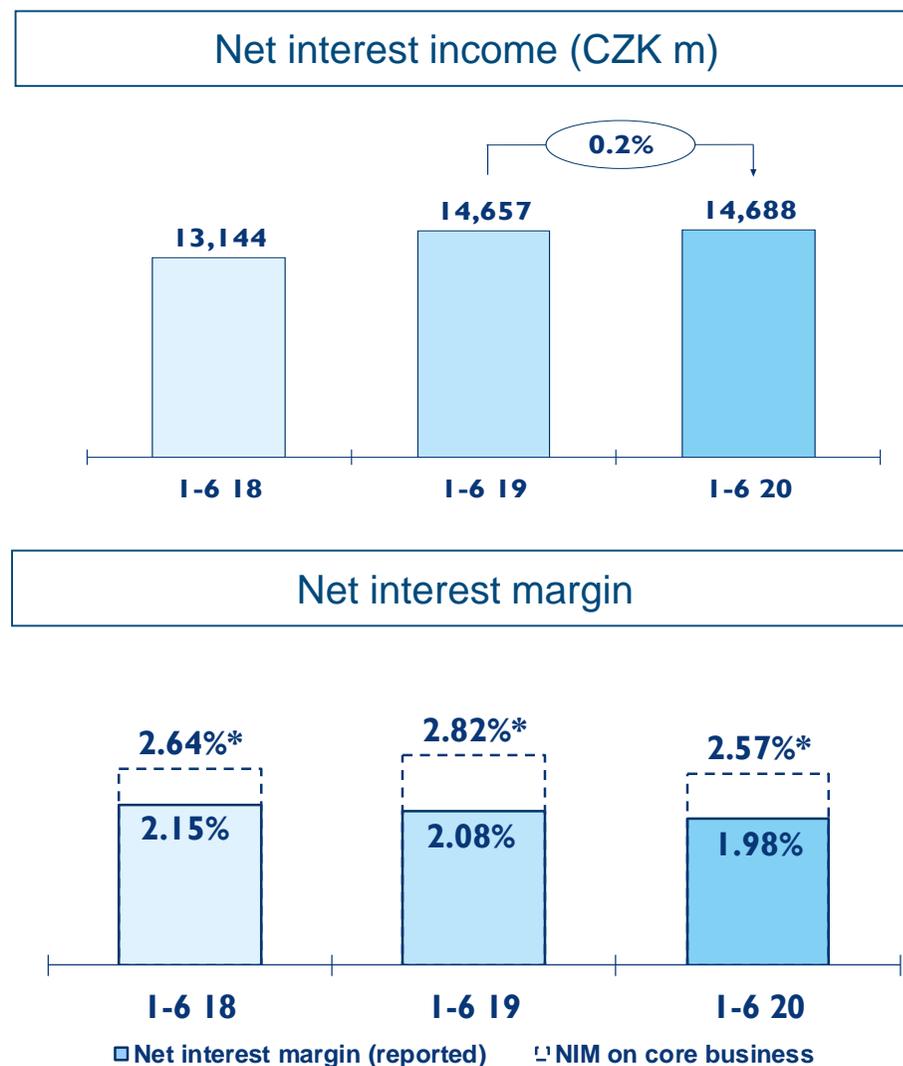
➤ Net interest income in line with H1 2019 affected by

- Growth of customer loans and deposits
- Interest rate cuts by ČNB in 2020

➤ Net interest margin on core business\* declined to 2.57% in H1 2020

- Reduction of market interest rates affected by COVID-19 translated to lower income from corporate loans portfolio and to lower reinvestment yields from deposits

➤ Reported net interest margin at 1.98%



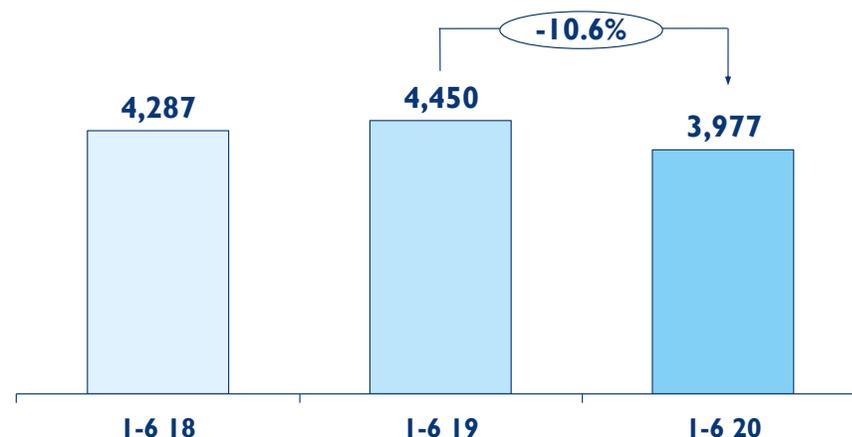
## Net fee and commission income – Net fee income decreased by 10.6%

➤ Year-on-year declined caused by

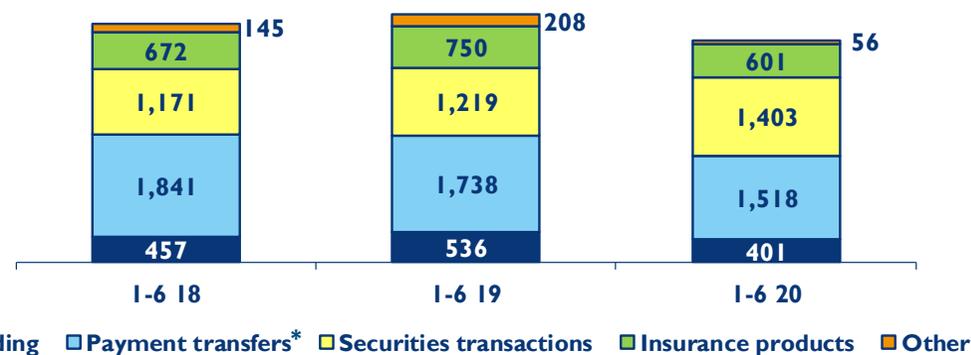
- Impact of payment transfers (SEPA regulation) effective since December 2019
- Methodological shift of prepayment fees to NII
- Lower new business due to impact of COVID-19
- Reduction of fees for current accounts reflecting higher number of customers benefiting from My Healthy Finances concept

➤ These effects were partly offset by growth of securities transactions (mainly due to increase in asset management, e.g. mutual funds up by 6.9% y/y and 7.7% q/q)

Net fee and commission income (CZK m)



Net fee and commission income structure (CZK m)



\* Including fees from account maintenance and payment cards fees

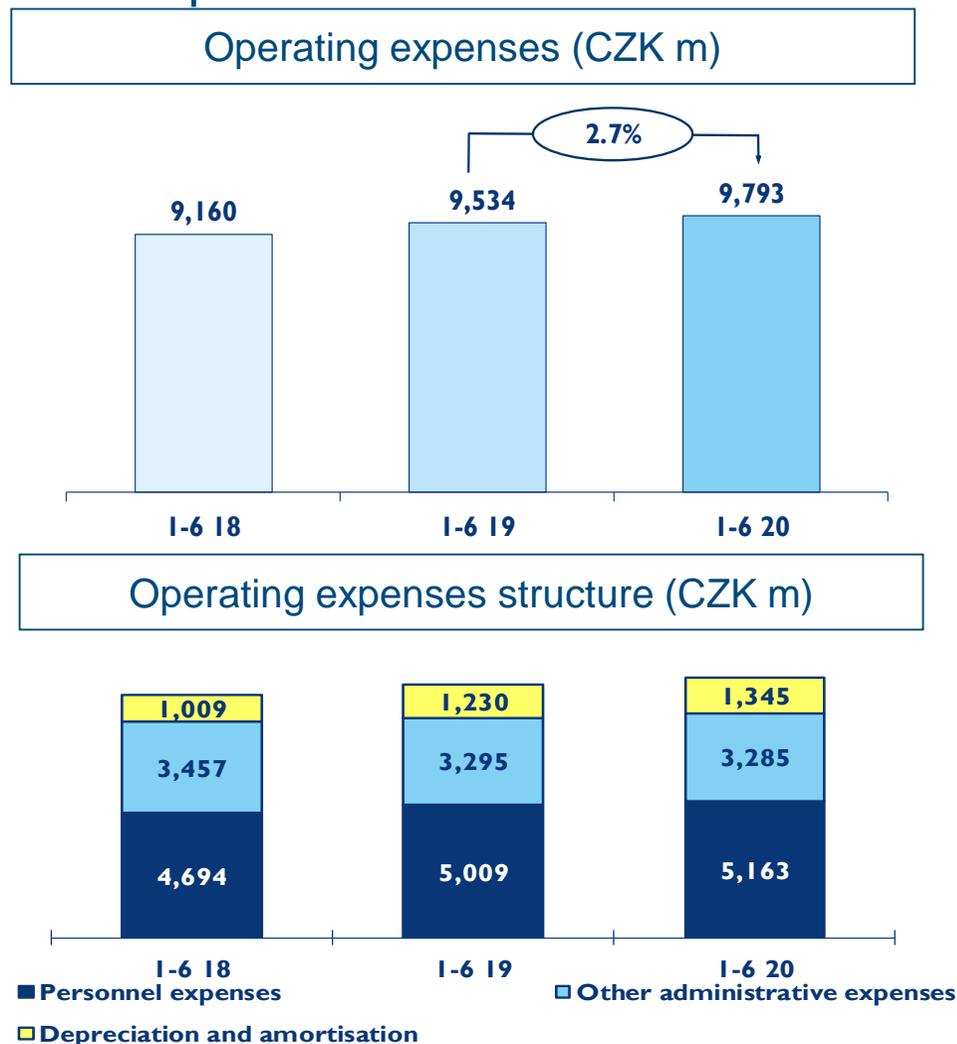
Methodological changes in 2019:

- classification of insurance service fees to emphasis the nature of the provided services (i.e. insurance intermediation) rather than on the basis of individual banking products
- Insurance products excluded from Other into a separate item

## Operating expenses –

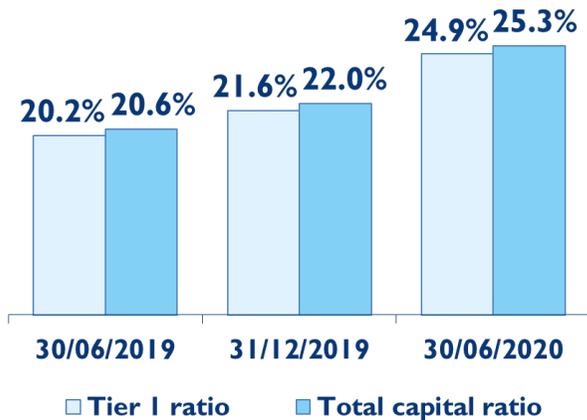
### Growth attributed mainly to higher personnel expenses

- Operating expenses rose by 2.7% y/y attributed to growth in personnel expenses and depreciation
- Personnel expenses up by 3.1%
  - Mainly due to increase in salaries
- Other administrative expenses (OAE) remained almost flat
- Growth of depreciation by 9.4% affected by asset deployment and an adjustment of parameters related to IFRS 16



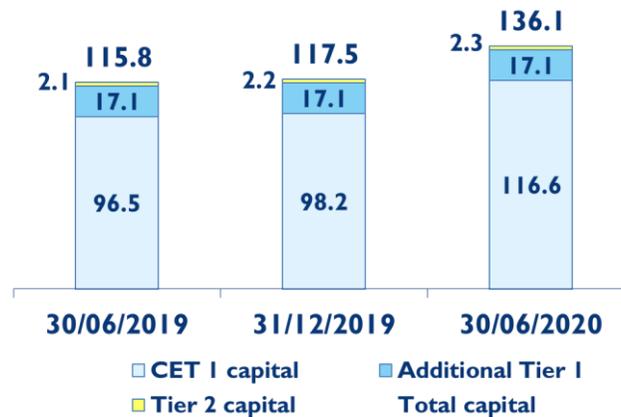
# Group capital position – Total capital ratio at strong 25.3%

Capital ratios



- Total capital ratio increased by 4.7pp y/y to 25.3%, Tier 1 ratio rose to 24.9%
- Increase in capital ratios driven mainly by retained profit

Regulatory capital (CZK bn)



- Following the recommendation published by the ČNB, ČS has decided to retain the originally planned dividend amount for the time being
- Even without this effect, capital adequacy would be comfortably above regulatory requirement

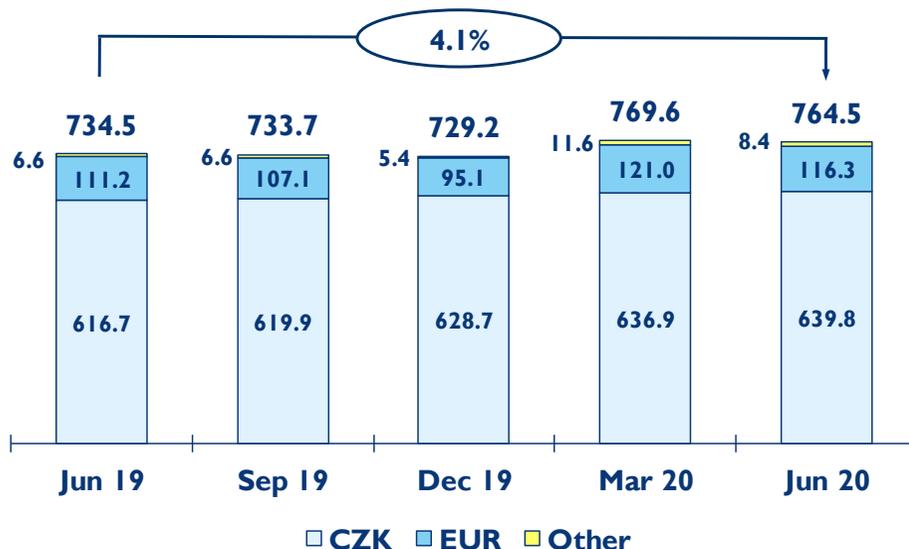
Risk exposures (CZK bn)



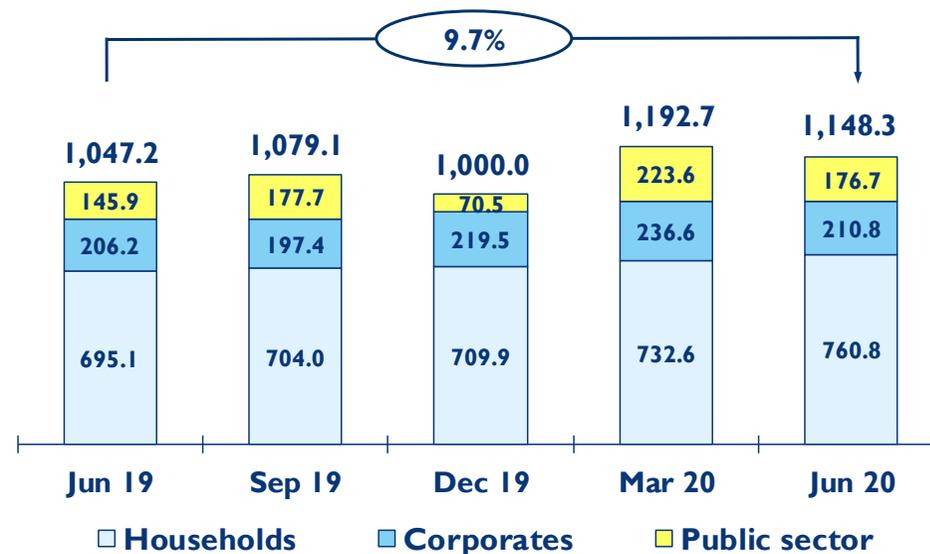
- Total risk exposure decreased by 4.4% y/y affected by decline of credit risk (-5.3%) and market risk (-23.1%); operational risk rose by 6.4% y/y

# Development of group customer loans and deposits – Loan portfolio growth across segments continued

Group net customer loans (CZK bn)\*



Group customer deposits (CZK bn)\*\*



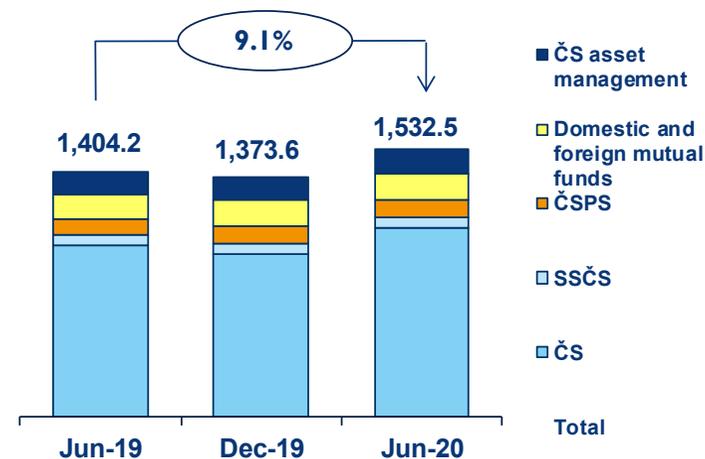
- Group net customer loans including reverse repo operations increased by 4.1% y/y, driven by private mortgages, cash loans and corporate loans (particularly commercial real estate) which were partly affected by FX fluctuations
- FX loans (EUR + other) adjusted for reverse repo operations grew by 6.2% y/y and represent 14.4% of total net loans
- Q/Q development reflecting lower activity in corporate segment in connection with COVID-19

- Customer deposits continued in growth y/y in all segments; total group customer deposits increased by 9.7% compared to June 2019
  - Households deposits grew by 9.4%
  - Corporates increased by 2.2%
  - Public sector deposits up by 21.1%

# Clients' funds under management – Strong growth as business recovered in Q2 2020

- **Customer deposits** grew by 10.0% y/y, excl. repo operations by 7.9%
  - Rise driven by deposits of households and public sector
- Assets in **ČS pension company** continued in growth, in June 2020 by 10.3% y/y
- Domestic and foreign **mutual funds** increased by 6.9% y/y
  - **REICO** investment company significantly increased clients' assets by 10.7% compared to H1 2019

Clients' funds under management (CZK bn)



IFRS, in CZK bn	Jun-19	Dec-19	Jun-20	Change (y/y)
ČS - customer deposits	985.2	932.7	1,083.8	10.0%
SSČS - building society	61.6	63.4	62.8	2.1%
ČSPS - pension company	89.1	93.3	98.3	10.3%
Dom. and foreign mutual funds	139.5	150.7	149.1	6.9%
thereof REICO - investment company	23.8	25.8	26.4	10.7%
Asset management	128.8	133.4	138.5	7.5%
<b>Total</b>	<b>1,404.2</b>	<b>1,373.6</b>	<b>1,532.5</b>	<b>9.1%</b>

# Group loan portfolio – Summary

## Moderate portfolio growth and stronger position ahead of downturn

- **Gross loans to customers\* excluding reverse repo operations increased by CZK 33.8 bn or 4.6% y/y to CZK 763.8 bn**
  - Supported mainly by retail and subsidiaries
- **Reported total gross loan growth of 4.5% as volume of reverse repo operations, which are not considered as a core credit business remained similar on y/y basis (-0.2%)**
- **Annualized risk costs (on balance) at 86 bps**
  - Significant creation on performing portfolio driven by expected credit losses as a consequence of further economic deterioration
  - Several corporate defaults due to COVID-19 impact
- **Portfolio quality remained very good with NPL share at 1.9%**
  - Inflow of new defaults partly limited by Bank and government repayment moratoria
  - Provision coverage grew to 112% and total coverage (provisions+collateral to NPL) reached 138%

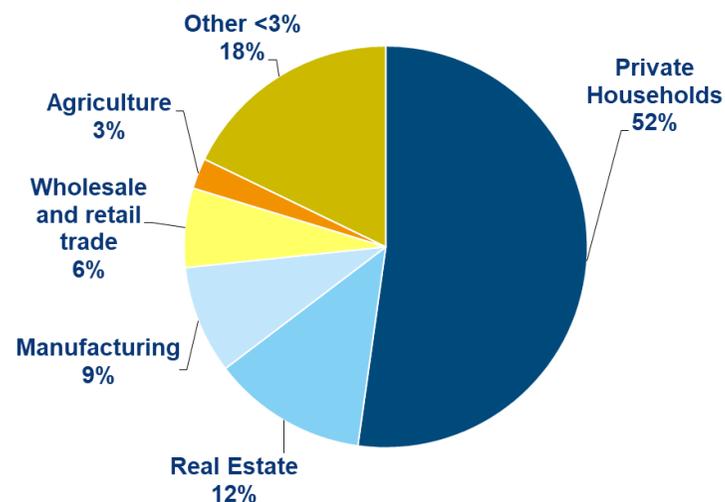
*\* Includes loans and advances at amortised costs, loans and advances at FV through profit or loss, finance lease receivables and trade and other receivables*

## Group loan portfolio – Group loans increased by 4.6% y/y\*

### ČS Group loan portfolio (gross)

in CZK m, IFRS	30/06/2019	%share	30/06/2020	%share	Y/Y Change
I. ČS Bank	695,891	93.2%	726,627	93.1%	4.4%
<i>ČS bank excl rev repos</i>	679,213	93.0%	709,981	93.0%	4.5%
II.1. Stavební spořitelna ČS	42,890	5.7%	47,389	6.1%	10.5%
II.2. Leasing (sAL, EL)	21,090	2.8%	21,776	2.8%	3.3%
II.3. Factoring ČS	6,352	0.9%	5,642	0.7%	-11.2%
III. Other subs and Consolidation items	-19,500	-2.6%	-20,972	-2.7%	7.5%
<b>Total Loans (consolidated)</b>	<b>746,722</b>	<b>100.0%</b>	<b>780,463</b>	<b>100.0%</b>	<b>4.5%</b>
<i>Total loans excl rev repos</i>	<i>730,044</i>		<i>763,816</i>		<b>4.6%</b>

### Industry split of loan portfolio



### ➤ ČS Bank dominates the ČS Group

- Portfolio growth in all major members, except of volatile Factoring ČS
- Private households share grew slightly, driven by high volume of reverse repos (part of Other)

\* Excluding reverse repo operations

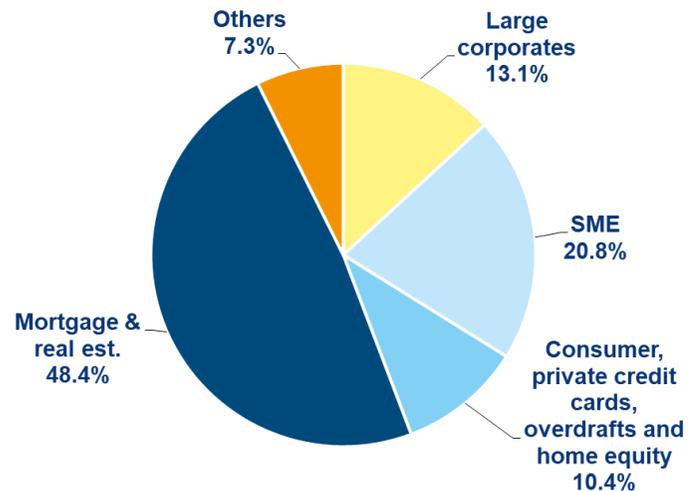
## Group loan portfolio –

Group loans increased by 4.6% y/y\*, stable retail, curbed wholesale

Loan portfolio development\*



Loan portfolio by customer segments\*



### ➤ Loans to retail customers rose by 7.3% y/y

- Growth in all major portfolios:
  - ✓ Private mortgages +8.9%
  - ✓ Commercial loans (MSEs) +4.6%
  - ✓ Consumer lending +3.8%

### ➤ Loans to wholesale\*\* added 0.6% y/y

- Growth in Public sector (+10.0%) and Corporate Real Estate (+12.0%, partly affected also by FX fluctuations)
- Repayments in Large Corporate (-5.2%)

### ➤ Loans to subsidiaries and other added 5.1%

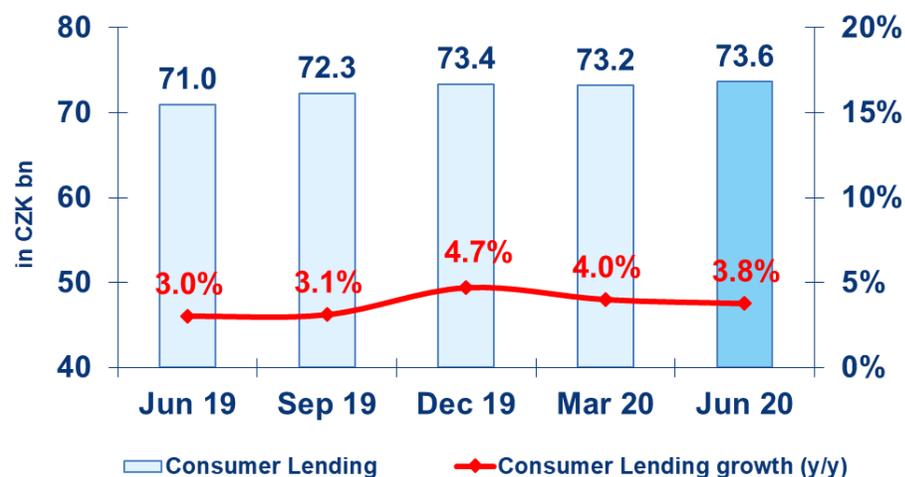
## Bank loan portfolio –

Private mortgages retain strong growth rate, consumer sales hit by COVID-19

Private mortgages development



Consumer lending development\*



### ➤ Private mortgages at CZK 291.6 bn (+8.9% y/y)

- Average maturity of new loans slightly up at 27.1 years, average limit at 2.58 m
- LTV for the whole portfolio grew to 55.2%
- LTV for new loans stable at safe 68.8%

### ➤ Consumer lending\* at CZK 73.6 bn (+3.8% y/y)

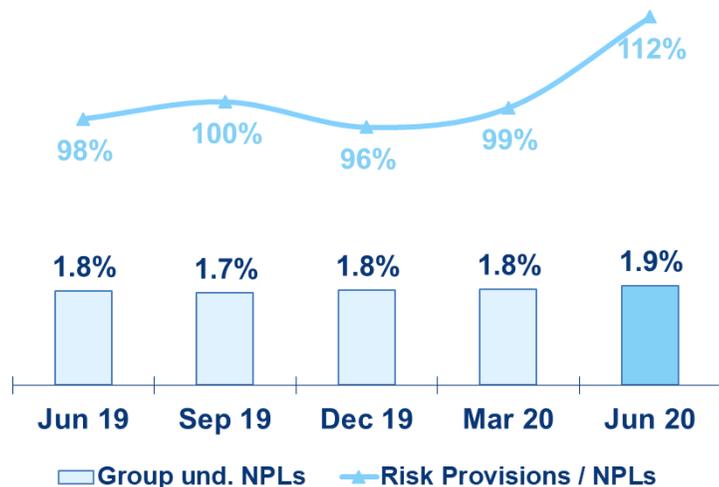
- Cash loan sales influenced by COVID-19 measures imposed from mid-March to mid-June
- Ongoing lower utilization of credit cards and overdrafts

\* Consumer lending here includes cash loans, home equity loans, private credit cards and private overdrafts. Social loans are excluded

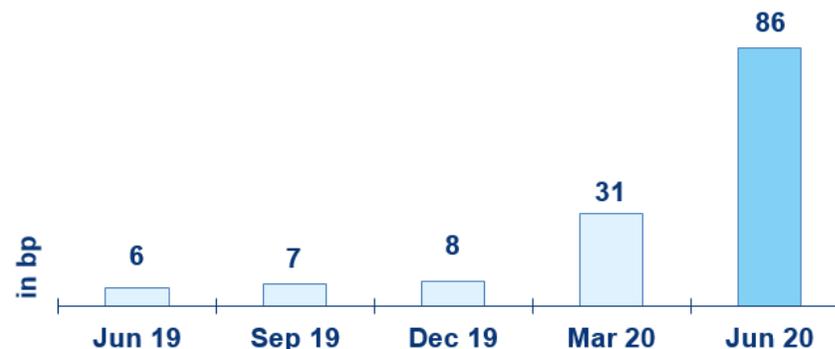
# Group asset quality

## NPL share stable, risk costs anticipating downturn

NPL ratio and NPL coverage



Risk costs development (YTD, on balance only)



### ➤ Group NPL share stable at 1.9%\*

- Low inflow of new defaults combined with moderate growth of loan portfolio
- Provision coverage close to 112% and total coverage (provisions+collateral to NPL) at 138%

### ➤ Annualized group risk costs\*\* at 86 bps

- Preparation for economic downturn
- Risk costs elevated across business lines but mainly in Wholesale and MSE

\* Excluding reverse repo operations

\*\* Risk costs calculated as on balance credit risk provision creation YTD to customer loans, excluding reverse repo operations

Note: Risk costs calculated as annualized credit risk provision creation YTD including reserves to customer exposure (on balance and off-balance) would reach 80 bps as of June 2020 (-5 bps in June 2019)

# Presentation topics

## ➤ Česká spořitelna

- Financial performance

## ➤ Macroeconomic developments

- Economic trends in details

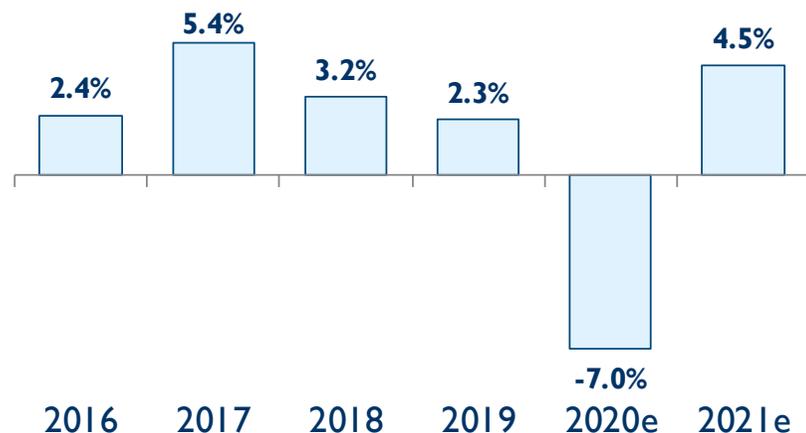
## ➤ Banking market

- Czech banking market developments
- Česká spořitelna market shares

## ➤ Appendix

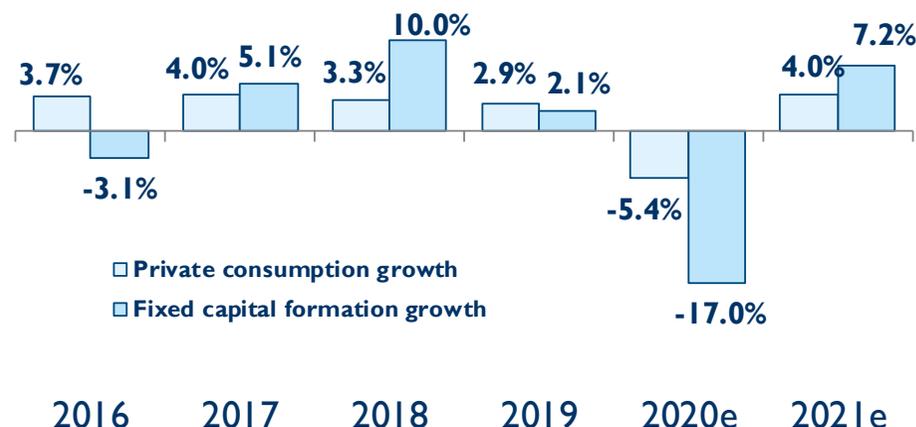
# Macroeconomic developments – GDP growth expected to be “V-shaped”

Real GDP growth y/y



- The Czech economy will significantly decrease in 2020. In Q1 GDP decreased by 2.0% in y/y terms. For the whole year, ČS expects **GDP growth** to come in at **-7.0%**. However, the slump could be even higher if the restrictive measures are in effect for a longer period of time
- In 2021, GDP growth should recover. ČS expects GDP growth to reach 4.5%. Thus, the development during 2020-21 will be “V-shaped”; however, the recovery should be slower, mainly due to only gradually improving demand for exports in pro-cyclical sectors (e.g. automotive)
- As the macro environment has been changing rapidly, uncertainty is high. ČS sees risks to the GDP forecast tilted downwards

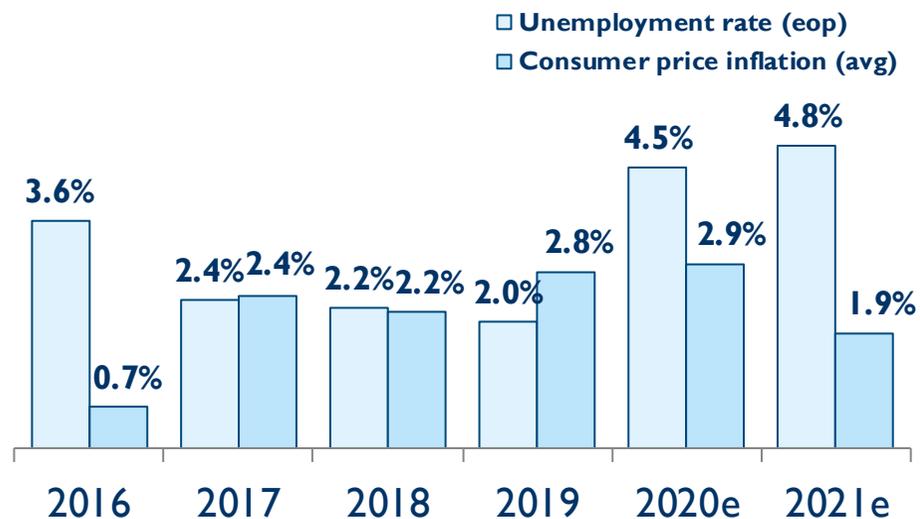
Components of GDP



- **Growth of household consumption** is expected to fall in 2020, due to labour market worsening and uncertainty, which should increase cautiousness in households’ expenditures
- **Growth of investments** will be significantly hit in 2020, as firms are expected to wait till economic recovery becomes more robust. For this reason, ČS expects investment expenditures to improve in the Q3/Q4 turn of 2020
- Besides investment growth, **foreign demand** is also significantly affected by the crisis. During the initial phase of the recovery, imports could recover more quickly than exports, due to only gradually improving exports of cars

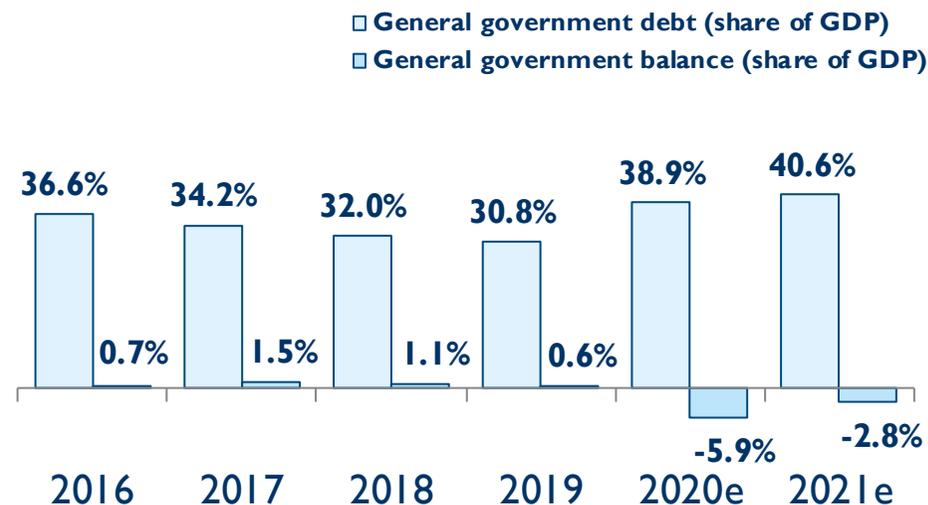
# Macroeconomic developments – Unemployment rate to increase

Unemployment and inflation



- **Average CPI** arrived at 3.3% in June, as an increase was mainly caused by higher prices of alcohol and tobacco
- ČS expects **CPI inflation** to arrive at 2.9% in 2020, as the negative demand effects stemming from the crisis will spill over into inflation only gradually. Moreover, supportive fiscal measures will mitigate worsening of the labour market, which in turn implies households' demand could recover quickly
- The **general unemployment rate (ILO)** came in at 2.5% in May. During 2020, ČS expects unemployment to be slightly increasing and reach approximately 4.5% at the end of this year

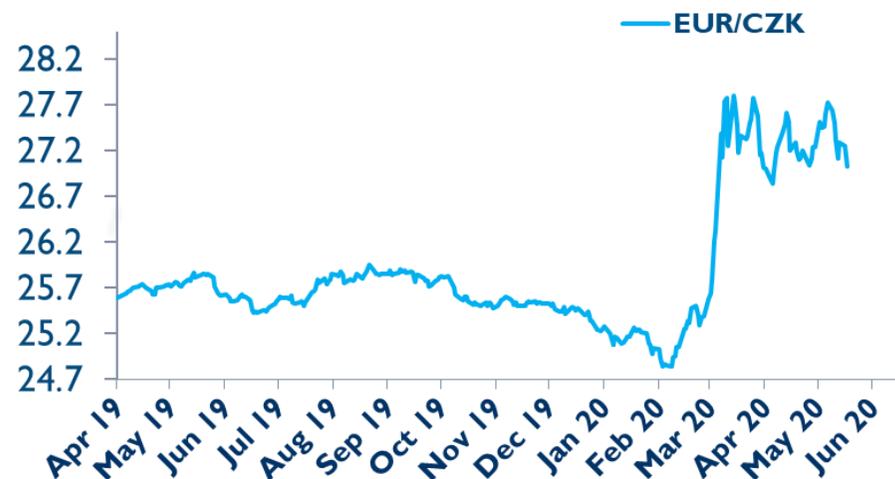
General government debt and government balance



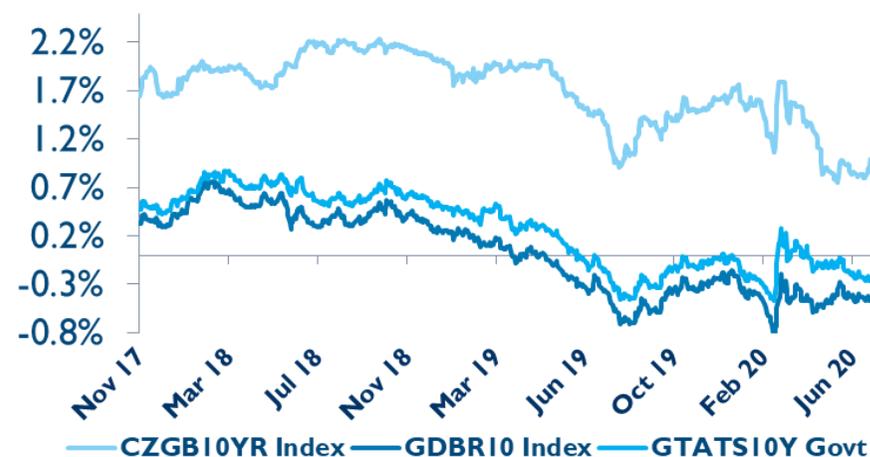
- Due to increased financial needs, the central government budget deficit should come in at CZK 500 bn instead of previously approved CZK 40 bn
- For this reason, ČS expects the **general government balance** to fall into negative territory in 2020 and 2021. This will be mainly the result of various supportive measures; however, also weaker tax income and increased expenditures on social security will affect the figure
- The share of **public debt to nominal GDP** is anticipated to increase due to lower GDP and higher indebtedness of the government

# Macroeconomic developments – Monetary policy eased in H1 2020

- In June 2020, the ČNB kept interest rates stable. The main reason was the stronger May cut and expected recovery of both the Czech and world economy. The main 2W rate is set at 0.25%
- The **EUR/CZK** depreciated significantly, as the impact of the coronavirus crisis on the economy is expected to be relatively high. In the case of Czechia, the depreciation was stronger compared with some other economies, because the economy faced massive capital outflow, accumulated during previous years
- Recently, koruna has slightly corrected towards 26.7, as it was supported by slightly improved sentiment
- The yield curve decreased after the outbreak of the crisis, mainly due to the cuts in ČNB rates and negative sentiment in markets
- From H2 2020 onwards, ČS expects the yield curve to be gradually rising, due to the expected ČNB hikes (the first in Q3 2021) and high issuance activity of the Ministry of Finance



## 10Y Bond Yields



# Presentation topics

## ➤ Česká spořitelna

- Financial performance

## ➤ Macroeconomic developments

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## ➤ Banking market

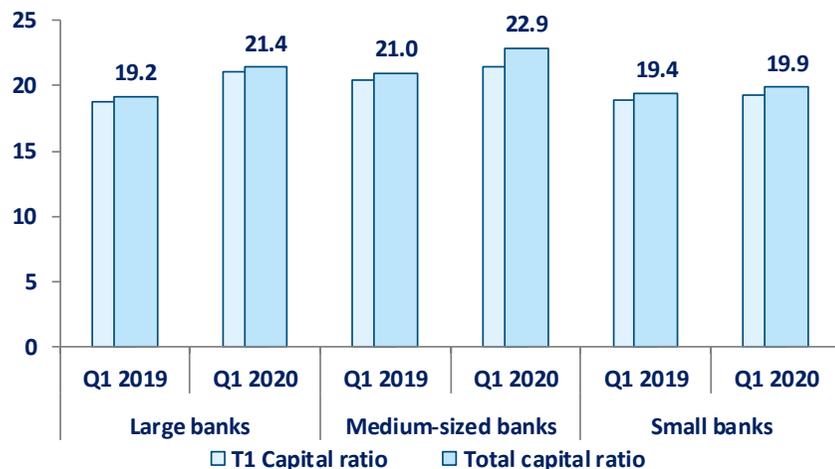
- Czech banking market developments
- Česká spořitelna market shares

## ➤ Appendix

# Czech banking market –

## May NPL figures still not visibly impacted by the COVID-19 shock

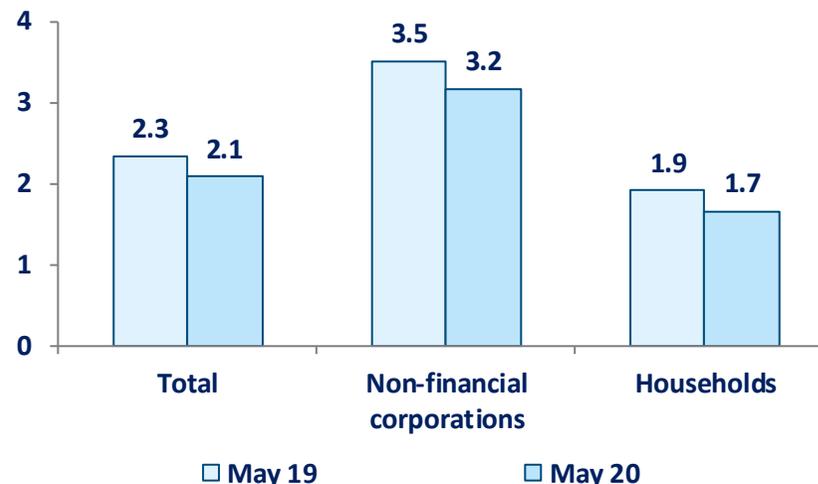
Capital ratios of Czech banks\* (%)



\* Compliant with ČNB segmentation of banks

- **The Czech banking sector is resilient against the COVID-19 shock thanks to its high capital adequacy (21.5% in March 2020) and robust profitability over the previous several years**
- According to the latest ČNB stress tests (June 2020), stress on top of the current COVID crisis would cause the Czech banking sector to suffer a loss in 2021 but the sector would return to profit in 2022
- The counter-cyclical capital buffer rate for exposures of Czech banks was reduced to 0.5%, effective from 1<sup>st</sup> July 2020

Non-performing loan ratios (%)

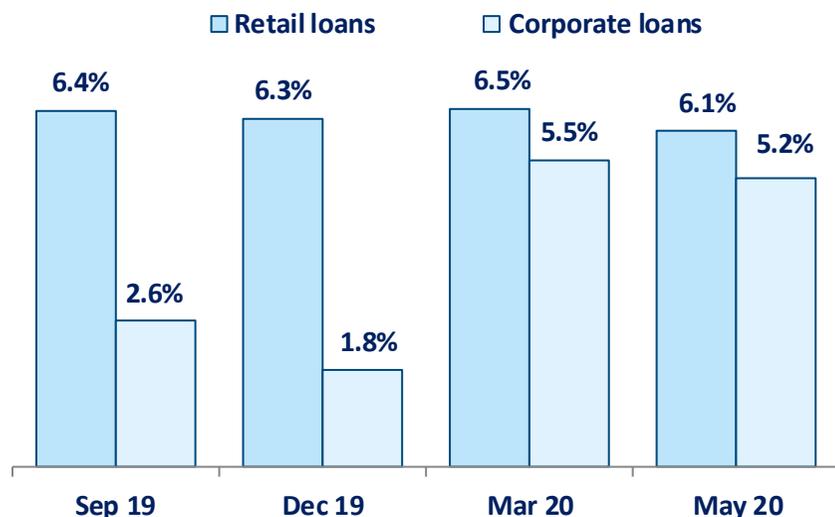


- **In May, the share of non-performing loans (NPL ratio) in the household sector still hovered at historically low levels below 2% in line with the pre-pandemic good economic situation**
- Neither the NPL ratio for the corporate sector showed in May any clear signs of the impact of the current difficulties
- NPL figures are likely to worsen due to the COVID-19 shock. Given the government's temporary support measures, the impact is probable to emerge mainly in 2021

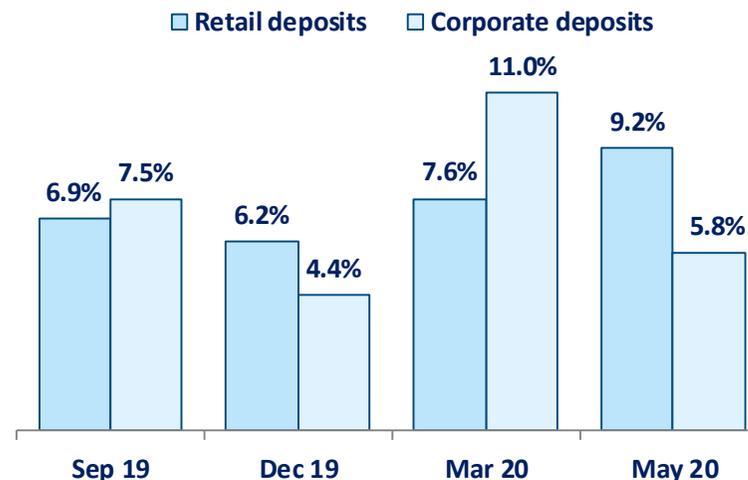
## Czech banking market –

Some outstanding volumes rise visibly faster than before the pandemic

Retail and corporate loans (y/y growth)



Retail and corporate deposits (y/y growth)



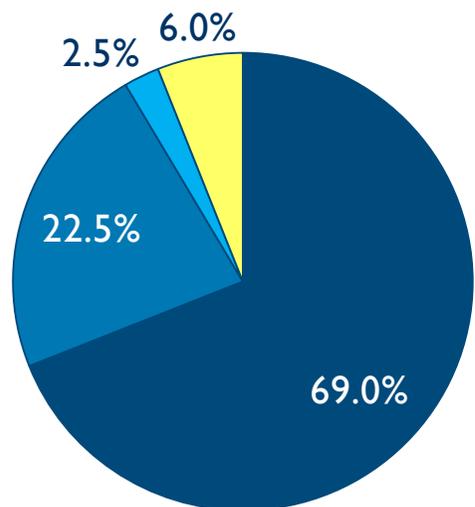
- **Total client loans rose by 5.5% y/y in May 2020.** The main source remained the growth of retail loans at 6.1%; y/y growth in corporate loans was 5.2% in May 2020
- In 2020, **ČS expects client loans to rise y/y by almost 5%.** An underlying fall caused by the corona crisis will be roughly compensated by the impact of government-orchestrated measures (loan guarantees, repayment deferrals). In 2021, client loans will rise somewhat faster
- Full extent of actual implementation of some of the measures is still clouded by sizeable uncertainty and so is the above outlook

- **In May 2020, y/y growth in client deposits reached almost 14%.** The bulk of the increase was due to a fast rise in retail deposits (9.2% y/y) attributed mainly to the COVID-related closure of many shops, cinemas, etc. in April and only a partial return of consumer demand in May
- **For 2020, ČS expects total client deposits to rise by some 7.7% y/y** as the impact of slower wage growth will be more than compensated by lower consumption and deferred investment
- For 2021 ČS expects client deposits to decelerate to some 7%

## Czech banking market –

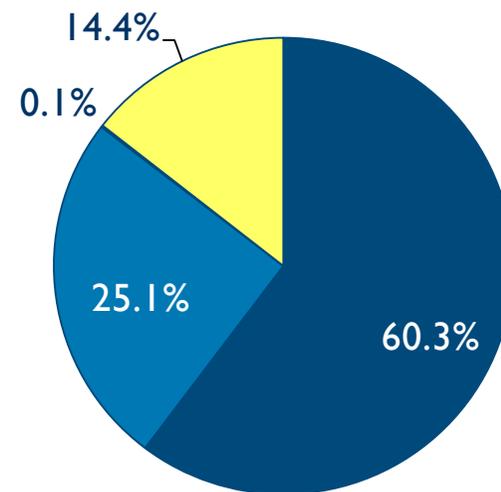
Exposure of clients remains dominated by local currency lending

Customer loans (May 2020)



■ LC retail deposits      ■ LC corporate deposits  
■ FX retail deposits      ■ FX corporate deposits

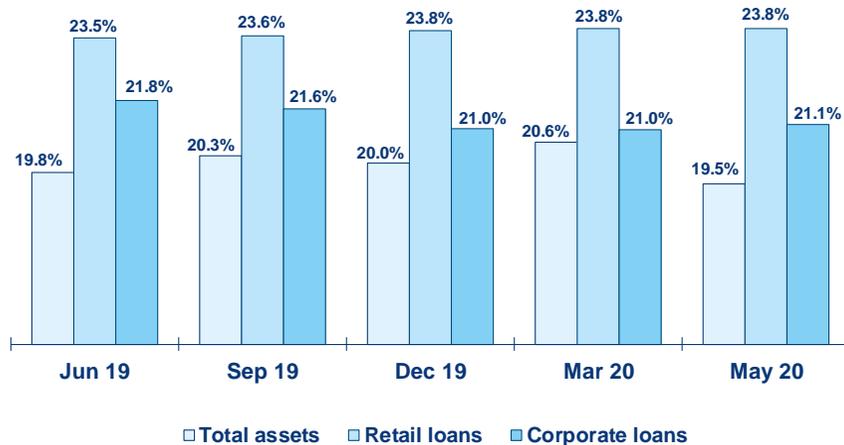
Customer deposits (May 2020)



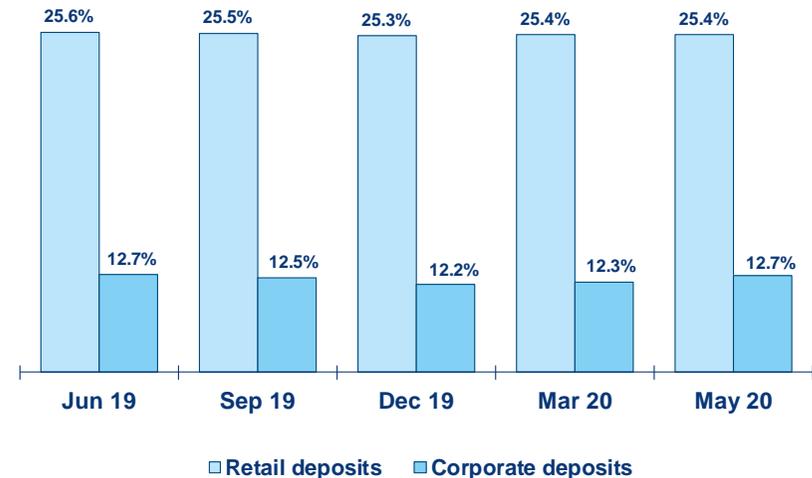
■ LC retail loans      ■ LC corporate loans  
■ FX retail loans      ■ FX corporate loans

# Banking market – Market shares of ČS (May 2020)\*

## Asset side



## Liability side



### ➤ Market leadership in:

- Number of customers (4.5 m)
- Total mortgages (market share of 27%)\*\*
- Consumer loans incl. credit cards (market share of 27%)

### ➤ No. 2 in:

- Private mortgages (market share of 26%)\*\*
- Total assets (market share of 19%)
- Total loans (market share of 22%)

### ➤ Market leadership in:

- Total deposits (market share of 20%)
  - ✓ 25% in retail deposits, 13% in corporate deposits
- Mutual funds with market share of 27%\*\*

\* Data for June 2020 not available yet

\*\* Figures from March 2020

# Presentation topics

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## ➤ Banking market

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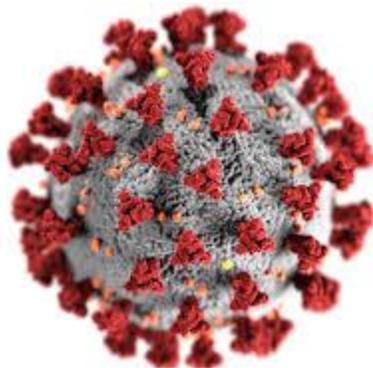
## ➤ Appendix

# COVID-19 – Fiscal and monetary measures

Both, fiscal and monetary authorities have launched a set of measures in order to support the economy and help it to recover quickly after the crisis

## ➤ Monetary measures

- The ČNB decreased the repo rate (from 2.25% to 0.25%) and the counter-cyclical buffer (from 1.75% to 0.50%), relaxed recommended limits on new mortgages (LTV) and dropped the DTI and DSTI limits
- The ČNB Act was changed such that it now enables the ČNB to trade in any financial instrument with any financial counterparty launch (e.g. to launch QE)



## ➤ Fiscal measures

Czech government launched several programmes with the main objective to keep employment high, which would prevent domestic demand from a deeper fall:

- Declaration of a moratorium on instalments of loans and mortgages on opt-in basis. Clients who apply can postpone their instalments from 3 to 6 months
- The government will guarantee a part of a new loan granted to any firm in difficulties stemming from the crisis. The volume of such loans could reach CZK 900 bn
  - COVID – loan from CZK 500 thous to CZK 15 m, period 2 years, 0% interest rate, instalment deferral up to 12 months, for MSE and SME
  - COVID II + COVID Praha – guarantee from ČMZRB of up to 80% of loan from commercial banks up to CZK 15 m, contribution to interest up to CZK 1 m, guarantee period up to 3 years, for self-employed, MSE and SME
  - COVID III – provided by commercial banks with guarantee from ČMZRB (up to 30% of the whole portfolio volume; total approved guarantee up to CZK 150 bn), for self-employed and companies up to 500 employees:
    - 1-250 employees - guarantee up to 90% of loan, loan up to CZK 50 m
    - 251-500 employees - guarantee up to 80% of loan, loan up to CZK 50 m
- A new version of the State Budget 2020 Act was agreed with the planned budget balance changed from CZK -40 bn to CZK -500 bn

# COVID-19 – Česká spořitelna is helping fight the coronavirus pandemic

## ➤ Employees

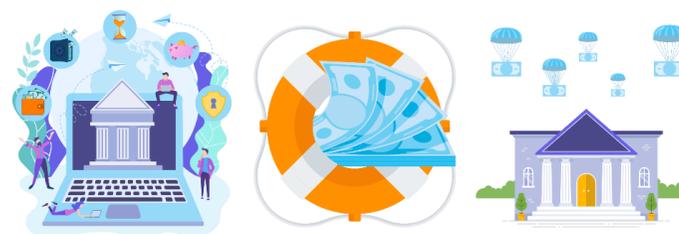
- The Bank enabled people to work from home to the greatest possible extent
- For working from home, branch-based bankers were able to connect their home computers to the corporate network
- Counters at branches were equipped with disinfectants and protective shields

## ➤ Individual clients

- Česká spořitelna was the first to offer its clients a postponement on their loan instalments by three to six months
- Bankers cared for their clients over the telephone and online, thereby limiting the adverse impact of restricted opening hours or complete closure of branches
- Spořitelna is the only bank on the market to use voice biometrics, thanks to which people can be identified and give payment orders by telephone
- Spořitelna temporarily did away with some fees, to alleviate the situation of clients in need – for example, the fee for the My Healthy Finance, if the client temporarily does not comply with the minimum income condition, or a fee for transactions entered by telephone
- Clients were able to make an online request for the issuance of a payment card

## ➤ Entrepreneurs and companies

- Česká spořitelna in co-operation with Global Payments started to offer micro and small entrepreneurs payment terminals for fast and contactless acceptance of payments free of charge for 8 months
- Česká spořitelna got involved in COVID programmes in which small and medium-sized companies can draw operating loans on concessional terms
- To large corporations, Spořitelna offers operating loans with an EGAP guarantee on concessional terms
- In co-operation with the blockchain start-up company Tatum, Česká spořitelna launched the non-profit project “Save Your Company”, to support sole proprietors and small companies. It aims to help them overcome the period when they cannot run their business due to COVID-19, suffering from restrictions or a customer outage



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

## Income statement – Quarterly development (CZK m)

	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q/Q %
Net interest income	7,369	7,583	8,021	7,785	6,903	-11.3%
Net fee and commission income	2,257	2,174	1,966	2,108	1,869	-11.3%
Dividend income	45	14	3	0	9	-
Net trading result	855	529	649	238	555	>100%
Gains/losses from financial instruments measured at FV through profit or loss	38	-88	23	117	274	>100%
Rental and other income	83	48	123	71	39	-45.1%
General administrative expenses	-4,705	-4,784	-5,035	-5,006	-4,787	-4.4%
Gains/losses from derecognition of financial instruments not measured at FV through profit or loss	-1	-28	-1	0	0	-
Impairment result from financial instruments	-68	-47	8	-622	-2,955	>100%
Other operating result	26	-76	68	-729	-74	-89.8%
Pre-tax result from continuing operations	5,899	5,326	5,826	3,962	1,833	-53.7%
Taxes on income	-1,134	-1,055	-1,037	-796	-393	-50.6%
Net result attributable to non-controlling interests	7	-1	17	4	-4	-
<b>Net result attributable to owners of the parent</b>	<b>4,758</b>	<b>4,272</b>	<b>4,771</b>	<b>3,162</b>	<b>1,443</b>	<b>-54.4%</b>
Operating income	10,646	10,261	10,785	10,319	9,649	-6.5%
Operating expenses	-4,705	-4,784	-5,035	-5,006	-4,787	-4.4%
<b>Operating result</b>	<b>5,941</b>	<b>5,477</b>	<b>5,751</b>	<b>5,313</b>	<b>4,862</b>	<b>-8.5%</b>

# Structure of ČS Group loan portfolio (gross) – Group customer loans

in CZK m, IFRS	30/06/2019		31/12/2019		30/06/2020		YTD change		YTY change	
	Outstand.	Share	Outstand.	Share	Outstand.	Share	Outstand.	Rate	Outstand.	Rate
<b>RETAIL</b>	<b>394,178</b>	<b>52.8%</b>	<b>410,402</b>	<b>55.3%</b>	<b>422,803</b>	<b>54.2%</b>	<b>12,401</b>	<b>3.0%</b>	<b>28,625</b>	<b>7.3%</b>
Overdrafts	5,620	0.8%	5,802	0.8%	5,323	0.7%	-479	-8.3%	-297	-5.3%
of which MSE	2,374	0.3%	2,309	0.3%	2,273	0.3%	-36	-1.6%	-101	-4.2%
Credit cards	2,151	0.3%	2,273	0.3%	1,957	0.3%	-316	-13.9%	-194	-9.0%
of which MSE	11	0.0%	11	0.0%	9	0.0%	-2	-18.8%	-2	-19.7%
Cash loans	62,828	8.4%	64,903	8.7%	65,821	8.4%	918	1.4%	2,993	4.8%
Private social	460	0.1%	414	0.1%	370	0.0%	-45	-10.8%	-91	-19.7%
Home equity mortgages	2,751	0.4%	2,721	0.4%	2,814	0.4%	92	3.4%	63	2.3%
Private mortgages	267,842	35.9%	280,465	37.8%	291,577	37.4%	11,112	4.0%	23,736	8.9%
Commercial loans	52,527	7.0%	53,823	7.3%	54,942	7.0%	1,118	2.1%	2,415	4.6%
<b>WHOLESALE</b>	<b>282,550</b>	<b>37.8%</b>	<b>258,720</b>	<b>34.9%</b>	<b>284,067</b>	<b>36.4%</b>	<b>25,347</b>	<b>9.8%</b>	<b>1,517</b>	<b>0.5%</b>
<b>Corporate</b>	<b>261,446</b>	<b>35.0%</b>	<b>253,572</b>	<b>34.2%</b>	<b>264,112</b>	<b>33.8%</b>	<b>10,540</b>	<b>4.2%</b>	<b>2,666</b>	<b>1.0%</b>
Large corporates	98,331	13.2%	88,427	11.9%	93,204	11.9%	4,777	5.4%	-5,128	-5.2%
SME	92,572	12.4%	91,991	12.4%	92,403	11.8%	413	0.4%	-168	-0.2%
Real estate	46,558	6.2%	47,603	6.4%	52,125	6.7%	4,523	9.5%	5,568	12.0%
Public sector	23,986	3.2%	25,552	3.4%	26,380	3.4%	828	3.2%	2,394	10.0%
<b>Group Markets</b>	<b>21,104</b>	<b>2.8%</b>	<b>5,147</b>	<b>0.7%</b>	<b>19,954</b>	<b>2.6%</b>	<b>14,807</b>	<b>&gt;100%</b>	<b>-1,149</b>	<b>-5.4%</b>
<i>excluding rev repos</i>	<b>4,425</b>	<b>0.6%</b>	<b>3,386</b>	<b>0.5%</b>	<b>3,308</b>	<b>0.4%</b>	<b>-78</b>	<b>-2.3%</b>	<b>-1,117</b>	<b>-25.2%</b>
<b>OTHER</b>	<b>19,163</b>	<b>2.6%</b>	<b>21,654</b>	<b>2.9%</b>	<b>19,757</b>	<b>2.5%</b>	<b>-1,897</b>	<b>-8.8%</b>	<b>594</b>	<b>3.1%</b>
<b>BANK: LOANS TO CUSTOMERS</b>	<b>695,891</b>	<b>93.2%</b>	<b>690,775</b>	<b>93.1%</b>	<b>726,627</b>	<b>93.1%</b>	<b>35,852</b>	<b>5.2%</b>	<b>30,736</b>	<b>4.4%</b>
<b>SUBSIDIARIES</b>	<b>70,331</b>	<b>9.4%</b>	<b>72,156</b>	<b>9.7%</b>	<b>74,807</b>	<b>9.6%</b>	<b>2,652</b>	<b>3.7%</b>	<b>4,476</b>	<b>6.4%</b>
<b>CONSOLIDATION ITEMS</b>	<b>-19,500</b>	<b>-2.6%</b>	<b>-21,048</b>	<b>-2.8%</b>	<b>-20,972</b>	<b>-2.7%</b>	<b>77</b>	<b>-0.4%</b>	<b>-1,472</b>	<b>7.5%</b>
<b>GROUP: LOANS TO CUSTOMERS</b>	<b>746,722</b>	<b>100.0%</b>	<b>741,883</b>	<b>100.0%</b>	<b>780,463</b>	<b>100.0%</b>	<b>38,580</b>	<b>5.2%</b>	<b>33,741</b>	<b>4.5%</b>
<i>excluding rev repos</i>	<b>730,044</b>	<b>97.8%</b>	<b>740,121</b>	<b>100.0%</b>	<b>763,816</b>	<b>100.0%</b>	<b>23,695</b>	<b>3.2%</b>	<b>33,772</b>	<b>4.6%</b>

# Ratings of Česká spořitelna

Status as at 30<sup>th</sup> July 2020

Rating Agency	Long-term	Short-term	Viability	Support	Outlook	Latest actions
Fitch	A	FI	a	2	negative	07/04/2020
Moody's	A1	Prime - I			stable	21/11/2018
Standard & Poor's	A	A-1			stable	29/04/2020

## ➤ Latest rating actions

- Fitch upgraded long-term rating to A (from A-) and viability rating to a (from a-) on 22<sup>nd</sup> January 2019, outlook was changed to negative from stable on 7<sup>th</sup> April 2020
- Moody's improved long-term rating of ČS to A1 (from A2) on 21<sup>st</sup> November 2018 and simultaneously revised the outlook from positive to stable
- Rating agency Standard & Poor's upgraded all ČS ratings on 16<sup>th</sup> March 2017, outlook was revised from positive to stable on 29<sup>th</sup> April 2020

## Macroeconomic figures – Historical and forecasted macroeconomic data

	2014	2015	2016	2017	2018	2019	2020e	2021e
Population (avg, m)	10.5	10.5	10.6	10.6	10.6	10.6	10.6	10.6
GDP/capita (EUR thsd)	15.0	16.1	16.8	18.4	19.9	21.1	19.9	21.7
Real GDP growth	2.3	5.5	2.4	5.4	3.2	2.3	-7.0	4.5
Consumer price inflation (avg)	0.4	0.4	0.7	2.4	2.2	2.8	2.9	1.9
Unemployment rate (eop)	5.9	4.6	3.6	2.4	2.2	2.0	4.5	4.8
Current account balance (share of GDP)	0.2	0.2	1.5	1.6	0.3	-0.1	-1.5	0.3
General government balance (share of GDP)	-2.1	-0.6	0.7	1.5	1.1	0.6	-5.9	-2.8
Public debt (share of GDP)	41.9	39.7	36.6	34.2	32.0	30.8	38.9	40.6
Short term interest rate (3 months, eop)	0.4	0.3	0.3	0.3	0.8	2.0	2.2	0.3
EUR FX rate (eop)	27.7	27.0	27.0	25.5	25.7	25.4	26.1	25.2

## Segment financial statements – Segment Czech Republic - income statement (EUR m)

	1-6 19	1-6 20	Change
Net interest income	554.2	533.4	-3.8%
Net fee and commission income	173.3	151.0	-12.8%
Dividend income	1.9	0.4	-81.0%
Net trading result	58.1	30.1	-48.2%
Gains/losses from financial instruments measured at fair value through profit or loss	2.2	14.8	588.5%
Net result from equity method investments	1.6	0.0	-97.1%
Rental income from investment properties & other operating leases	4.2	4.2	-1.9%
General administrative expenses	-371.2	-371.9	0.2%
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net			n/a
Gains/losses from derecognition of financial assets measured at amortised cost	0.3	0.0	n/a
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	0.0	0.0	n/a
Gains/losses from reclassification from amortised cost to fair value through profit or loss	0.0	0.0	n/a
Gains/losses from reclassification from fair value through other comprehensive income to fair value through profit or loss	0.0	0.0	n/a
Net impairment loss on financial assets			n/a
Impairment result from financial instruments	7.7	-135.8	n/a
Other operating result	-26.4	-30.5	15.5%
Levies on banking activities	0.0	0.0	n/a
<b>Pre-tax result from continuing operations</b>	<b>405.9</b>	<b>195.7</b>	<b>-51.8%</b>
Taxes on income	-80.1	-40.5	-49.4%
Post-tax result from continuing operations	325.8	155.1	-52.4%
Post-tax result from discontinued operations	0.0	0.0	n/a
<b>Net result for the period</b>	<b>325.8</b>	<b>155.1</b>	<b>-52.4%</b>
Net result attributable to non-controlling interests	0.0	0.0	-93.4%
<b>Net result attributable to owners of the parent</b>	<b>325.8</b>	<b>155.1</b>	<b>-52.4%</b>
Operating income	795.5	733.9	-7.7%
Operating expenses	-371.2	-371.9	0.2%
<b>Operating result</b>	<b>424.3</b>	<b>362.0</b>	<b>-14.7%</b>
Cost/income ratio	46.7%	50.7%	
Return on allocated capital	26.4%	12.1%	

# Segment financial statements – Quarterly development

## Segment Czech Republic - income statement (EUR m)

	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
Net interest income	278.2	284.7	302.2	291.9	241.5
Net fee and commission income	87.9	84.5	76.9	82.2	68.8
Dividend income	1.8	0.5	0.1	0.0	0.4
Net trading result	33.3	20.6	25.4	9.3	20.8
Gains/losses from financial instruments measured at fair value through profit or loss	1.5	-3.4	7.0	4.6	10.3
Net result from equity method investments	1.1	-0.2	2.7	0.7	-0.6
Rental income from investment properties & other operating leases	2.1	2.1	2.1	2.1	2.0
General administrative expenses	-183.2	-185.9	-196.8	-195.3	-176.6
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net					
Gains/losses from derecognition of financial assets measured at amortised cost	0.0	0.0	0.0	0.0	0.0
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	0.0	-1.1	0.0	0.0	0.0
Gains/losses from reclassification from amortised cost to fair value through profit or loss	0.0	0.0	0.0	0.0	0.0
Gains/losses from reclassification from fair value through other comprehensive income to fair value through profit or loss	0.0	0.0	0.0	0.0	0.0
Net impairment loss on financial assets					
Impairment result from financial instruments	-2.6	-1.8	0.3	-24.3	-111.6
Other operating result	1.0	-3.0	2.6	-28.5	-2.1
Levies on banking activities	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax result from continuing operations</b>	<b>221.0</b>	<b>196.9</b>	<b>222.4</b>	<b>142.7</b>	<b>52.9</b>
Taxes on income	-42.5	-39.1	-39.6	-28.8	-11.7
Post-tax result from continuing operations	178.5	157.8	182.9	113.9	41.2
Post-tax result from discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net result for the period</b>	<b>178.5</b>	<b>157.8</b>	<b>182.9</b>	<b>113.9</b>	<b>41.2</b>
Net result attributable to non-controlling interests	0.0	0.0	0.0	0.0	0.0
<b>Net result attributable to owners of the parent</b>	<b>178.5</b>	<b>157.8</b>	<b>182.8</b>	<b>113.9</b>	<b>41.2</b>
Operating income	405.8	388.7	416.3	390.7	343.2
Operating expenses	-183.2	-185.9	-196.8	-195.3	-176.6
<b>Operating result</b>	<b>222.6</b>	<b>202.8</b>	<b>219.5</b>	<b>195.5</b>	<b>166.6</b>
Cost/income ratio	45.1%	47.8%	47.3%	50.0%	51.5%
Return on allocated capital	28.3%	25.3%	28.4%	18.1%	6.3%

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