

Česká spořitelna's Consolidated Net Profit increased by 1.2% year-on-year and reached CZK 11.8 bn in the first three quarters of 2018

As of 30 September 2018, Česká spořitelna reported an unaudited consolidated net profit of CZK 11.8 bn, according to International Financial Reporting Standards (IFRS). In the same period of the previous year, the net profit amounted to CZK 11.7 bn. The net profit thus increased by 1.2% in a year-on-year comparison. The operating result went up more significantly, by 5.4% to CZK 15.0 bn, due to strong growth in net interest income and successful cost control.

"In Q3, we attained several major achievements. One million clients have already tried our digital platform known as George. More than a million clients are also using the My Healthy Finance service that helps them manage their family finance more efficiently. The mortgage portfolio crossed the CZK 250 billion threshold. We have managed to grow significantly in loans to individuals as well as corporate clients," said Tomáš Salomon, Chairman of Česká spořitelna's Board of Directors. *"What I deem important is also the year-on-year improvement of the cost to income ratio, which confirms that we have successfully improved our own efficiency."*

The shareholders of Česká spořitelna, at the General Meeting held on 3 October 2018, approved a **transfer of all shares owned by the other shareholders of Česká spořitelna, a.s. to the company Erste Group Bank AG** (previously holding 98.97% of Česká spořitelna, a.s. shares). **The ownership title to all shares of Česká spořitelna will transfer to Erste Group Bank AG on 6 November 2018.**

MAIN INDICATORS

The continuing favourable development of the Czech economy, accelerating growth of wages and further decline in historically low unemployment are **supporting demand for goods and services, and consequently for loans.**

The growth of net profit was mainly influenced by steadily increasing net interest income supported by strong growth in lending, rising interest rates **and by further improvement in the loan portfolio quality**, which led to a higher net release of credit risk provisions. The increase of operating result directly contributed to **improvement in the cost/income ratio to 47.7%** from 48.6% in the first three quarters of 2017.

The net interest income generated in the first three quarters of 2018 **amounted to CZK 20.2 bn, which is 8.5% more than for the same period of the last year.** An increase in net interest income, a major contributor to operating income, was mainly influenced by strong loan growth and the interest rate hikes imposed by the Czech National Bank. Despite raising interest rates, the net interest income related to interest-bearing assets (net interest margin) decreased to 2.13%. The reason behind is a high volume of low interest earning trades with the ČNB and continuous

margin pressure in the market. Excluding exceptional growth of low interest earning assets, the net interest margin declined from 2.93% to 2.68%.

Net fee and commission income decreased by 4.2% to CZK 6.4 bn year-on-year, driven by shrinking income from payment services associated with a growing share of free current accounts. By contrast, ČS achieved higher fee income from securities and asset management (by 10.2% y/y) and sale of insurance products (by 9.8%).

The net trading result decreased by 24.1%, to CZK 1.7 bn year-on-year, being affected by lower income from FX transactions and by extraordinary demand for hedging activities in Q1 2017 (in connection with the expected termination of the CNB's currency interventions). On the other hand, **gains from financial instruments measured at FV through P/L** increased by CZK 0.3 bn, due to revaluation of ČS's equity stake in Kooperativa pojišťovna (insurance company).

Despite growing inflation in the Czech Republic, the total operating expenses increased by 2.0% (below the inflation rate) to CZK 13.7 bn, due to higher personnel expenses following an increase in salaries. Other administrative expenses remained flat year-on-year. Higher IT expenses and a higher contribution to the Deposit Insurance Fund (in connection with a growing deposit volume) were offset by lower costs for office space and business operations. Depreciation of tangible and intangible assets decreased as a result of lower depreciation of IT assets.

Impairment result on financial instruments (i.e., creation of on balance risk provisions for loans and advances, guarantees and unused limits) **reached a net release of risk provisions CZK 1.1 bn**. Further improvement of the loan portfolio arrived on the back of exceptional **recoveries of several large corporate clients and by quality improvements in retail segments**.

As of 30 September 2018, **total consolidated assets amounted to CZK 1,398.1 bn and increased by 5.3% from 1 January 2018**. There was a change in the structure of assets compared to the beginning of 2018. The volume of loans and advances to customers and banks, including reverse repo operations with the ČNB, went up significantly. Also debt securities at amortised costs showed an increase. On the contrary, cash and deposits with the Czech National Bank dropped sharply. On the liability side of the balance sheet, deposits from customers and banks, including repo operations, went up.

Equity attributable to owners of the parent stood at CZK 117.0 bn at the end of September 2018. **The total capital ratio** for the Česká spořitelna Group as of 30 September 2018 **reached 17.6%**.

In the third quarter of 2018, Česká spořitelna continued with a fast pace of loan growth. The gross volume of customer loans adjusted for reverse repo operations increased by 9.7% to CZK 701.4 bn year-on-year. **The reported figure** (including reverse operations) **went up by 10.0% to CZK 733.1 bn**. Of that, the portfolio of **retail loans (bank only) amounted to CZK 375.6 bn**, representing a **year-on-year increase of 10.4%** driven by **continued double-digit growth in private mortgages (up by 11.1%), by loans to small companies and by consumer loans (up by 7.5%)**. **The volume of wholesale** (Corporate and Group Markets) **loans, excluding reverse repo operations, increased by 8.5% year-on-year to CZK 258.2 bn**, due to **strong growth in loans to large corporate customers (up by 10.9%) and to SMEs (up by 9.7%)**.

Group deposits from customers excluding the impact of repo operations grew by 4.7% to CZK 904.4 bn year-on-year. The reported figure increased by 6.9% to CZK 939.7 bn. Household (retail) deposits went up by 8.5% y/y to CZK 660.3 bn. Group corporate deposits went up by 1.1% to CZK 196.2 bn. Public sector deposits increased by 8.6% to CZK 83.2 bn from September 2017.

As of 30 September 2018, the total number of clients of the ČS Group was 4.64 m. The overall number of active payment cards issued by ČS reached 2.85 m, of which credit cards represented 180 thousand. The volume of card transactions executed at retail outlets with Česká spořitelna's cards in the first three quarters of 2018 was up by 15.7% compared to the same period last year, to CZK 133.2 bn. The number of Česká spořitelna's ATMs and transaction terminals increased by 73 year-on-year to 1,728.

FINANCIAL DATA		1-9 17	1-9 18	Year-on-Year Change
Income statement (CZK m)	Net interest income	18,607	20,185	8.5%
	Net fee and commission income	6,642	6,362	-4.2%
	Net trading result	2,178	1,653	-24.1%
	Rental income, dividends and other income	265	530	100.0%
	Operating income	27,691	28,729	3.7%
	Operating expenses	-13,436	-13,705	2.0%
	Operating result	14,255	15,024	5.4%
	Gains/losses from derecognition of financial instruments not measured at FV through profit or loss	269	62	-77.0%
	Impairment result from financial instruments	470	1,126	>100%
	Other operating result	-456	-1,431	>100%
	Taxes on income	-2,844	-2,943	3.5%
	Post-tax result from continuing operations	11,694	11,838	1.2%
	Net profit attributable to non-controlling interests	-10	-8	-20.0%
	Net profit attributable to owners of the parent	11,704	11,846	1.2%
Balance sheet (CZK m)	Loans and receivables to customers (gross)*	666,350	733,138	10.0%
	Deposits from customers	879,129	939,712	6.9%
	Equity attributable to owners of the parent**	119,583	116,994	-2.2%
Ratios	Return on equity (ROE)	12.8%	13.1%	0.3 pp
	Cost/income	48.6%	47.7%	-0.9 pp
	Loan to deposit ratio	74.3%	76.6%	2.3 pp
	Total capital ratio	18.0%	17.6%	-0.4 pp

Note: 2017 structure adjusted in order to ensure comparability with 2018 (IFRS 9). No restatement for 2017 has been done.

* Customer loans influenced by reverse repo operations; excl. this effect customer loans increased by 9.7% y/y

** Figure as at 30 September 2018 in comparison with figures as at 1 January 2018

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

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