

Česká spořitelna continued with excellent operating performance in Q1-3 2019. Consolidated net profit increased by 9.5% to CZK 13.0 bn, operating result rose by 11.8%

As at 30th September 2019, Česká spořitelna reported an unaudited consolidated net profit of CZK 13.0 bn, according to International Financial Reporting Standards (IFRS). Net profit for the same period of 2018 amounted to CZK 11.8 bn. Net profit thus increased by 9.5% in a year-on-year comparison. Operating result recorded even double-digit growth – up by 11.8% to CZK 16.8 bn.

“Our Financial Group has experienced an extraordinary third quarter this year. We are pleased to confirm Česká spořitelna’s excellent position in time for our parent group Erste’s 200th anniversary celebration. Strong retail and corporate customer trust saw in a year-on-year comparison lending increase by 5.4% to CZK 739.2 bn, while the volume of deposits grew by 14.8%. We were also successful in improving overall efficiency, our cost to income ratio improved to 46.0%, while our operating results expanded. Our mobile banking platform George has been very successful and is now used by over 700,000 customers. Thanks to them Česká spořitelna has grown into the bank with the largest number of active mobile banking users in the Czech Republic,” said CEO of Česká spořitelna Tomáš Salomon.

MAIN INDICATORS

The Czech economy has continued to benefit from a favourable macroeconomic development, in spite of the gradual slowdown of economic growth. **Growth of consumption of Czech households has carried on, driven by low unemployment and positive sentiment of households.**

The largest contributor to the growth of operating result was net interest income in connection with growing lending business and supported by interest rate hikes by Czech National Bank. Significant drivers of the operating result were also net fee and commission income and net trading result. Outstanding operating performance is also shown in the **substantial improvement of cost/income ratio to 46.0% from 47.7% in Q1-3 2018.**

Net interest income, the most important component of operating income, **recorded another significant increase. Net interest income grew by 10.2% to CZK 22.2 bn compared to Q1-3 2018.** This increase was driven by customer loan growth, increasing income from debt securities and interest rate hikes by ČNB during 2018 and 2019. **Net interest margin related to interest-bearing assets slightly decreased from 2.13% in Q1-3 2018 to 2.08%.** The decline was due to a high volume of low interest earning transactions with ČNB and continuing competitive pressure at the banking market. Net interest margin calculated on core business (loans to retail and corporate clients and deposits from retail and corporate clients) increased from 2.67 % in Q1-3 2018 to 2.85%.

Net fee and commission income rose in Q1-3 2019 by 4.1% year-on-year to CZK 6.6 bn. Česká spořitelna managed to increase fee income especially from asset management, custody and card business.

Net trading result grew by 22.3% y/y to CZK 2.0 bn. This result was attributed mainly to higher income from FX transactions and revaluation gains from derivatives position.

Total operating expenses rose by 4.5% in a year-on-year comparison, to CZK 14.3 bn. Personnel expenses grew by 6.0%, mainly due to increase in salaries. **Other administrative expenses declined by 4.1%** despite a higher contribution to the Deposit Insurance Fund. The decrease was also attributed to **IFRS 16 implementation which caused structural changes in the income statement**, mainly between other administrative expenses (decrease) and depreciation of tangible and intangible assets (increase).

Impairment result on financial instruments (i.e., creation of risk provisions and reserves for loans and advances, guarantees and commitments) **reached CZK 0.2 bn.** In spite of a positive impact on income statement, it meant a year-on-year worsening, due to high release of credit risk provisions caused by unexpected recoveries in corporate business in Q1-3 2018. Loan portfolio is in a very good condition with a limited inflow of new defaults and strong provision coverage.

Other operating result of CZK -0.8 bn consisted mainly of other income and costs unrelated to common activity of the Group, creation of provisions and result from sale or revaluation of tangible and intangible assets. **Year-on-year improvement of other result was attributed to impairment on building in Q1-3 2018, which was partly offset by higher contribution to Recovery and Resolution Fund in 2019.**

As at 30th September 2019, total consolidated assets amounted to CZK 1,573.9 bn, which meant 10.3% increase compared to 31st December 2018. The rise of loans and advances to customers and banks, including reverse repo operations with ČNB, continued also in Q1-3 2019 and debt securities at amortised cost kept growing as well. On the liability side of the balance sheet, deposits from customers significantly increased.

Customer loans continued growing in Q1-3 2019. **The gross volume of ČS Group customer loans adjusted for reverse repo operations increased by 5.4% to CZK 739.2 bn year-on-year.** (The reported figure, including reverse repo operations, grew by 1.7%.) The portfolio of **retail loans (bank only) amounted to CZK 401.5 bn**, representing a **year-on-year increase of 6.9%** driven by **private mortgages (+8.2%), loans to small companies (+5.8%) and consumer loans (+3.1%).** **The volume of wholesale** (Corporate and Group Markets, bank only) **loans, excluding reverse repo operations, increased by 3.7% year-on-year to CZK 267.7 bn**, due to **strong growth of loans to local large corporate customers (+8.7%) and commercial real estate (+13.5%).**

Group deposits from customers grew by 14.8% to CZK 1,079.1 bn compared to 30th September 2018. Household (retail) deposits rose by 6.6% to CZK 704.0 bn. Group corporate deposits went slightly up by 0.6% to CZK 197.4 bn and public sector deposits increased substantially, due to inflow of volatile short term deposits, by 113.6% to CZK 177.7 bn in a year-on-year comparison.

Equity attributable to owners of the parent stood at CZK 133.8 bn as at 30th September 2019, which was 9.2% more than at the end of the year 2018. **The total capital ratio for Česká spořitelna Group as at 30th September 2019 reached 20.2%**, significantly above minimum regulatory capital requirements.

As at 30th September 2019, the **total number of the ČS Group customers** was **4.6 m**, of which approx. **1.57 m** used **digital banking in Q1-3 2019**. The overall number of active payment cards issued by ČS increased by **1.9% year-on-year** and reached **2.91 m**. Thereof **credit cards represented 173 thousand**. The volume of card transactions executed at retail outlets in Q1-3 2019 with Česká spořitelna's cards compared to Q1-3 2018 **was up by 15.6% to CZK 154.0 bn**. The number of Česká spořitelna's **ATMs and transaction terminals** increased by 63 year-on-year to **1,791**.

FINANCIAL DATA		1-9 18	1-9 19	Year-on-Year Change
Income statement (CZK m)	Net interest income	20,185	22,240	10.2%
	Net fee and commission income	6,362	6,625	4.1%
	Net trading result	1,653	2,021	22.3%
	Rental income, dividends and other income	529	228	-56.9%
	Operating income	28,729	31,114	8.3%
	Operating expenses	-13,705	-14,318	4.5%
	Operating result	15,024	16,796	11.8%
	Gains/losses from derecognition of financial instruments not measured at FV through profit or loss	62	-21	-
	Impairment result from financial instruments	1,126	152	-86.5%
	Other operating result	-1,431	-755	-47.2%
	Taxes on income	-2,943	-3,192	8.5%
	Post-tax result from continuing operations	11,838	12,980	9.6%
	Net profit attributable to non-controlling interests	-8	9	-
Net profit attributable to owners of the parent	11,846	12,971	9.5%	
Balance sheet (CZK m)	Loans and advances to customers (gross)*	733,138	745,870	1.7%
	Deposits from customers**	939,712	1,079,136	14.8%
	Equity attributable to owners of the parent	116,994	133,778	14.3%
Ratios	Return on equity (ROE)	13.1%	13.5%	0.4pp
	Cost/income	47.7%	46.0%	-1.7pp
	Loan to deposit ratio	76.6%	68.0%	-8.6pp
	Total capital ratio	17.6%	20.2%	2.6pp

* Customer loans influenced by reverse repo operations; excl. this effect customer loans increased by 5.4% y/y

** Since 2019 includes deposits from customers at amortised cost, deposits from customers at FV through profit or loss and finance lease liabilities to customers

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

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