

Česká spořitelna's Consolidated Net Profit reached CZK 11.7 bn in the first three quarters 2017

As of 30 September 2017, Česká spořitelna reported unaudited consolidated net profit of CZK 11.7 bn, according to International Financial Reporting Standards (IFRS). In the same period of 2016, it amounted to CZK 11.9 bn thanks to sale of equity stake in Visa Europe. Net profit, for that reason, dropped by 1.8% in a year-on-year comparison. Significant growth in customer loans continues successfully; their gross volume excluding reverse repo operations was up by 9.1% in the last 12 months, reported growth was 13.7%.

“The growth of mortgage, consumer and corporate loans provides clear evidence that Czech households and corporations are doing well. Their good condition has been mirrored also in the decreasing volume of non-performing loans,” said Česká spořitelna's CEO Tomáš Salomon. “More than 630 000 customers who are taking advantage of My Healthy Finance service confirm that the Czechs can exploit their potential to manage their finance more economically.”

MAIN INDICATORS

The Czech economy is going through a favourable period. Economic recovery in the Eurozone has increased demand for Czech products abroad, which is in turn strengthening the labour market and thus the development of domestic demand. These developments are reflected in accelerated growth in loans, excluding reverse repo operations by 9.1%, to CZK 639.1 bn (reported growth by 13.7% to CZK 666.3 bn), compared to the same period last year. **Accounting for this success are loans granted to households, particularly mortgages, as well as loans to corporations and entrepreneurs.**

Net profit in the first three quarters amounted to CZK 11.7 bn. **Aside from growing loans, the volume of net profit is favourably influenced by the improving quality of the loan portfolio and increased net trading result.** Compared to the results from Q1 to Q3 2016, net profit was down by 1.8%. Last year's net profit was significantly influenced by the sale of shares in Visa Europe; net of that influence, year-on-year net profit would have been up by 8.7%.

The operating result was down by 6.3%, to CZK 14.3 bn, due to a drop in net interest income and net fee and commission income, and an increase in operating expenses compared to the same period last year. The Cost/Income Ratio was thus up to 48.5% from 46.5%.

Net interest income amounted to **CZK 18.6 bn**, which is **3.0% less** compared to Q1-Q3 2016. Declining net interest income reflects pressure on interest margins and maturing high-yielding bonds. In Q3 2017, **slight recovery was visible** as net interest income increased by 1.4% compared to Q2 2017 due to growing interest income from loans and ČNB interest rate hike in August. Net interest margin excluding exceptional growth of interest-earning assets (in connection with the exit from the ČNB's foreign exchange interventions) decreased to 2.82% in a year-on-year comparison. Reported figure went down to 2.66% from 3.15%, reflecting sustained pressure on clients' margins and surge in reverse repo operations.

Net fee and commission income noted a reduction **by 3.7%, to CZK 6.6 bn** in a year-on-year comparison, in connection with dropping income from lending business and payment transfers. On the other hand, **income from fees for investment products rose by 27%** in a year-on-year comparison, in particular from mutual funds, asset management, and securities-related custodian services and management. Income from the sale of insurance products also grew significantly.

Net trading result was up by 9.2%, to CZK 2.2 bn in a year-on-year comparison. Česká spořitelna successfully increased its income from FX transactions and the sale of FX derivatives to clients.

Total operating expenses were up by 1.5% compared to the same period of 2016, **to CZK 13.4 bn**. Of greatest impact on the growth of expenses were personnel expenses due to regular salary increase. In terms of administrative expenses, expenses on office space were down, whereas expenses on information technologies were up. The contribution to the Deposit Insurance Fund was also up, in connection with the increase in the volume of deposits. Depreciation of tangible and intangible assets remained flat.

The net gains from financial assets not measured at fair value item noted a significant drop in connection with the above-mentioned sale of shares in Visa Europe last year (CZK 1.4 bn before tax).

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) reached the positive level of **CZK 0.5 bn, which means a significant improvement** as compared to the same period last year. This good result was due to the improving quality of the loan portfolio, recoveries in several large corporate clients reflecting improvement in their financial situation and gradual recoveries in retail segment.

Total consolidated assets amounted to **CZK 1,321.0 bn** as of 30 September 2017. **It was up by 21.7%** in comparison with September 2016. In a year-on-year comparison, there was a change in the structure of assets, with the volume of loans to customers and banks and deposits with the Czech National Bank being up. On the liability side of the balance sheet, deposits from customers and interbank deposits were up.

Equity attributable to owners of the parent amounted to **CZK 118.8 bn**, which means a moderate **increase by 0.5%**. Total capital ratio for the Česká spořitelna Group as at 30 September 2017 amounted to 18.0%.

In 2017, **Česká spořitelna** managed to **further accelerate growth in loans**, both in the retail and corporate segments. **The gross volume of customer loans excluding reverse repo operations was up by 9.1% year on year, to CZK 639.1 bn**, reported figure grew by 13.7% to CZK 666.3 bn. Of that, the portfolio of **retail loans (bank**

only) amounted to **CZK 340.4 bn**, which represents a year-on-year **increase by 6.5%** (net of the impact of re-segmentation in Q4 2016 by 9.4%), primarily due to double-digit growth in mortgages to individuals (by 11.9%). **Volume of wholesale** (Corporate and Group Markets) **loans excluding impact of resegmentation and reverse repo operations increased by 8.6%** driven by loans to SMEs, large corporate clients and public sector. Reported growth was 24.6%.

Group deposits from customers amounted to **CZK 879.1 bn**, and **grew by 13.8%** compared to the same period last year. **Retail deposits increased by 8.4%**, to **CZK 608.0 bn**, owing to increasing deposits in Personal accounts and saving deposits. **Group corporate deposits were up significantly by 40.6%**, to **CZK 194.5 bn**, the reason was placing their overliquidity with ČS. Public sector deposits increased by 4.9%, to CZK 76.6 bn.

As at 30 September 2017, the **total number of clients of ČS Group** was **4.67 m**. The number of activated direct banking clients using **SERVIS 24** and **BUSINESS 24** amounted to **1.82 m** which is an **increase by 5.6%** year-on-year. **The overall number of active payment cards** issued reached **2.89 m**, of which credit cards represent 191 thousand. The **volume of card transactions** executed at retail outlets with Česká spořitelna's cards in first three quarters of 2017 was up by 16.2%, to CZK 115.1 bn. **The number of Česká spořitelna ATMs and transaction terminals** increased by 57, to **1,655 units**.

FINANCIAL DATA		1-3Q 2016	1-3Q 2017	Year-on-Year Change
Income statement (CZK m)	Net interest income	19,186	18,607	-3.0%
	Net fee and commission income	6,898	6,642	-3.7%
	Net trading result	1,995	2,178	9.2%
	Rental income, dividends and other income	374	264	-29.4%
	Operating income	28,453	27,691	-2.7%
	Operating expenses	-13,232	-13,436	1.5%
	Operating result	15,221	14,255	-6.3%
	Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	1,423	269	-81.1%
	Net impairment loss on FA not measured at FV through P/L	-1,063	470	-
	Other operating result	-599	-456	-23.9%
	Taxes on income	-3,057	-2,844	-7.0%
	Post-tax result from continuing operations	11,925	11,694	-1.9%
	Net profit attributable to non-controlling interests	1	-10	-
	Net profit attributable to owners of the parent	11,924	11,704	-1.8%
Balance sheet (CZK m)	Loans and receivables to customers (gross)*	585,955	666,350	13.7%
	Deposits from customers	772,283	879,129	13.8%
	Equity attributable to owners of the parent	118,240	118,776	0.5%
Ratios	Return on equity (ROE)	13.2%	12.8%	-0.4 pp
	Cost/income	46.5%	48.5%	2.0 pp
	Loan to deposit ratio	73.9%	74.4%	0.5 pp
	Total capital ratio	19.4%	18.0%	-1.4 pp

*Customer loans influenced by reverse repo operations, excl. this effect customer loans increased by 9.1% y/y. For more details, please see www.csas.cz.

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