

# Česká spořitelna – 1-3Q 2017 consolidated results (unaudited, IFRS)

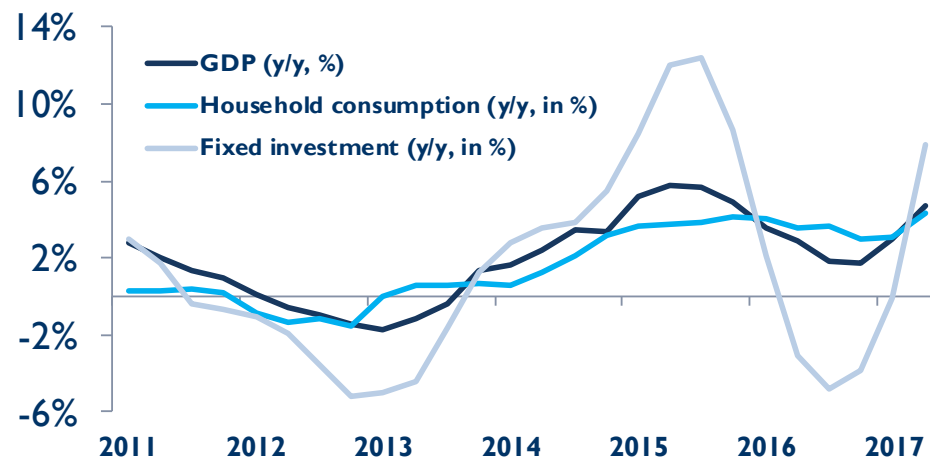
3 November 2017

**Successful business development and persisting improvement  
of loan portfolio quality**

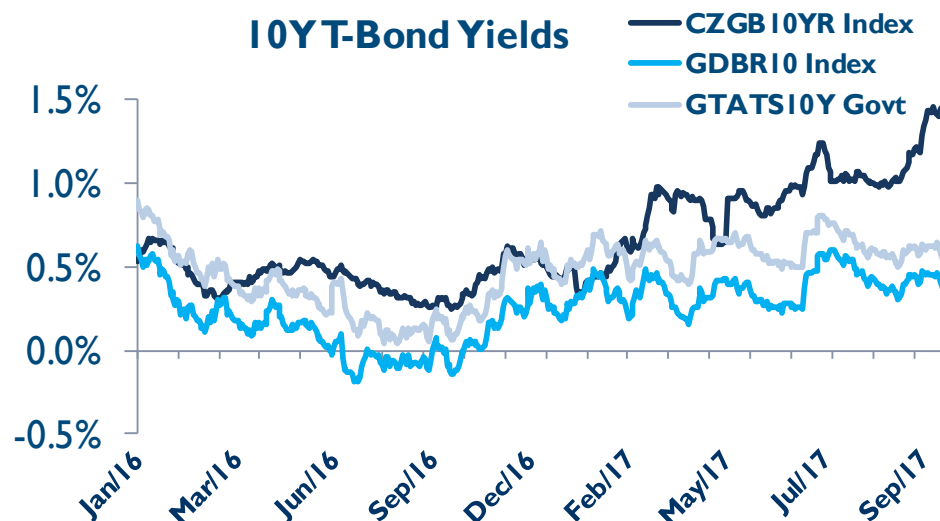
# Executive summary – Strong Czech economy

- Due to favourable economic development, the pro-inflationary risk of capital outflow and a significant increase in property prices, the 2W repo rate was raised from 0.05% to 0.25% in August 2017. On 2 November **ČNB increased interest rates by 25bp to 0.5%**, due to the risk of economy overheating
- The **EUR/CZK has appreciated recently**, as a reaction to the monetary policy tightening, hawkish tone of ČNB Bank Board members and favourable development of the economy. We expect it to stay approx. at 25.6-25.7 for the rest of this year, as appreciation tendencies will be mitigated by capital outflow
- The **GDP growth** arrived at **4.7% y/y** in Q2 2017 as it was positively influenced by both, domestic and foreign demand. **We expect GDP growth to come in at 4.1% in 2017**, mainly due to the improved economic situation in the Eurozone
- Headline **inflation** arrived at **2.7% in September**. Solid domestic demand, high wage growth and food prices are currently the most important pro-inflationary factors
- The situation in the labour market has become very tight, mainly due to the lack of new available employees. The **unemployment rate** arrived at **2.7%** in September and nominal wage growth accelerated in Q2 2017 (7.6% y/y)
- **Yields on Czech government bonds have increased recently**, mainly due to the inflation development and higher interest rates

Growth of GDP, household consumption and investments



10YT-Bond Yields



## Executive summary –

Financial results reflect growing loan portfolio and improved portfolio quality

### Net profit

Net profit of Česká spořitelna decreased by 1.8% y/y to CZK 11.7 bn due to one-off income from sale of equity stake in Visa Europe in 2016. Excluding Visa Europe net profit rose by 8.7% y/y, positively impacted by credit risk development

### Operating result

Operating result decreased by 6.3% y/y, reflecting drop of operating income and growth of operating expenses

- Decline of operating income caused mainly by drop of net interest income and net fee income
  - Net interest income improved in Q3 2017 (+1.4% q/q) supported by loan growth and interest rate hike in August 2017
- Operating expenses slightly increased (+1.5% y/y) due to regular increase of salaries in Q2 2017, higher contribution to Deposit insurance fund and investments in IT

### Capital ratio

Capitalisation of ČS Group is still very strong, total capital ratio stands at 18.0%, Tier 1 ratio at 17.5%

## Executive summary –

Strong loan growth, significantly improved risk costs and growing coverage

### Lending

Group customer loans (gross), excluding reverse repo operations increased by 9.1% y/y, driven by private mortgages and loans to corporate customers. Reported growth of total customer loans was 13.7%

- Newly granted private mortgages increased by 12.0% y/y to CZK 45.3 bn in 1-3Q 2017 translated in market share growth to 28.0%. Mortgage loan outstanding increased by 11.9% y/y
- Consumer loans added 1.7% y/y
- Wholesale\* underlying loans (excl. reverse repos and impact of resegmentation) boosted by 8.6% y/y

### Risk costs

Risk costs significantly improved from 24 bp to underlying -10 bp y/y reflecting limited inflow of new defaults and recoveries in corporate segment

- Share of NPLs reduced to underlying 2.2% y/y (from 3.3% in Sept 2016), driven by write-offs in retail loans and outstanding recoveries in wholesale
- NPL coverage by credit risk provisions at strong 88%, total coverage stable at 120%

### Investments

Increasing demand for more advantageous investment products evidenced in growing assets in pension funds of ČSPS (up by 8.7% y/y) and in domestic and foreign mutual funds (up by 14.6% y/y)

# 1-3Q 2017 Business highlights – Retail



## ■ My Healthy Finance

**630,000 clients** are optimising their family budgets with the “My Healthy Finance” service. “Good tips” help them to attain higher savings. Improved function “**Left Until Paycheck**” allows clients to find out their account balance after all payments already entered or likely to be deducted. New feature “**Saving Envelopes**” automatically transfers a set amount to a specific envelope, for a specific purpose. Clients also receive tips; how much they should put away, or how much time until they reach the goal



## ■ Internet Banking

Modern internet banking known as **George** enables effective management of personal finance. For the initial phase nearly 90,000 clients have signed, of which two-thirds are repeated users



## ■ Mortgages on-line

We are the first bank on the market to have enabled clients **to arrange everything involved in getting a new mortgage on-line**. Naturally, clients can also **refinance their mortgage** entirely on-line



## ■ Investments

- **ČS nemovitostní fond** has added two new commercial properties in Poland to its real estate portfolio – the **Proximo administrative building** in Warsaw and the **Galeria Słoneczna shopping centre** in the town of Radom. ČS nemovitostní fond's portfolio now consists of 13 buildings with a market value exceeding CZK 19 bn. Over 59,000 shareholders have invested in the fund
- We confirmed our position as the **leader in the distribution of mutual funds** on the Czech market. Presently, we are **managing more than CZK 120 bn**, which counts for **more than a quarter of the whole market**



## ■ Branches

Our new model **enhances the role of advisory services** provided at branches. This new concept includes three types of branches – small, medium and large. In Q3, we opened a new, large “flagship” branch in Prague 8



## ■ Bankassurance

We are **enhancing** our position on the **non-life insurance market**. We are starting to sell **household and real estate insurance**, and plan to offer **car insurance** and **insurance for smaller companies**

# 1-3Q 2017 Business highlights – Corporates



## Supporting SME

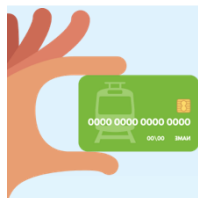
Support for the **SME segment is our strategic priority**. An example is the corporation MB TOOL, which – also thanks to our support – has developed from a small enterprise with five employees into a major supplier of the Volkswagen Group

We became the first large bank to sign an agreement on cooperation in the **“Expanze” programme** that offers **interest-free investment loans to small and medium-sized enterprises** operating in areas such as the manufacturing industry and services



## Payment System

We helped to enable **T-Mobile’s clients to pay their bills on-line** using the **“PLATBA 24”** service. We expect that the service will be newly used by approximately 30,000 clients. The popularity of our **“PLATBA 24”** service continues to grow. It is actively used by 130,000 clients every month



## The Public Sector

We are **becoming the leader in the introduction of advanced payment systems for mass public transport**, regional transport, parking, and electronic fee payments. In Brno, we helped to launch an on-line portal, where passengers can pay fares using a bank card, and use their card as proof of fare payment. We are working on a similar solution for Prague. We have also been involved in the introduction of on-line parking systems in Prague and Liberec



## Social Banking

Focuses on **non-profits and social enterprises** that ČS wants to support through education, consultancy, and preferential financing in order **to be self-sufficient**, so as not to be dependent on grants and subsidies in the long-term



## Helping Large Companies

**Česká spořitelna helped to finance a new club loan for HP Tronic** (CZK 1.9 bn and EUR 11.3 m). Its purpose was refinancing of all existing bank loans, financing a new logistic centre and co-financing of an acquisition of an 80% interest in Datart, a.s. HP Tronic will now be able to develop as a stable, efficient, and profitable entity

# Presentation topics

- Česká spořitelna
  - Financial performance analysis
- Macroeconomic developments
  - Economic trends in details
- Banking market
  - Czech banking market developments
  - Česká spořitelna market shares
- Appendix

## Financial statements – Income statement (CZK m)

	1-9 16	1-9 17	Change
Net interest income	19,186	18,607	-3.0%
Net fee and commission income	6,898	6,642	-3.7%
Dividend income	60	54	-10.0%
Net trading result	1,995	2,178	9.2%
Result from financial assets and liabilities designated at FV through profit or loss	-66	7	-
Net result from equity method investments	-1	-13	>100%
Rental income from investment properties & other operating leases	381	216	-43.3%
General administrative expenses	-13,232	-13,436	1.5%
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 financial assets not measured at fair value through profit or loss	-1,063	470	-
Other operating result	-599	-456	-23.9%
Pre-tax result from continuing operations	14,982	14,538	-3.0%
Taxes on income	-3,057	-2,844	-7.0%
Post-tax result from continuing operations	11,925	11,694	-1.9%
Net result for the period			
Net result attributable to non-controlling interests	1	-10	-
<b>Net result attributable to owners of the parent</b>	<b>11,924</b>	<b>11,704</b>	-1.8%
Operating income	28,453	27,691	-2.7%
Operating expenses	-13,232	-13,436	1.5%
Operating result	15,221	14,255	-6.3%
Cost/income ratio	46.5%	48.5%	
Return on equity	13.2%	12.8%	



# Financial statements – Balance sheet I (CZK m)

## Assets

Assets	Dec 16	Sep 17	Change
Cash and cash balances with central banks	173,100	231,204	33.6%
Financial assets - held for trading	20,944	11,557	-44.8%
Derivatives	13,357	11,310	-15.3%
Other trading assets	7,587	247	-96.7%
Financial assets - designated at fair value through profit or loss	423	411	-2.8%
Financial assets - available-for-sale	81,274	57,523	-29.2%
Financial assets - held to maturity	167,899	160,751	-4.3%
Loans and receivables to credit institutions (net)	22,328	183,648	>100%
Loans and receivables to customers (net)	577,453	654,195	13.3%
Derivatives - hedge accounting	519	436	-16.0%
Property and equipment	10,456	9,939	-4.9%
Investment properties	2,390	2,372	-0.8%
Intangible assets	4,284	4,266	-0.4%
Investments in associates and joint ventures	753	741	-1.6%
Current tax assets	611	630	3.1%
Deferred tax assets	136	712	>100%
Assets held for sale	320	125	-60.9%
Other assets	3,636	2,444	-32.8%
<b>Total assets</b>	<b>1,066,526</b>	<b>1,320,954</b>	<b>23.9%</b>

# Financial statements – Balance sheet II (CZK m)

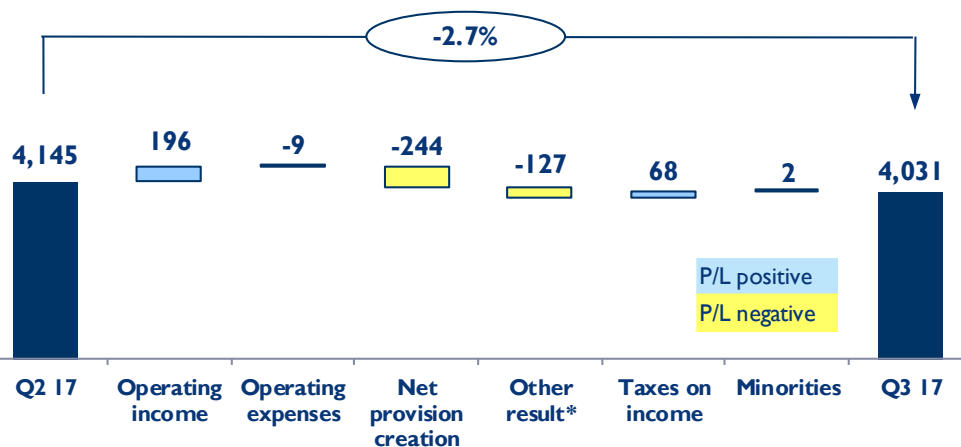
## Liabilities

Liabilities and equity	Dec 16	Sep 17	Change
Financial liabilities - held for trading	17,982	17,472	-2.8%
Derivatives	13,877	11,658	-16.0%
Other trading liabilities	4,105	5,814	41.6%
Financial liabilities designated at fair value through profit or loss	1,997	1,315	-34.2%
Deposits from customers	1,997	1,315	-34.2%
Financial liabilities measured at amortised cost	911,350	1,169,586	28.3%
Deposits from banks	114,282	281,000	>100%
Deposits from customers	786,876	877,814	11.6%
Debt securities issued	9,173	8,840	-3.6%
Other financial liabilities	1,019	1,932	89.6%
Derivatives - hedge accounting	452	1,389	>100%
Provisions	2,909	2,727	-6.3%
Current tax liabilities	109	152	39.4%
Deferred tax liabilities	188	136	-27.7%
Liabilities associated with assets held for sale	125	0	-100.0%
Other liabilities	9,684	9,250	-4.5%
<b>Total equity</b>	<b>121,730</b>	<b>118,927</b>	<b>-2.3%</b>
Equity attributable to non-controlling interests	166	151	-9.0%
Equity attributable to owners of the parent	121,564	118,776	-2.3%
<b>Total liabilities and equity</b>	<b>1,066,526</b>	<b>1,320,954</b>	<b>23.9%</b>

# Financial performance – Executive summary

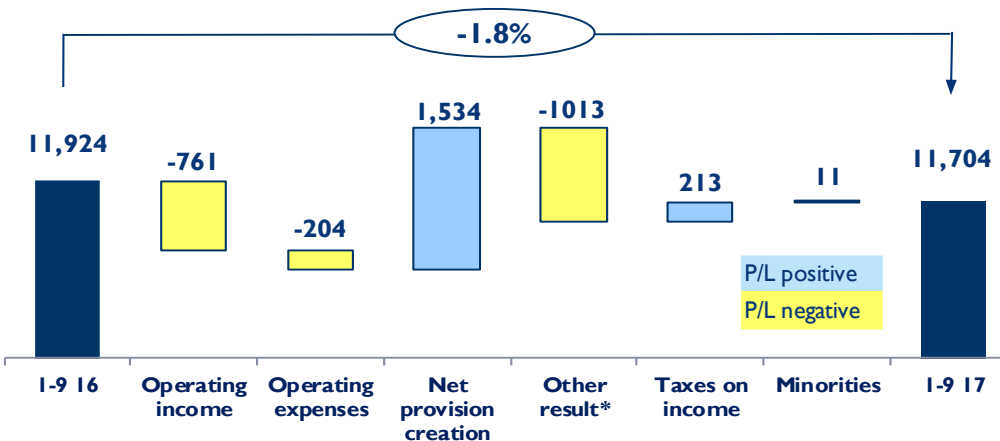
## Decrease of net profit caused by one-off income in H1 2016 (Visa)

Q/Q net profit reconciliation (CZK m)



- Q/Q decrease of net profit caused by lower net release of credit risk provisions and worse other result (allocation of reserve for guarantees in Q3 2017), partly offset by higher operating income
- Net interest income raised by 1.4% q/q reflecting loan growth and ČNB interest rate hike
- Net trading result up by 22.7% due to negative revaluation of derivatives in Q2 2017
- Net fee income almost flat (-0.5%)
- Operating expenses maintained at Q2 2017 level
- Lower net release of credit risk provisions caused by significant releases in Q2 2017

Y/Y net profit reconciliation (CZK m)



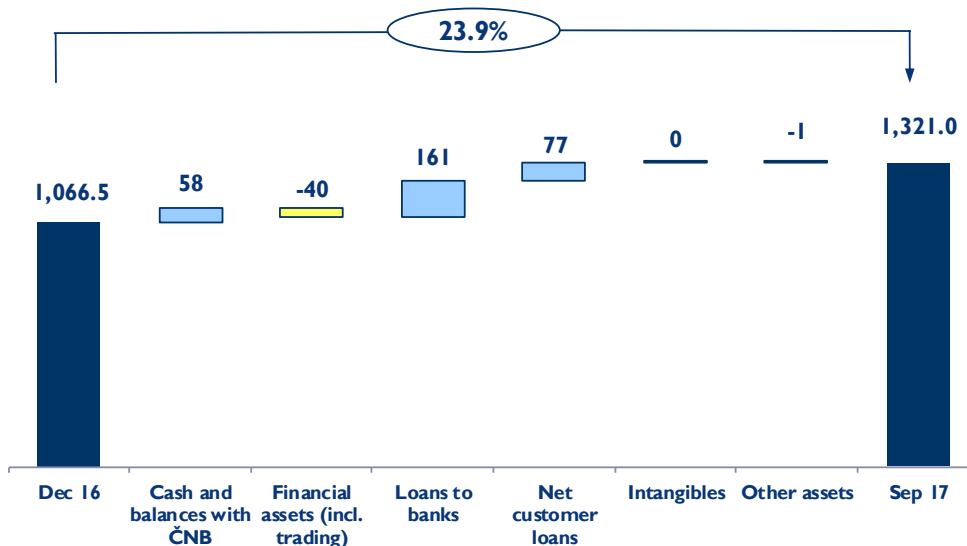
- Y/Y decrease caused by one-off income from sale of equity stake in Visa Europe in 2016 (CZK 1.4 bn). Net profit supported by net release of risk provisions and by income from sale of bonds from AFS portfolio (CZK 273 m visible in other result)
- Decline of operating income attributed to decrease of net interest income and net fee income; net trading result rose by 9% /details on next slides/
- Growth of operating expenses driven by personnel expenses and investments in IT
- Net release of credit risk provisions reflected recoveries in wholesale and retail and negligible volume of new defaults

\* Includes Gains/losses from financial assets and liabilities not measured at fair value and Other operating result

# Financial performance – Executive summary

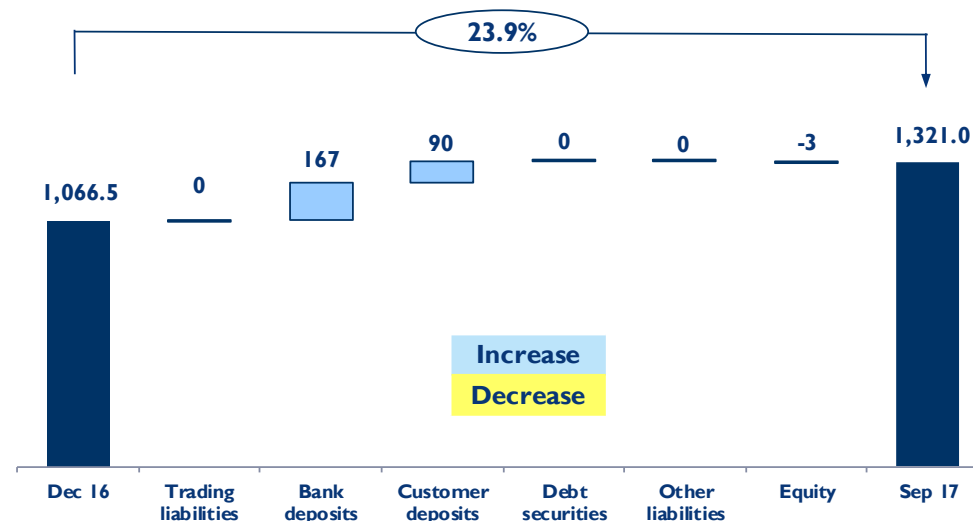
Balance sheet influenced by huge inflow of liquidity in connection with FX interventions

YTD total asset reconciliation (CZK bn)



- Asset side of the B/S reflects placing of significant inflow of liquidity to ČNB
- Growth of loans to banks caused mainly by reverse repo operations with ČNB
- Increase of customer loans driven by both retail and corporate segments
  - Influenced by growth of reverse repo operations
  - Net loans excluding reverse repo operations grew by 8.6% since YE 2016

YTD total liability reconciliation (CZK bn)

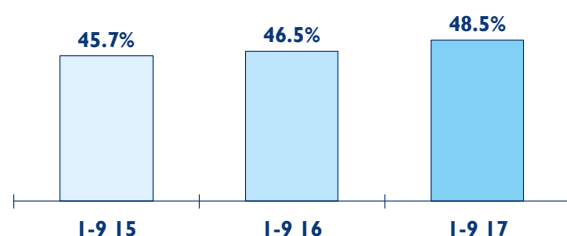


- Liability side mirrors significant inflow of liquidity into CR in connection with FX interventions of ČNB (mainly in Q1 2017)
- Bank deposits growth was driven by repo operations
- Group customer deposits increased by 11.4% since YE 2016
  - Deposits in parent bank up by 14.2%, driven by corporate deposits (+34.0%) and deposits from public sector (+33.4%); deposits from private individuals grew by 6.4% since YE 2016

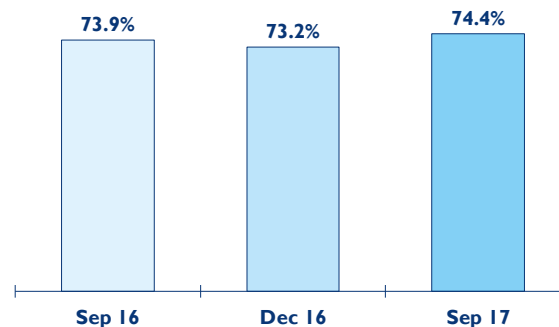
# Financial performance – Executive summary

## Sound capitalisation, ongoing branch optimisation

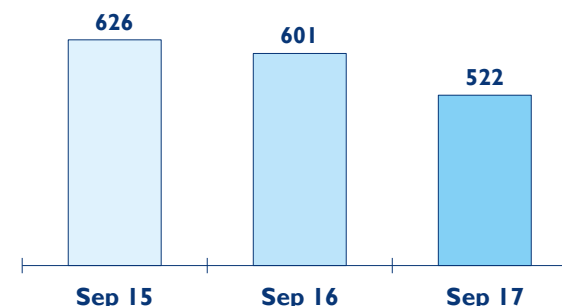
Cost/income ratio



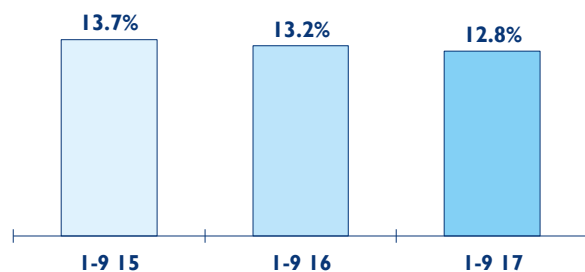
Loan/deposit ratio



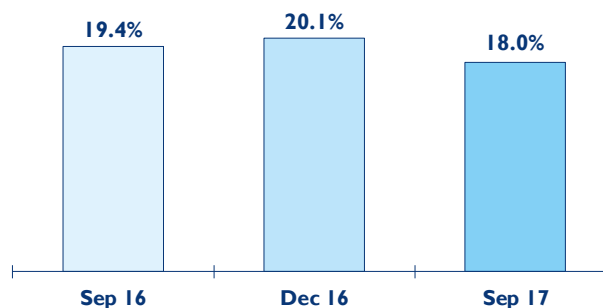
Number of branches



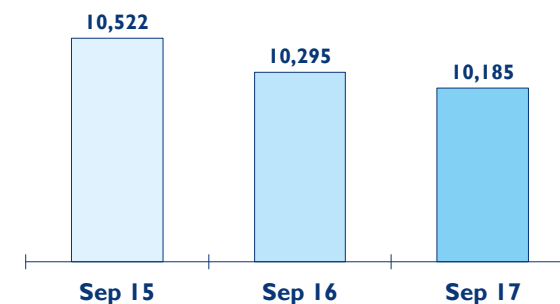
ROE



Total capital ratio



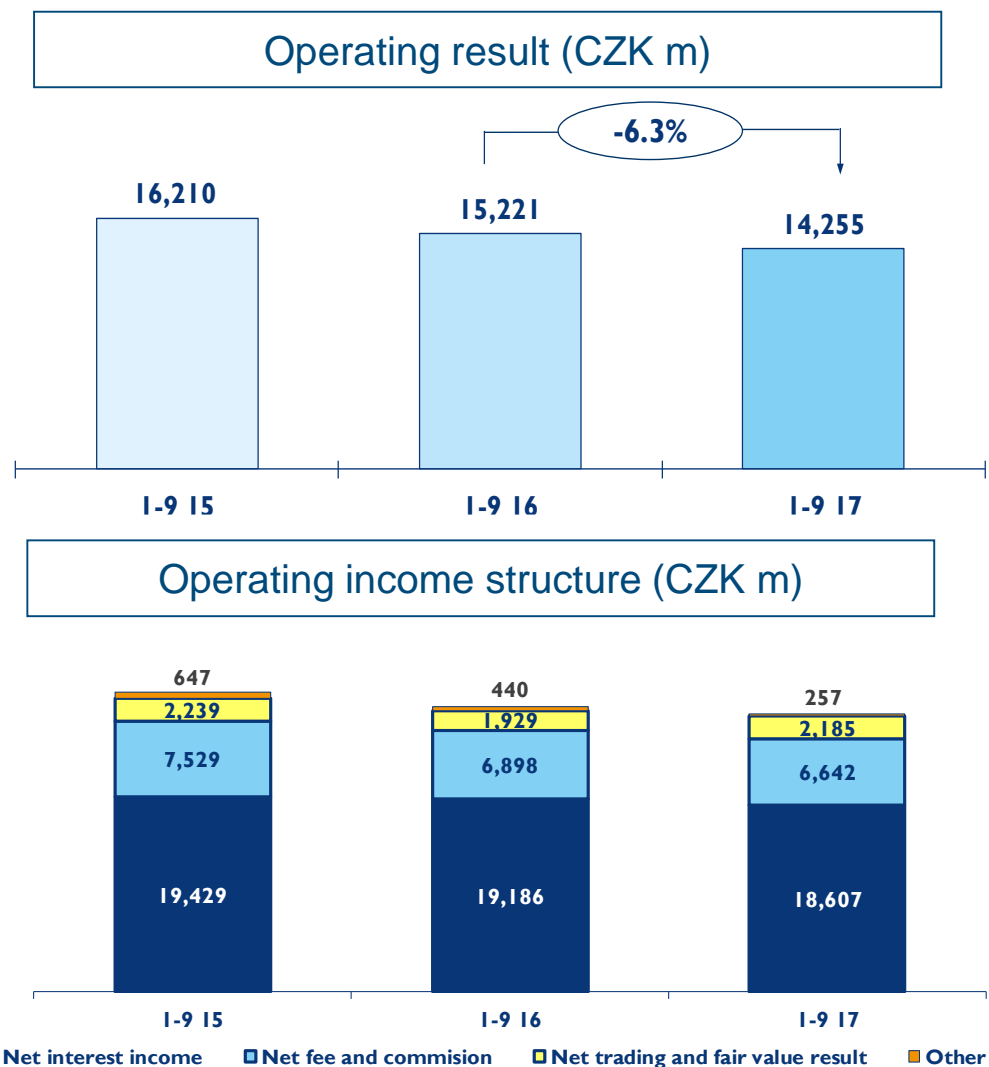
Number of employees (eop)



## Operating result –

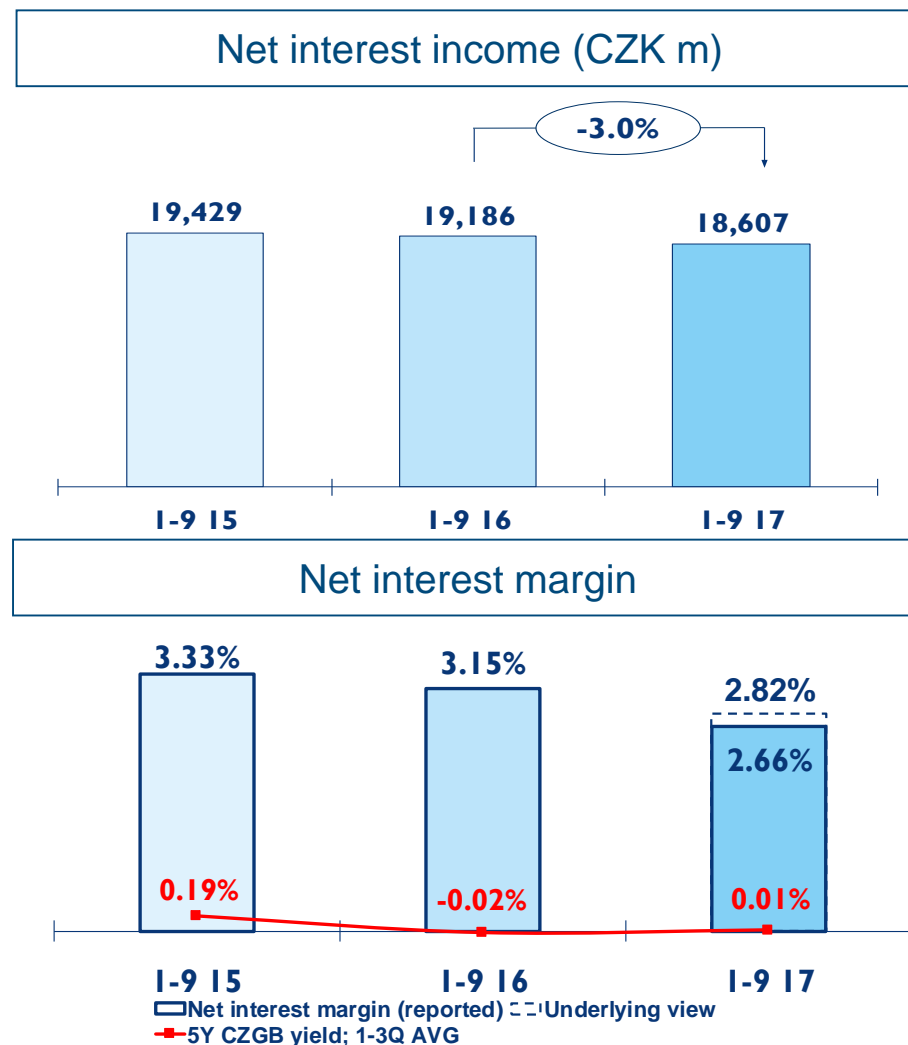
Decreased by 6.3 % y/y

- Operating result development reflected decline of operating income (-2.7% y/y) and increase of operating expenses
  - Net interest income and net fee income below the same period of last year
  - Net trading result increased by 9.2% y/y
    - Driven by growing profit from FX trading and from sale of FX derivatives
  - Rental income dropped by 43.3% y/y after planned reduction of investment in real estate SPV
- Operating expenses rose by 1.5%  
[/details on slide 17/](#)



## Net interest income – 3.0% below previous year

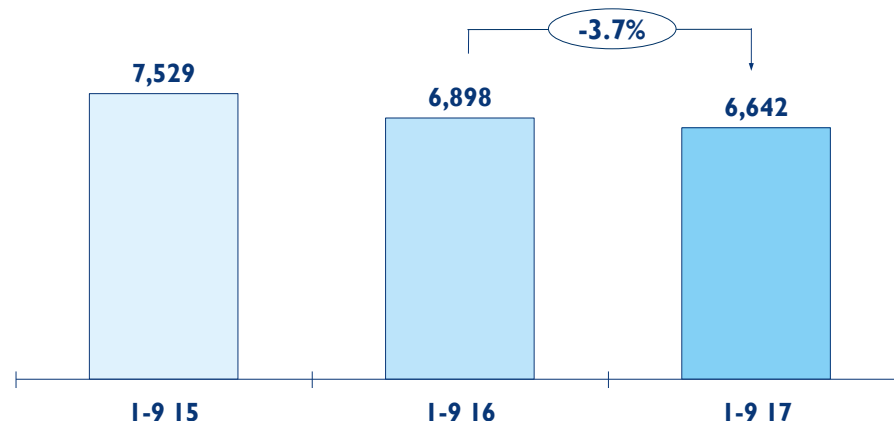
- Declining NII reflects pressure on interest margins and maturing high-yielding bonds
- Recovery of NII visible in Q3 2017
  - Net interest income increased by 1.4% in Q3 vs Q2 2017 due to growing interest income from loans and interest rate hike in August 2017
- Net interest margin (excluding exceptional growth of interest earning assets) decreased to 2.82%. Reported figure down at 2.66% reflecting narrowing clients margins and extraordinary growth of interest earning assets (mainly reverse repos)



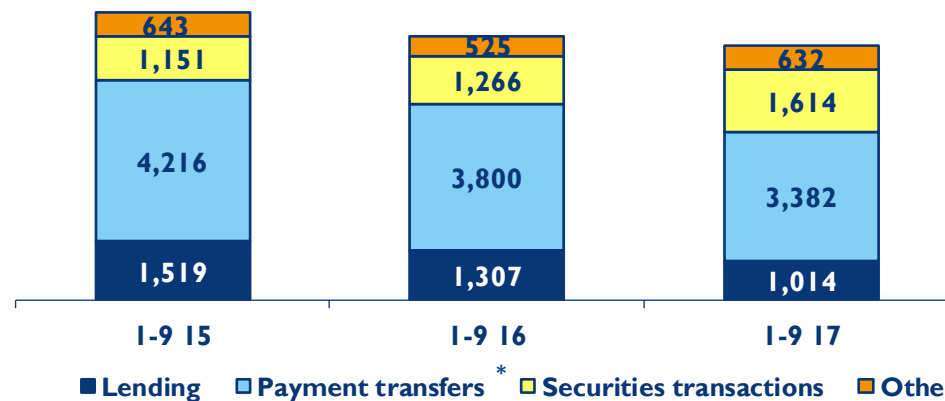
## Net fee and commission income – Lower by 3.7% y/y

- Net fee income pushed down by lower fee income from lending business (-22% y/y) and from payment transfers (-11%)
- Net fee income from securities and asset management grew by 27% y/y
  - Reflecting higher income from mutual fund business, asset management and custody
- Net fee income from insurance business grew by 45% y/y positively affected by increased commissions from insurance

Net fee and commission income (CZK m)



Net fee and commission income structure (CZK m)

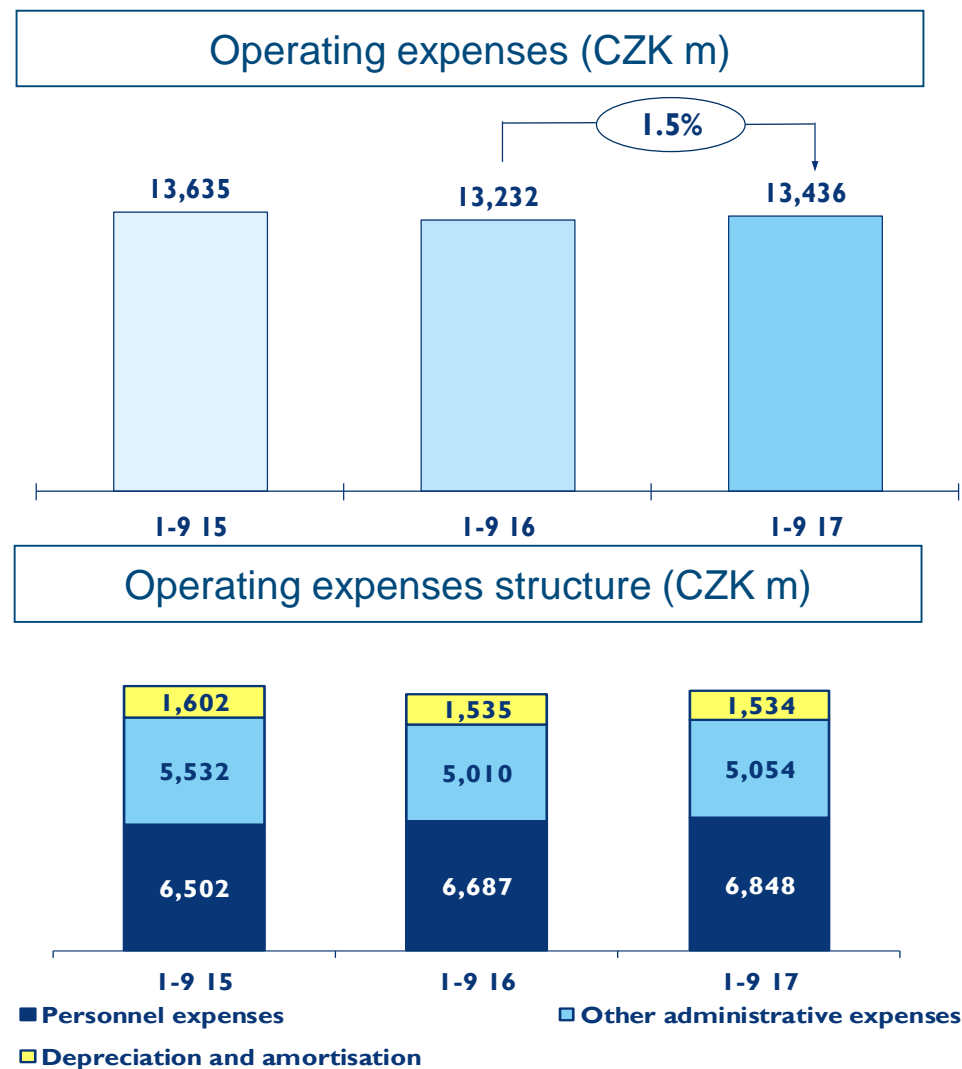


\* Including fees from account maintenance and payment cards fees

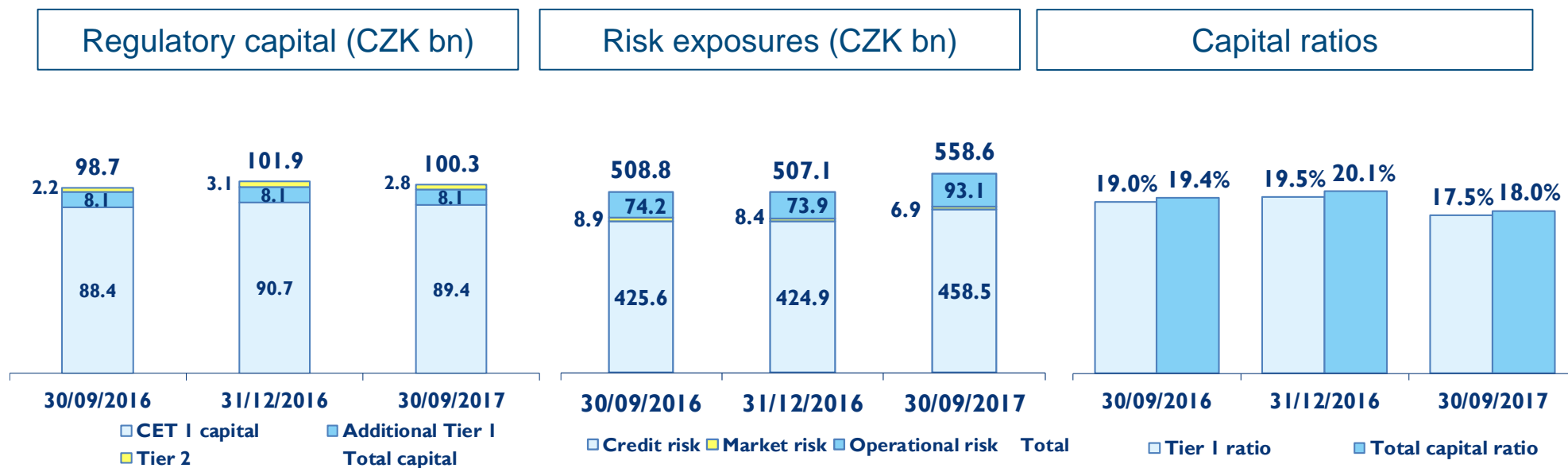


## Operating expenses – Slightly increased

- Operating expenses increased owing to higher personnel expenses and other administrative expenses
  - Personnel expenses rose by 2.4% reflecting regular salary increase in Q2 2017
  - Other administrative expenses went up by 0.9% driven by higher contribution to Deposit insurance fund and IT investments
- Depreciation remained flat



## Group capital position – Total capital ratio at sound 18.0%



- **Total capital grew by 1.6% y/y** thanks to higher retained profit
- **Tier 1 capital slightly decreased since YE 2016** mainly due to revaluation of AfS bond portfolio and temporary (between audits) effect of **Credit risk adjustment**

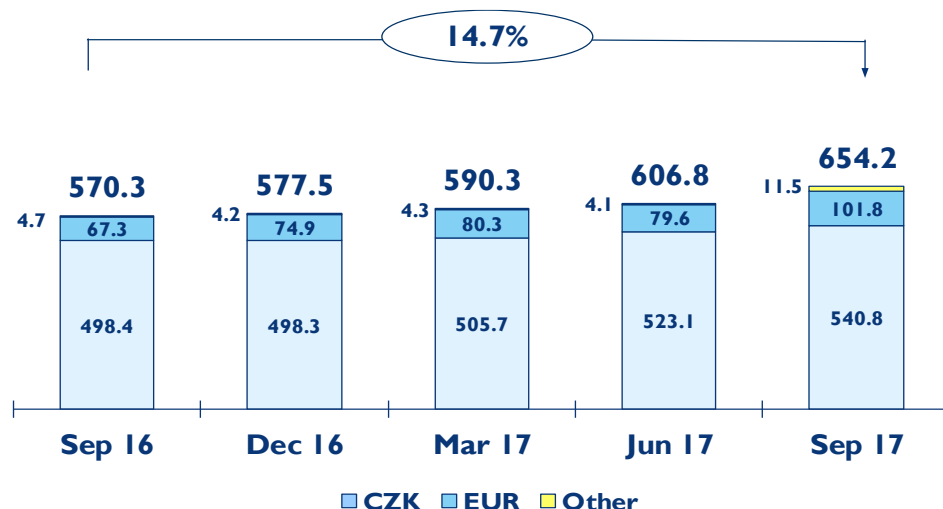
- **Growing risk exposures mirror mainly credit risk area**
- **Higher credit risk exposure** reflect mainly growth of corporate loans

- **The decline of capital ratios caused by strong business growth followed by higher risk exposure**

## Balance sheet development –

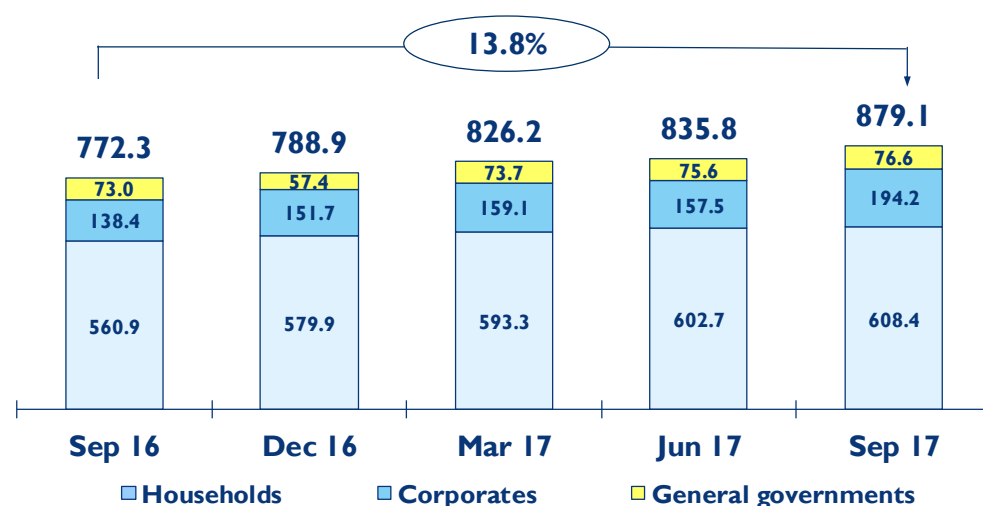
Net customer loans grew faster than deposits which led to growth of L/D

Group net customer loans (CZK bn)



- Net customer loans growth influenced by reverse repo operations, excluding these operations net loans increased by 9.9% y/y
  - Driven by retail mortgages and loans to corporate customers
- Excluding reverse repo operations FX loans represent 13.2% of total loans; increased by 3% y/y

Group customer deposits (CZK bn)

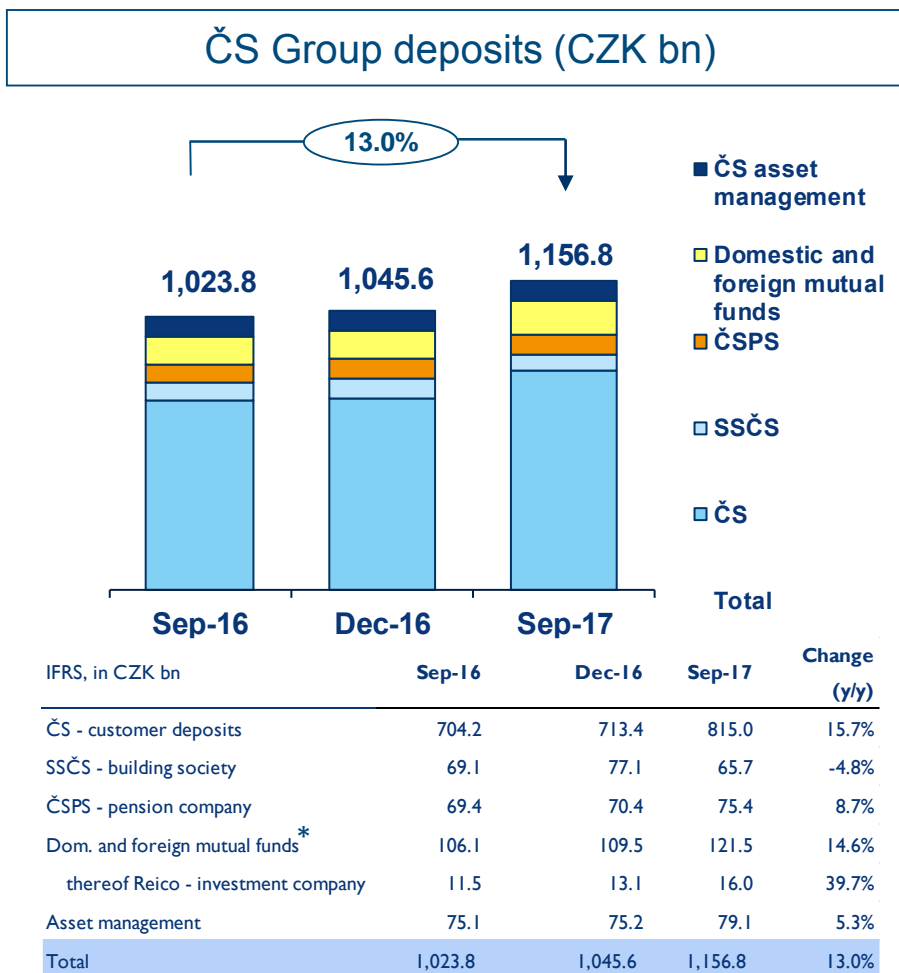


- Double digit growth of customer deposits attributed mainly to growing deposit base from private individuals and corporate clients

# ČS Group deposits –

## Strong growth of alternative and standard deposit products

- Growth of **customer deposits** in parent bank accelerated and reached 15.7% y/y
  - Growth driven by private and corporate deposits
- Asset growth in **pension company** remained stable at 8.7% y/y
  - Organic increase in volumes split between transformed and participant funds
- Domestic and foreign **mutual funds\*** added 14.6% in y/y comparison
  - Low interest rate environment and search for higher yields spurred demand for investment products
  - In **Reico** investment company customer assets increased by almost 40% in y/y comparison
- **Assets under discretionary management** grew by 5.3% in y/y comparison



\*Mutual funds are now reported in line with AKAT methodology. History has been restated.

# Group loan portfolio – Summary

Portfolio growth with very low risk costs and excellent quality

- **Group gross loans to customers excluding reverse repo operations increased by CZK 53.2 bn or 9.1% y/y to CZK 639.1 bn**
  - Driven by continuing strong sales of private mortgages and new business in SME and large corporate sectors
  - Detail segment figures are affected by internal resegmentation of public and non profit sector (CZK 9.1 bn moved from retail to wholesale in Q4 2016) and reshuffle within wholesale (transfers among sub-segments following an implementation of a new corporate strategy)
  - Reported loan growth of 13.7% affected by huge volume of reverse repo operations (CZK +27.2 bn), which reflect current unique situation on FX market and are not considered as core credit business
- **Risk costs significantly improved from 24 bps to underlying -10 bps y/y (-9 bps including rev repos)**
  - Recoveries of several large clients in wholesale, negligible volume of new defaults
  - Gradual recoveries and quality improvements in private individuals and MSEs
- **Portfolio quality further improved and NPL ratio dropped from 3.3% to underlying 2.2% y/y (2.1% including rev repos)**
  - Quality improvement driven by one time write off in retail segment (CZK 2.0 bn, of which consumer lending CZK 1.9 bn) in March 2017 and outstanding recoveries in wholesale
  - Provision coverage remained at strong 88%, total coverage (provisions + collateral to NPL) stable at 120%

*\* Wholesale defined as Corporate and Group Markets customer segments*

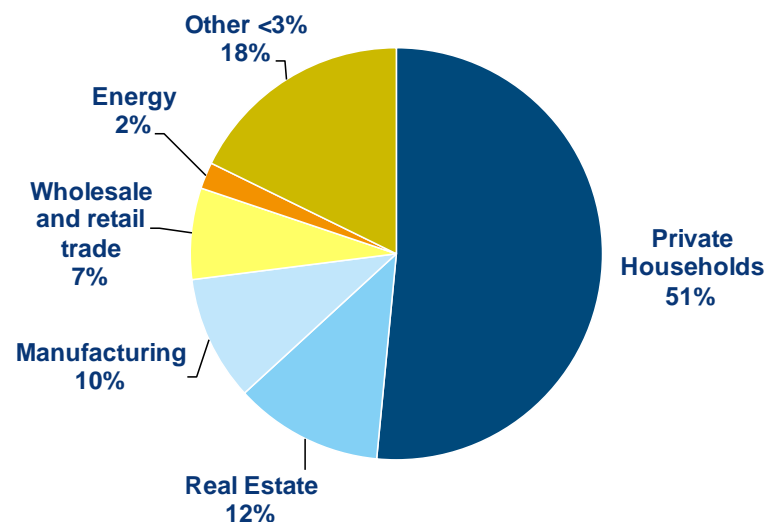
## Group loan portfolio –

Group loans increased by underlying 9.1% y/y thanks to all ČS Group entities

### ČS Group loan portfolio (gross)

in CZK m, IFRS	30/09/2016	% share	30/09/2017	% share	Y/Y Change
I. ČS Bank	546,713	93.3%	623,676	93.6%	14.1%
<i>ČS bank excl rev repos</i>	546,713	93.3%	596,455	93.3%	9.1%
II.1. Stavební spořitelna ČS	35,803	6.1%	36,975	5.5%	3.3%
II.2. Leasing (sAL, EL)	15,559	2.7%	18,145	2.7%	16.6%
II.3. Factoring ČS	4,787	0.8%	5,173	0.8%	8.1%
III. Other subs and Consolidation items	-16,907	-2.9%	-17,619	-2.6%	4.2%
<b>Total Loans (consolidated)</b>	<b>585,955</b>	<b>100.0%</b>	<b>666,350</b>	<b>100.0%</b>	<b>13.7%</b>
<b>Total loans excl rev repos</b>	<b>585,955</b>		<b>639,129</b>		<b>9.1%</b>

### Underlying industry split of loan portfolio



### • ČS Bank dominates the ČS Group

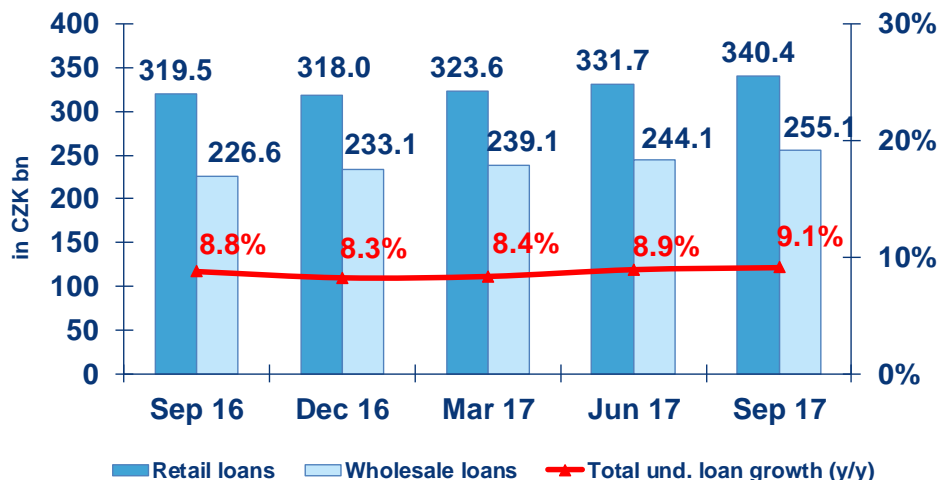
- Growth in ČS bank influenced by reverse repo operations. Underlying y/y change would be +9.1%
- Strong demand on mortgages and overall positive economic development kept portfolio growth in all major members of the ČS Group
- Private households account for half of the loan portfolio, growth of Manufacturing and Wholesale and retail trade

*Note: Underlying figures show loans excluding reverse repo operations*

## Bank loan portfolio –

Portfolio underlying growth fuelled proportionally by both retail and wholesale\*

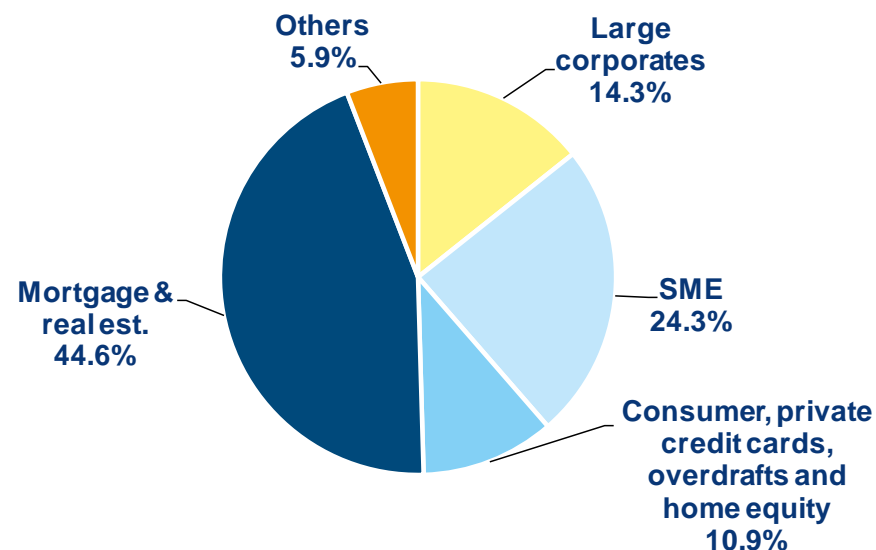
Loan portfolio underlying development - ČS Bank



- Loans to retail rose by 9.4% y/y (excluding resegmentation of public sector to wholesale of CZK 9.1 bn in Q4 2016)

- Driven primarily by private mortgages +11.9%
- Commercial loans when excluding resegmentation of public sector grew by 9.4%

Underlying loan portfolio by customer segments



- Loans to wholesale added 8.6% y/y (excluding resegmentation of public sector from retail and reverse repos)

- Growth driven mainly by SME, large corporate and also with help of public sector

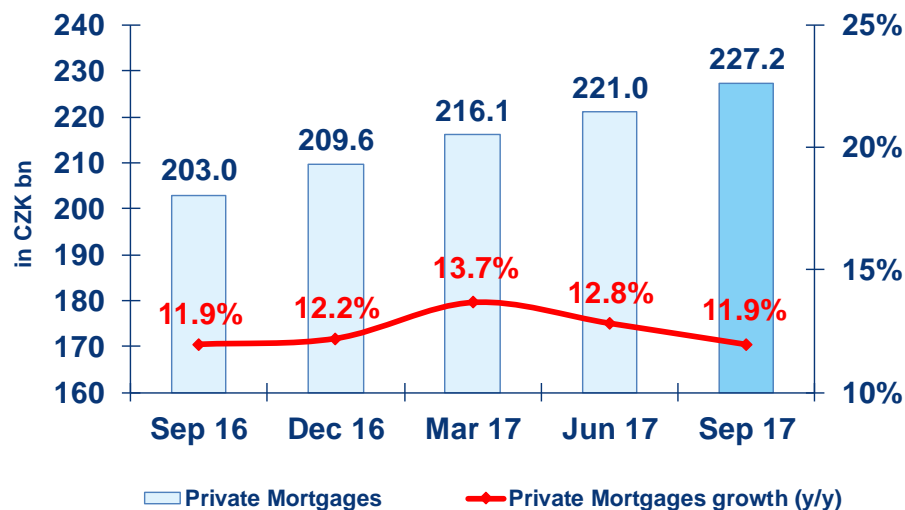
*Note: Underlying figures show loans excluding reverse repo operations*

\* Wholesale defined as Corporate and Group Markets

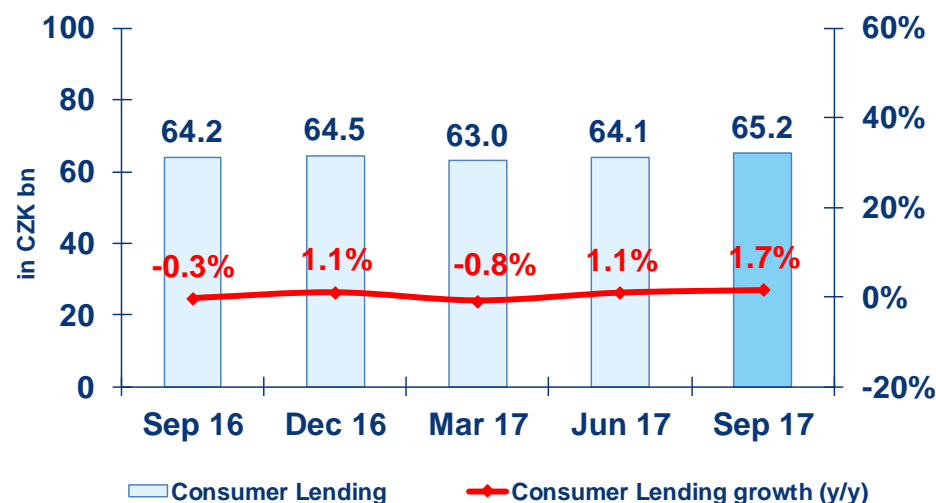
# Bank loan portfolio –

Double digit growth in mortgages, consumer lending picking up

## Private mortgages development



## Consumer lending development\*



- **Private mortgages increased to CZK 227.2 bn (+11.9% y/y)**

- New sales of mortgages back at standard level after extraordinary Q1 and higher Q2 2017
- LTV ratio for the whole portfolio stable at 61.8%, in line with prudent CNB policy

- **Consumer lending\* at CZK 65.2 bn (+1.7% y/y)**

- Volume of new cash loans offset large one off write offs in March 17 (CZK -1.9 bn) and continued in moderate growth

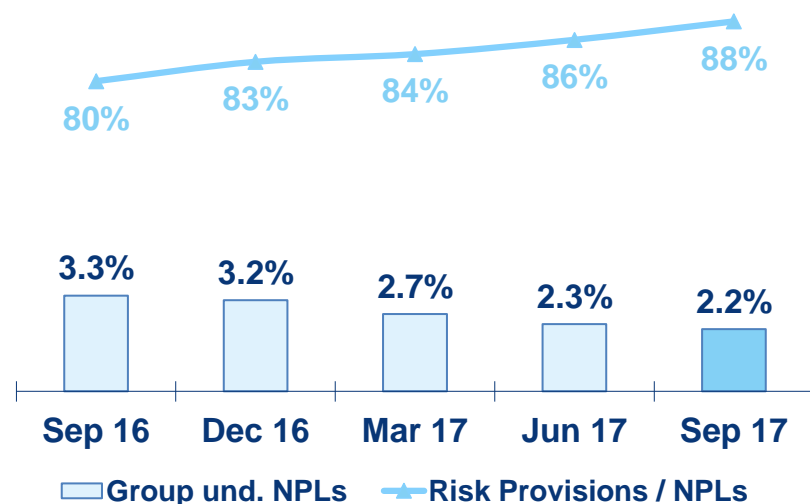
\* Consumer lending here includes Cash loans, home equity loans, private credit cards and private overdrafts. Social loans are excluded



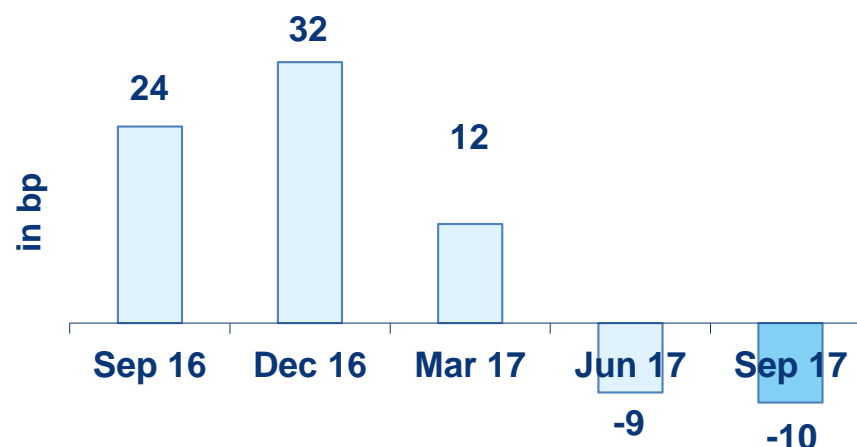
# Group asset quality

## Improving risk profile and NPL coverage

Underlying NPL ratio and NPL coverage



Underlying risk costs development



- **Group NPL share improved to underlying 2.2% (2.1% including rev repos)**

- Driven by recoveries in corporate and lack of new material defaults
- Provision coverage at strong 88%, total coverage (provisions+collateral to NPL) stable at 120%

*Note: Underlying figures show loans excluding reverse repo operations*

- **Annualized group risk costs at underlying -10 bps (-9 bps including rev repos)**

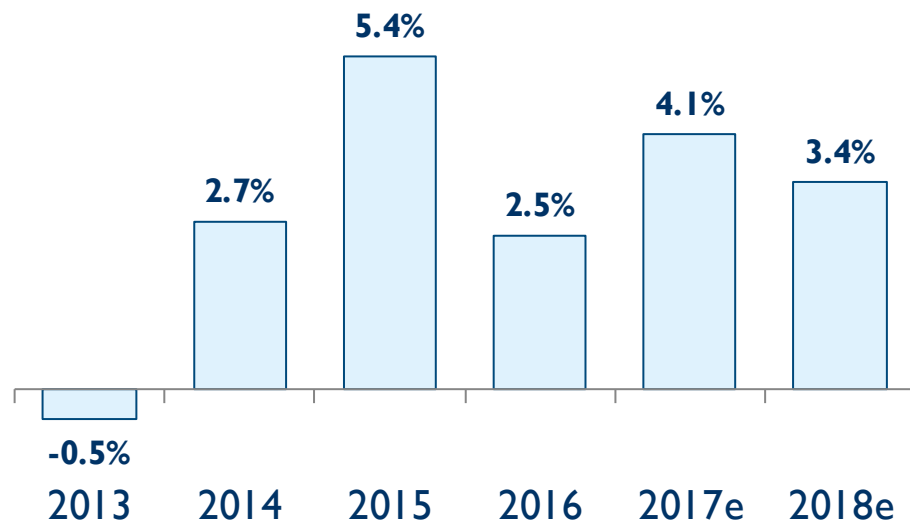
- Recoveries on several large corporate and real estate clients in Q2 17 and negligible defaults uphold very low risk costs also in Q3 17
- Low risk costs continued also in private individuals and MSEs

# Presentation topics

- Česká spořitelna
  - Segment financial performance analysis
- Macroeconomic developments
  - Economic trends in detail
- Banking market
  - Czech banking market developments
  - Česká spořitelna market shares
- Appendix

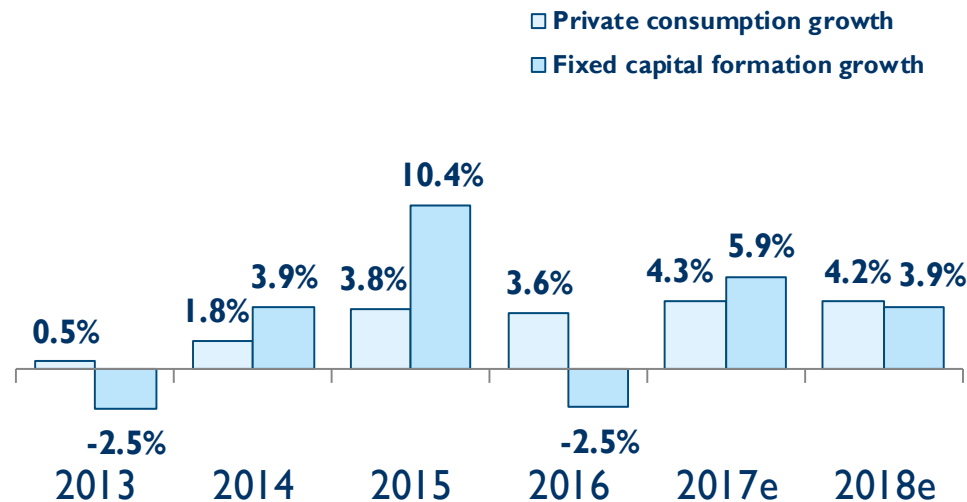
# Macroeconomic developments – GDP growth expected to accelerate in 2017

Real GDP growth y/y



- In Q2 2017, **GDP growth** came in at 4.7% y/y due to both domestic and foreign demand
- In 2017, we expect the **GDP growth to accelerate and reach 4.1% y/y**. Besides the domestic demand, the foreign demand has been improving since the 2016/17 turn due to the economic recovery in the Eurozone
- The improved economic activity in Eurozone and the Czech Republic will continue also in 2018. Moreover, we see the economic risks as balanced and lower compared to the situation in the previous year

Components of GDP



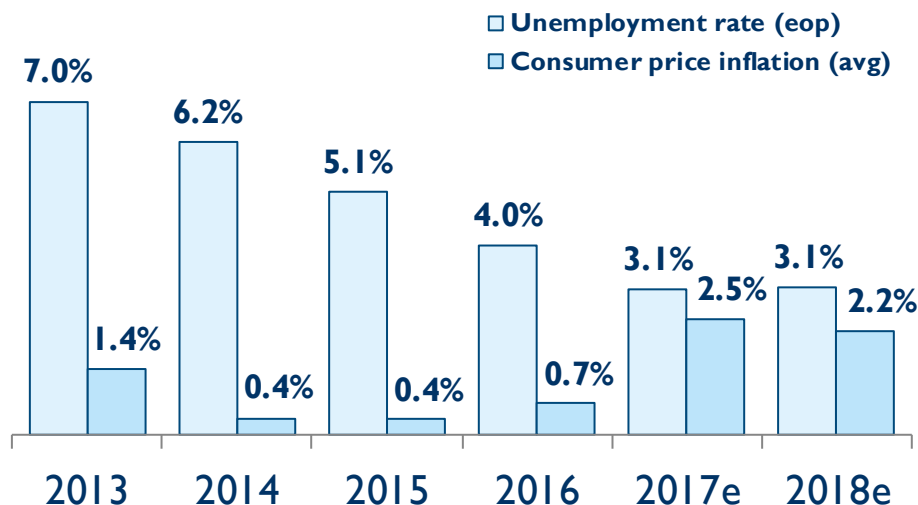
- Relatively stable **growth of household consumption** is being supported by a strong labour market and positive sentiment of households
- Decrease in fixed investment in 2016 was affected by significant public investment expenditures financed by EU funds in 2015. **In 2017, investment expenditures will contribute positively to the GDP growth**, mainly due to the improved economic development in Eurozone
- The **manufacturing sector**, supported to a large extent by the economic recovery in the Eurozone, remained the most significant contributor to GDP growth on the supply side (adding 2.1pp in Q2 2017)

Note: Source for historic figures is the Czech statistical office. Figures for forthcoming years are ČS forecasts

# Macroeconomic developments –

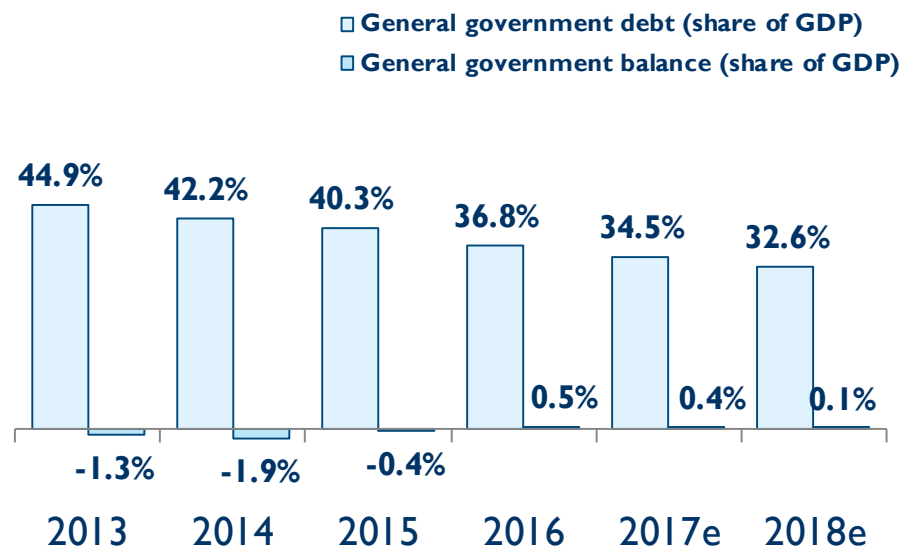
## The lowest unemployment rate in the EU

Unemployment and inflation



- **Average CPI** arrived at 2.7% in September as it was supported by prices of food, domestic demand pressures and high wage growth
- We expect the **CPI inflation** to arrive at 2.5% in 2017 as solid domestic demand, increase in wage costs of firms and also lower anti-inflationary pressures from the Eurozone will be only partly mitigated by the koruna appreciation
- The **general unemployment rate (ILO)** reached 2.7% in September and is still the lowest in the EU

General government debt and government balance

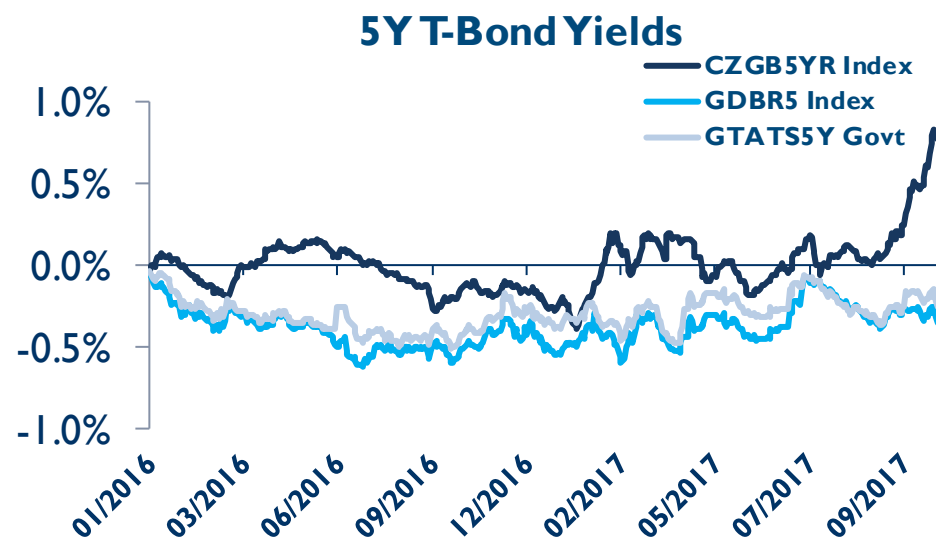


- The favourable economic development and high inflow of EU funds positively affected the central government's cash flow-based **budget**, which reached a surplus in 2016
- In 2017 and 2018, we expect a slight surplus in **general government balance** due to higher tax income and relatively low public investment expenditures
- The share of **public debt to nominal GDP** is anticipated to further decrease in 2017 and 2018, mainly thanks to the favourable development of the Czech economy

Note: Source for historic figures is the Czech statistical office. Figures for forthcoming years are ČS forecasts

# Macroeconomic developments – Interest rate hike

- At the August meeting, **ČNB increased the main 2W repo rate by 20bp**. In our view favourable economic development, the risk of capital outflow and a significant increase in property prices were the main reasons
- **On 2 November ČNB increased 2W repo rate by 25bp to 0.5%**, due to the continued positive development of the Czech economy, which could spill over into the economy overheating. **We expect ČNB to increase interest rates by 25bp either in December 2017 or February 2018.** Moreover, ČNB could hike also around mid-2018, which would imply 2W repo rate to be at 1% by the end of 2018
- **The EUR/CZK has appreciated** recently in a reaction to the monetary policy tightening, hawkish tone of ČNB Bank Board members and favourable development of the economy. At the end of 2017, we expect EUR/CZK to be approx. at 25.60-25.70, however, its development will be relatively volatile
- **Yields of government bonds have improved recently due to the monetary policy tightening and higher inflation.** For the rest of 2017 and 2018, we expect yields on Czech bonds to increase gradually, due to higher inflationary pressures and increase in ČNB rates



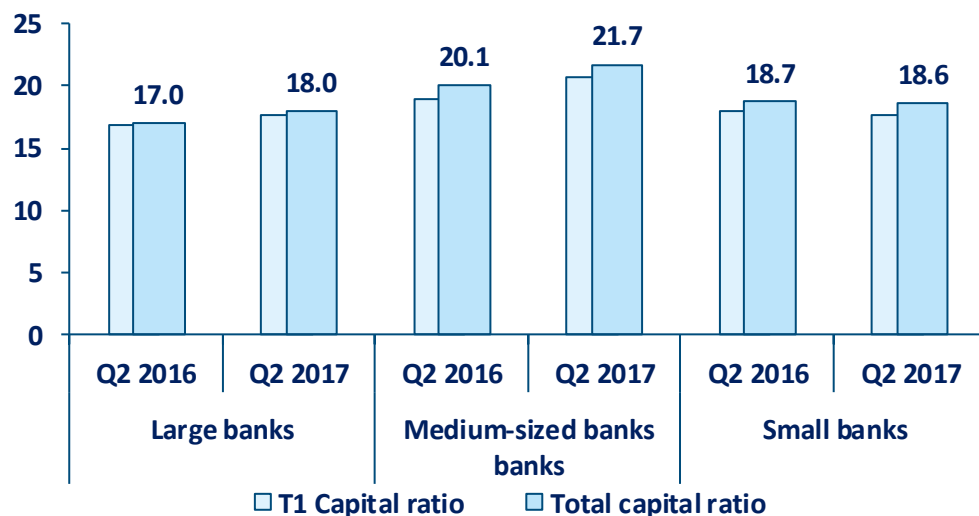
# Presentation topics

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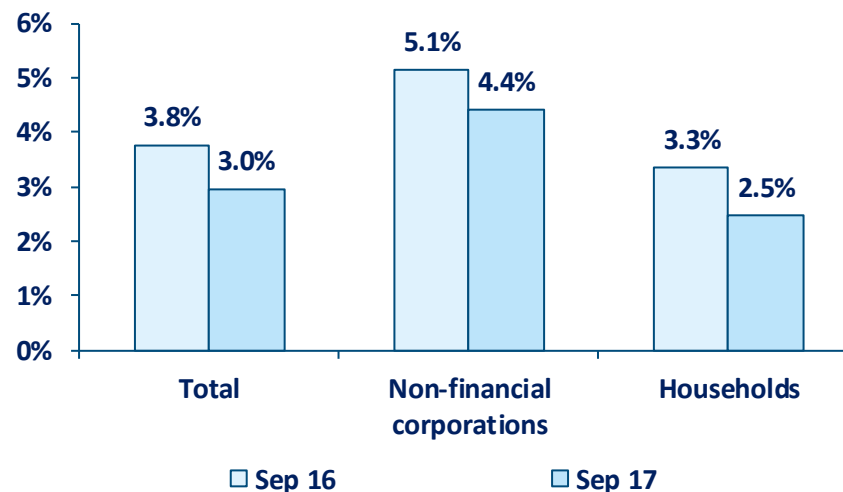
# Czech banking market –

## Capitalization and resilience to shocks remains high, NPL share keeps falling

Capital ratios of Czech banks\* (%)



Non-performing loan ratios (%)



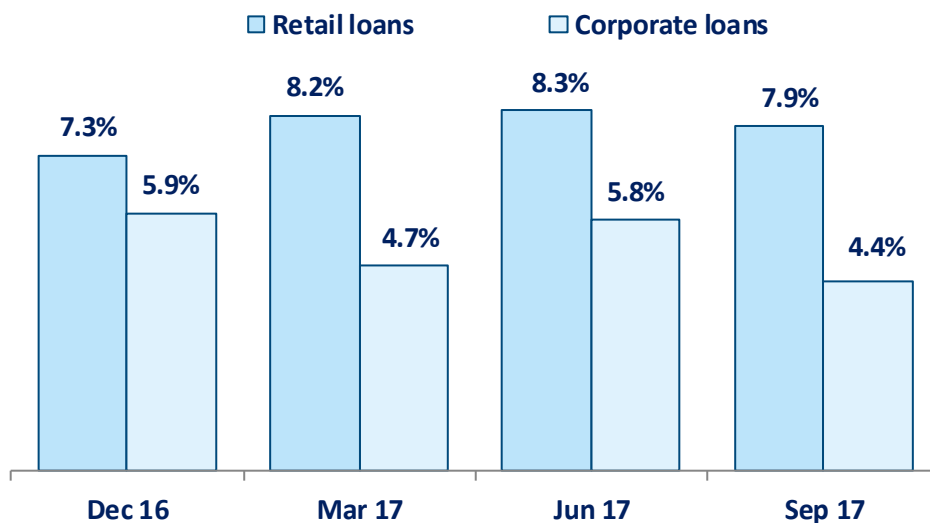
\* Compliant with ČNB segmentation of banks, Q3 data not available yet

- **The Czech banking sector remains resilient against very adverse shocks** thanks to its high capital adequacy (18.0 % in June 2017) and robust profitability
- According to the latest ČNB stress tests (May 2017) Czech banks are highly resilient also against liquidity shocks
- The counter-cyclical capital buffer rate for exposures of Czech banks is set at 0.5% at this moment; however, the rate will climb to 1% effective on July 1, 2018
- **The share of nonperforming loans (NPL ratio) in the household sector has been falling since 2013** in line with the improving economic situation
- After a pause in 2016 and early 2017, the NPL ratio for the corporate sector has resumed falling too

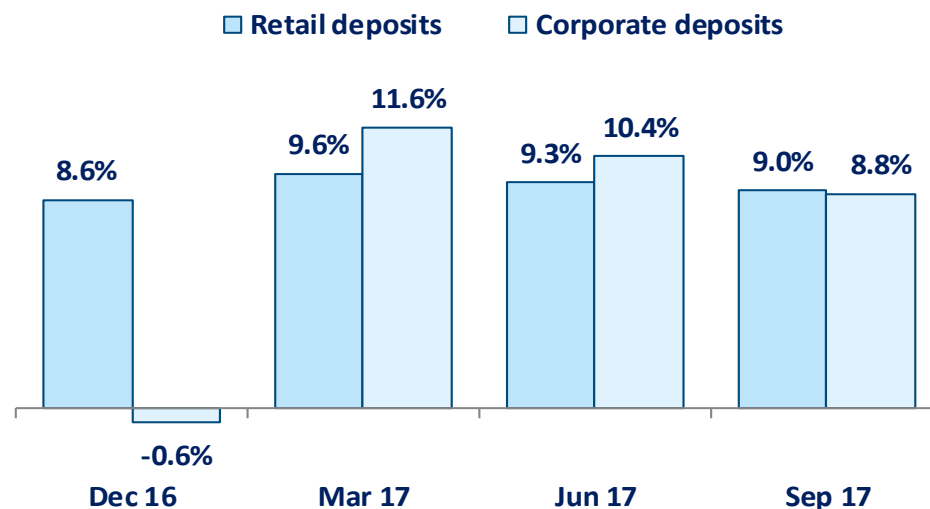
# Czech banking market –

## Vivid growth of loans and deposits in corporate and especially retail sector

Retail and corporate loans (y/y growth)



Retail and corporate deposits (y/y growth)



- In the first three quarters of 2017, total loans grew by 8.5% y/y. The main source remains to be the growth of loans to households which reached 7.9% in September while corporate loans grew by more than 4%
- In 2017 ČS expects client loans to grow by somewhat less than 6%. Growth of loans to households will ease, relative to current tempos, to below 8%. Housing loans will grow at a pace just above 8%. For corporate loans, ČS expects growth around 3%

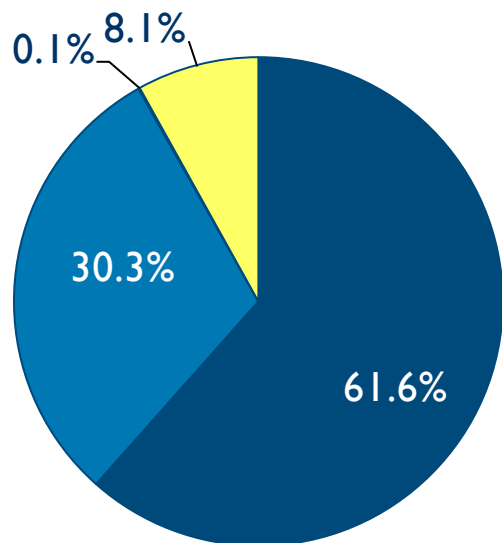
- Y/y growth in household and corporate deposits has slowed from elevated levels observed at the beginning of 2017; in September it was around 9% in both segments
- Deposits of financial institutions keep their fast y/y growth observable already since Autumn of 2015
- For 2017 ČS expects total deposits to grow by some 10% y/y



## Czech banking market –

Exposure of clients dominated by local currency lending

Customer loans (September 2017)



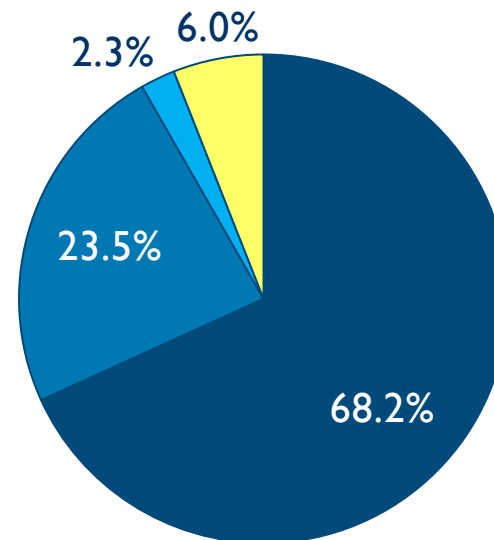
■ LC retail loans

■ LC corporate loans

■ FX retail loans

■ FX corporate loans

Customer deposits (September 2017)



■ LC retail deposits

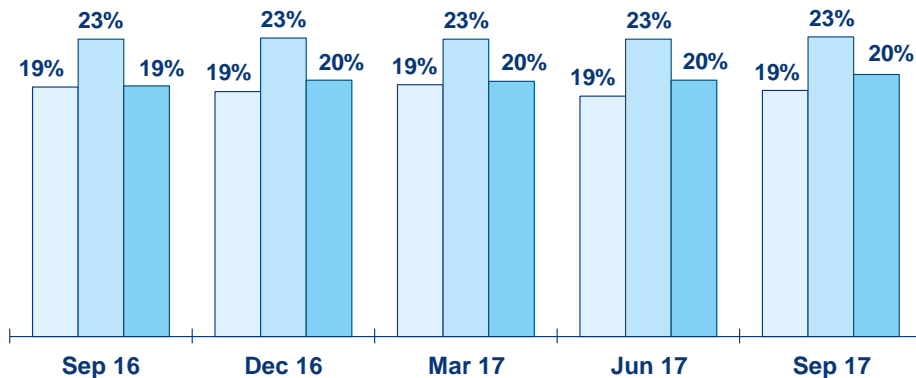
■ LC corporate deposits

■ FX retail deposits

■ FX corporate deposits

# Banking market – Market shares of ČS (September 2017)

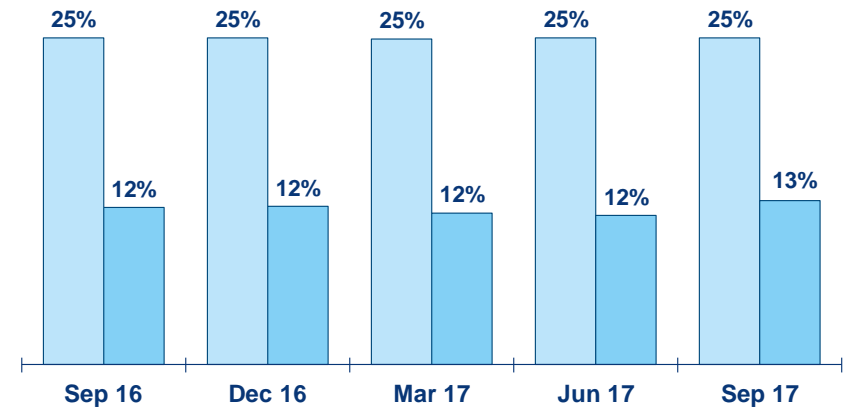
Asset side



□ Total assets   □ Retail loans   ■ Corporate loans

- **Market leadership in:**
  - Number of customers (4.7 m)
  - Total mortgages (market share of 27%)
  - Consumer loans incl. credit cards (market share of 28%)
  - Total loans (market share of 21%)
- **No. 2 in:**
  - Total assets (market share 19%)
  - Private mortgages (market share 25%)

Liability side



□ Retail deposits   ■ Corporate deposits

- **Market leadership in:**
  - Total deposits (market share of 21%)
    - 25% in retail deposits, 13% in corporate deposits
  - Mutual funds with market share of 26%\*

\* As of June 2017

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

in CZK m, IFRS	30/09/2016		31/12/2016		30/09/2017		YTD change		YTY change	
	Outstand.	Share	Outstand.	Share	Outstand.	Share	Outstand.	Rate	Outstand.	Rate
<b>RETAIL</b>	<b>319,493</b>	<b>54.5%</b>	<b>318,003</b>	<b>53.6%</b>	<b>340,380</b>	<b>51.1%</b>	<b>22,377</b>	<b>7.0%</b>	<b>20,886</b>	<b>6.5%</b>
Overdrafts	5,892	1.0%	5,725	1.0%	5,781	0.9%	57	1.0%	-111	-1.9%
of which non-private (MSE, Muni)	1,771	0.3%	1,697	0.3%	1,969	0.3%	273	16.1%	198	11.2%
Credit cards	2,988	0.5%	3,054	0.5%	2,653	0.4%	-401	-13.1%	-334	-11.2%
of which non-private (MSE, Muni)	14	0.0%	15	0.0%	14	0.0%	0	-3.3%	0	-1.5%
Cash loans	53,423	9.1%	53,968	9.1%	55,647	8.4%	1,679	3.1%	2,224	4.2%
Private social	817	0.1%	776	0.1%	668	0.1%	-109	-14.0%	-149	-18.3%
Home equity mortgages	3,635	0.6%	3,453	0.6%	3,128	0.5%	-325	-9.4%	-508	-14.0%
Private mortgages	203,033	34.7%	209,568	35.3%	227,244	34.1%	17,676	8.4%	24,210	11.9%
Commercial loans	49,705	8.5%	41,459	7.0%	45,259	6.8%	3,800	9.2%	-4,446	-8.9%
<b>WHOLESALE</b>	<b>226,581</b>	<b>38.7%</b>	<b>233,138</b>	<b>39.3%</b>	<b>282,299</b>	<b>42.4%</b>	<b>49,161</b>	<b>21.1%</b>	<b>55,718</b>	<b>24.6%</b>
<b>Corporate</b>	<b>219,269</b>	<b>37.4%</b>	<b>226,803</b>	<b>38.2%</b>	<b>248,702</b>	<b>37.3%</b>	<b>21,899</b>	<b>9.7%</b>	<b>29,432</b>	<b>13.4%</b>
Group Large corporates	38,712	6.6%	36,206	6.1%	50,166	7.5%	13,960	38.6%	11,454	29.6%
Local Large corporates	38,377	6.5%	39,006	6.6%	35,154	5.3%	-3,852	-9.9%	-3,223	-8.4%
SME	87,421	14.9%	89,244	15.0%	99,726	15.0%	10,481	11.7%	12,305	14.1%
Real estate	40,966	7.0%	40,523	6.8%	38,782	5.8%	-1,740	-4.3%	-2,183	-5.3%
Public sector	13,794	2.4%	21,824	3.7%	24,874	3.7%	3,050	14.0%	11,080	80.3%
<b>Group Markets</b>	<b>7,311</b>	<b>1.2%</b>	<b>6,336</b>	<b>1.1%</b>	<b>33,597</b>	<b>5.0%</b>	<b>27,262</b>	<b>&gt;100%</b>	<b>26,286</b>	<b>&gt;100%</b>
excluding rev repos	<b>7,311</b>	<b>1.2%</b>	<b>6,336</b>	<b>1.1%</b>	<b>6,376</b>	<b>1.0%</b>	<b>41</b>	<b>0.6%</b>	<b>-935</b>	<b>-12.8%</b>
<b>OTHER</b>	<b>640</b>	<b>0.1%</b>	<b>806</b>	<b>0.1%</b>	<b>998</b>	<b>0.1%</b>	<b>192</b>	<b>23.8%</b>	<b>358</b>	<b>56.0%</b>
<b>BANK: LOANS TO CUSTOMERS</b>	<b>546,713</b>	<b>93.3%</b>	<b>551,947</b>	<b>93.1%</b>	<b>623,676</b>	<b>93.6%</b>	<b>71,729</b>	<b>13.0%</b>	<b>76,963</b>	<b>14.1%</b>
<b>SUBSIDIARIES</b>	<b>56,148</b>	<b>9.6%</b>	<b>56,877</b>	<b>9.6%</b>	<b>60,293</b>	<b>9.0%</b>	<b>3,416</b>	<b>6.0%</b>	<b>4,144</b>	<b>7.4%</b>
<b>CONSOLIDATION ITEMS</b>	<b>-16,907</b>	<b>-2.9%</b>	<b>-15,831</b>	<b>-2.7%</b>	<b>-17,619</b>	<b>-2.6%</b>	<b>-1,788</b>	<b>11.3%</b>	<b>-712</b>	<b>4.2%</b>
<b>GROUP: LOANS TO CUSTOMERS</b>	<b>585,955</b>	<b>100.0%</b>	<b>592,992</b>	<b>100.0%</b>	<b>666,350</b>	<b>100.0%</b>	<b>73,358</b>	<b>12.4%</b>	<b>80,395</b>	<b>13.7%</b>
excluding rev repos	<b>585,955</b>	<b>100.0%</b>	<b>592,992</b>	<b>100.0%</b>	<b>639,129</b>	<b>0.0%</b>	<b>46,137</b>	<b>7.8%</b>	<b>53,174</b>	<b>9.1%</b>

## Notes:

- Loan development influenced by reverse repo operations, excl. this effect total Group loans increased by 9.1% y/y and by 7.8% since YE 2016
- Decline of Commercial loans and growth in Public sector affected by resegmentation of all public sector exposure from retail to wholesale
- Changes among Corporate sub-segments partly affected by reshuffle after implementation of a new corporate strategy

# Ratings of Česká spořitelna

Status as of 30 September 2017

Rating Agency	Long-term	Short-term	Viability	Support	Outlook	Latest actions
Fitch	A-	F1	a-	2	stable	26/04/2017
Moody's	A2	Prime - I			stable	17/03/2015
Standard & Poor's	A	A-I			negative	16/03/2017

- **Latest rating actions**

- Fitch upgraded short-term rating to F1 (from F2) and confirmed all other ČS ratings on 26th April 2017
- Rating agency Standard & Poor's upgraded all ČS ratings on 16th March 2017, outlook remained negative
- Moody's revised the outlook for LT rating of ČS from negative to stable on 17th March 2015

## Macroeconomic figures – Historical and forecasted macroeconomic data

	2012	2013	2014	2015	2016	2017e	2018e	2019e
Population (avg, m)	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5
GDP/capita (EUR thsd)	15.4	15.0	14.9	16.0	16.8	18.1	19.8	21.1
Real GDP growth	-0.7	-0.5	2.7	5.4	2.5	4.1	3.4	2.9
Consumer price inflation (avg)	3.3	1.4	0.4	0.4	0.7	2.5	2.2	2.0
Unemployment rate (eop)	7.0	7.0	6.2	5.1	4.0	3.1	3.1	3.4
Current account balance (share of GDP)	-1.6	-0.5	0.2	0.2	1.1	0.9	0.7	0.5
General government balance (share of GDP)	-4.0	-1.3	-1.9	-0.4	0.5	0.4	0.1	-0.2
Public debt (share of GDP)	44.5	44.9	42.2	40.3	36.8	34.5	32.6	31.8
Short term interest rate (3 months, eop)	0.5	0.4	0.3	0.3	0.3	0.8	1.3	1.8
EUR FX rate (eop)	25.6	27.5	27.9	27.1	27.0	25.6	25.2	24.7

## Financial statements – Quarterly development (CZK m)

	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q/Q %
Net interest income	6,412	6,326	6,169	6,176	6,262	1.4%
Net fee and commission income	2,252	2,410	2,293	2,180	2,170	-0.5%
Dividend income	6	26	5	42	8	-81.0%
Net trading result	705	902	802	618	758	22.7%
Result from financial assets and liabilities designated at FV through profit or loss	-14	22	-11	-8	26	-
Net result from equity method investments	-4	-9	-10	-3	-1	-66.7%
Rental income from investment properties & other operating leases	123	97	82	77	57	-26.0%
General administrative expenses	-4,450	-4,914	-4,613	-4,407	-4,416	0.2%
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	-1	-2	230	38	1	-97.4%
Net impairment loss on financial assets not measured at fair value through profit or loss	-369	-842	-184	449	205	-54.3%
Other operating result	-56	-72	-369	1	-89	-
Pre-tax result from continuing operations	4,607	3,941	4,395	5,163	4,980	-3.5%
Taxes on income	-921	-413	-869	-1,021	-953	-6.7%
Post-tax result from continuing operations	3,685	3,530	3,526	4,142	4,027	-2.8%
Net result for the period						
Net result attributable to non-controlling interests	0	-3	-2	-3	-4	33.3%
<b>Net result attributable to owners of the parent</b>	<b>3,686</b>	<b>3,534</b>	<b>3,528</b>	<b>4,145</b>	<b>4,031</b>	<b>-2.8%</b>
Other operating result	9,480	9,774	9,331	9,082	9,279	2.2%
Levies on banking activities	-4,450	-4,914	-4,613	-4,407	-4,416	0.2%
Pre-tax result from continuing operations	5,031	4,860	4,718	4,675	4,863	4.0%

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

	1-9 16	1-9 17	Change
Net interest income	686.4	685.6	-0.1%
Net fee and commission income	255.1	250.2	-1.9%
Dividend income	2.1	2.0	-2.9%
Net trading result	73.8	82.0	11.2%
Result from financial assets and liabilities designated at fair value through profit or loss	-2.4	0.3	-111.4%
Net result from equity method investments	0.0	-0.5	1351.9%
Rental income from investment properties & other operating leases	14.1	8.1	-42.4%
General administrative expenses	-489.4	-506.0	3.4%
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	52.6	10.1	-80.7%
Net impairment loss on financial assets	-39.3	17.7	-145.0%
Other operating result	-22.1	-17.2	-22.3%
Levies on banking activities	0.0	0.0	na
<b>Pre-tax result from continuing operations</b>	<b>530.8</b>	<b>532.4</b>	<b>0.3%</b>
Taxes on income	-109.1	-104.2	-4.4%
Post-tax result from continuing operations	421.7	428.2	1.5%
<b>Net result for the period</b>	<b>421.7</b>	<b>428.2</b>	<b>1.5%</b>
Net result attributable to non-controlling interests	4.6	4.2	-8.5%
<b>Net result attributable to owners of the parent</b>	<b>417.2</b>	<b>424.0</b>	<b>1.6%</b>
Operating income	1,029.1	1,027.8	-0.1%
Operating expenses	-489.4	-506.0	3.4%
Operating result	539.7	521.7	-3.3%
Cost/income ratio	47.6%	49.2%	
Return on allocated capital	32.4%	28.3%	



# Segment financial statements – Quarterly development

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

	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17
Net interest income	230.9	227.9	222.9	227.5	235.2
Net fee and commission income	83.3	89.2	84.9	82.1	83.2
Dividend income	0.2	1.0	0.2	1.6	0.3
Net trading result	26.1	33.4	29.7	23.3	29.0
Result from financial assets and liabilities designated at fair value through profit or loss	-0.5	0.8	-0.4	-0.3	1.0
Net result from equity method investments	-0.2	-0.3	-0.4	-0.1	0.0
Rental income from investment properties & other operating leases	4.6	3.6	3.0	2.9	2.2
General administrative expenses	-164.6	-181.8	-170.7	-166.0	-169.4
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	0.0	-0.1	8.5	1.5	0.1
Net impairment loss on financial assets	-13.6	-31.1	-6.8	16.7	7.8
Other operating result	-2.0	-2.7	-13.7	-0.1	-3.5
Levies on banking activities	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax result from continuing operations</b>	<b>164.1</b>	<b>139.8</b>	<b>157.3</b>	<b>189.1</b>	<b>186.0</b>
Taxes on income	-32.9	-13.7	-31.2	-37.4	-35.6
Post-tax result from continuing operations	131.2	126.0	126.1	151.6	150.4
<b>Net result for the period</b>	<b>131.2</b>	<b>126.0</b>	<b>126.1</b>	<b>151.6</b>	<b>150.4</b>
Net result attributable to non-controlling interests	1.3	1.2	1.3	1.6	1.3
<b>Net result attributable to owners of the parent</b>	<b>129.9</b>	<b>124.8</b>	<b>124.8</b>	<b>150.1</b>	<b>149.1</b>
Operating income	344.4	355.5	339.9	336.9	350.9
Operating expenses	-165	-181.8	-170.7	-166.0	-169.4
Operating result	179.8	173.7	169.2	171.0	181.6
Cost/income ratio	47.8%	51.1%	50.2%	49.3%	48.3%
Return on allocated capital	29.3%	27.5%	26.6%	29.6%	28.6%

## Investor Relations contacts

### Česká spořitelna

Miloš Novák

Tel: +420 956 712 410

E-Mail: [mnovak@csas.cz](mailto:mnovak@csas.cz)

Eva Čulíková

Tel: +420 956 712 011

E-mail: [eculikova@csas.cz](mailto:eculikova@csas.cz)

Roman Sedmera

Tel: +420 956 714 386

E-mail: [rsedmera@csas.cz](mailto:rsedmera@csas.cz)

### Erste Group

Thomas Sommerauer, Head of Group Investor Relations

Tel: +43 50100 17326

E-Mail: [thomas.sommerauer@erstegroup.com](mailto:thomas.sommerauer@erstegroup.com)

Peter Makray, Investor Relations Manager

Tel: +43 50100 16878

E-Mail: [peter.makray@erstegroup.com](mailto:peter.makray@erstegroup.com)