

Česká spořitelna's Consolidated Net Profit reached CZK 14.6 bn in 2017

As of 31 December 2017, Česká spořitelna reported an unaudited consolidated net profit of CZK 14.6 bn, according to International Financial Reporting Standards (IFRS). In 2016, net profit amounted to CZK 15.5 bn supported by one-off income from the sale of an equity stake in Visa Europe. Net profit, for that reason, dropped by 5.5% in a year-on-year comparison. Nonetheless, the gross volume of loans provided by Česká spořitelna to its customers kept growing strongly; excluding reverse repo operations went up by 9.2% in 2017. Reported growth was 9.8%.

“We saw economic growth throughout the year 2017, and both households as well as corporations capitalized on this development. Thanks to our clients' faith in us, we managed to sell a historic high volume of mortgages. Overall, we financed housing worth CZK 62.1 billion in 2017, which means 8.3% growth year-on-year. Also, corporate banking featured some impressive results, as the volume of corporate loans grew by 10.3% year-on-year”, said Tomáš Salomon, Chairman of the Board of Česká spořitelna.

Mr. Salomon also pointed out that the quality of the loan portfolio improved, and the volume of new non-performing loans was low. “The improving financial conditions of corporate and retail clients have been reflected in lower risk costs, compared to the year before. In addition, it gave us clear evidence that our strategy to provide healthy financing to households and companies is correct.”

Customers' great faith in Česká spořitelna was reflected in strong growth in deposits by households and corporations, and also in the field of asset management and mutual funds, where Česká spořitelna was able to further strengthen its position as the market leader.

Almost 720,000 clients have already started to improve their family budgets with the My Healthy Finances service. Česká spořitelna also successfully introduced its new concept of branches with new model of services, enhancing the role of financial advisory.

The state of the art internet banking known as George represents a new digital face of Česká spořitelna. George will further enhance individual treatment of every client. During the pilot phase in 2017, more than 250,000 customers signed into this new modern internet banking. Digital channels are getting more and more important. Last year, some 25 percent of all consumer loans were initiated online.

MAIN INDICATORS

The Czech economy is experiencing an economic boom, as gross domestic product increased by 4.5% in 2017, which was a significant acceleration compared to 2.5% in the previous year. This growth came on the back of strong domestic consumption supported by fast wage growth and the lowest unemployment rate in the entire European Union. Also, economic recovery in the Eurozone, which spurred demand for Czech exports, played a crucial role. All this was translated into strong demand for loans from households, which were particularly interested in mortgages, as well as from the corporate sector.

Net profit in 2017 amounted to CZK 14.6 bn. **In addition to growing loans, the volume of net profit was favourably influenced by the improving quality of the loan portfolio and ongoing stabilization of net interest income.** Compared to the results from 2016, net profit was down by 5.5%. Last year's net profit was significantly influenced by the sale of an equity stake in Visa Europe; net of that influence, year-on-year net profit would have been up by 2.1%.

The operating result was down by 5.4%, to CZK 19.0 bn, due to a drop in net fee and commission income, rental income from investment properties, and a slight increase in operating expenses compared to the same period last year. As a result, the **Cost/Income Ratio** went up to 49.0% from 47.5%.

The growing loan portfolio and gradual increase of interest rates by the Czech National Bank partially helped to relieve the pressure on margins and had a positive impact on net interest income, which reached CZK 25.4 bn and was almost stabilized at -0.6% in a year-on-year comparison. Despite this positive development, which was especially evident in the second half of 2017, the low interest rate environment prevailing for most of the year was still able to adversely affect the net interest margin. **Net interest margin** excluding exceptional growth of interest-earning assets (in connection with the exit from the ČNB's foreign exchange interventions) decreased to 2.8% in a year-on-year comparison. The reported figure went down to 2.58% from 3.12%, reflecting to a large extent an increase in reverse repo operations with clients.

Net fee and commission income decreased by 5.4%, to CZK 8.8 bn in a year-on-year comparison. Services that were cheaper or completely free of charge, along with advantageous programmes and products led to a drop in income from the lending business and payment services. **This decrease was to a certain extent offset by growing income from investment products, in particular from mutual funds, asset management and custody, and income from the sale of insurance products.**

Net trading result went down by 5.6%, to CZK 2.7 bn in a year-on-year comparison. Increased profit from securities trading, foreign currency operations and hedging business did not fully make up for negative revaluation of derivatives due to growing market interest rates.

Total operating expenses grew well below the inflation rate (CPI up by 2.5%) and only slightly increased by 0.5%, to CZK 18.2 bn, compared to 2016. Expenses were mainly affected by growing other administrative expenses, due to **higher costs of marketing and IT, and an increased contribution to the Deposit Insurance Fund, in connection with a growing volume of deposits.** Česká spořitelna was able to **reduce costs**

on consultancy and property management and to large extent stabilize personnel expenses. A decrease in depreciation of tangible and intangible assets was caused by lower investment property depreciation.

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

Net impairment 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 CZK 33 m**, which means a **significant improvement** as compared to the previous year. This very good result was achieved due to the quality improvements of the loan portfolio, as strong economic growth helped several large corporate clients to recover and led to higher recoveries in the retail segment.

As at 31 December 2017, **total consolidated assets** amounted to **CZK 1,329.2 bn and were up by 24.6%** in a year-on-year comparison. The balance sheet adjusted for all repo (reverse repo) operations increased by 11.0% (12.0%) to CZK 1,146.6 bn (CZK 1,190.0 bn). There was a change in the structure of assets, with the volume of loans to customers and credit institutions and deposits with the Czech National Bank being up. On the liability side of the balance sheet, deposits from customers and interbank deposits went up. **Equity attributable to owners of the parent** amounted to **CZK 120.8 bn**, which represents a mild **decrease of 0.6%** in a year-on-year comparison. **Total capital ratio** for the Česká spořitelna Group as at 31 December 2017 reached the very comfortable level of **18.7%**.

In 2017, **Česká spořitelna** managed to even **further accelerate growth in loans**. **The gross volume of customer loans excluding reverse repo operations was up by 9.2% year-on-year, to CZK 647.3 bn**, compared to 8.0% in the previous year. The reported figure grew by 9.8%, to CZK 651.1 bn. Of that, the portfolio of **retail loans (bank only)** amounted to **CZK 349.4 bn**, which represents a year-on-year **increase of 9.9%**, primarily due to **double-digit growth in mortgages to individuals (by 11.4%)**. **Consumer loans** continued to grow and were **up by 2.8%** since the end of 2016. **The volume of wholesale (Corporate and Group Markets) loans excluding the impact of reverse repo operations increased by 8.6%** in a year-on-year comparison, to CZK 236.5 bn, driven by loans to large corporate clients and SMEs. The reported volume was up by 10.3%, to CZK 240.2 bn.

Group deposits from customers excluding repo operations amounted to **CZK 856.5 bn and grew by 8.8%** compared to the same period last year; the reported figure went up by 12.0% year-on-year, to CZK 883.2 bn. **Household deposits increased by 6.8%, to CZK 619.4 bn**, owing to increasing deposits in personal accounts and saving deposits. **Group corporate deposits** net of repo operations **rose by 16.3%**, to **CZK 174.8 bn**. **The reported figure was significantly up by 32.8%**, to **CZK 201.5 bn**. **Public sector deposits increased by 8.8%, to CZK 62.4 bn**.

As at 31 December 2017, the **total number of clients of ČS Group** was **4.67 m**. The number of activated direct banking clients using **SERVIS 24, BUSINESS 24** and newly also **George** amounted to **1.85 m** which is an **increase of 6.1%** year-on-year. **The overall number of active payment cards** issued reached **2.83 m**, of which credit cards represent 185 thousand. **The volume of card transactions** executed at retail outlets with Česká spořitelna's cards in 2017 **was up by 16.1%, to CZK 161.8 bn**. **The number of Česká spořitelna ATMs and transaction terminals** increased by 62, to **1,704 units**.

FINANCIAL DATA		2016	2017	Year-on-Year Change
Income statement (CZK m)	Net interest income	25,512	25,350	-0.6%
	Net fee and commission income	9,308	8,803	-5.4%
	Net trading result	2,897	2,736	-5.6%
	Rental income, dividends and other income	510	338	-33.7%
	Operating income	38,227	37,227	-2.6%
	Operating expenses	-18,146	-18,240	0.5%
	Operating result	20,081	18,987	-5.4%
	Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	1,421	271	-80.9%
	Net impairment loss on FA not measured at FV through P/L	-1,905	-33	-98.3%
	Other operating result	-672	-1,198	78.3%
	Taxes on income	-3,470	-3,415	-1.6%
	Post-tax result from continuing operations	15,455	14,612	-5.5%
	Net profit attributable to non-controlling interests	-2	2	-
	Net profit attributable to owners of the parent	15,457	14,610	-5.5%
	Balance sheet (CZK m)	Loans and receivables to customers (gross)*	592,992	651,093
Deposits from customers		788,873	883,237	12.0%
Equity attributable to owners of the parent		121,564	120,810	-0.6%
Ratios	Return on equity (ROE)	12.9%	12.1%	-0.8 pb
	Cost/income	47.5%	49.0%	1.5 pb
	Loan to deposit ratio	73.2%	72.3%	-0.9 pb
	Total capital ratio	20.1%	18.7%	-1.4 pb

*Customer loans influenced by reverse repo operations; excl. this effect customer loans increased by 9.2% y/y.
For more details, please see www.csas.cz.

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