

## Amid COVID-19 crisis financial impact visible in H1 results, excellent capital and liquidity position maintained

As at 30<sup>th</sup> June 2020, Česká spořitelna reported an unaudited consolidated net profit of CZK 4.6 bn, according to International Financial Reporting Standards (IFRS). Net profit for the same period of 2019 amounted to CZK 8.7 bn, it thus decreased by 47.1% in a year-on-year comparison. Operating result reached CZK 10.2 bn, compared to H1 2019 it went down by 10.1%.

*“The good news is that despite the decline in economic activity on the market as a result of COVID-19, the volume of loans provided by ČS was up by 4.6 percent year-on-year. We provided more funding to retail clients, particularly in the form of housing loans (the volume of mortgages increased by CZK 23.7 bn year-on-year), while in the corporate segment, we mainly focused on processing applications for COVID programmes, providing companies with 1,145 loans with a volume of CZK 4.3 bn. Our overall financial result, which saw a decline compared to the same period last year, reflects to a large extent the necessary increase in risk costs,”* said Tomáš Salomon, CEO of Česká spořitelna, evaluating the results.

### MAIN INDICATORS

**Macroeconomic environment of the Czech Republic worsened significantly due to COVID-19 pandemic, leading to considerable increase of macroeconomic uncertainty.** The Czech economy is going through recession that is expected to increase previously low unemployment rate; however, the recovery of GDP growth should be the “V-shaped”.

**The important contributor to the financial results of Česká spořitelna was operating result that declined during the first half of 2020 to CZK 10.2 bn.** Impact of COVID-19 crisis was mitigated by resilient business model supported by persistent growth of loans and deposits. Due to worse operating performance, **cost/income ratio grew to 49.0% from 45.7% in H1 2019.**

**Net interest income**, the most important component of operating income, **was in line with H1 2019 and reached CZK 14.7 bn.** The development of net interest income was supported by strong business growth in the last quarters but heavily stressed by rate cuts by ČNB in 2020. **Net interest margin related to interest bearing assets decreased from 2.08% in H1 2019 to 1.98% in H1 2020.** Net interest margin calculated on core business (loans to retail and corporate clients and deposits from retail and corporate clients) declined to 2.57% in H1 2020.

**Net fee and commission income decreased by 10.6% year-on-year to CZK 4.0 bn.** The decline was caused by impact of payment transfers (SEPA regulation) effective from December 2019, lower new business due to impact of COVID-19 crisis and reduction of fees for current accounts reflecting higher number of customers benefiting from My Healthy Finances concept. On the other hand, these effects were partly offset by growth of securities transactions (mainly due to increase in asset management, e.g. mutual funds were up by 6.9% y/y and 7.7% q/q).

**Net trading result decreased by 46.8% y/y to CZK 793 m.** This result was affected by decline of FX business and negative valuation effects.

**Total operating expenses rose by 2.7% in a year-on-year comparison, to CZK 9.8 bn. Personnel expenses grew by 3.1%,** mainly due to an increase in salaries. **Other administrative expenses remained almost flat. Depreciation increased by 9.4%** because of the asset deployment and an adjustment of parameters related to IFRS 16.

**Impairment result from financial instruments** (i.e., creation of risk provisions and reserves for loans and advances, guarantees and commitments) **reached CZK -3.6 bn.** It meant a year-on-year decline of CZK 3.8 bn, driven by expected credit losses as a consequence of further economic deterioration.

**Other operating result of CZK -0.8 bn** consisted mainly of other income and costs not directly related to main operating activities of the Group. **Worsening of other result was attributed to higher contribution to Recovery and Resolution Fund in Q1 2020.**

**As at 30<sup>th</sup> June 2020, total consolidated assets amounted to CZK 1,667.3 bn, which meant a 14.3% increase** compared to 31<sup>st</sup> December 2019. On the assets side, the growth was driven mainly by loans to banks. The dominant driver of growth on liability side of the balance sheet was customer deposits.

**The gross volume of ČS Group customer loans adjusted for reverse repo operations increased by 4.6% to CZK 763.8 bn** year-on-year. (The reported figure, including reverse repo operations, grew by 4.5%.) The portfolio of **retail loans (bank only) amounted to CZK 422.8 bn,** representing a **year-on-year increase of 7.3%,** driven by **private mortgages (+8.9%), consumer loans (+3.8%) and loans to small companies (+4.6%).** The volume of **wholesale (Corporate and Group Markets, bank only) loans,** excluding reverse repo operations, **slightly increased by 0.6%** year-on-year to **CZK 267.4 bn,** mainly due to **growth of loans to public sector (+10.0%) and corporate real estate (+12.0%),** that was also partly affected by FX fluctuations.

**Group deposits from customers grew by 9.7% to CZK 1,148.3 bn** compared to H1 2019. **Households (retail) deposits rose by 9.4% to CZK 760.8 bn.** **Group corporate deposits went up by 2.2% to CZK 210.8 bn** and **public sector deposits increased by 21.1% to CZK 176.7 bn** in a year-on-year comparison.

**Equity attributable to owners of the parent stood at CZK 145.9 bn** as at 30<sup>th</sup> June 2020, which was 6.4% more than at the end of the year 2019. **The total capital ratio for Česká spořitelna Group as at 30<sup>th</sup> June 2020 reached 25.3%,** well above minimum regulatory capital requirements.

As at 30<sup>th</sup> June 2020, the **total number of the ČS Group customers was 4.5 m, of which approx. 1.64 m used digital banking in H1 2020.** The overall number of active payment cards issued by ČS increased by 1.5% year-on-year and reached 2.93 m. Thereof **credit cards represented 168 thousand.** The volume of card transactions executed at retail outlets in H1 2020 with Česká spořitelna's cards compared to H1 2019 **was up by 15.3% to CZK 114.5 bn.** The number of **Česká spořitelna's ATMs and transaction terminals** increased by 58 year-on-year to 1,836.

<b>FINANCIAL DATA</b>		<b>1-6 19</b>	<b>1-6 20</b>	<b>Year-on-Year Change</b>
<b>Income statement</b> (CZK m)	Net interest income	14,657	14,688	0.2%
	Net fee and commission income	4,450	3,977	-10.6%
	Net trading result	1,492	793	-46.8%
	Rental income, dividends and other income	254	511	>100%
	<b>Operating income</b>	<b>20,853</b>	<b>19,968</b>	<b>-4.2%</b>
	<b>Operating expenses</b>	<b>-9,534</b>	<b>-9,793</b>	<b>2.7%</b>
	<b>Operating result</b>	<b>11,319</b>	<b>10,175</b>	<b>-10.1%</b>
	Gains/losses from derecognition of financial instruments not measured at FV through profit or loss	8	0	-
	Impairment result from financial instruments	199	-3,577	-
	Other operating result	-680	-803	-18.1%
	Taxes on income	-2,136	-1,189	-44.3%
	Post-tax result from continuing operations	8,710	4,606	-47.1%
	Net profit attributable to non-controlling interests	10	1	-90.0%
	<b>Net profit attributable to owners of the parent</b>	<b>8,700</b>	<b>4,605</b>	<b>-47.1%</b>
<b>Balance sheet</b> (CZK m)	Loans and advances to customers (gross)*	746,722	780,463	4.5%
	Deposits from customers**	1,047,223	1,148,305	9.7%
	Equity attributable to owners of the parent	129,371	145,923	12.8%
<b>Ratios</b>	Return on equity (ROE)	14.4%	6.5%	-7.9pp
	Cost/income	45.7%	49.0%	3.3pp
	Loan to deposit ratio	70.1%	66.6%	-3.6pp
	Total capital ratio	20.6%	25.3%	4.7pp

\* Customer loans influenced by reverse repo operations; excl. this effect customer loans increased by 4.6% y/y

\*\* Includes deposits from customers at amortised cost, deposits from customers at FV through profit or loss and lease liabilities to customers

For more details, please see [www.csas.cz](http://www.csas.cz).

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