

2018 was a successful year for Česká spořitelna. Consolidated Net Profit increased by 5.1% compared to 2017, to CZK 15.4 bn. Operating result rose even by 9.3%

As of 31 December 2018, Česká spořitelna reported an unaudited consolidated net profit of CZK 15.4 bn, according to International Financial Reporting Standards (IFRS). Net profit for the year 2017 amounted to CZK 14.6 bn. The net profit thus increased by 5.1% on a year-on-year comparison. The operating result went up more significantly, by 9.3% to CZK 20.8 bn, due to strong growth in net interest income and stable operating expenses.

“2018 was a successful year for Česká spořitelna, for which we owe great thanks both to our clients and our colleagues. We achieved excellent financial results primarily due to growth in loans provided to retail clients as well as corporations. The aggregate volume of private mortgages was up by more than 11% year-on-year, and loans to large corporate clients grew at the same rate. Client confidence was positively reflected in the growth of deposits, as well,” said Tomáš Salomon, Chairman of Česká spořitelna’s Board of Directors. “In addition to the business results achieved, we also introduced innovations and new digital solutions on the market. Key was client migration to the new digital platform George. At the end of the year, George had 1.3 million users, and more than half a million clients actively used the application in their mobiles. This was the largest-ever client migration on the Czech banking market,” adds Tomáš Salomon.

MAIN INDICATORS

The development of the Czech economy remained favourable in 2018. Economic conjuncture and rapidly growing disposable income supported by historically low unemployment are **reflected in aggregate demand for goods and services, and consequently for loans.**

Unambiguously the largest contributor to the growth of net profit and operating result was net interest income in connection with strong growth in lending and rising interest rates. **An important component of the operating result was stable development of operating expenses.** The increase of operating result directly contributed to **improvement in the cost/income ratio to 46.9%** from 49.0% in 2017.

Net interest income amounted to CZK 27.8 bn in 2018, which is 9.7% more than in 2017. The increase in net interest income, a major contributor to operating income, was mainly influenced by strong loan growth and the interest rate hikes of the Czech National Bank. Despite rising interest rates, the net interest margin related to interest-bearing assets decreased from 2.58% to 2.17%, the reason behind was high volume of low interest earning transactions with

ČNB and continued pressure on market interest margins. Excluding exceptional growth of low interest earning assets, the net interest margin declined from 2.92% to 2.71% in 2018.

Net fee and commission income decreased by 3.0% to CZK 8.5 bn year-on-year, driven by shrinking income from payment services associated with a growing share of advantageous programmes in current accounts. However, Česká spořitelna succeeded in raising fee income from investment products, asset management, sale of insurance products and from lending.

Net trading result decreased by 21.4%, to CZK 2.2 bn year-on-year. This result was affected by lower income from FX transactions, from derivatives and by extraordinary demand for hedging activities in Q1 2017 in connection with the termination of the ČNB's currency interventions.

The total operating expenses remained flat in a year-on-year comparison at CZK 18.3 bn even though inflation in the Czech economy is growing. Higher personnel expenses following an increase in salaries were offset by a decline of other administrative expenses and depreciation. Other administrative expenses declined by 2.8% despite a higher contribution to the Deposit Insurance Fund. Reduced were costs for office space and marketing. Depreciation of tangible and intangible assets decreased as a result of lower depreciation of buildings.

Impairment result on financial instruments (i.e., creation of risk provisions and reserves for loans and advances, guarantees and commitments) **reached CZK -0.3 bn**. Loan portfolio quality is still on a very high level, with the share of non-performing loans on total loans at only 1.8%. Coverage of non-performing loans by credit risk provisions further increased to strong 101%.

As of 31 December 2018, **total consolidated assets amounted to CZK 1,426.5 bn. Compared to 1 January 2018 they increased by 7.4%**. There was a change in the structure of assets throughout the year 2018. The volume of loans and advances to customers and banks, including reverse repo operations with the ČNB, went up significantly. Also debt securities at amortised costs showed an increase. On the contrary, cash and deposits with the Czech National Bank dropped sharply. On the liability side of the balance sheet, deposits from customers particularly increased, the same as deposits from banks, including repo operations.

Equity attributable to owners of the parent stood at CZK 122.5 bn as of 31 December 2018, which is 2.4% more than at the beginning of the year 2018. **The total capital ratio** for Česká spořitelna Group as of 31 December 2018 **strengthened by 50bps to 19.2%**.

Customer loans continued their dynamic growth. **The gross volume of customer loans adjusted for reverse repo operations increased by 9.0% to CZK 705.7 bn** year-on-year. (The reported figure, including reverse repo operations, went up by 8.5%.) Of that, the portfolio of **retail loans (bank only) amounted to CZK 383.5 bn**, representing a **year-on-year increase of 9.8%** driven by **private mortgages (up by 11.2%)**, **by loans to small companies (grew by 8.6%)** and **by consumer loans (up by 5.7%)**. **The volume of wholesale** (Corporate and Group Markets) **loans**, excluding reverse repo operations, **increased by 7.7%** year-on-year **to CZK 254.8 bn**, due to **strong growth in loans to large corporate customers (up by 11.4%)** and **to SMEs (up by 8.6%)**.

Group deposits from customers grew by 8.1% to CZK 954.4 bn compared to 1 January 2018. Household (retail) deposits went up by 9.3% to CZK 672.0 bn. Group corporate deposits grew by 5.2% to CZK 218.6 bn. Public sector deposits increased by 5.4% to CZK 63.8 bn from 1 January 2018.

As of 31 December 2018, the total number of clients of the ČS Group was 4.63 m. More than 1.5 m customers of ČS use digital banking which is 5.2% more than in 2017. The overall number of active payment cards issued by ČS increased by 1.4% year-on-year and reached 2.87 m. Thereof credit cards represented 177 thousand. The volume of card transactions executed at retail outlets with Česká spořitelna's cards in the year 2018 was up by 15.6% compared to the same period last year, to CZK 186.9 bn. The number of Česká spořitelna's ATMs and transaction terminals increased by 79 year-on-year to 1,783.

FINANCIAL DATA		2017	2018	Year-on-Year Change
Income statement (CZK m)	Net interest income	25,350	27,821	9.7%
	Net fee and commission income	8,803	8,540	-3.0%
	Net trading result	2,736	2,150	-21.4%
	Rental income, dividends and other income	338	578	71.0%
	Operating income	37,227	39,088	5.0%
	Operating expenses	-18,240	-18,327	0.5%
	Operating result	18,987	20,761	9.3%
	Gains/losses from derecognition of financial instruments not measured at FV through profit or loss	271	25	-90.8%
	Impairment result from financial instruments	-33	-288	>100%
	Other operating result	-1,198	-1,335	11.4%
	Taxes on income	-3,415	-3,801	11.3%
	Post-tax result from continuing operations	14,612	15,362	5.1%
	Net profit attributable to non-controlling interests	2	0	-100.0%
	Net profit attributable to owners of the parent	14,610	15,362	5.1%
Balance sheet (CZK m)	Loans and receivables to customers (gross)*	651,093	706,755	8.5%
	Deposits from customers	883,237	954,441	8.1%
	Equity attributable to owners of the parent**	119,583	122,473	2.4%
Ratios	Return on equity (ROE)	12.1%	12.8%	0.7 pp
	Cost/income	49.0%	46.9%	-2.1 pp
	Loan to deposit ratio	72.2%	72.7%	0.5 pp
	Total capital ratio	18.7%	19.2%	0.5 pp

Note: 2017 structure adjusted in order to ensure comparability with 2018 (IFRS 9). No restatement for 2017 has been done.

* Customer loans influenced by reverse repo operations; excl. this effect customer loans increased by 9.0% y/y

** Figure as at 31 December 2018 in comparison with figures as at 1 January 2018

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

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