

## **Česká spořitelna reported excellent financial results in H1 2019. Consolidated net profit increased by 10.5% to CZK 8.7 bn, operating result rose by 19.5%**

As at 30 June 2019, Česká spořitelna reported an unaudited consolidated net profit of CZK 8.7 bn, according to International Financial Reporting Standards (IFRS). Net profit for the same period of 2018 amounted to CZK 7.9 bn. Net profit thus increased by 10.5% in a year-on-year comparison. Operating result recorded even more significant growth – up by 19.5% to CZK 11.3 bn.

*“Česká spořitelna’s excellent results reflect the enduringly strong economy and growing household consumption. Thanks to our clients’ trust, we achieved more than a 10% year-on-year increase in net profit and our operating result was up by almost 20%. In corporate lending, we confirmed our position as the market leader, and we are also number one on the mutual fund market. In addition to our excellent financial and sales results, we are also pleased by the continuously increasing number of satisfied clients who would recommend our bank (the NPS indicator),”* said the Chairman of Česká spořitelna’s Board of Directors, Tomáš Salomon.

### **MAIN INDICATORS**

**The Czech economy is still benefitting from a favourable macroeconomic development**, in spite of the gradual slowdown of economic growth. **High growth of consumption of Czech households continues, driven by tight labour market and positive sentiment of households.**

**The largest contributor to the growth of operating result was net interest income in connection with growing lending business and increasing interest rates.** Significant contributions to operating result also came from net trading result and net fee and commission income. Strong increase in operating result is the reason behind the **substantial improvement of cost/income ratio to 45.7% from 49.2% in H1 2018.**

**Net interest income**, the most important component of operating income, **recorded another significant increase. Net interest income rose by 11.5% to CZK 14.7 bn in comparison with H1 2018.** This growth was driven by customer loan growth, increasing income from debt securities and interest rate hikes of Czech National Bank. Although some interest rates increased, **net interest margin related to interest-bearing assets decreased from 2.15% to 2.08%.** The decline was due to a high volume of low interest earning transactions with ČNB and continued competitive pressure at the banking market. Excluding exceptional growth of low interest earning assets, net interest margin declined from 2.69% to 2.55%.

**After seven years of declining in net fee and commission income, Česká spořitelna experienced turnaround. Net fee and commission income grew in H1 2019 by 3.8% year-on-year to CZK 4.5 bn.** Česká spořitelna managed to increase fee income particularly from asset management, custody, card business and optimisation of fee expenses for lending commission.

**Net trading result extraordinary grew by 43.3% y/y to CZK 1.5 bn.** This result was attributed to FX business in retail and corporate segments.

**Total operating expenses rose by 4.1% in a year-on-year comparison, to CZK 9.5 bn. Personnel expenses grew by 6.7%,** mainly due to increase in salaries. **Other administrative expenses decreased by 4.7%** despite a higher contribution to the Deposit Insurance Fund. The decline was also attributed to **IFRS 16 implementation which caused structural changes in the income statement**, mainly between other administrative expenses (decrease) and depreciation of tangible and intangible assets (increase).

**Impairment result on financial instruments** (i.e., creation of risk provisions and reserves for loans and advances, guarantees and commitments) **reached CZK 0.2 bn.** In spite of a positive impact on income statement, it meant a year-on-year worsening, due to an exceptionally high release of credit risk provisions in H1 2018. Loan portfolio is still in a very good condition with a low amount of new defaults and an exceptionally low portfolio of non-performing loans.

**Other operating result of CZK -0.7 bn** consisted mainly of other income and costs unrelated to common activity of the Group, creation of provisions and result from sale or revaluation of tangible and intangible assets. **The compulsory contribution of CZK 682 m to the Recovery and Resolution Fund, which grew significantly from CZK 488 m in H1 2018, by 39.7%, was also included in this item.**

**As at 30 June 2019, total consolidated assets amounted to CZK 1,504.5 bn, which meant 5.5% increase** compared to 31 December 2018. The changes in the structure of assets continued throughout the first half of 2019, resulting in a rise of loans and advances to customers and banks, including reverse repo operations with ČNB. Debt securities at amortised cost kept growing as well. On the liability side of the balance sheet, deposits from customers particularly increased. **Asset and liability sides of balance sheet were also influenced by the above-mentioned implementation of the new accounting standard IFRS 16, causing the increase of both sides of balance sheet by CZK 2.7 bn,**

**Equity attributable to owners of the parent stood at CZK 129.4 bn as at 30 June 2019,** which is 5.6% more than at the end of the year 2018. In June 2019 Česká spořitelna issued Additional Tier 1 capital in the approx. volume of CZK 9 bn to strengthen its capital base. **The total capital ratio for Česká spořitelna Group as at 30 June 2019 reached 20.6%,** significantly above minimum regulatory capital requirements.

Growth of customer loans continued also in H1 2019. **The gross volume of ČS Group customer loans adjusted for reverse repo operations increased by 6.8% to CZK 730.0 bn** year-on-year. (The reported figure, including reverse repo operations, grew by 4.9%.) The portfolio of **retail loans (bank only) amounted to CZK 394.2 bn,** representing a **year-on-year increase by 7.2%** driven by **private mortgages (+8.9%), loans to small companies (+4.9%) and consumer loans (+3.0%).** **The volume of wholesale** (Corporate and Group Markets, bank only) **loans, excluding reverse repo operations, increased by 6.0% year-on-year to CZK 265.9 bn,** due to **strong growth in loans to large corporate customers (+7.9%), SMEs (+6.4%) and real estate (+10.6%).**

**Group deposits from customers grew by 13.9% to CZK 1,047.2 bn compared to H1 2018. Household (retail) deposits went up by 6.9% to CZK 695.1 bn. Group corporate deposits rose by 9.5% to CZK 206.2 bn and public sector deposits increased substantially** due to inflow of volatile short term deposits **by 79.9% to CZK 145.9 bn** in a year-on-year comparison.

As at 30 June 2019, the **total number of clients of the ČS Group** was **4.58 m**, of which approx. **1.54 m** used **digital banking in H1 2019**. The overall number of active payment cards issued by ČS increased by **1.7% year-on-year** and reached **2.89 m**. Thereof **credit cards represented 173 thousand**. The volume of card transactions executed at retail outlets in H1 2019 with Česká spořitelna's cards compared to H1 2018 **was up by 15.5% to CZK 99.4 bn**. The number of **Česká spořitelna's ATMs and transaction terminals** increased by 69 year-on-year to **1,778**.

<b>FINANCIAL DATA</b>		<b>1-6 18</b>	<b>1-6 19</b>	<b>Year-on-Year Change</b>
<b>Income statement</b> (CZK m)	Net interest income	13,144	14,657	11.5%
	Net fee and commission income	4,287	4,450	3.8%
	Net trading result	1,041	1,492	43.3%
	Rental income, dividends and other income	163	254	55.8%
	<b>Operating income</b>	<b>18,635</b>	<b>20,853</b>	<b>11.9%</b>
	<b>Operating expenses</b>	<b>-9,160</b>	<b>-9,534</b>	<b>4.1%</b>
	<b>Operating result</b>	<b>9,475</b>	<b>11,319</b>	<b>19.5%</b>
	Gains/losses from derecognition of financial instruments not measured at FV through profit or loss	30	8	-73.3%
	Impairment result from financial instruments	903	199	-78.0%
	Other operating result	-559	-680	21.6%
	Taxes on income	-1,992	-2,136	7.2%
	Post-tax result from continuing operations	7,857	8,710	10.9%
	Net profit attributable to non-controlling interests	-13	10	-
	<b>Net profit attributable to owners of the parent</b>	<b>7,870</b>	<b>8,700</b>	<b>10.5%</b>
<b>Balance sheet</b> (CZK m)	Loans and advances to customers (gross)*	711,835	746,722	4.9%
	Deposits from customers**	919,718	1,047,223	13.9%
	Equity attributable to owners of the parent	114,409	129,371	13.1%
<b>Ratios</b>	Return on equity (ROE)	12.9%	13.8%	0.9pp
	Cost/income	49.2%	45.7%	-3.5pp
	Loan to deposit ratio	75.9%	70.1%	-5.8pp
	Total capital ratio	17.3%	20.6%	3.3pp

\* Customer loans influenced by reverse repo operations; excl. this effect customer loans increased by 6.8% y/y

\*\* Since 2019 includes deposits from customers at amortised cost, deposits from customers at FV through profit or loss and finance lease liabilities to customers

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

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