

# ERSTE presents its MREL Issuers

## Česká spořitelna, a.s. Investor Presentation

FY 2020 Preliminary results

Wolfgang Schopf, CFO

March 2021



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# Summary

## Czech Republic

- Member of European Union (since 2004)
- Sovereign ratings at AA with stable outlook (S&P), AA- with stable outlook (Fitch) and Aa3 with stable outlook by Moody's
- Economy hit by the COVID-19 lockdown and consequent recession, recovery in no-lockdown periods has been brisk

## Erste Group

- Founded in 1819 as the first Austrian savings bank, Erste Group went public in 1997 with a strategy to expand its retail business into CEE
- Erste Group has grown to one of the largest financial services providers in the Eastern part of EU in terms of clients and total assets
- Number of customers has increased from 600,000 to 16.1 mil. in Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia
- Erste Group strives to be the leading retail and corporate bank in the eastern part of the European Union, including Austria

## Czech Banking Market

- Lending growth remains solid mainly in retail segment despite economic cooldown
- Net profit fell significantly in 2020 due to surging risk costs, asset quality and capitalisation still solid across the sector
- Loan growth expected in coming years to match economy growth while deposit growth is to slow down from current elevated tempos

## Česká spořitelna (ČS)

- ČS is the largest bank in Czech Republic in terms of number of customers (4.5 m) and distribution network reflected in market leadership in both retail and corporate lending combined with constantly growing deposit base
- Current rating from Moody's stands at A1 with stable outlook. Fitch rating at A with negative outlook. S&P rating stable at the level A.
- Higher risk costs reflecting COVID-19 pandemic with significant negative impact on net profit, solid operating performance and strong capital position
- ČS among the top banks in ROE, CIR and CAR

# Presentation Topics

## 1. Erste Group | ČS at Glance

2. Czech Republic

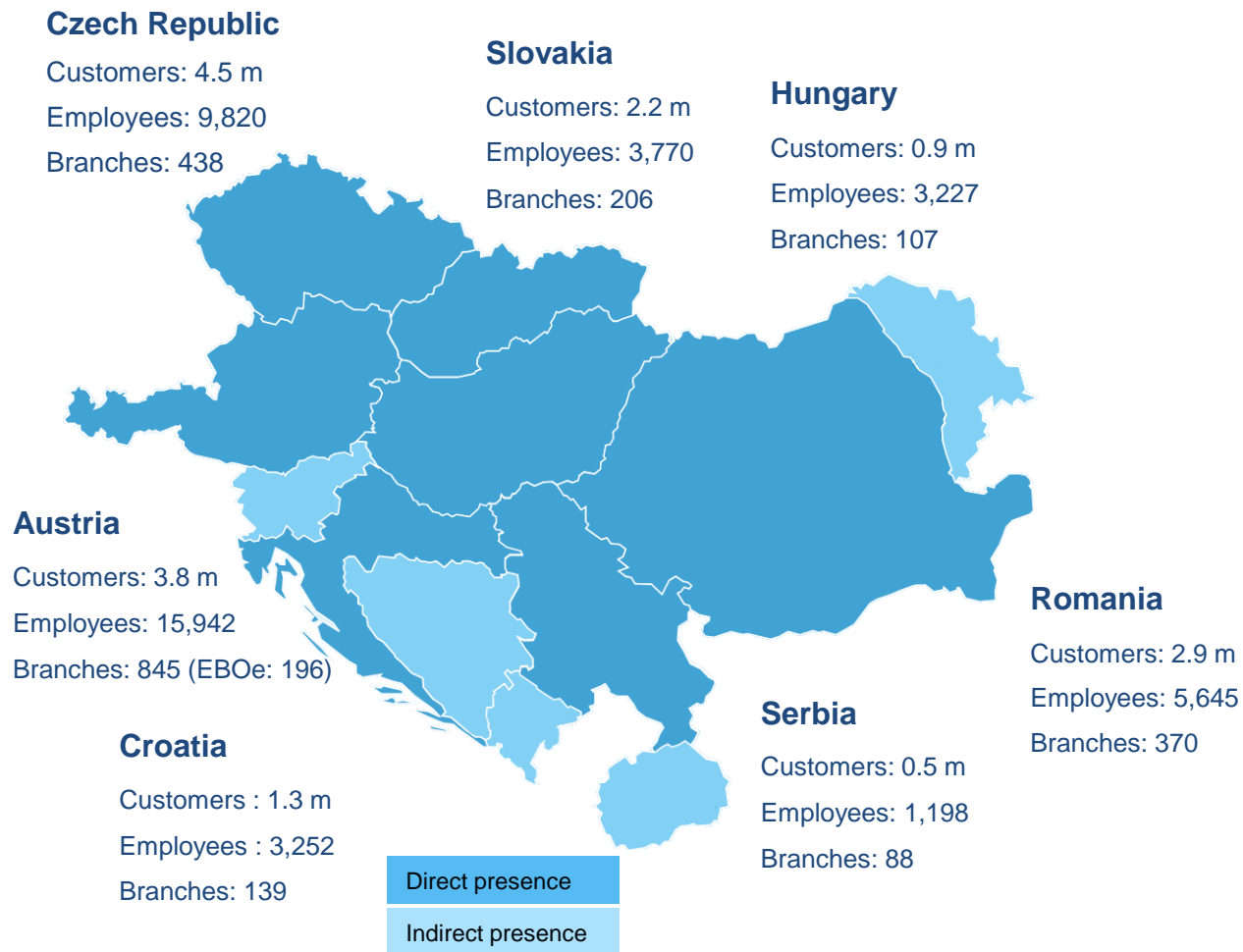
3. Czech Banking Market

4. Česká spořitelna

5. Funding

6. Additional Information

# Erste Group at a Glance



## Key information as at Dec 2020

Total assets	<b>EUR 277bn</b>
Net profit	<b>EUR 783mn</b>
NPL coverage	<b>88.6%</b>
NPL ratio	<b>2.7%</b>
CET 1 ratio*	<b>14.2%</b>
Total capital ratio*	<b>19.7%</b>
Loan/deposit ratio	<b>86.9%</b>
Leverage ratio	<b>6.7%</b>
Credit ratings**	<b>A (Stable) / A2 (Positive) / A (RWN)</b>

\* Basel 3 \*\* S&P | Moody's | Fitch

# Česká spořitelna at a Glance

Czech market leader with the largest distribution network

- Established in 1825, 100% Erste Group ownership since 2018
- No. 1 in consumer and mortgage lending
- Market leadership in total deposits and mutual funds
- The largest branch and ATM network
- The largest commercial bank in Czech Republic servicing 4.5 million clients

## Credit Rating of Česká spořitelna (ČS)

	Long-term	Short-term
Moody's	A1 stable	Prime - 1
S&P	A stable	A - 1
Fitch	A negative	F1

Key information as at Dec 2020

Total assets	<b>EUR 58.6 bn</b>
Net profit	<b>EUR 378.3 m</b>
NPL coverage	<b>115.0%</b>
NPL ratio	<b>2.2%</b>
CET 1 ratio*	<b>21.9%</b>
Total capital ratio*	<b>25.6%</b>
Loan/deposit ratio	<b>68.6%</b>
ROE	<b>7.0%</b>
CIR	<b>47.6%</b>

\* Basel 3, fully loaded

# Presentation Topics

1. Erste Group | ČS at Glance

**2. Czech Republic**

3. Czech Banking Market

4. Česká spořitelna

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# Czech Republic – Key Figures

**Area:** 78,864 km<sup>2</sup>

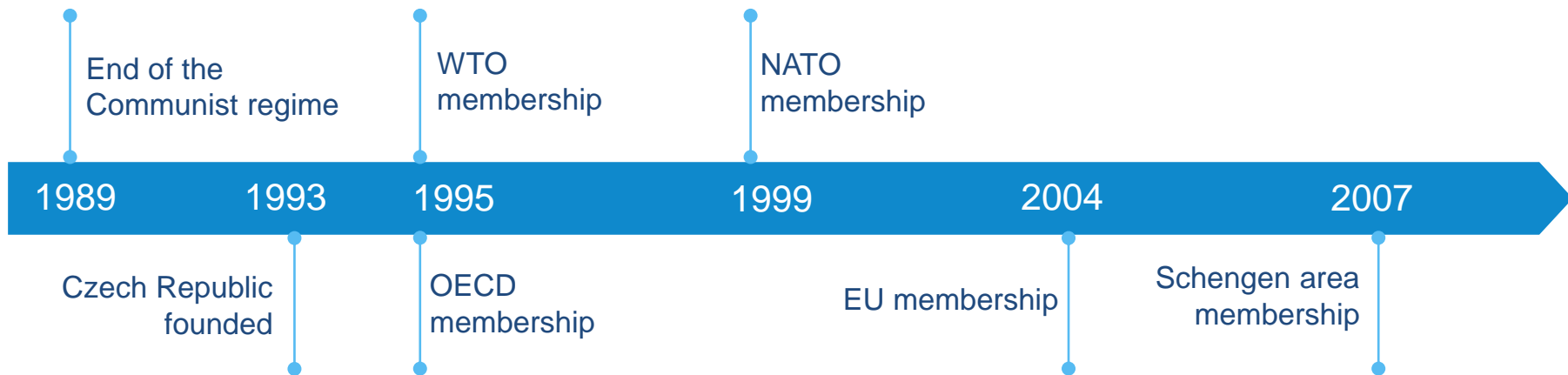
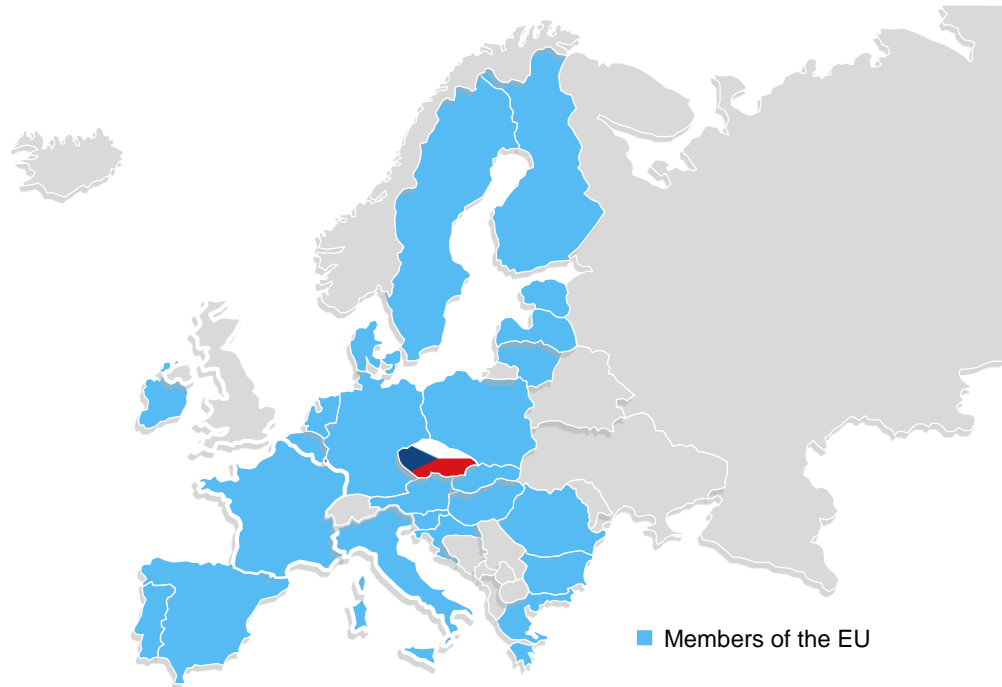
**Population:** 10.7 million

**GDP per capita:** Approx. €19,400 in 2020

**Credit ratings\*:** Aa3 (stable outlook) | AA (stable outlook) | AA- (stable outlook)

**Capital:** Prague

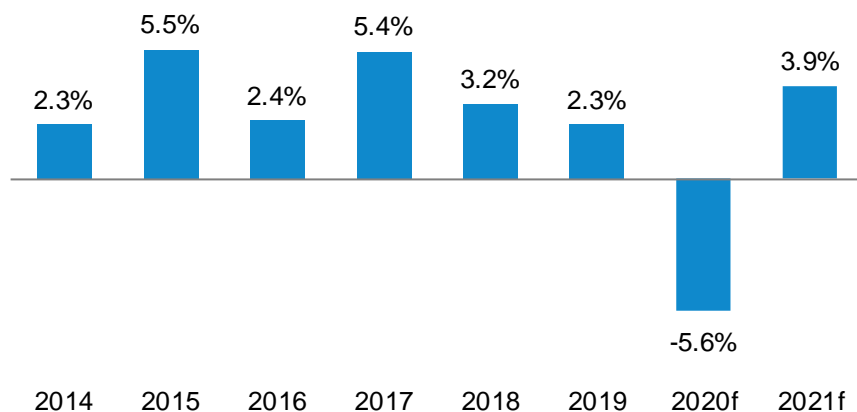
\* Ratings by Moody's | S&P | Fitch





# Macroeconomic Development

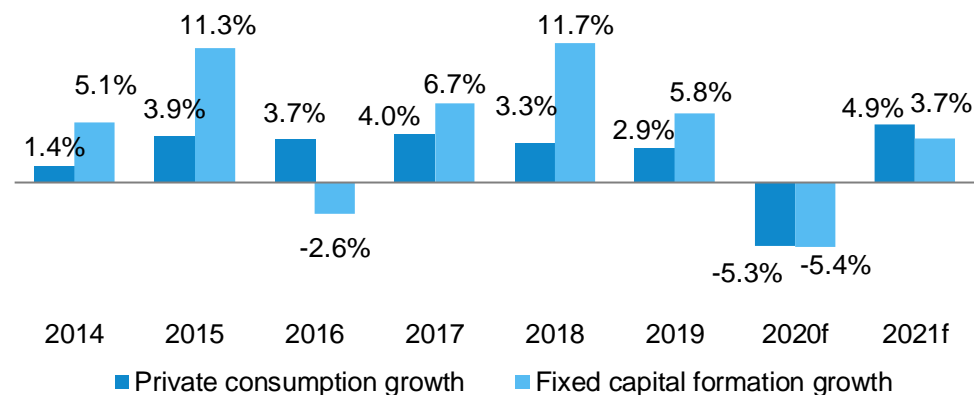
## Real GDP growth (%)



Source: Statistical Office, ČS Research

- Due to the COVID-19 pandemic, real GDP is fell by 5.6% in 2020 before rebounding to above 3% growth in 2021
- The Czech economy went through a recession in 2020. However, GDP growth in the qoq terms was positive in both the third and fourth quarters of 2020, mainly as a result of solid foreign demand
- In 2021, GDP growth should recover. However, economic development during Q1 2021 will be negatively affected by the pandemic

## Components of GDP

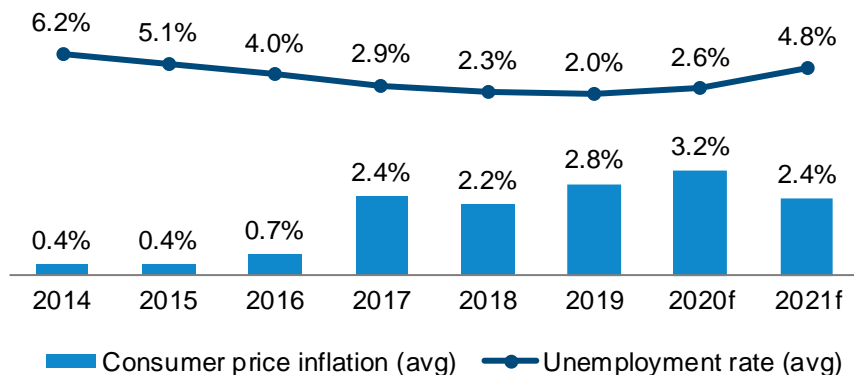


Source: Statistical Office, ČS Research

- Growth of **household consumption** fell significantly in 2020, due to several government restrictive measures, gradual labour market worsening and overall uncertainty
- Growth of **investments** was also significantly hit in 2020
- **In 2021 and the forthcoming years, households consumption and private investments will be growing in solid paces.** Improved sentiment of households and firms, favourable development in labour market, recent tax change affecting households' net income and EU funds will be the most important factors

# Macroeconomic Development (Cont'd)

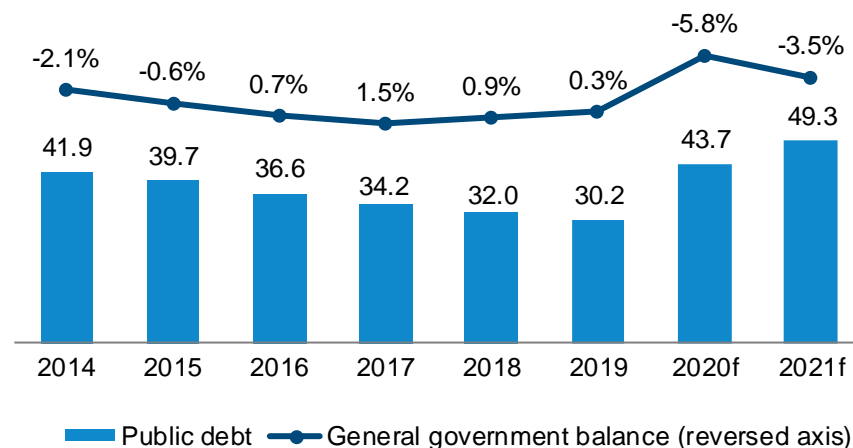
## Unemployment and inflation (%)



Source: Statistical Office, ČS Research

- Labour market is affected by the pandemic – **ČS expects unemployment rate to increase in 2021**, amidst a decrease in employment and weaker nominal wage growth
- Yet, the impact is softened by fiscal measures geared at protecting employment and the recovery should bring gradual improvements in the following years
- **ČS expects CPI inflation to arrive at 2.4% in 2021**, as expected economic recovery will gradually spill over into inflationary pressures from Q2 2021 thereafter

## Public debt and govt. balance (share of GDP)



Source: Statistical Office, ČS Research

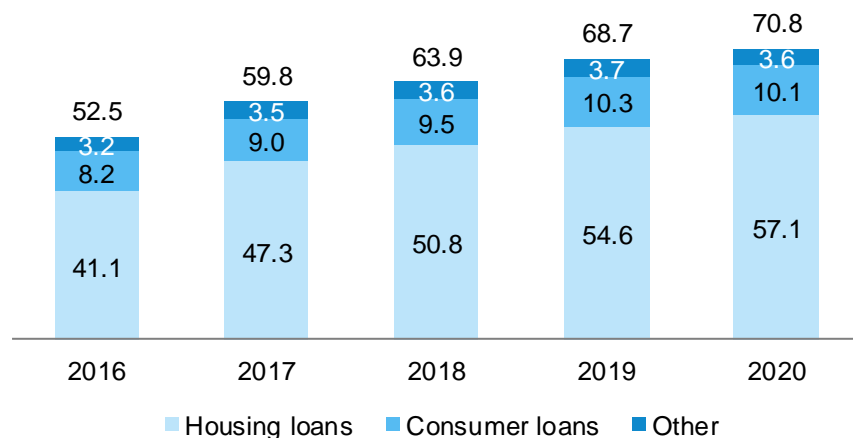
- Due to significant financial needs and tax changes, the central government **budget deficit increased substantially**
- ČS expects the general government balance to stay in the negative territory as a result of various **supportive measures, weaker tax income and increased expenditures on social security**
- The **share of public debt to nominal GDP is anticipated to increase**, as higher indebtedness of the government should outweigh GDP growth

# Presentation Topics

1. Erste Group | ČS at Glance
2. Czech Republic
- 3. Czech Banking Market**
4. Česká spořitelna
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# Outstanding Retail Loans and Debt of Households

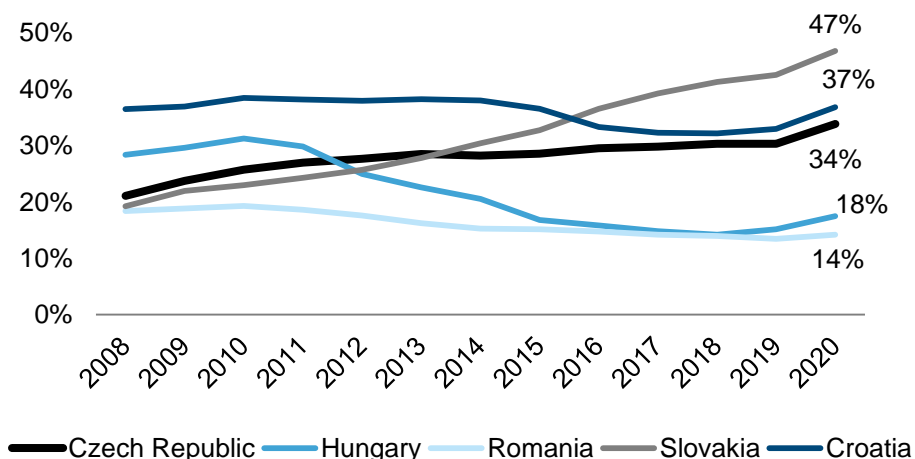
Development of retail loans (EUR bn)



Source: ČNB

- **Housing loans constitute the majority of retail loans**
- During the period of 2016-2019 growth in housing loans decelerated slightly while consumer lending growth was accelerating
- **However, in 2020 the growth of housing loans increased to 8%** (excl. FX impact), while consumer loans were hit quite significantly by the COVID-19 recession and the portfolio added only 1% (excl. FX impact)
- ČS expects the growth to further accelerate in the coming years, mainly due to higher demand

Retail loans to GDP

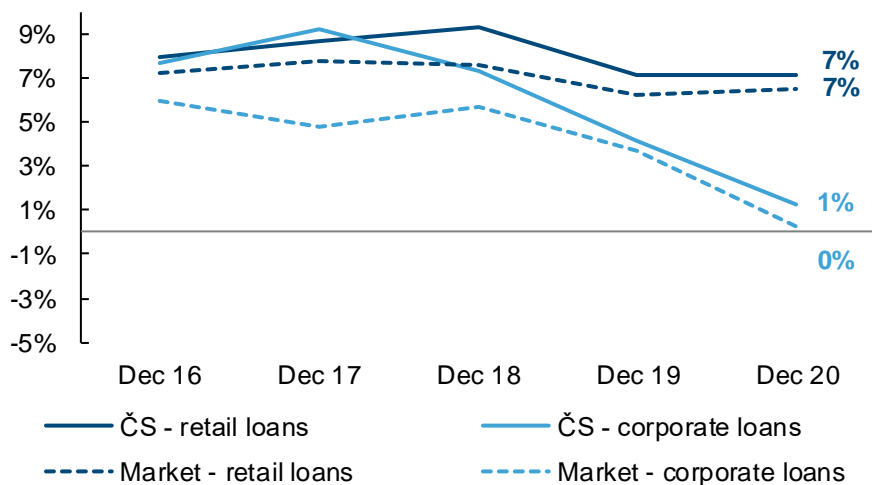


Source: ECB, ČS Research

- **In recent years, indebtedness of Czech households has gradually converged to Eurozone level**
- Currently the ratio of retail loans to GDP is at 37%, nevertheless, still below the Eurozone average
- ČS forecast for coming years is that the ratio will grow steadily

# Outstanding Loans and Deposits

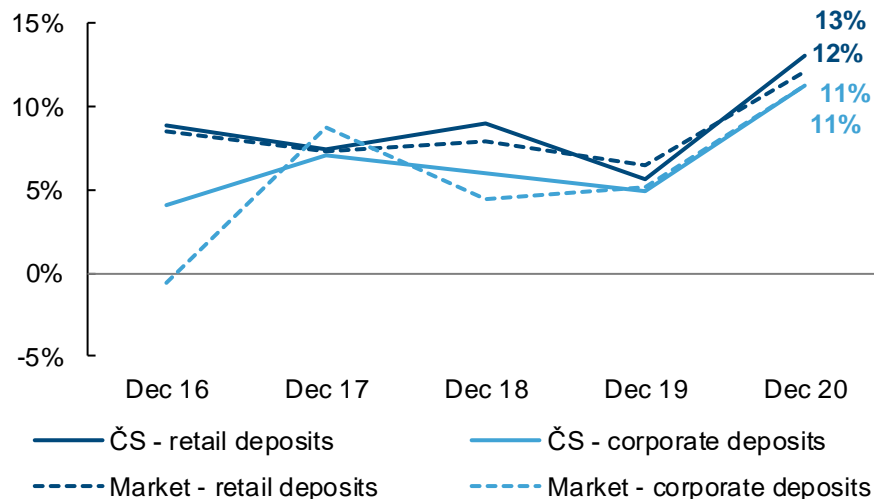
## Retail and corporate loans (yoy growth)



Source: ČNB, ČS, excl. FX impacts

- **ČS lending growth rate continuously above the market levels**
- The pace of **retail loans yoy growth reached solid 7%** as at Dec 20. Slight increase of growth rate in 2020 driven by housing loans. As of Dec 20, housing loans grew by 8% yoy (9% yoy at ČS) whereas consumer loans added 0.8% yoy (1.5% yoy at ČS)
- Total volume of retail loans was EUR 70.8 bn as of Dec 20 for the whole sector and EUR 16.9 bn for ČS
- The volume of **corporate loans increased by 0.3%** yoy to EUR 42.8 bn. At ČS, growth was 1.3% yoy and volume reached EUR 9.1 bn

## Retail and corporate deposits (yoy growth)

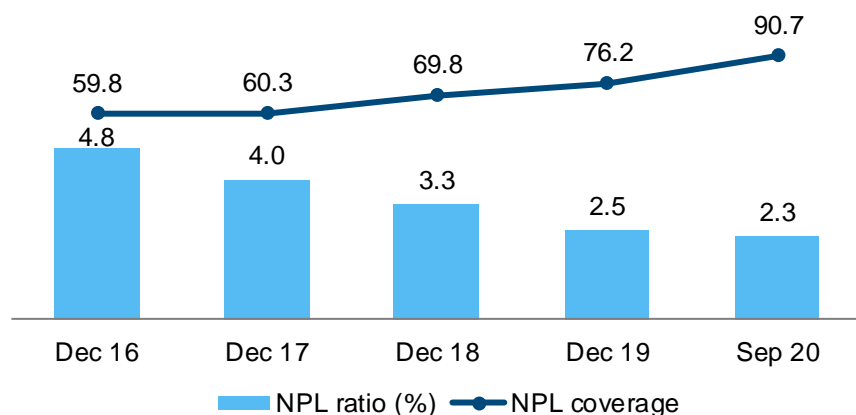


Source: ČNB, ČS, excl. FX impacts

- **The growth of customer deposits accelerated in 2020** likely due to inability or unwillingness to spend or invest in the atmosphere of uncertainty
- Growth of market **retail deposits at 12% yoy**
  - Total market volume of retail deposits is at EUR 116 bn, while ČS's volume reached EUR 30 bn as of Dec 20
  - High growth in sight deposits in retail
- Market **corporate deposits up by 11% yoy**, stood at EUR 46 bn
  - At ČS, the growth in line with the market reaching EUR 6 bn

# NPL Rates and Profitability of the Sector

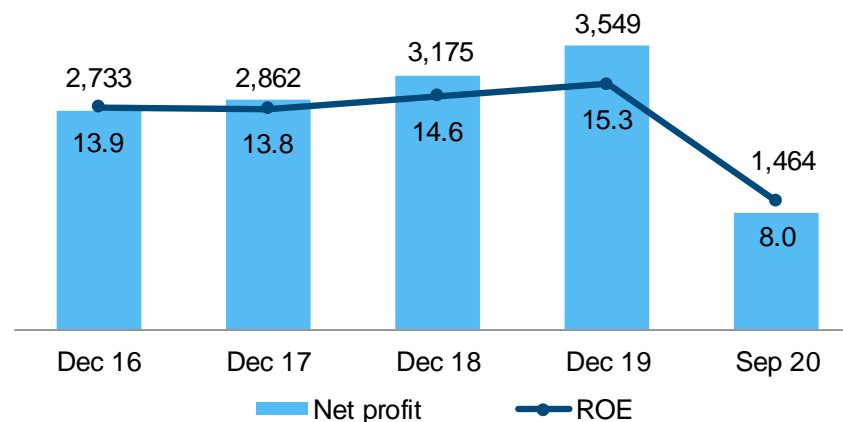
## NPL ratio and NPL coverage



Source: ČNB, latest available data

- **Total volume of non-performing loans is on decline in recent years**
  - Both retail (despite rapid growth in lending) and corporate contribute positively to this development
- Increase in NPL coverage in 2018 due to IFRS 9 introduction and in 2020 due to forward looking LLP creation with regards to the COVID-19 pandemic
- Czech banking sector has one of the highest NPL coverage ratios among EU countries

## Profitability of the sector (EUR m / %)

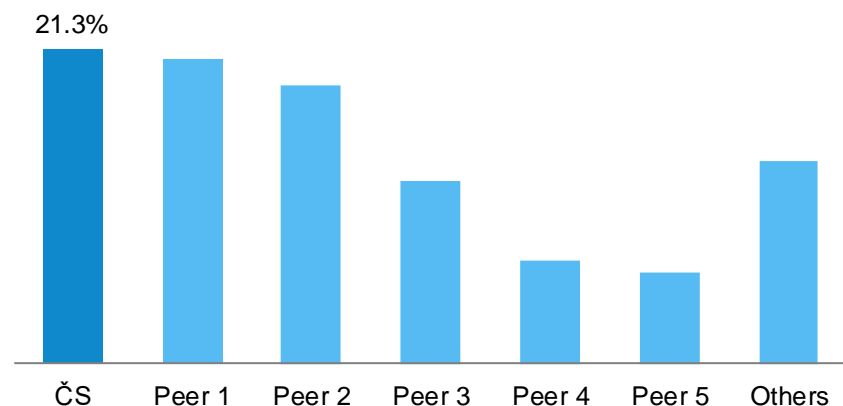


Source: ČNB, latest available data

- **Czech banks posted net profit of EUR 1,464 m in 1-9/2020**
  - Operating result worsening mainly driven by decrease of net interest income due to repo rate cuts by ČNB from 2.0% in Dec 19 to 0.25% in Dec 20
- **1-9/2020 net result was 45% lower yoy** (excl. FX impact). The main reason was much higher LLP creation reflecting COVID-19 pandemic which will also be reflected in full year result
- **Lower ROE** influenced by increased equity reflecting ČNB ban on dividend payments in 2020

# Main Players on Czech Banking Market

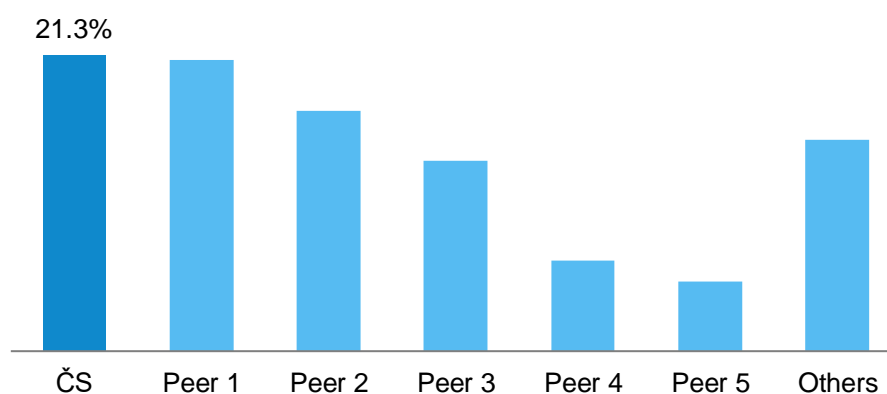
Customer loan market shares (Sep 2020)



Source: Estimated based on individual financial statements of peer group

- **ČS in the leading position in total loans**
- In 2020, ČS market share increased by 8 bp, thanks to both retail and corporate loans
- ČS is the market leader in newly approved housing loans

Customer deposit market shares (Sep 2020)



Source: Estimated based on individual financial statements of peer group

- **ČS remains the bank with the highest volume of customer deposits**
- ČS's share in customer deposits rose by 28 bps to 21.3% in 2020 mainly thanks to gain in retail deposits as the share in corporate deposits remains stable

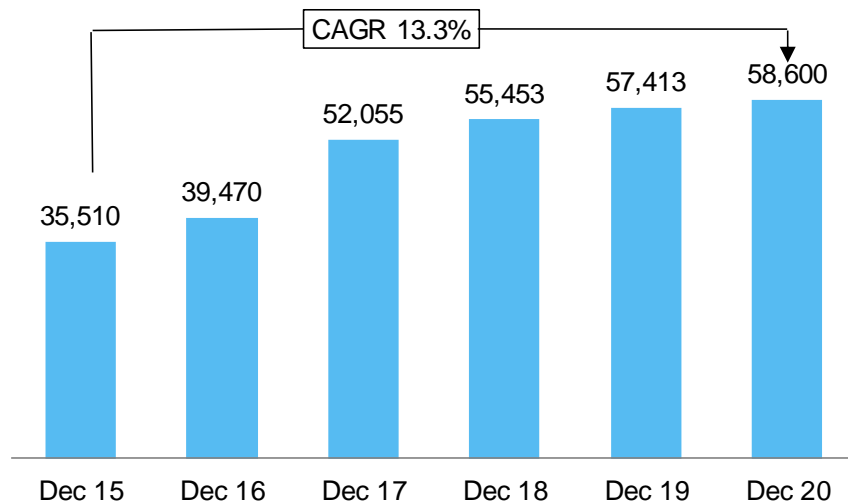
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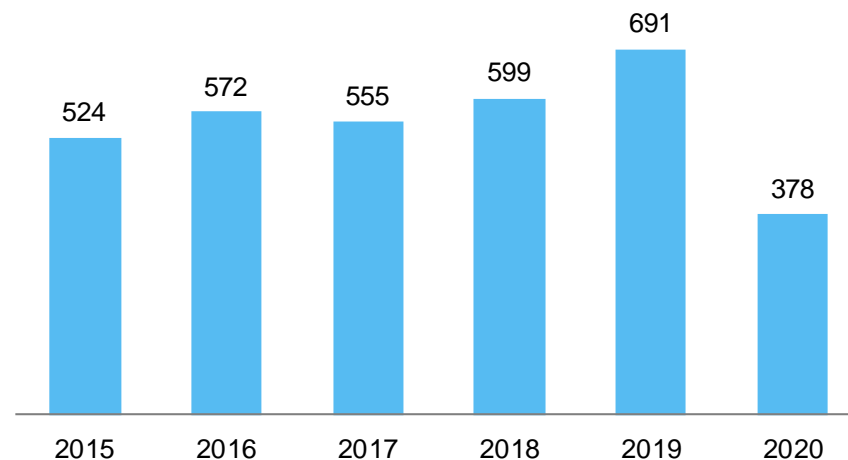


# Historical Performance of ČS

Total assets (EUR m)



Net profit (EUR m)

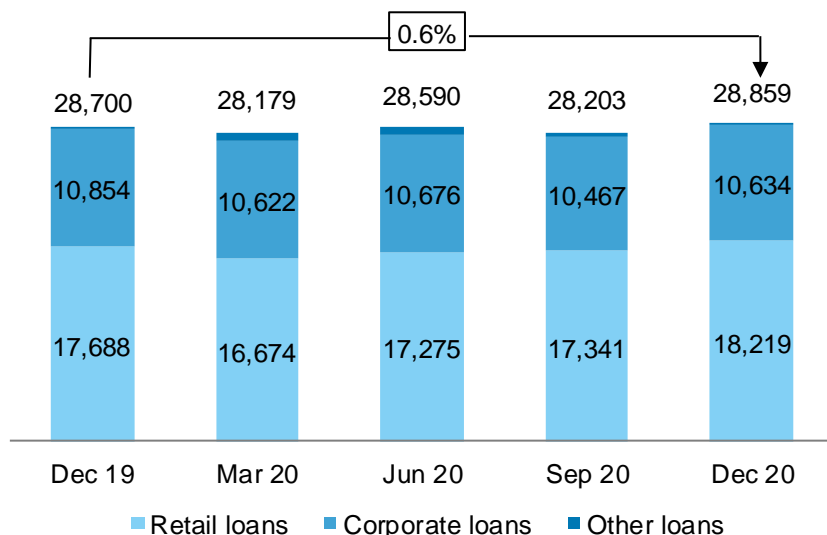


- **ČS asset growth driven mainly by sustainable growth in both retail (CAGR 8% excl. FX impact) and corporate (CAGR 6% excl. FX impact) lending**
- Rapid growth of total assets in 2017 reflected ČNB placements of significant inflow of liquidity in connection with termination of ČNB FX interventions

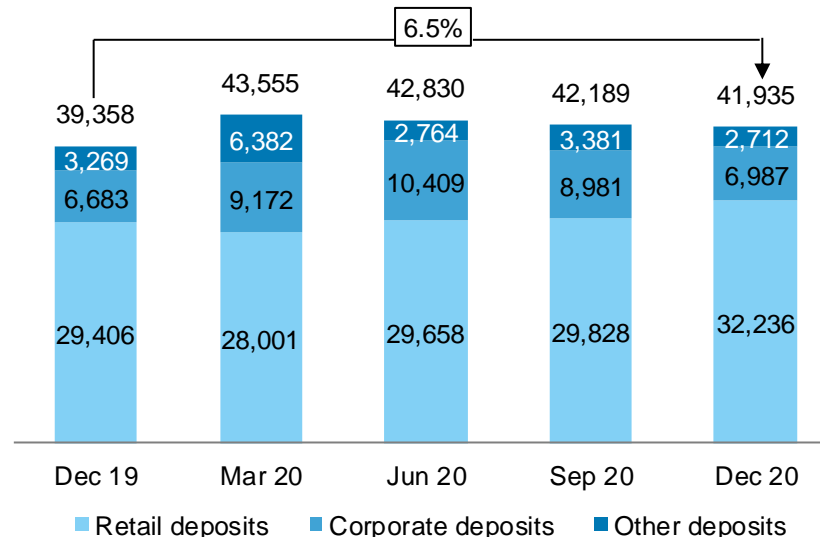
- **Profitability of ČS has been solid over the past years**
  - 2019 profit was supported by improving interest rate environment and low risk costs
- **Year 2020 was extraordinary due to the COVID-19 pandemic**
  - Significantly higher risk costs booking driven by expected credit losses as a consequence of economic deterioration and prudent approach after termination of government repayment moratorium in October 2020

# Balance Sheet Performance of ČS (cont'd)

## Net customer loans (EUR m)



## Customer deposits (EUR m)

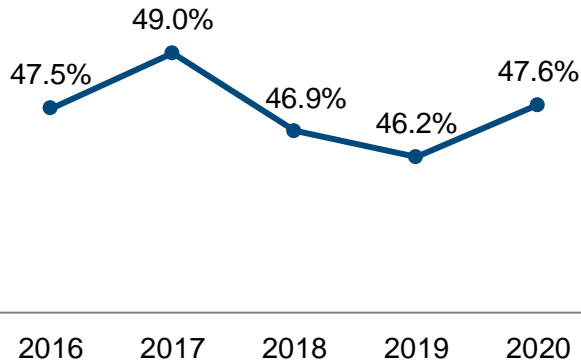


- **Net customer loans increased by 0.6% (3.9% excl. FX impact) in 2020 attributed to retail lending**
- **Retail up by 3.0% yoy (6.4% excl. FX impact)**
  - Housing loans grew by 9% yoy excl. FX impact
  - Consumer loans grew by 1.9% yoy excl. FX impact
- **Corporate loans decreased by 2.0% yoy (up by 1.2% excl. FX impact)**
  - Growth in SMEs (+1.6% excl. FX impact) and Public sector (+5.2% excl. FX impact)

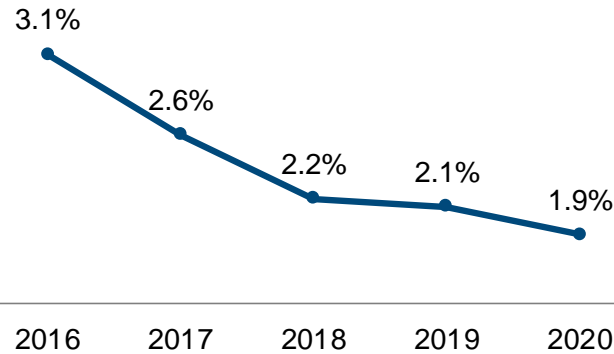
- **ČS's customer deposits expanded by 6.5% yoy (10.4% excl. FX impact)**
- **Growth of retail deposits at 9.6% yoy (13.2 excl. FX impact)**
  - Mainly due to lower household consumption related to COVID-19
- **Corporate deposits up by 4.6% yoy (8.0% excl. FX impact)**
  - Mainly due to lower investments related to COVID-19

# Key Financial Ratios of ČS

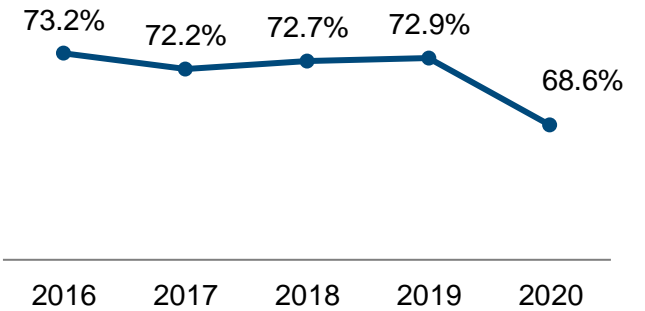
## Cost income ratio



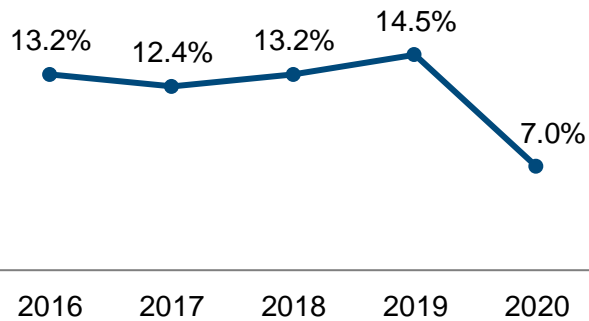
## Net interest margin



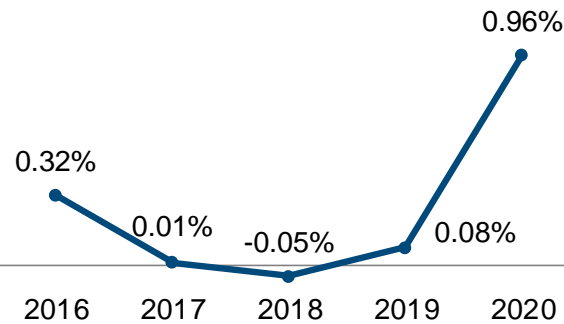
## Loan/deposit ratio



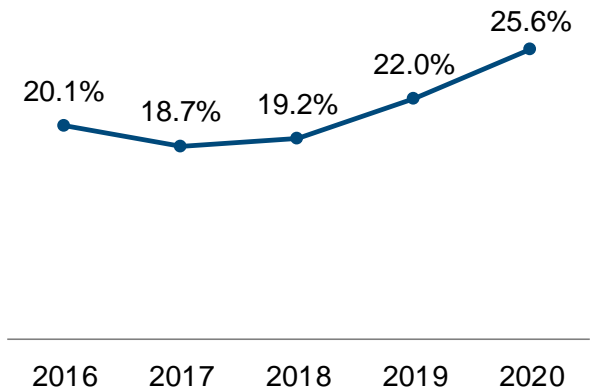
## ROE



## Risk costs

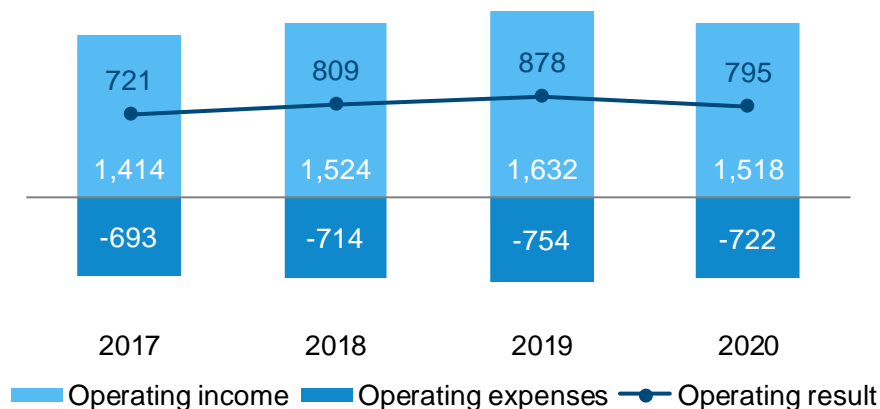


## Solvency ratio

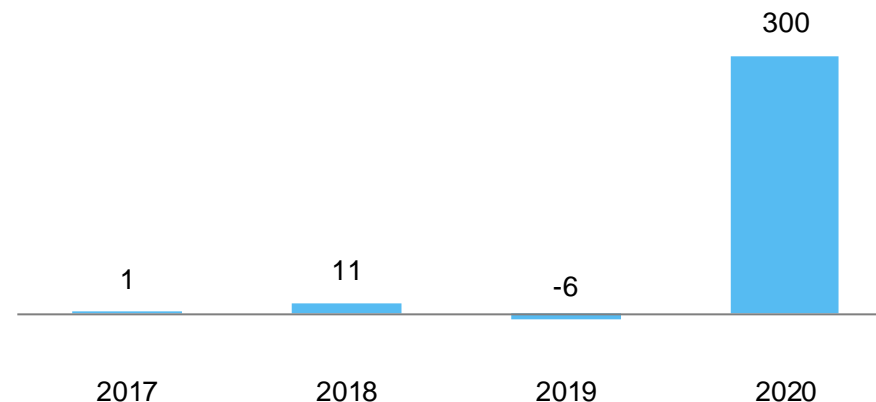


# Operating result and Risk costs of ČS

Operating result development (EUR m)



Risk costs development (EUR m)



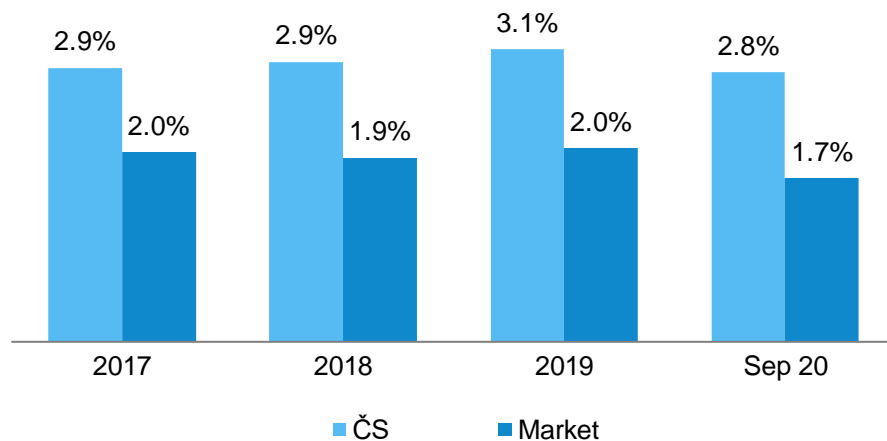
Note: Risk costs reported with reversed sign.

- **Operating result declined by 9.5% yoy** (6.7% excl. FX impact) impact of COVID-19 crisis was mitigated by resilient business model supported by growth of loans and deposits
- **Operating income was down by 7.0% yoy** (4.2% excl. FX impact) due to 6.7% yoy decrease in net interest income (3.8% excl. FX impact) and 6.9% yoy net fee and commission income decrease (4.1% excl. FX impact)
- **Operating expenses were kept under strict control, decline of 4.2% yoy** (1.3% excl. FX impact) despite of 3.2% average inflation
- **Cost/income ratio** grew by 1.4pp yoy to **47.6%**

- **Risk costs went up by EUR 306 m yoy** driven by expected credit losses as a consequence of economic deterioration and prudent approach after termination of government repayment moratorium in October 2020
- Two thirds of risk costs related to performing portfolio (forward looking information, stage overlays)
- Relative risk costs at 96bps

# Development of Net Interest Margin of ČS

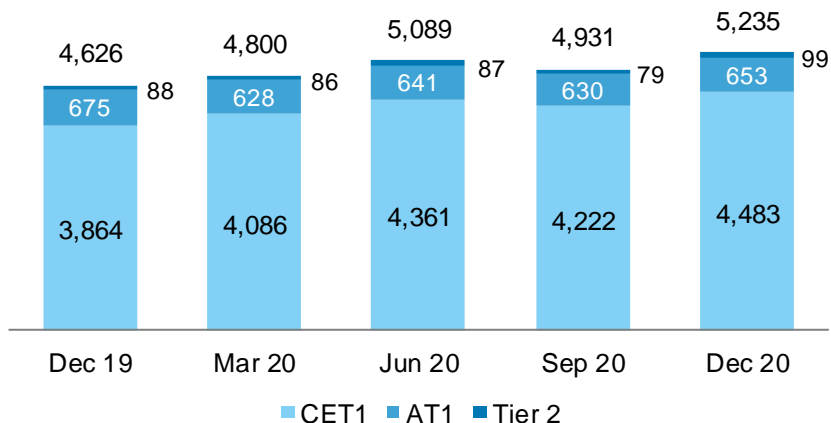
NIM – ČS vs market



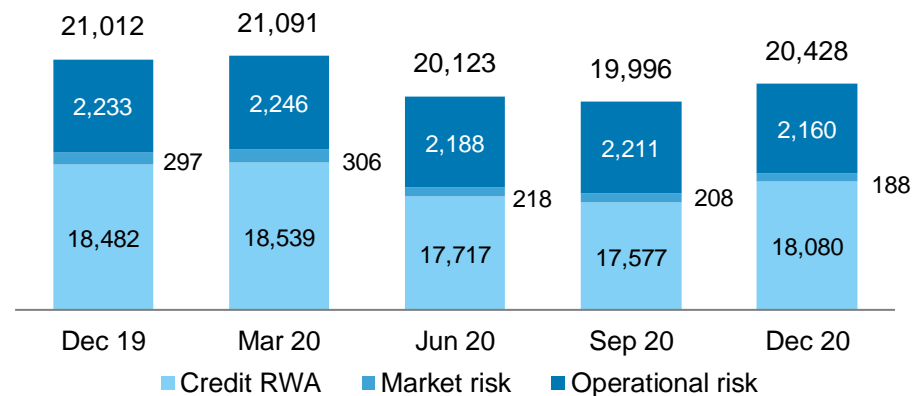
- **Net interest margin** of ČS is constantly above market average which is driven by market leadership in consumer lending and ability to keep low cost of funds

# Capital Position of ČS

## Basel 3 capital (fully loaded, EUR m)

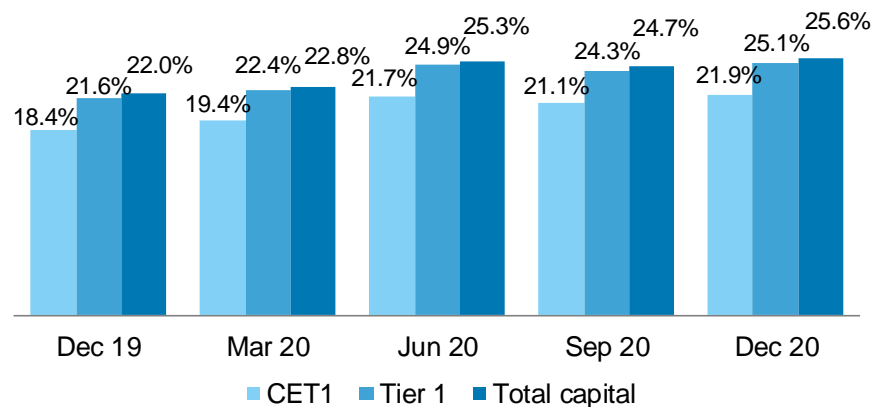


## Risk-weighted assets (fully loaded, EUR m)



- ČS's total capital ratio improved by substantial 3.6pp yoy to 25.6% (total regulatory requirement at 15.4%). CET1 ratio increased to 21.9%
- Increase in ratios driven by retained profits due to ČNB recommendation not to pay out dividends. However, even without this effect, capital adequacy would still be comfortably above regulatory requirement
- Credit RWA growth well below loan book growth, caused by increase in the mortgage portfolio (relatively low risk weight) as well as impact of updated SME supporting factor

## Basel 3 capital ratios (fully loaded, EUR m)



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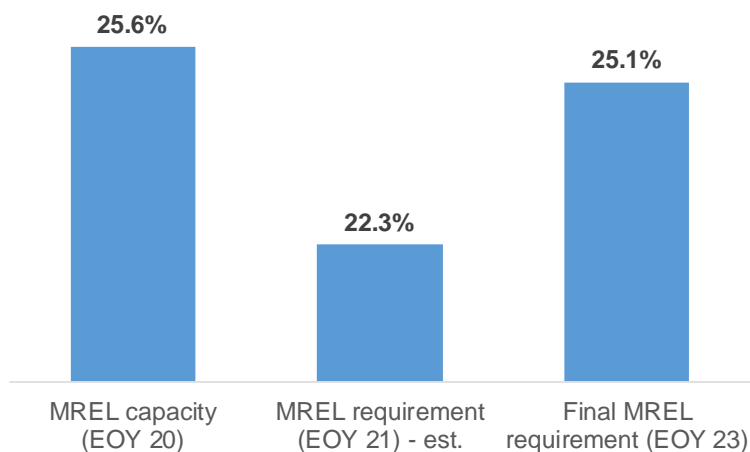
# MREL Requirement | MPE Approach

## Czech resolution group

- Major, relevant entities within the Czech resolution group:
  - Česká spořitelna, a.s.
  - Stavební spořitelna České spořitelny, a.s.

## MREL target (BRRD1)

- Full subordination required by the ČNB
- De-facto MREL target on RWA, incl. CBR around 25%
- High MREL capacity as of EOY 2020 affected by retained profit
- Future MREL issuance need driven by planned dividend payments and increasing RWAs over time



## Key take-aways

- In July 2020, Česká spořitelna (ČS) received its MREL requirement calibrated on balance sheet data as of 31.12.2018 and based on BRRD1
- ČS, as the Point of Entry of the Czech resolution group, must comply with the set MREL requirement of 18.8% of RWAs (without Combined Buffer Requirement), which equals 6.16% of TLOF as of 01.01.2024 (de-facto MREL incl. CBR: 25%)
- Based on the Czech resolution group's RWAs as of December 2020 of CZK 536.1 bn, the current MREL ratio on RWA (incl. CBR) stands at 25.63%
- MREL targets based on BRRD2 (both interim for 01.01.2022 and final for 01.01.2024) expected in H1 2021
- ČS current funding plan reflects the expected interim and final BRRD2 decision on MREL determination. Any potential changes in the MREL requirement will be reflected in ČS funding plan to ensure regulatory compliance



# Funding Plans

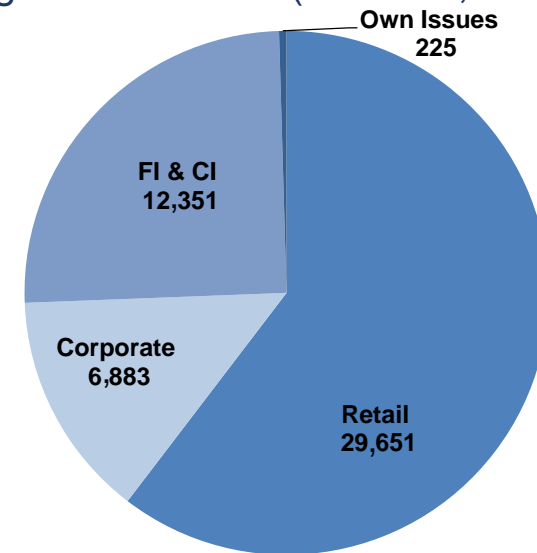
## Funding – international presence

- Senior Non-Preferred – benchmark transaction of EUR 500 m planned for 2021
- Average yearly MREL issuance need of EUR 400-500 m (equivalent) until the end of 2023

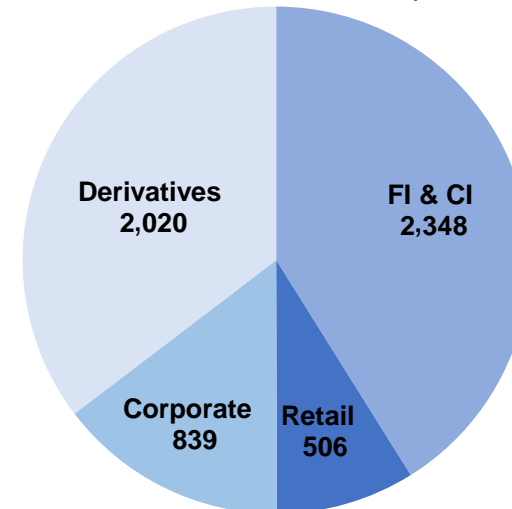
## Programme summary

- Documentation: Group's Multi Issuer Programme
- Senior Preferred, Senior Non-Preferred Senior and Tier 2
- Governing Law: Czech | German
- Listing: Prague Stock Exchange | Vienna Stock Exchange

ČS Funding Mix – Overall (12/2020, EUR m eq.)



ČS Funding Mix – EUR Balance Sheet (12/2020, EUR m)



# Introduction of the New Regulation in Czech Republic

A General approach of the Czech National Bank to MREL setting was published in October 2018

This General approach reflecting BRRD2 was revised and supplemented in February 2021

Bank Creditor Hierarchy Directive (BCHD - Directive (EU) 2017/2399 that amends Bank Recovery and Resolution Directive - BRRD 1– Directive 2014/59/EU) was transposed into the national law in December 2018

The amendment of the insolvency ranking of unsecured debt instruments will facilitate the bail-in of debt instruments by resolution authorities during a crisis

Capital Requirements Regulation II applies from June 2021

Capital Requirements Directive V yet to be locally transposed (currently submitted in Parliament)

introduces changes relating to the implementation of international Basel III standards, including the net stable funding ratio (NSFR) and the leverage ratio

The second Bank Recovery and Resolution Directive (BRRD II or Directive (EU) 2019/879) also currently submitted to the Parliament but not transposed into national law yet

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# Additional Information – Balance Sheet

in m EUR	12/2019	12/2020	yoy
Cash and cash balances	1,595.0	<b>1,450.9</b>	-144.1
Derivatives	382.0	<b>433.7</b>	51.8
Equity instruments	57.0	<b>37.4</b>	-19.6
Debt securities	9,479.2	<b>10,539.0</b>	1,059.8
Loans and advances to banks	16,227.0	<b>16,206.1</b>	-20.9
Loans and advances to customers	28,397.9	<b>28,559.4</b>	161.4
Finance lease receivables	73.8	<b>53.8</b>	-20.0
Hedge accounting derivatives	38.6	<b>101.1</b>	62.6
Trade and other receivables	228.2	<b>246.1</b>	17.9
Other assets	934.7	<b>972.0</b>	37.3
<b>Total assets</b>	<b>57,413.3</b>	<b>58,600.0</b>	<b>1,186.7</b>

in m EUR	12/2019	12/2020	yoy
Derivatives	385.5	<b>491.4</b>	105.9
Deposits from banks	11,496.8	<b>3,480.5</b>	-8,016.3
Deposits from customers	39,232.3	<b>41,934.7</b>	2,702.4
Debt securities issued	221.7	<b>6,459.0</b>	6,237.3
Hedge accounting derivatives	85.8	<b>10.2</b>	-75.6
Other liabilities	581.6	533.0	-48.6
Total equity	5,409.5	<b>5,691.1</b>	281.6
<b>Total liabilities and equity</b>	<b>57,413.3</b>	<b>58,600.0</b>	<b>1,186.7</b>

# Additional Information – Income Statement

in m EUR	1-12/2019	1-12/2020	yoy
Net interest income	1,178.9	1,100.0	-78.8
Net fee and commission income	334.7	311.6	-23.1
Dividend income	2.5	2.1	-0.4
Net trading result	104.0	72.1	-31.9
Gains/losses from financial instruments measured at FVTPL	-0.4	22.6	23.0
Net result from equity method investments	4.1	1.2	-2.9
Rental income from investment properties & other operating leases	8.4	8.1	-0.4
Operating expenses	-753.9	-722.4	31.5
Impairment result from financial instruments	6.2	-299.8	-306.0
Other operating result	-26.8	-23.1	3.6
thereof: Levies on banking activities	0.0	0.0	0.0
<b>Pre-tax profit from continuing operations</b>	<b>856.9</b>	<b>472.3</b>	<b>-384.6</b>
Taxes on income	-164.8	-93.7	71.1
<b>Net profit of the year</b>	<b>692.2</b>	<b>378.7</b>	<b>-313.5</b>
attributable to non-controlling interests	1.0	0.4	-0.6
<b>    attributable to owners of the parent</b>	<b>691.2</b>	<b>378.3</b>	<b>-312.9</b>
Operating income	1,632.2	1,517.6	-114.6
Operating expense	-753.9	-722.4	31.5
<b>Operating result</b>	<b>878.3</b>	<b>795.3</b>	<b>-83.1</b>

# ČS's response to Coronavirus

## Employees

- Home office - enabled for most employees (mainly HQ). For working from home, branch-based bankers were able to connect their home computers to the corporate network
- Protective equipment - ČS provides protective equipment (disinfection, gloves, masks,...) to all branch employees
- 24/7 online doctor - free support for all employees

## Retail customers

- Branches open
- Postponement of instalments – after the termination of government moratorium on instalment postponement in October 2020, ČS introduced an offer of COVID restructuring for 3 or 6 months without negative record in the Banking Register
- MHF service fees relief - the condition of minimal income and one payment by card were temporarily dropped
- Banker on phone/online - ČS provides information to clients not only through the call centre, but also bankers

## Corporate customers

- Prompt payments of invoices - standard payback period for supplier invoices for ČS is 30 days. As of 01.04.2020, this process has accelerated significantly and ČS now reimburses invoices within 24 hours
- Postponement of instalments – after the termination of government moratorium in October 2020, a standard restructuring is being offered to customers who have problems to renew their payments due to COVID-19
- To large corporations, Spořitelna offers operating loans with an EGAP guarantee on concessional terms
- ČS offers the MSE clients payment terminals for 8 months free of charge. MSE clients are also not paying the transaction fees from payments made by VISA or Mastercard cards
- In co-operation with the blockchain start-up company Tatum, Česká spořitelna launched the non-profit project “Save Your Company”, to support sole proprietors and small companies. It aims to help them overcome the period when they cannot run their business due to COVID-19, suffering from restrictions or a customer outage

## Communities

- Charity activities
- Call centres of ČS help with tracing contacts
- Special call line to help seniors register for COVID-19 vaccination

# Political reaction

## Loan repayment moratoria

- Declaration of a moratorium on instalments of loans and mortgages on opt-in basis, **expired in October 2020**. Clients who applied could postpone their instalments from 3 to 6 months
- Consumer loan rate cap at 2w repo + 8pp

## Guaranteed and subsidised loans

- The government guarantees a part of a new loan granted to any firm in difficulties stemming from the crisis. The volume of such loans could reach CZK 900 bn
- COVID – loan from CZK 500 thous to CZK 15 m, period 2 years, 0% interest rate, instalment deferral up to 12 months, for MSE and SME, up to 90% of eligible project costs
- COVID II + COVID Praha – guarantee from ČMZRБ of up to 80% of loan from commercial banks up to CZK 15 m, contribution to interest up to CZK 1 m, guarantee period up to 3 years, for self-employed, MSE and SME (1-250 employees), interest rate according to the agreement with commercial bank
- COVID III – loan provided by commercial banks with guarantee from ČMZRБ (up to 30% of the whole portfolio volume; total approved guarantee up to CZK 150 bn), estimated guarantee period up to 3 years, for self-employed and companies up to 500 employees:
  - 1-250 employees - guarantee up to 90% of loan, loan up to CZK 50 m
  - 251-500 employees - guarantee up to 80% of loan, loan up to CZK 50 m

## Kurzarbeit-like programme

- State covers a part of wages of employees who cannot work due to the epidemic situation

# Regulatory reaction

## DTI, DSTI, LTV

- Updated recommendations in retail loans secured by residential real estate or consumer loans to clients with a mortgage (valid from 01.07.2020):
  - LTV of new retail mortgage loans
    - max 5% of loans with LTV above 90%
  - Prudent evaluation of debtors' creditworthiness (DTI, DSTI)
    - Debt-service-to-income (DSTI, debt service to net monthly income): the limit abolished
    - Debt-to-income (DTI, debt to net annual income): observation recommended, but no limit set

## Capital requirements

- Counter-cyclical buffer reduced from 1.75% to 0.50%

## Dividend restriction

- The ČNB proposed banks to withhold dividend payments or refrain from other steps which might jeopardise their capital resilience



# Monetary reaction

## Interest rates

- ČNB cut its key rate in three steps by 200bps to 0.25% in H1 2020
- Impact on ČS: 20 bps cut leads to approx. EUR 26 m less NII per year

## QE

- The ČNB Act was changed such that it now enables the ČNB to trade in any financial instrument with any financial counterparty launch (e.g. to launch QE)
- QE included in law, but has not yet been launched; only temporary measures expected. The stipulation, however, is valid until the end of 2021 only

# Investor Relations Details

Erste Group Bank AG, Am Belvedere 1, 1100 Vienna

E-mail: [investor.relations@erstegroup.com](mailto:investor.relations@erstegroup.com)

Internet: <http://www.erstegroup.com/investors/debt>



## Česká spořitelna, a.s.

Olbrachtova 1929/62, 140 00, Prague

Czech Republic

### Links:

**About us:** <https://www.csas.cz/en/about-us/for-shareholders-and-investors>

**Financial reports:** <https://www.csas.cz/en/documents-to-download#/1031/2020>

## Česká spořitelna

Pavel Marek

Tel: +420 956 712 422

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

Juraj Garaj

Tel: +420 956 712 419

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

Simone Pilz, Investor Relations Manager

Tel: +43 50100 13036

E-mail: [simone.pilz@erstegroup.com](mailto:simone.pilz@erstegroup.com)