

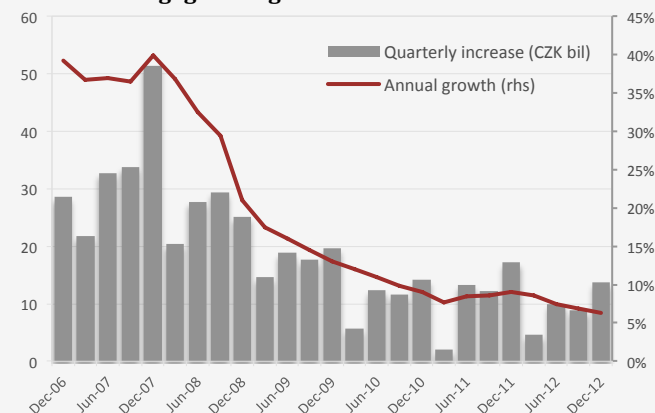
### Quarterly Analysis of Mortgage Lending

- Mortgage loan growth slowed down to 6.3% yoy, while sales of new mortgages dropped to last year's level in 4Q12.
- The top 3 banks further cemented their market position to over 65% in 2012. They sold more than 70% of the new mortgages in 4Q12.
- ČSOB is the clear winner for the year 2012, while GE Money Bank and Raiffeisenbank lost the most.
- Mortgage loans represented nearly 30% of all bank loans in 4Q12. The mortgage business generates around 15% of banks' profits.

#### Growth in mortgage loans continued to fade in 4Q12

Mortgage loans increased by 2% qoq in the seasonally strong last quarter of the year, but the overall momentum continues to deteriorate. The annual increase slowed down to 6.3% yoy and sales of new loans of CZK 34 bil were only as high as in the same quarter last year:

Chart 1: Mortgage loan growth



Source: ČNB, Helgi Analytics

Mortgage loans reached 18.1% of GDP at the end of 2012, or more than a third of bank loans when other housing loans are included. Some 14.4% of Czech households had a mortgage loan at the end of 2012, while 14.0% of residential dwellings were financed through a mortgage loan, according to our calculations.

#### The interest margin is still fat...

The average interest rate on mortgage loans continues to decline in line with the overall market trends. It reached 3.17% in 4Q12 while the average interest rate on the total mortgage loan stock remains over 4.5%. This would imply that new loans are sold with a decent 220 bp margin over a 5-year swap.

#### ...while asset quality remains strong

The share of non-performing loans remained stable throughout the year at 3.1-3.3% of total mortgage loans. This is a result of the overall low indebtedness of Czech households, strict lending procedures and only a mild fall in real estate prices. Czech housing affordability remains one of the best in Europe.

#### Mortgage business forms 15% of banks' profits

As mortgage loans have grown to a sizable amount, the business has become much more cost-efficient and profitable. We estimate mortgage business generates ROE of over 20% and contributes around 15% to the banking sector's bottom line. Raiffeisen and ČSOB seem to generate over 20% of their profits from mortgages.

#### The top 3 banks strengthened their position further

The three largest banks (ČSOB, Česká Spořitelna and Komerční banka) further cemented their market position in 2012 and in the last quarter, taking their share above the 65% threshold.

ČSOB is the absolute winner of the year 2012 and 4Q12, grabbing nearly half of the total market increase! GE and Raiffeisen, on the other hand, lost most of their market positions.



Jiří Staník

+420 608 638 222  
jiri.stanik@helgianalytics.com

Pavol Kosáč

+420 777 970 799  
pavol.kosac@helgianalytics.com

Tomáš Gregorek

tomas.gregorek@helgianalytics.com

#### Helgi Analytics

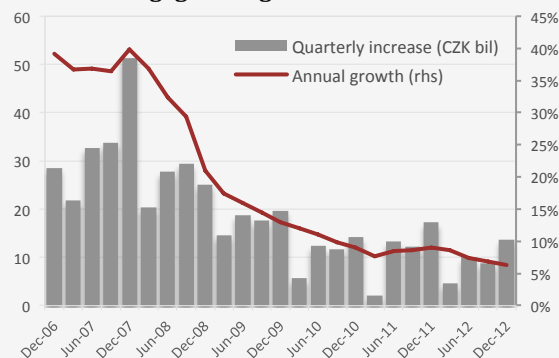
Eliášova 38  
Prague 6, 160 00  
Czech Republic  
www.helgianalytics.com

## Growth & Market Share

### Mortgage loan growth weakens

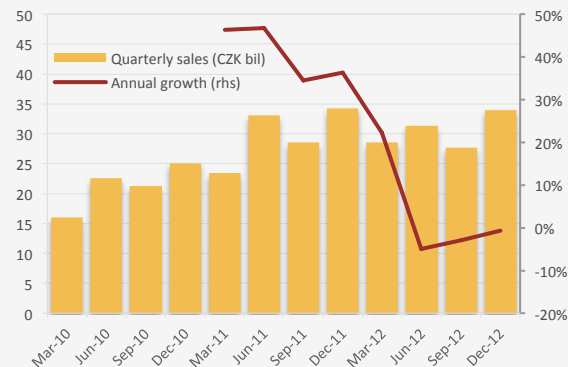
In 4Q, the mortgage loan book grew by 2% qoq, or by CZK 13.6 bil, which brought the growth to 6.3% in the full year 2012:

**Chart 2: Mortgage loan growth**



The negative momentum is more clearly visible in the dynamics of the new loans granted. In spite of relatively strong sales in 4Q (at over CZK 34 bil), the growth of the production of new loans practically ceased during 2012:

**Chart 3: Sales of new mortgages**

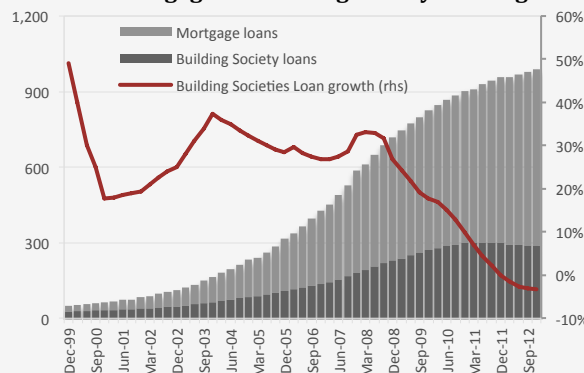


Source: ČNB, MMR, Helgi Analytics

### Lending by building societies has already fallen

The momentum deteriorated even more in the lending provided by the building societies. The market seems to be saturated (virtually every household in the Czech Republic already has a subsidised deposit savings plan), while falling interest rates on mortgage loans and cuts in government subsidies make building society loans less attractive than traditional mortgages:

**Chart 4: Mortgage vs. Building Society Lending**



Source: ČNB, Helgi Analytics

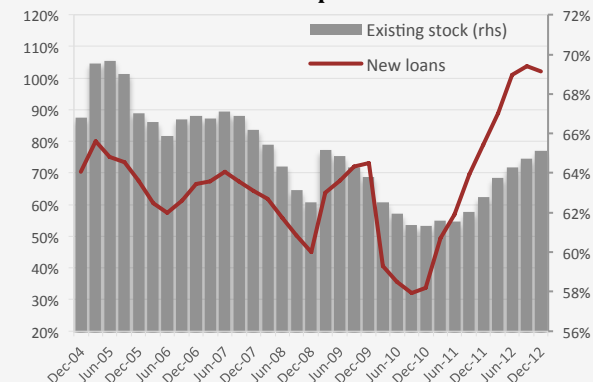
### Large banks and ČSOB are the winners in 2012

The three largest banks (ČSOB, Česká Spořitelna and Komerční Banka) further cemented their market position in 2012.

The trio had a 62.8% share of the mortgage market at the end of 2011 and closed the year 2012 with a market share of over 65%.

Their market dominance strengthened towards the end of the year, as smaller banks were unable to replace loans which matured during the year. Ultimately, the whole expansion of the mortgage loan market was generated exclusively by the three largest banks in 2012:

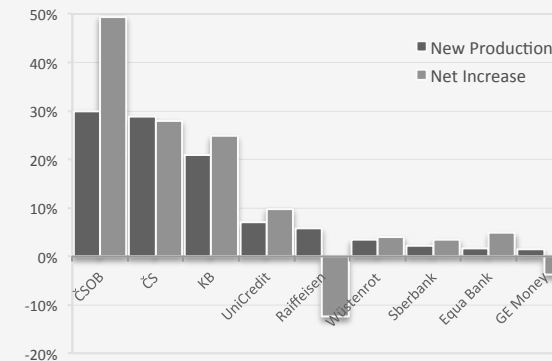
**Chart 5: Market share of top 3 banks**



Source: ČNB, Banks, Helgi Analytics

ČSOB is the absolute winner for 2012. The bank expanded its mortgage loan portfolio by CZK 12.6% in 2012, nearly twice as much as the market or its main rivals, Komerční and Spořitelna. In terms of the net growth of the mortgage loan book, the bank grabbed nearly half of the market in 2012!

**Chart 6: Market share in 2012**



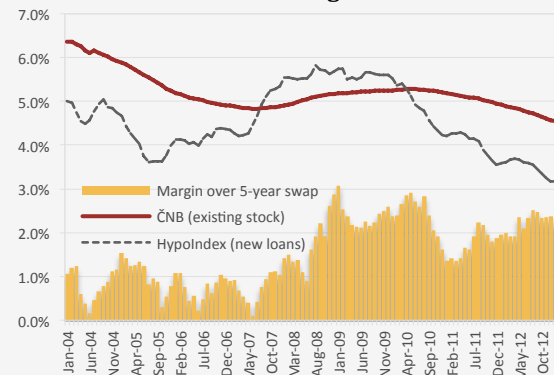
Source: Banks, MMR, ČNB, Helgi Analytics

## Interest Margins & Asset Quality

### Interest rate on new loans approaches 3.0%

The average interest rate on the existing mortgage loan book stayed just above 4.5% in 2012, down from the rate of over 7% seen in 2003. But falling interest rates and competition pressure pushed the average interest rate on new loans to 3.17% at the year's end, measured by HypoIndex (or 3.62%, according to the ČNB numbers):

**Chart 7: Interest rates & Margin**



Source: ČNB, HypoIndex, Helgi Analytics calculation (margin calculated as avg. interest rate on new loans over 5-year swap)

This would imply that new mortgage loans are sold with a solid 180 bp margin over a 5-year state bond yield (or over 220 bp over the swap rate).

### Margin pressure? What pressure?

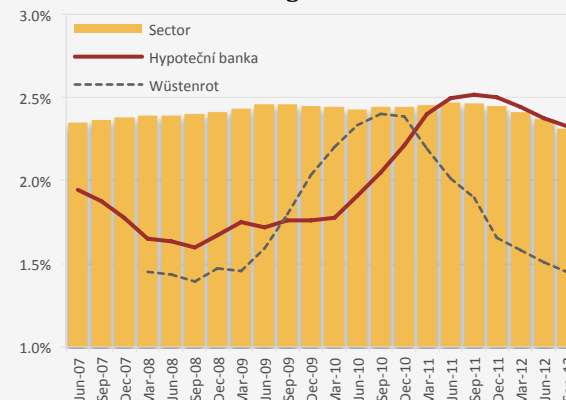
Despite the slowdown, mortgage lending still represents one of the fastest-growing businesses within the Czech banking sector. When you add the solid margins and impressive profitability (as demonstrated by Hypoteční banka's case on page 8), one would expect mortgage lending to attract small banks like bees to a pot of honey.

Not quite. The big banks increased their market share impressively last year and their dominance was most

visible towards the year's end (see page 5).

The interest risk comes from the nominal reduction of interest rates. As a large part of the mortgage loan funding comes from clients' deposits (loans to deposits account for 75% in the banking sector) and nearly half of the deposits bear no interest (i.e. offer no room for downward re-pricing), declining nominal interest rates will sooner or later eat into banks' margins and profits. That's already visible in the 3Q margin development in the banking sector (the margin dropped 5 bp qoq and nearly 20 bp yoy), but pure mortgage banks seem to be hit even more:

**Chart 8: Net interest margin**



Source: ČNB, Banks, Helgi Analytics calculation

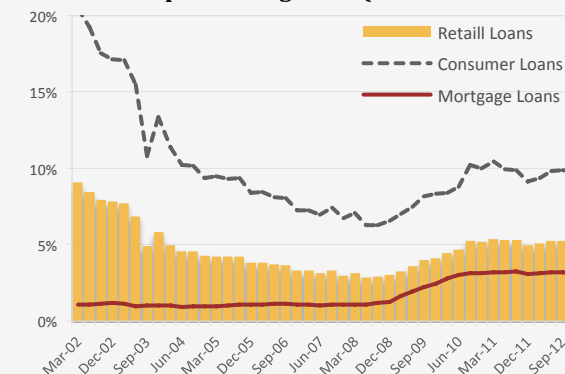
### Asset Quality

Despite all the media fuss about the economic and financial crisis, the Czech economy remains fairly solid, the banking system strongly capitalised, well funded and profitable, real estate relatively cheap and the unemployment problem manageable.

The asset quality of mortgage loans therefore remains

good. The volume of problem loans increased by CZK 22 billion in 2012, but the proportion of problem loans remained stable throughout the year at 3.1-3.2% of total:

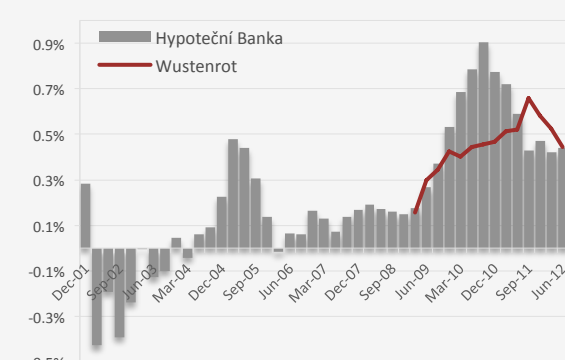
**Chart 9: Non-performing loans (as % of total loans)**



Source: ČNB, Banks, Helgi Analytics

The cost of risk (loan loss provisions to loans) has settled down at around 50 bp in the last two years, and is also 30-50% lower when compared to the banks' total loan book:

**Chart 10: Cost of risk**



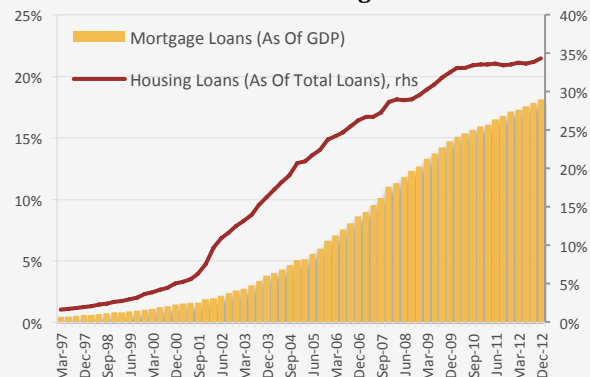
Source: ČNB, Banks, Helgi Analytics

## Penetration & House Affordability

### Mortgages represented 18% of GDP in 2012.

Residential mortgage loans increased 6.3% yoy to CZK 700 bil in 4Q12 and represented 18.1% of GDP. Together with other housing loans, the total exposure of residential housing lending represented 21% of GDP and more than a third of total bank loans:

**Chart 11: Penetration of housing loans**



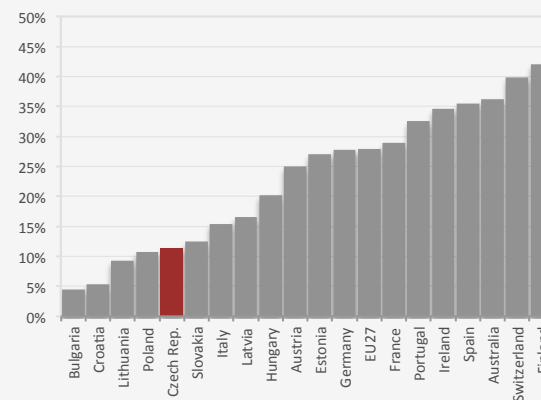
Source: ČNB, ČSÚ, Helgi Analytics

### Some 14% of households have a mortgage loan..

The penetration of housing loans has continued to grow for over 15 years now. We estimate that approximately 14% of households in the Czech Republic had a mortgage loan at the end of 2012. In addition, every fifth Czech household had a loan from a building society at the year's end.

This is still relatively little when compared to the West, where around a third of families live with a mortgage loan. Czechs own most of the dwellings they live in (80%) and there is no shortage of housing stock, so mortgage lending growth is therefore fuelled by the desire to improve living standards rather than fulfilling basic needs.

**Chart 12: Households with mortgage loan, 2010**



Source: ČNB, ČSÚ, Eurostat, MMR, Helgi Analytics

Czechs remain fairly conservative worldwide - nearly all mortgage loans are CZK-denominated and the average loan-to-value ratio accounts for only around 65%.

### Housing affordability has been improving

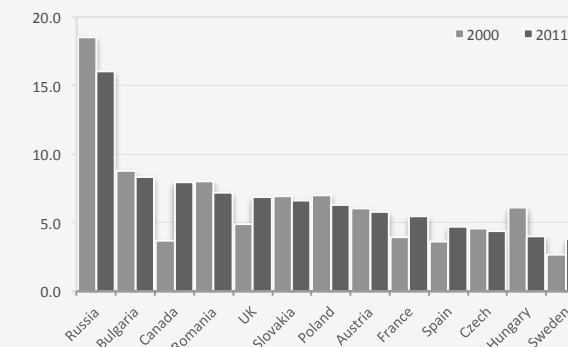
Czech real estate prices have tripled over the last decade in USD terms. The average dwelling (a 64-sqm flat) costs around USD 70,000 (or USD 1,047 per sqm) and one would pay roughly twice as much in Prague, the Czech capital city.

The affordability of housing has been improving since 2008, when real estate prices started falling. To buy an average-sized flat now would take an average earner over four annual gross salaries. This puts the Czech Republic among the cheapest places in Europe in terms of residential housing, alongside Hungary, or Sweden, for example.

Large differences remain within the country, however. While a citizen of Prague has to put aside about eight annual salaries to buy an average flat, it takes slightly

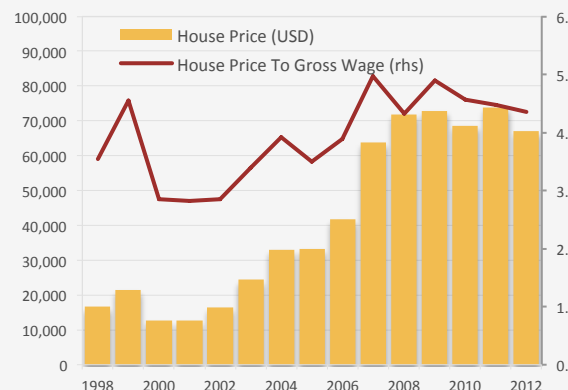
more than two years to save for a flat in Ústí nad Labem or in Ostrava.

**Chart 13: House Affordability, International (years)**



Source: ECB, ČNB, Eurostat, Statistical Offices, Helgi Analytics  
When looking back, housing affordability in the Czech Republic has improved to the level last seen in 1999:

**Chart 14: House Affordability, Czech Republic (years)**



Source: ČNB, ČSÚ, Helgi Analytics

## Game Of Mortgage Thrones – Top 4 Banks

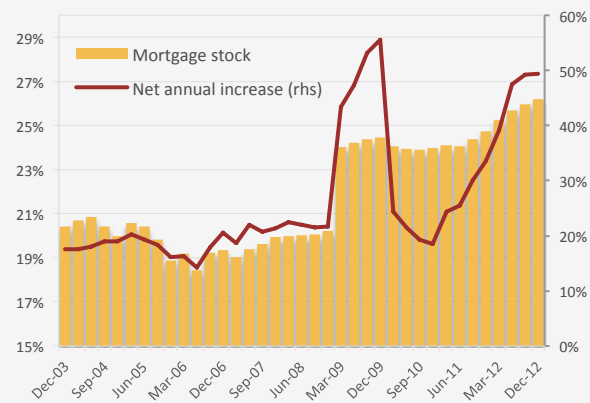
Here, we provide a short overview of the main mortgage players and their performance in 2012 and 4Q. Ultimately, we try to point out the biggest gains and losses on the mortgage chessboard in the last 12 months. We describe each bank's performance in more detail at the end of the report (starting on page 11).

### ČSOB - the undisputed King

ČSOB (or its subsidiary Hypoteční Banka) is the absolute winner of the year 2012. It strengthened its market position by 1.5% to 26.2% and granted over CZK 36 bil of new loans, or 30% of last year's total. Hypoteční's financials suggest that the mortgage business forms around 20% of ČSOB's overall profitability.

The fourth quarter's numbers, however, imply increasing pressure from Česká Spořitelna, which sold 1,259 mortgages more than ČSOB. A new challenger for 2013?

**Chart 15: ČSOB's market position**



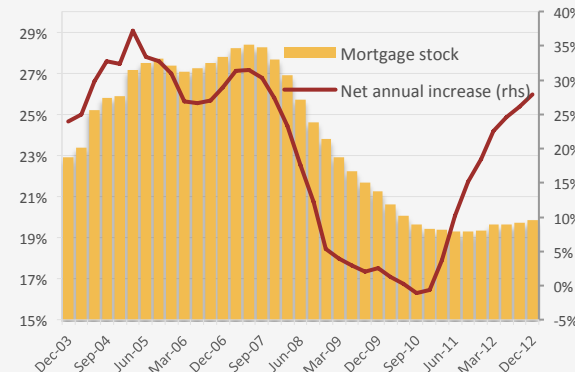
Source: ČSOB, ČNB, Helgi Analytics

### Česká Spořitelna – the 2013 challenger?

Česká Spořitelna has gradually been regaining some of the position it lost to ČSOB in 2007-2009. In the last year, the bank has increased its market share by 0.5% to 19.9%. The bank was particularly strong in the last quarter, when it sold 30% of the market's new loans.

Partly because of the bank's relatively weak position in the mortgage business and the strong profitability of its other operations, we estimate Česká Spořitelna's mortgage business only contributes some 12% to the overall bottom line.

**Chart 16: Česká Spořitelna's market position**

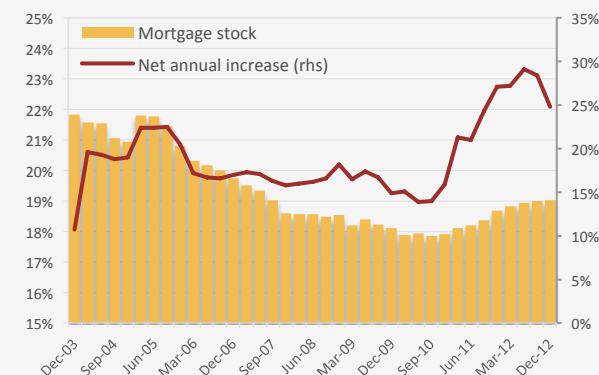


Source: ČS, ČNB, Helgi Analytics

### Komerční Banka – running out of steam?

Similarly to Česká Spořitelna, Komerční Banka has been gaining market share in mortgage lending since the end of 2010. In 2012, the bank gained 30 bp and held 19% of the market at the end of the year. Unlike its two bigger sisters, however, Komerční's momentum weakened towards the year's end. In 4Q, the bank sold 18% of the new mortgages, compared to the 30% of Česká Spořitelna and 27% of ČSOB.

**Chart 17: Komerční Banka's market position**

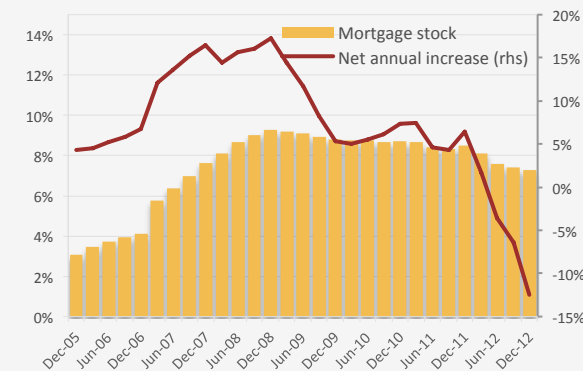


Source: KB, ČNB, Helgi Analytics

### Raiffeisenbank – shaken, but alive

The bank's market position has been weakening since the end of 2008 partly on the back of the bank's weak funding and capital constraints. In 1H12, the bank sold only 3% of the market's new loans, but recovered to a 9% share at the end of the year:

**Chart 18: Raiffeisenbank's market position**



Source: Raiffeisenbank, ČNB, Helgi Analytics



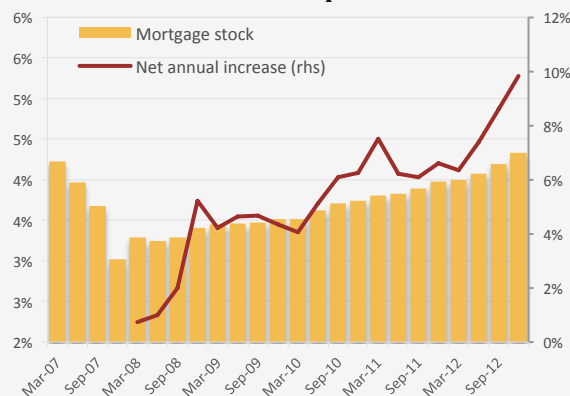
## Game Of Thrones – Other Banks

### UniCredit – attack from the second row

Following the digesting of the merger of three different banks (UniCredit, HVB and Živnostenská Banka), UniCredit has been increasingly targeting the retail segment.

As shown below, the bank has gone a different way from its peer Raiffeisenbank – a more stable and balanced one. UniCredit has been increasing its share by 30 bp a year in the last two years and granted nearly 10% of the new loans in 2012:

**Chart 19: UniCredit's market position**



Source: UniCredit, ČNB, Helgi Analytics

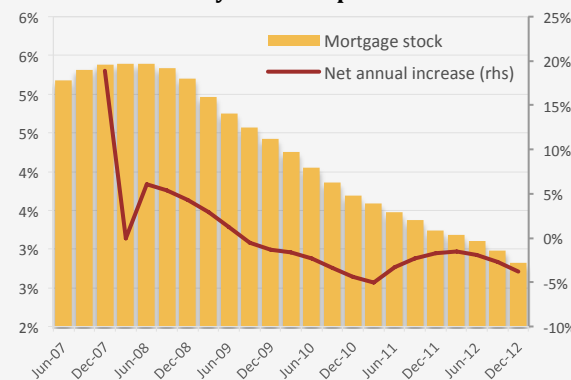
### GE Money Bank – giving up?

Similarly to Česká Spořitelna, GE Money Bank gave up on mortgage lending in 2008, handing over its share mostly to ČSOB's Hypoteční Banka. From having 5.4% at the end of 2008, GE Money held only 2.8% of the Czech mortgage lending market at the end of 2012.

The change in the bank's strategy can be nicely seen when mortgage loans are compared to the development in household deposits and consumer lending – the bank

has increased its market share by 2% and 3%, respectively, since 2008.

**Chart 20: GE Money's market position**



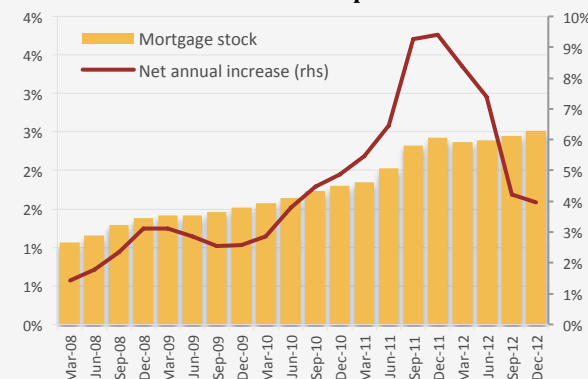
Source: GE Money Bank, ČNB, Helgi Analytics

### Wüstenrot – the little one behind

Wüstenrot Hypoteční banka has been one of the banks filling up the space emptied by GE Money or Česká Spořitelna. Despite being a relatively small player, it has gradually increased its market share from around 1% in 2007 to 3% at the end of 2012.

The comparison of financials between Hypoteční Banka and Wüstenrot provides a pretty interesting picture of how economies of scale work. While Hypoteční's efficiency improved to around 15-20% in terms of cost to income and adjusted ROE amounts to 20-30%, Wüstenrot "struggles" with a cost-to-income ratio of around 50% and its ROE hardly exceeds the 10% threshold.

**Chart 21: Wüstenrot's market position**

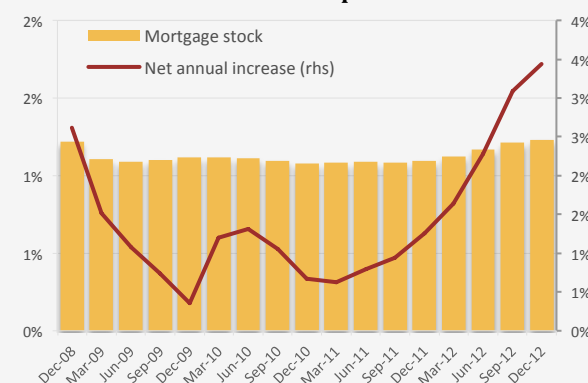


Source: Wüstenrot Hypoteční Banka, ČNB, Helgi Analytics

### Sberbank – the dark horse?

Sberbank took over Volksbank's operations only last year, so historical numbers seem to be less relevant than Sberbank's future plans. And this is something we will have to wait a couple of quarters for, given Sberbank's lack of a track record in the CEE region.

**Chart 22: Sberbank's market position**



Source: Sberbank, ČNB, Helgi Analytics

## Mortgage Loans – Key Financials

**Table 1: Key characteristics of Czech housing lending**

|  | 1Q11      | 2Q11      | 3Q11      | 4Q11      | 1Q12      | 2Q12      | 3Q12      | 4Q12      |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Housing Loans (CZK bil)                          | 730,152   | 743,389   | 755,666   | 772,866   | 777,424   | 787,414   | 796,247   | 809,971   |
| Mortgage Loans (CZK bil)                         | 612,933   | 630,244   | 642,738   | 659,001   | 665,431   | 677,000   | 686,841   | 700,488   |
| Building Society Loans (CZK bil)                 | 297,527   | 299,037   | 299,440   | 297,653   | 292,845   | 291,221   | 289,901   | 287,847   |
| Housing Loans (As % Of GDP)                      | 19.2%     | 19.5%     | 19.7%     | 20.1%     | 20.2%     | 20.4%     | 20.7%     | 21.0%     |
| Mortgage Loans (As % Of GDP)                     | 16.1%     | 16.5%     | 16.8%     | 17.2%     | 17.3%     | 17.6%     | 17.8%     | 18.1%     |
| Building Society Loans (As % Of GDP)             | 7.8%      | 7.8%      | 7.8%      | 7.7%      | 7.6%      | 7.6%      | 7.5%      | 7.5%      |
| Average interest rate (existing stock)           | 5.29%     | 5.29%     | 5.22%     | 5.13%     | 5.02%     | 4.91%     | 4.81%     | 3.56%     |
| Average interest rate (new loans)                | 4.55%     | 4.43%     | 4.38%     | 3.98%     | 3.94%     | 3.97%     | 3.83%     | 3.63%     |
| Mortgage (As % Of Total Loans)                   | 28.1%     | 28.5%     | 28.5%     | 28.6%     | 28.9%     | 28.9%     | 29.3%     | 29.7%     |
| NPLs (As Of Mortgage Loans)                      | 3.2%      | 3.2%      | 3.3%      | 3.1%      | 3.1%      | 3.2%      | 3.2%      | 3.2%      |
| NPLs (As Of Housing Loans)                       | 3.3%      | 3.3%      | 3.4%      | 3.2%      | 3.3%      | 3.4%      | 3.4%      | 3.4%      |
| Mortgage Loan Contracts                          | 515,678   | 535,691   | 552,741   | 572,633   | 589,723   | 608,785   | 625,680   | 646,228   |
| Avg. Size Of Mortgage Loan (CZK '000)            | 1.19      | 1.18      | 1.16      | 1.15      | 1.13      | 1.11      | 1.10      | 1.08      |
| Households With a Mortgage Loan                  | 11.6%     | 12.1%     | 12.4%     | 12.8%     | 13.2%     | 13.6%     | 13.9%     | 14.4%     |
| Residential Dwellings With a Mortgage Loan       | 11.3%     | 11.7%     | 12.0%     | 12.4%     | 12.8%     | 13.2%     | 13.6%     | 14.0%     |
| Building Society Loan Contracts                  | 985,221   | 981,359   | 973,450   | 956,659   | 939,557   | 927,360   | 913,424   | 894,358   |
| Avg. Size Of Building Society Loan (CZK '000)    | 0.302     | 0.305     | 0.308     | 0.311     | 0.312     | 0.314     | 0.317     | 0.322     |
| Households with a Building Society Loan          | 22.2%     | 22.1%     | 21.9%     | 21.4%     | 21.0%     | 20.7%     | 20.3%     | 19.9%     |
| Building Society Deposit Contracts               | 4,757,301 | 4,663,792 | 4,592,720 | 4,550,468 | 4,491,711 | 4,403,435 | 4,329,383 | 4,316,999 |
| Avg. Size Of Building Society Deposit (CZK '000) | 0.431     | 0.434     | 0.432     | 0.453     | 0.456     | 0.458     | 0.462     | 0.481     |
| Households With Building Society Deposits        | 107%      | 105%      | 103%      | 102%      | 100%      | 98%       | 96%       | 96%       |
| Loans To Deposits (Of Building Societies)        | 70.1%     | 70.2%     | 71.1%     | 68.7%     | 68.4%     | 68.6%     | 68.8%     | 66.9%     |

Source: ČNB, ČSÚ, MMR, Ministry of Finance, Association of Building Societies, Helgi Analytics

## Four Lessons From Hypoteční Banka's Financials

Hypoteční Banka is the largest player on the Czech mortgage lending market, with a share of over 25%. Luckily, it is a pure mortgage player, which gives us plenty of useful information about the mortgage business. We therefore use Hypoteční Banka's financials to analyse the whole mortgage market in the Czech Republic.

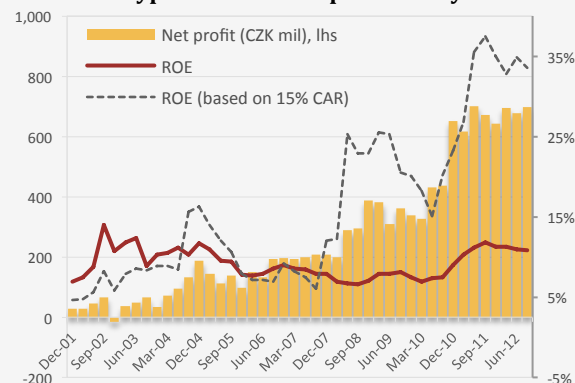
Here are the main conclusions from the exercise:

### Lesson 1: Mortgage lending is highly profitable

Hypoteční Banka has been showing a fairly lousy ROE of less than 10% since 2005. This is highly misleading, as the bank's capital adequacy ratio (CAR) has been kept at 40-50% since 2008, when a hefty share capital increase was made. When the CAR is "adjusted" to 15% (in line with the banking sector), Hypoteční's ROE jumps to a more realistic 20-30%.

Hypoteční Banka's net profit has jumped more than three times since 2007, which already tells us something:

**Chart 23: Hypoteční Banka's profitability**



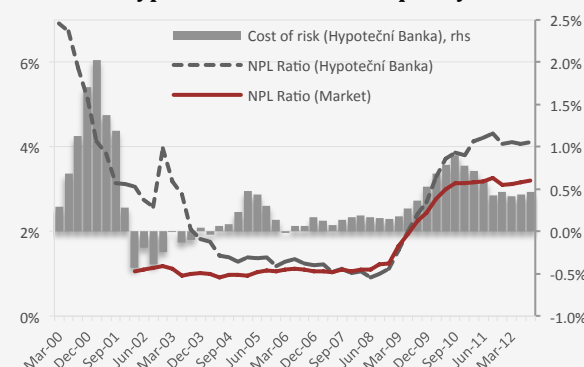
Source: Hypoteční Banka, ČNB, Helgi Analytics

### Lesson 2: Mortgage lending is safe

As already shown above, the asset quality of mortgages is very good. At the end of 2012, non-performing loans accounted for only 3.2% of total mortgage loans.

Hypoteční Banka has been gaining market share over the last 18 months, so its asset quality has deteriorated more than that of the market. Still, the bank's cost of risk has stayed below 50 bp of average loans, a clear sign of the bank is not having a problem with asset quality:

**Chart 24: Hypoteční Banka's asset quality**



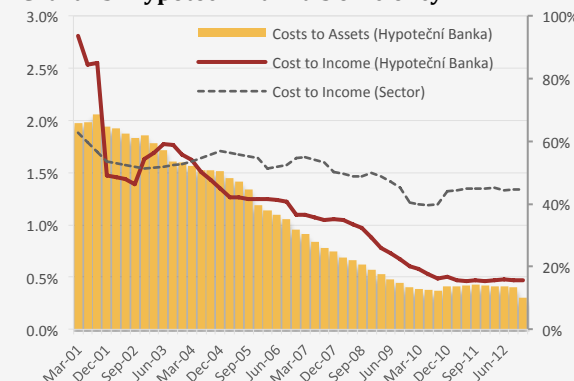
Source: Hypoteční Banka, ČNB, Helgi Analytics

### Lesson 3: Mortgage lending is cost-efficient

Mortgage lending could be extremely cost-efficient once it crosses a certain volume of loans. Although Czech banks already belong among the most efficient in the CEE region (with costs to income at below 50%), Hypoteční Banka is a different species.

From costs representing over 80% of income when the business started in 2000, the bank's ratio has dropped below 20% now. Although one might argue about efficiency gains from being in the ČSOB family, the numbers speak for themselves:

**Chart 25: Hypoteční Banka's efficiency**

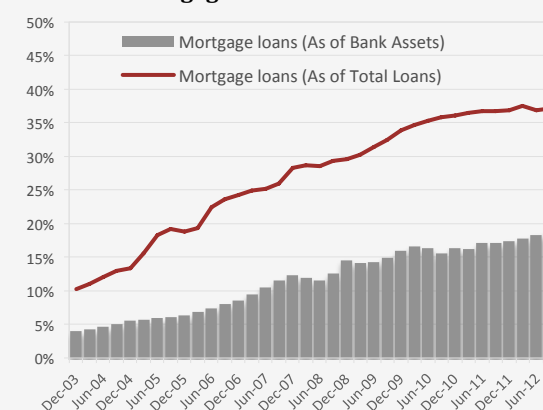


Source: Hypoteční Banka, ČNB, Helgi Analytics

### Lesson 4: Mortgages drive banking growth

Mortgage loans have grown by an impressive 27% a year in the last decade, being the single biggest driver of asset growth. Despite the weakening momentum, mortgages are still the main engine of the sector's growth:

**Chart 26: Mortgages as % of bank loans and assets**



Source: ČNB, Helgi Analytics

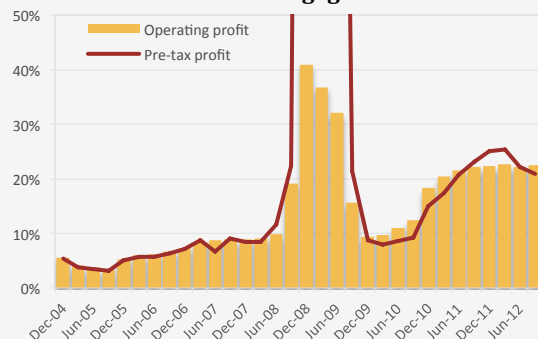


## Mortgage Business Forms 15% of Banks' Profits

### Mortgages generate over 20% of profit in ČSOB

As mortgage business has grown to a sizable amount and profitability has jumped, Hypoteční banka has an important contributor to the overall profitability of ČSOB, Hypoteční's sole owner. In 2012, the mortgage business generated 22% of ČSOB's operating profit and 21% of its pre-tax profit, by our calculations:

**Chart 27: Profit from mortgages at ČSOB**



Source: ČSOB, Hypoteční banka, Helgi Analytics

With enough imagination, the HB example could be applied to other banks, to see how much of their profit comes from the mortgage lending business. We therefore take HB's financials as a benchmark and apply them to the other banks. The key assumptions are presented as a percentage of average mortgage loans:

**Table 2: Hypoteční Banka's assumptions**

|                      | 2009         | 2010         | 2011         | 2012         |
|----------------------|--------------|--------------|--------------|--------------|
| Average yield*       | 5.0%         | 5.2%         | 5.1%         | 4.8%         |
| Net interest margin* | 2.1%         | 2.6%         | 2.8%         | 2.6%         |
| Revenue margin*      | 2.3%         | 2.9%         | 3.0%         | 2.9%         |
| Cost to income       | 20.3%        | 16.7%        | 15.5%        | 15.6%        |
| Cost of risk*        | 0.53%        | 0.77%        | 0.47%        | 0.47%        |
| Effective tax rate   | 20.1%        | 19.2%        | 19.1%        | 19.1%        |
| <b>Net profit*</b>   | <b>1.07%</b> | <b>1.31%</b> | <b>1.70%</b> | <b>1.60%</b> |

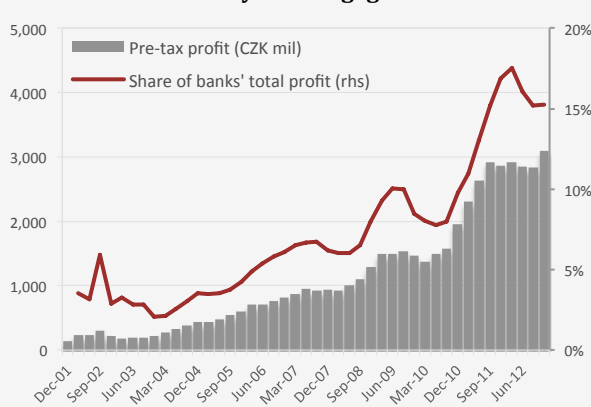
Source: Hypoteční Banka, Helgi Analytics, \* as of mortgage loans

However, we make one adjustment to reflect HB's unique position in the market. We add a 5% "premium" to the cost-to-income assumption for the two other large banks (Spořitelna and Komerční) to reflect Hypoteční's superior economies of scale, a further 15% addition for the mid-sized banks (UniCredit and Raiffeisenbank) and a further 10-15% surcharge for the other banks (to reflect the fact that Wüstenrot has been operating with a cost to income ratio of 40-50% in the last years).

As a result, we assume a cost-to-income ratio of 21% for Komerční and Spořitelna on their mortgage business in 2012, 36% for UniCredit and Raiffeisenbank and 40-50% for the remaining banks, for example, rather than the 16% achieved by Hypoteční Banka.

**We guesstimate that mortgage lending generated 15% of the total profit of the Czech banking system in 2012, three times as much as five years ago. Also, mortgage business generates ROE of more than 20%:**

**Chart 28: Profitability of mortgage loans**

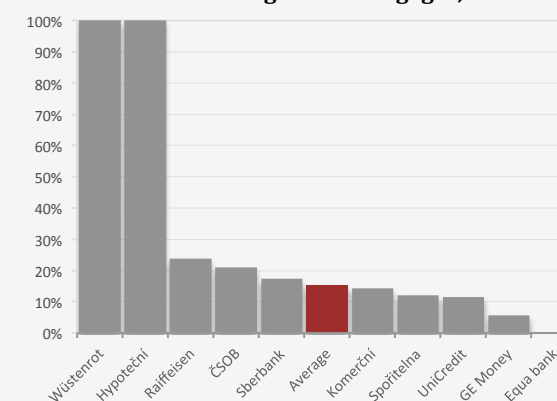


Source: Hypoteční Banka, ČNB, Helgi Analytics

ČSOB seems to have the largest share of profit coming from the mortgage lending business within the top 3 banks. It's more than 20%, according to our estimates. On the other hand, Česká spořitelna seems to generate only 12% from mortgages.

Apart from the relatively stronger position of ČSOB in mortgage lending (with a 26% share of the market versus the 20% share of Česká), Česká Spořitelna benefits from stronger profitability elsewhere (such as on its cheaper deposit base):

**Chart 29: Profit coming from mortgages, 9M2012**



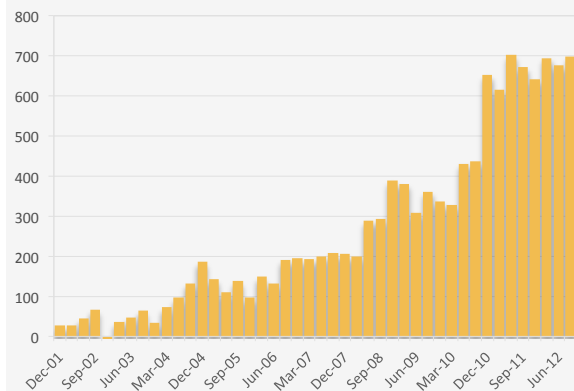
Source: ČNB, Banks, Helgi Analytics

The 24% profit contribution of Raiffeisenbank seems to be the most interesting feature within the mid-sized banks. With a 10% market share of residential mortgage lending and 44% of the bank's total loans coming from this area, Raiffeisenbank seems to be the one most exposed to residential mortgage lending on the Czech market.

The detailed assumptions and ratios for each bank's mortgage business could be found in the company section on page 14.

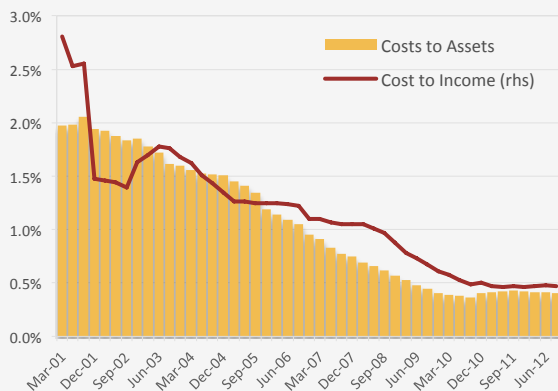
## Hypoteční Banka – The Ultimate Benchmark

**Chart 30: Net profit (CZK mil)**



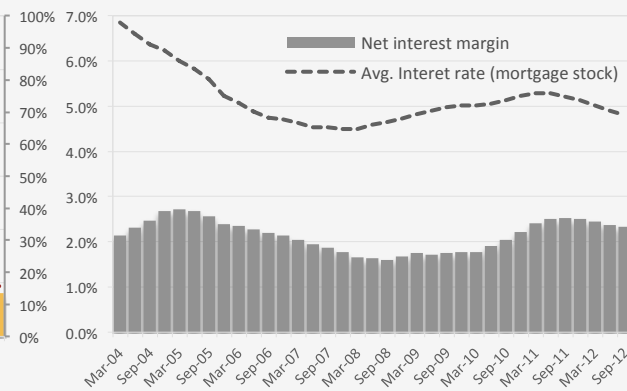
Source: ČSOB, Hypoteční banka, Helgi Analytics

**Chart 31: Cost efficiency**



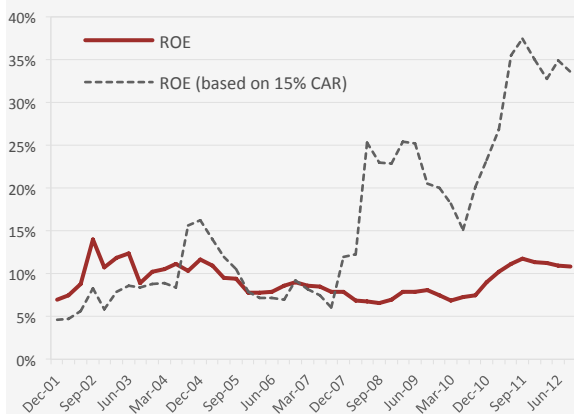
Source: ČSOB, Hypoteční banka, Helgi Analytics

**Chart 32: Net interest margin**



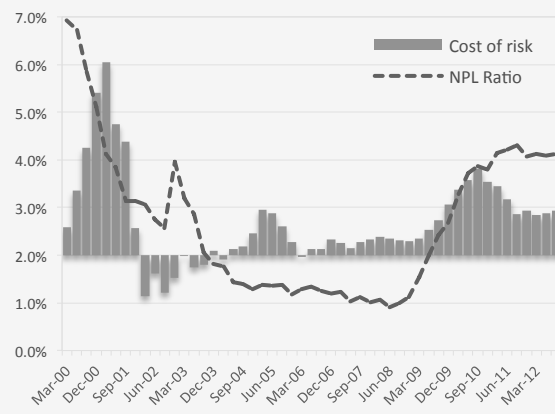
Source: Hypoteční Banka, Helgi Analytics

**Chart 33: ROE**



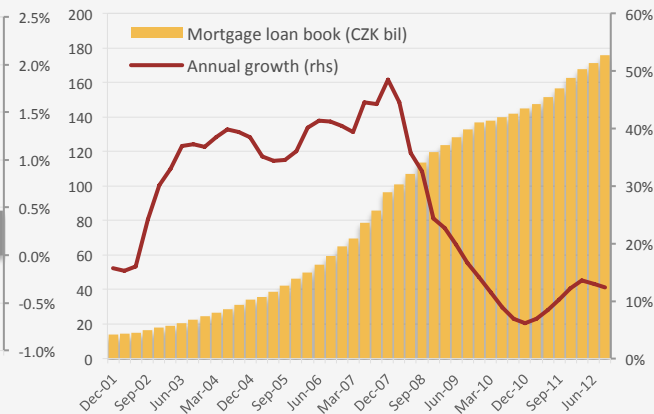
Source: Hypoteční Banka, Helgi Analytics

**Chart 34: Asset quality**



Source: Hypoteční Banka, Helgi Analytics

**Chart 35: Volume and momentum**



Source: Hypoteční Banka, Helgi Analytics

## Hypoteční Banka – Key Figures

**Table 3: Key characteristics of Hypoteční Banka's housing lending**

|  | 1Q11  | 2Q11  | 3Q11  | 4Q11  | 1Q12  | 2Q12  | 3Q12  |
|--|-------|-------|-------|-------|-------|-------|-------|
| Mortgage Loans (CZK bil)                       | 147.5 | 151.5 | 156.3 | 162.8 | 167.6 | 171.2 | 175.6 |
| Mortgage Loans (As % Of Assets)                | 88.7% | 89.2% | 89.3% | 89.9% | 88.5% | 88.0% | 88.6% |
| Market Share in Mortgage Loans                 | 24.1% | 24.0% | 24.3% | 24.7% | 25.2% | 25.3% | 25.6% |
| Market Share in New Mortgage Production (ČSOB) | 30.0% | 29.1% | 28.8% | 27.8% | 29.3% | 30.8% | 30.2% |
| Market Share in Net Mortgage Increase (ČSOB)   | 22.0% | 24.0% | 28.6% | 32.6% | 38.3% | 42.0% | 43.6% |
| Net Interest Margin (As % Of Total Assets)     | 2.40% | 2.50% | 2.52% | 2.50% | 2.44% | 2.37% | 2.33% |
| Avg. Yield On Mortgage Loans                   | 5.29% | 5.29% | 5.22% | 5.13% | 5.02% | 4.91% | 4.81% |
| Cost To Income                                 | 15.6% | 15.3% | 15.6% | 15.5% | 15.6% | 15.8% | 15.6% |
| Costs To Assets                                | 0.41% | 0.42% | 0.43% | 0.42% | 0.41% | 0.41% | 0.40% |
| Cost Of Risk                                   | 0.72% | 0.59% | 0.43% | 0.47% | 0.42% | 0.44% | 0.47% |
| NPLs (As % Of Total Loans)                     | 4.14% | 4.22% | 4.31% | 4.07% | 4.12% | 4.08% | 4.12% |
| Provisions (As % Of NPLs)                      | 33.7% | 33.2% | 33.5% | 34.7% | 35.3% | 37.2% | 38.5% |
| Hypoteční Banka's Operating Profit (CZK mil)   | 1,007 | 996   | 962   | 1,016 | 1,048 | 1,008 | 1,070 |
| - As % Of ČSOB's Operating Profit              | 20.8% | 23.1% | 22.0% | 23.5% | 22.0% | 21.4% | 23.0% |
| Hypoteční Banka's Pre-tax Profit (CZK mil)     | 762   | 876   | 829   | 786   | 859   | 836   | 870   |
| - As % of ČSOB's Pre-tax Profit                | 17.0% | 31.8% | 26.2% | 30.4% | 18.3% | 18.5% | 20.5% |
| ROE*   | 24.7% | 29.5% | 32.4% | 32.6% | 33.5% | 32.4% | 31.7% |
| ROE (ČSOB)                                     | 20.8% | 19.8% | 19.5% | 18.2% | 18.8% | 20.5% | 21.1% |

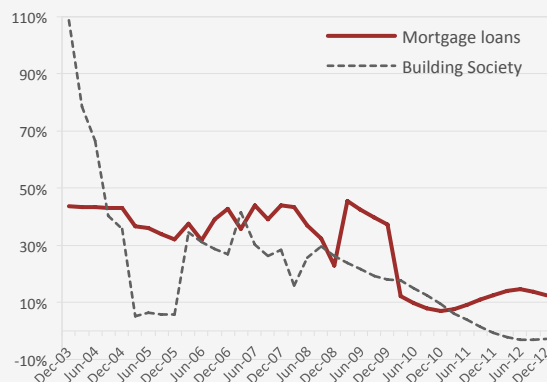
Source: ČNB, ČSÚ, MMR, Ministry of Finance, Association of Building Societies, Helgi Analytics

\*Adjusted to put Hypoteční Banka's capital adequacy ratio in line with the market

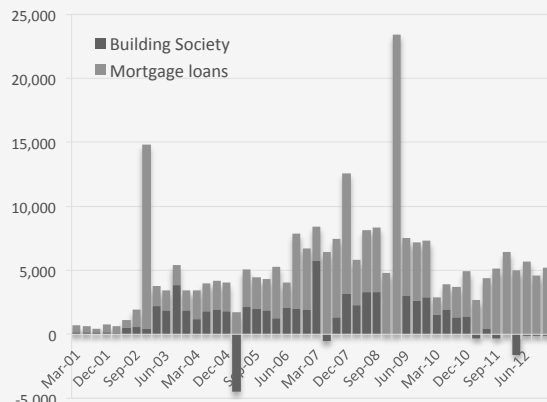
### ČSOB

**The bank is still growing faster than the market...** ČSOB's mortgage loans increased 2.9% qoq in 4Q (and 12.6% yoy in 2012 overall), a third more than the overall market. On the other hand, the loans provided by ČMSS (ČSOB's building society) dropped a further 0.14% qoq or 2.6% yoy:

**Chart 36: Housing loan growth**



**Chart 37: Quarterly change (CZK mil)**



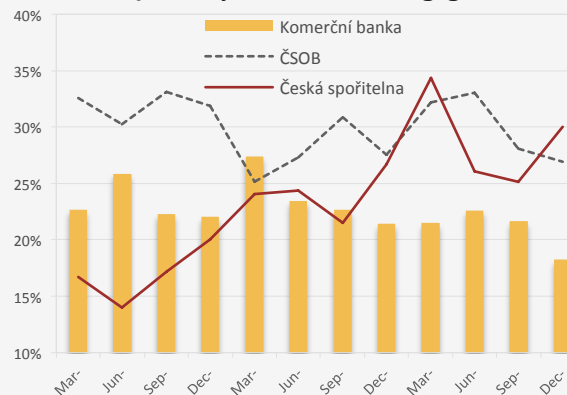
Source: ČSOB, ČMSS, Helgi Analytics

**...but the market is slowing down and the competition is biting.** The bank has been gaining market share in mortgage loans since the middle of 2006, when it held only a 18.4% share. Thanks partly to the conservative approach of Komerční and the resignation of Spořitelna from mortgage lending in 2008-2010, ČSOB increased its market share to 26.2% as of the end of 2012!

In 2012, the bank grabbed nearly half of the market's net mortgage loan book increase and sold nearly 30% of the new mortgage loans provided that year.

However great the year 2012 was, there are a few clouds gathering on the horizon, in our view. First, the number of new mortgage loans and the number of mortgage contracts sold by ČSOB in 4Q12 was lower than in the same period in 2011. Second, Česká Spořitelna outperformed ČSOB in mortgage sales in 4Q (for the second quarter that year), so competitive pressure from ČSOB's largest enemy is clearly rising after a few years of hibernation:

**Table 38: Quarterly sale of new mortgage loans**



Source: Banks, MMR, Helgi Analytics

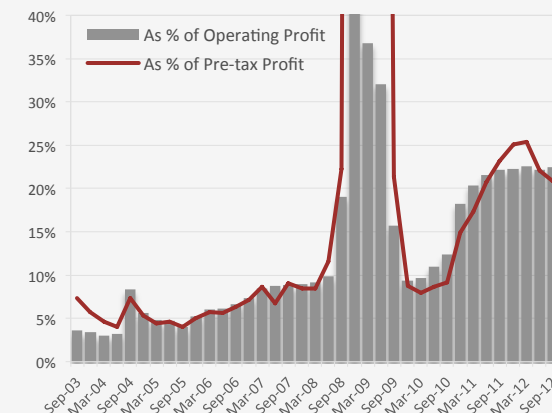
### Mortgage lending – 20% of ČSOB's profit?

Mortgage loans represented nearly 39% of ČSOB's total loans at the end of 2012. That is three times more than a decade ago. Together with its building society ČMSS, housing loans represented a half of ČSOB's total loans at the end of 2012.

The massive growth in mortgage volumes made a difference to the bottom line of the bank. When Hypoteční banka's financials are compared with the consolidated ones for ČSOB, the mortgage lending business seems to generate more than 20% of ČSOB's overall profitability now.

This is less than the 24% we calculated for Raiffeisen, but much more than the 14% of Komerční Banka and the 12% we estimate for Česká Spořitelna:

**Chart 39: Profit coming from mortgage lending**

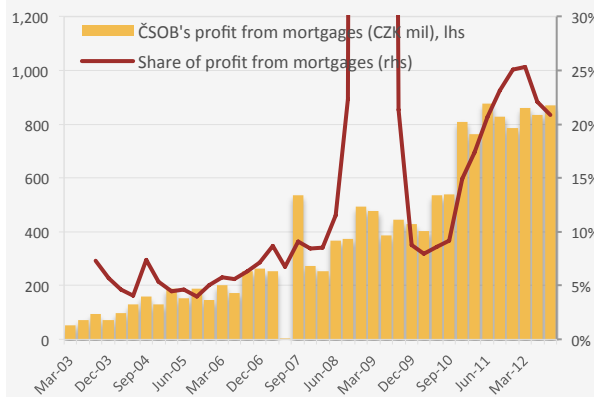


Source: Hypoteční Banka, ČSOB, Helgi Analytics

ČSOB's strategic focus on housing lending, Hypoteční Banka's impressive performance and the good prospects of Czech housing lending make ČSOB's housing lending business the crown jewel of KBC's CEE operations.

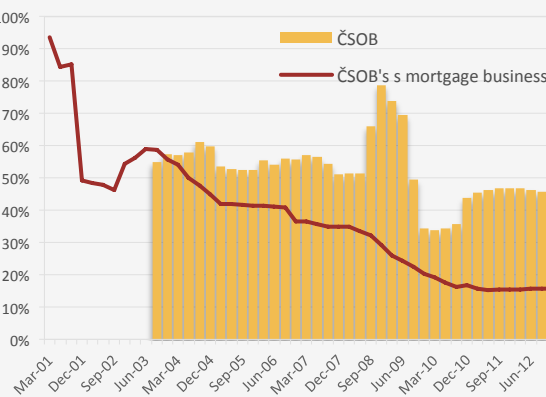
## ČSOB

**Chart 40: Net profit from mortgages**



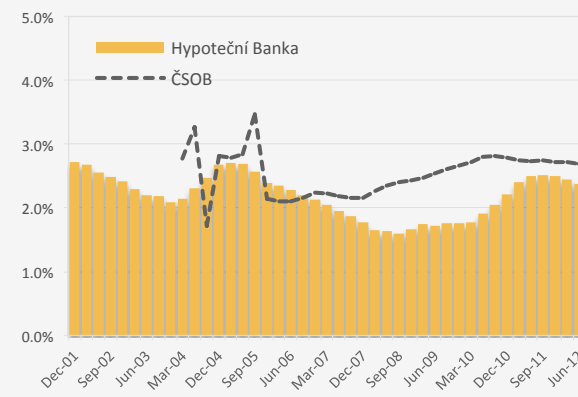
Source: ČSOB, Hypoteční banka, Helgi Analytics

**Chart 41: Cost to Income**



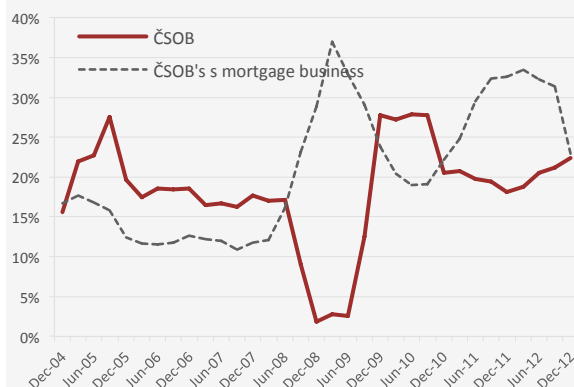
Source: ČSOB, Hypoteční banka, Helgi Analytics

**Chart 42: Net interest margin**



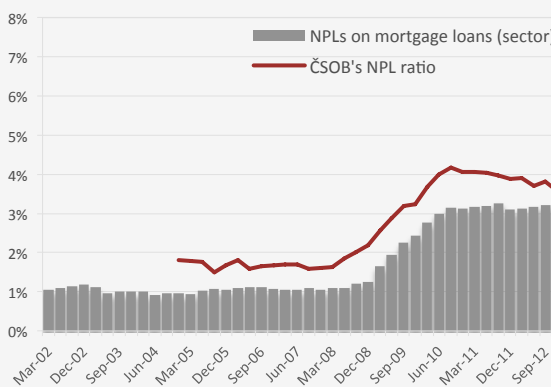
Source: ČSOB, Hypoteční Banka, Helgi Analytics

**Chart 43: ROE**



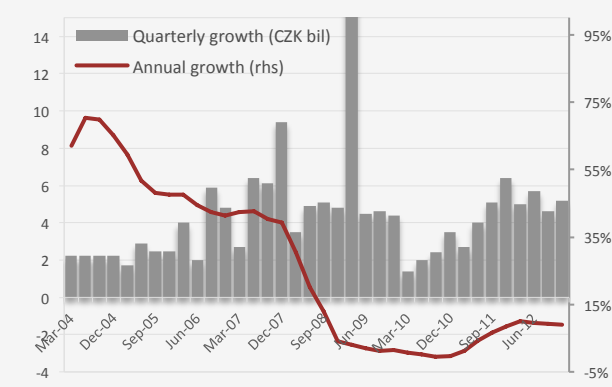
Source: ČSOB, Hypoteční Banka, Helgi Analytics

**Chart 44: Asset quality (NPL Ratio)**



Source: ČSOB, Hypoteční Banka, Helgi Analytics

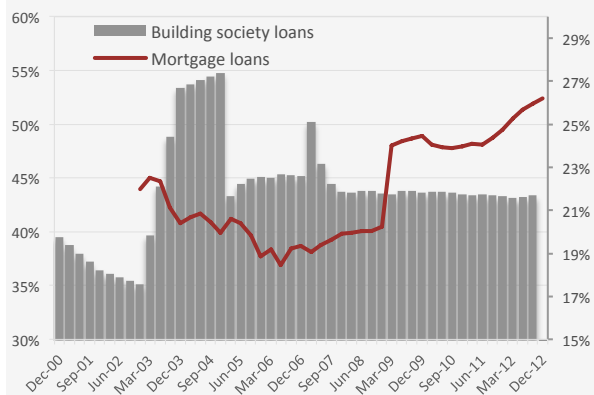
**Chart 45: Volume and momentum**



Source: ČSOB, Hypoteční Banka, Helgi Analytics

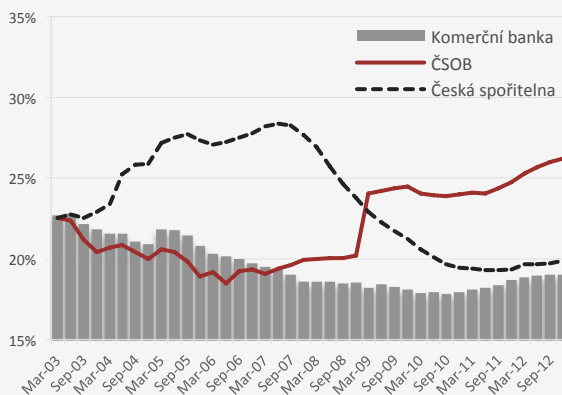
### ČSOB

**Chart 46: Market share – existing stock**



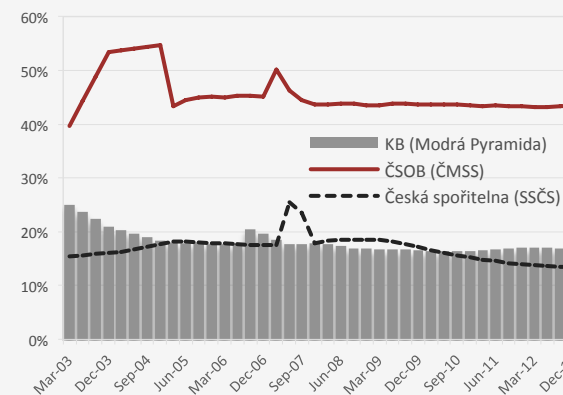
Source: ČSOB, Hypoteční banka, Helgi Analytics

**Chart 47: Mortgage loans – existing stock**



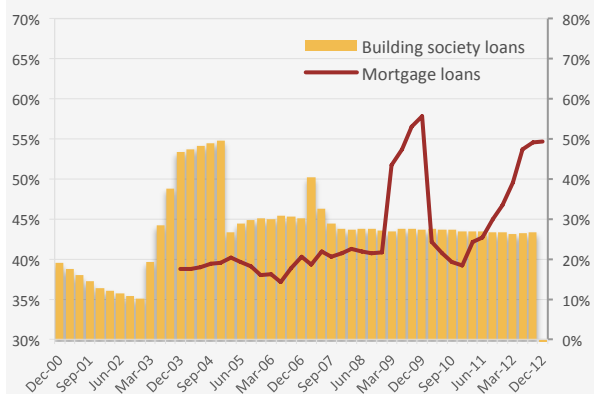
Source: ČSOB, Hypoteční banka, Helgi Analytics

**Chart 48: Building Society loans – existing stock**



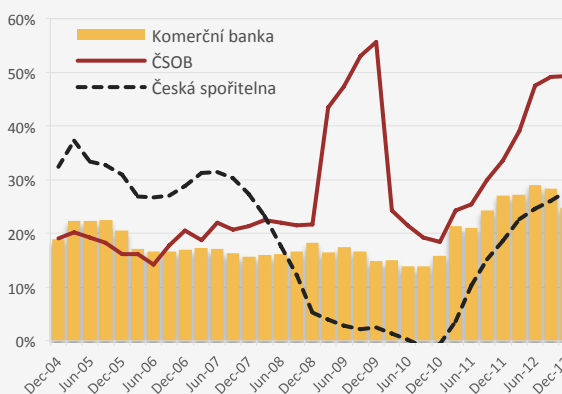
Source: ČSOB, Hypoteční Banka, Helgi Analytics

**Chart 49: Market share – new loans**



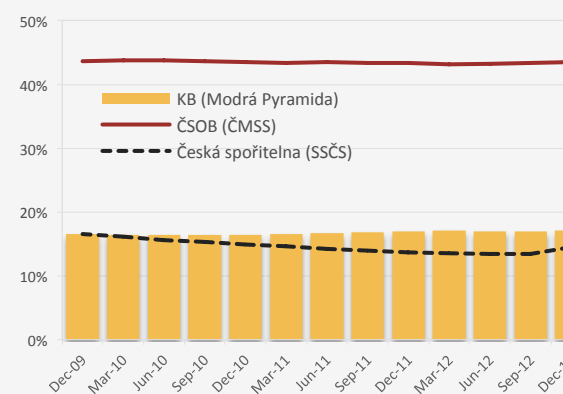
Source: ČSOB, Hypoteční Banka, Helgi Analytics

**Chart 50: Mortgage loans – new loans**



Source: ČSOB, Hypoteční Banka, Helgi Analytics

**Chart 51: Building Society loans – new loans**



Source: ČSOB, Hypoteční Banka, Helgi Analytics



## ČSOB – Key Figures

**Table 3: Key characteristics of ČSOB's housing lending**

|  | 1Q11  | 2Q11  | 3Q11  | 4Q11  | 1Q12  | 2Q12  | 3Q12               | 4Q12               |
|--|-------|-------|-------|-------|-------|-------|--------------------|--------------------|
| Housing Loans (CZK bil)                    | 161.0 | 165.2 | 169.3 | 174.4 | 176.1 | 178.5 | 180.3              | 182.6 <sup>↓</sup> |
| Mortgage Loans (CZK bil)                   | 111.0 | 114.6 | 118.0 | 123.0 | 125.3 | 128.2 | 130.5              | 133.3 <sup>↓</sup> |
| Building Society Loans (CZK bil)           | 49.3  | 49.9  | 50.6  | 50.6  | 50.0  | 49.5  | 49.1               | 49.3 <sup>↓</sup>  |
| Housing Loans (As % Of Assets)             | 22.9% | 22.8% | 22.6% | 23.1% | 23.4% | 23.0% | 23.4%              | 23.2% <sup>↓</sup> |
| Mortgage Loans (As % Of Assets)            | 15.8% | 15.8% | 15.8% | 16.3% | 16.6% | 16.5% | 16.9%              | 16.9% <sup>↓</sup> |
| Building Society Loans (As % Of Assets)    | 7.0%  | 6.9%  | 6.8%  | 6.7%  | 6.6%  | 6.4%  | 6.4%               | 6.3% <sup>↓</sup>  |
| Housing Loans (As % Of Loans)              | 41.9% | 40.7% | 40.4% | 40.1% | 40.6% | 40.6% | 40.5%              | 40.4% <sup>↓</sup> |
| Mortgage Loans (As % Of Loans)             | 28.9% | 28.2% | 28.1% | 28.3% | 28.9% | 29.2% | 29.3%              | 29.5% <sup>↓</sup> |
| Building Society Loans (As % Of Loans)     | 12.8% | 12.3% | 12.1% | 11.7% | 11.5% | 11.3% | 11.0%              | 10.9% <sup>↓</sup> |
| Market Share in Mortgage Loans             | 18.1% | 18.2% | 18.4% | 18.7% | 18.8% | 18.9% | 19.0%              | 19.0% <sup>↓</sup> |
| Market Share in Building Society Loans     | 16.6% | 16.7% | 16.9% | 17.0% | 17.1% | 17.0% | 16.9%              | 17.1% <sup>↓</sup> |
| Market Share in New Mortgage Production    | 24.4% | 23.8% | 23.8% | 23.4% | 22.3% | 22.0% | 21.8%              | 20.9%              |
| Market Share in Net Mortgage Increase      | 21.3% | 21.0% | 24.3% | 27.1% | 27.2% | 29.1% | 28.3%              | 24.8%              |
| Net Interest Margin (As Of Mortgage Loans) | 2.76% | 2.82% | 2.83% | 2.80% | 2.74% | 2.67% | 2.62%              | 2.59% <sup>↓</sup> |
| Cost To Income (On Mortgage Business)      | 20.6% | 20.3% | 20.6% | 20.5% | 20.6% | 20.8% | 20.6%              | 20.7%              |
| Cost Of Risk (On Mortgage Business)        | 0.72% | 0.59% | 0.43% | 0.47% | 0.42% | 0.44% | 0.47% <sup>↑</sup> | 0.47%              |
| Operating Profit From Mortgages (CZK mil)  | 647   | 680   | 694   | 707   | 713   | 713   | 729                | 739                |
| - As % Of Total Bank's Operating Profit    | 11.7% | 12.8% | 13.5% | 14.2% | 14.3% | 14.1% | 14.6%              | 15.1%              |
| Pre-tax Profit from Mortgages (CZK mil)    | 454   | 518   | 573   | 569   | 586   | 577   | 581                | 634 <sup>↓</sup>   |
| - As % of Total Pre-tax Profit             | 9.0%  | 11.3% | 15.3% | 18.4% | 19.3% | 16.5% | 14.4%              | 14.0% <sup>↓</sup> |
| ROE on The Mortgage Business               | 18.3% | 22.2% | 25.5% | 28.1% | 29.8% | 30.0% | 29.2%              | 29.0% <sup>↓</sup> |
| ROE Of The Bank                            | 17.9% | 16.3% | 13.6% | 12.3% | 12.1% | 14.1% | 15.6%              | 15.4%              |

Source: ČNB, ČSÚ, MMR, Ministry of Finance, Association of Building Societies, Helgi Analytics

## ABOUT HELGI ANALYTICS

Helgi Analytics is a consulting company based in the Czech Republic. The company mainly provides consultancy in the area of financial services and real estate and focuses primarily on the region of Central and Eastern Europe.

Helgi Analytics also runs a web application called Helgi Library, which is a database/library offering data and analyses on more than 95% of the world's economy and population. The Library aims to bring interesting statistical data and analyses to a wide audience under affordable conditions. If you wish to get more details, please visit [www.helgilibrary.com](http://www.helgilibrary.com) or contact us at [info@helgianalytics.com](mailto:info@helgianalytics.com).

Helgi Analytics  
Eliášova 38, Prague 6  
160 00, Czech Republic  
[www.helgianalytics.com](http://www.helgianalytics.com)

## DISCLAIMER

© 2013, HELGI ANALYTICS LTD. ALL RIGHTS RESERVED. All information contained herein is protected by Copyright Law and no such information may be copied or otherwise reproduced, in whole or in part, in any form or manner, by any Person or Company without Helgi Analytics' prior written consent. All information contained herein is obtained by Helgi Analytics from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical error, as well as other factors, however, all information contained herein is provided without warranty of any kind. Under no circumstances is Helgi Analytics under any liability to any person or entity for any loss or damage caused by any error, or other circumstance or contingency within or beyond the control of Helgi Analytics or any of its directors, employees, or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication, or delivery of any such information, or any direct or indirect damages whatsoever. The financial reporting, analysis, projections, observations, and other information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell, or hold any securities.