

Quarterly Analysis of Mortgage Lending

- Mortgage loan growth stagnated at 6.3% yoy, while sales of new mortgages dropped to last year's level in 1Q13.
- The top 3 banks further cemented their market position at 65.4% in 1Q13. They sold more than 70% of the new mortgages in 1Q13.
- ČSOB dominated again, Raiffeisen has been turning around while GE Money Bank continued losing most in 1Q2013.
- Some 3% of mortgage loans have been refinanced in 1Q13, most at Raiffeisen and GE Money Bank

Growth in mortgage loans continued to fade in 1Q13

Mortgage loans increased by less than 1% qoq in the seasonally weakest quarter of the year, but the overall momentum stabilized. The annual increase remained unchanged at 6.3% yoy and sales of new loans of CZK 27.8 bil were nearly as high as in the same quarter last year:

Chart 1: Mortgage loan growth



Source: ČNB, Helgi Analytics

Mortgage loans reached 18.2% of GDP at the end of March 2013, or more than a third of bank loans when other housing loans are included. Nearly 15% of Czech households have a mortgage loan now, while more than 14% 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 1Q13 while the average interest rate on the total mortgage loan stock dropped below 4.5%. This would imply that new loans were sold still with a decent 220 bp margin over a 5-year swap in 1Q13.

...while asset quality remains strong

The share of non-performing loans increased slightly in the 1Q13, from 3.16% to 3.30% of total mortgage loans at the end of March. 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. LBBW and Raiffeisen seem to generate over 20% of their profits from mortgages when Hypoteční Banka's results are taken as a guide.

The top 3 banks strengthened their position further

The three largest banks (ČSOB, Česká Spořitelna and Komerční banka) further cemented their market position in 1Q13 taking their share to 65.4%. ČSOB remains the leader closely followed by Spořitelna. In 1Q13, Raiffeisen confirmed its turnaround while GE Money Bank continued losing its market position the most.



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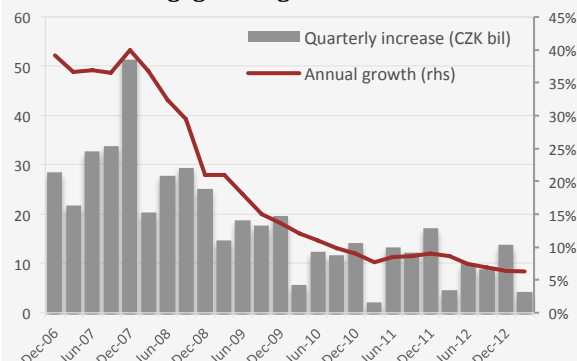
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Growth & Market Share

Mortgage loan growth weakens

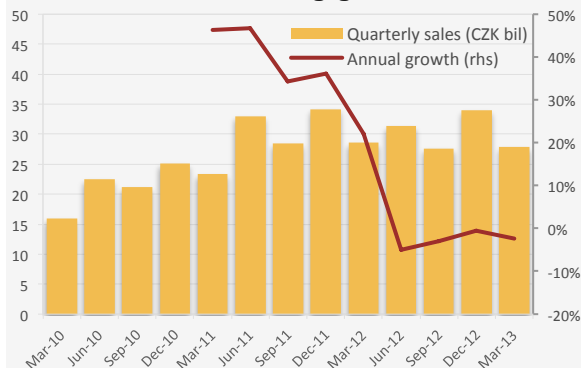
In 1Q13, the mortgage loan book grew by 1% qoq, or by CZK 6.8 bil, which brought the growth to 6.3% in the last four quarters:

Chart 2: Mortgage loan growth



The lack of growth is more clearly visible in the dynamics of the new loans granted. In spite of the headline growth, increase in the production of new loans practically ceased since the middle of 2012:

Chart 3: Sales of new mortgages

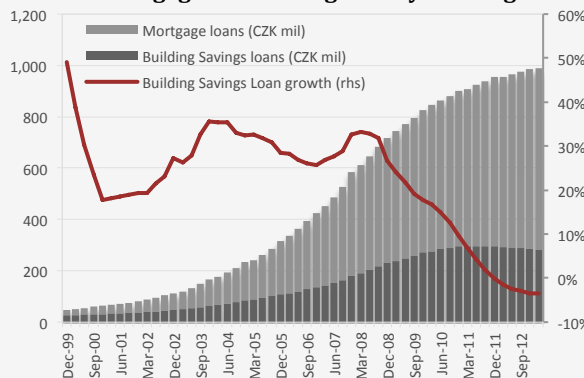


Source: ČNB, MMR, Helgi Analytics

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



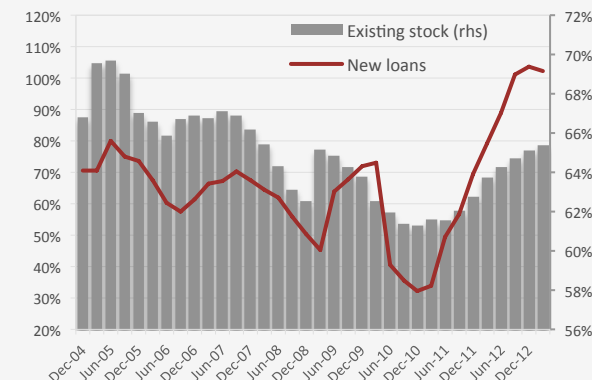
Source: ČNB, Helgi Analytics

Large banks and ČSOB are again the winners

The three largest banks further cemented their market position in 1Q13. The trio had gained a further 28 bp in the market share in 1Q13 and closed the first quarter of 2013 with a market share of 65.4%, up from 62.8% in 2011.

Apart from strong sales (they sold 75% of all new loans in 1Q13), they benefit from relatively longer interest rate fixation of their loan book as fewer loans needed to be refinanced compared to small banks. Ultimately, the whole expansion of the mortgage loan market was generated by the three largest banks in 1Q13:

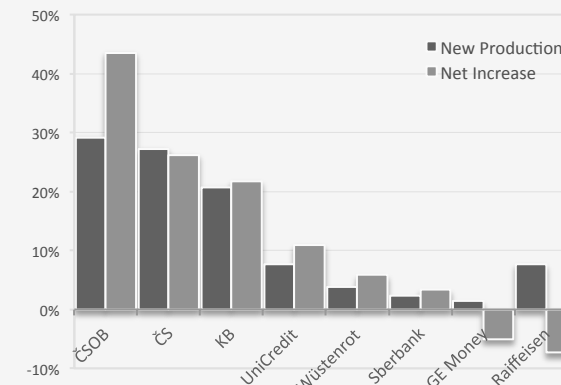
Chart 5: Market share of top 3 banks



Source: ČNB, Banks, Helgi Analytics

ČSOB is again the absolute winner for 1Q13, though Česká Spořitelna is catching up fast. Raiffeisenbank recovers from its disappointing year 2012 while GE Money Bank seems to continue disappearing from the mortgage market:

Chart 6: Market share in 2012



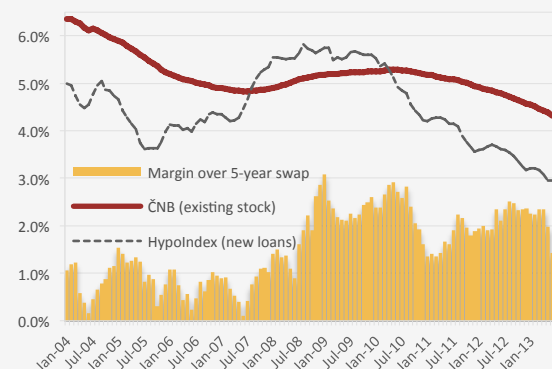
Source: Banks, MMR, ČNB, Helgi Analytics

Interest Margins & Asset Quality

Interest rate on new loans approaches 3.0%

The average interest rate on the existing mortgage loan book dropped further 10 bp in 1Q13 to 4.47%, 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 below 3% in May, measured by HypoIndex (or 3.35%, 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.

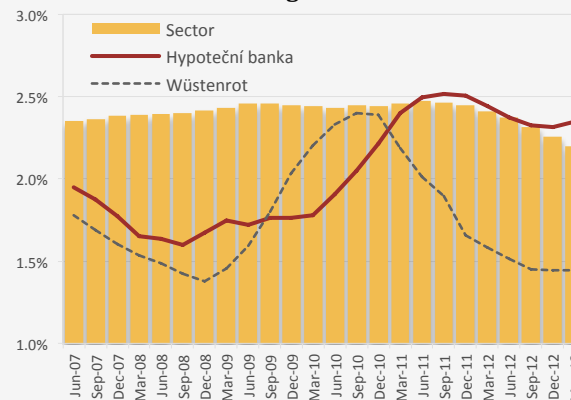
Not quite. The big banks increased their market share

impressively last year and their dominance continued in the first half of 2013 (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 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.

But, pure mortgage banks seem to have been fighting off that risk pretty well in the recent quarters. That is particularly visible at Hypoteční Banka, which has shown the best-ever net interest income result in 1Q13:

Chart 8: Net interest margin



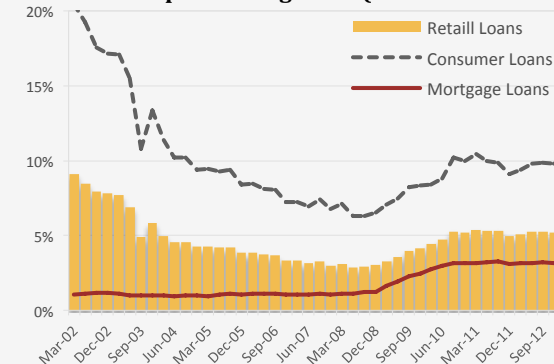
Source: ČNB, Banks, Helgi Analytics calculation

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 1 bil to CZK 23.3 bil in 1Q13, but the proportion of problem loans remains manageable at 3.3% of total:

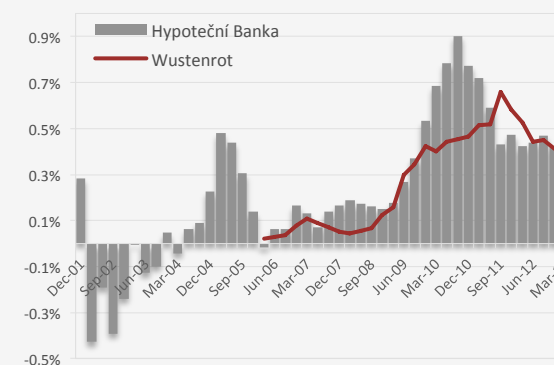
Chart 9: Non-performing loans (as % of total loans)



Source: ČNB, Banks, Helgi Analytics

The cost of risk (loan loss provisions to loans) has settled down at below 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



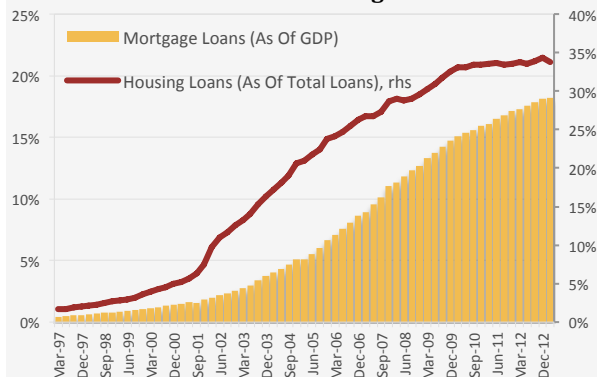
Source: ČNB, Banks, Helgi Analytics

Penetration & House Affordability

Mortgages represent 18% of GDP

Residential mortgage loans increased 6.3% yoy to CZK 707 bil in 1Q13 and represented 18.2% 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



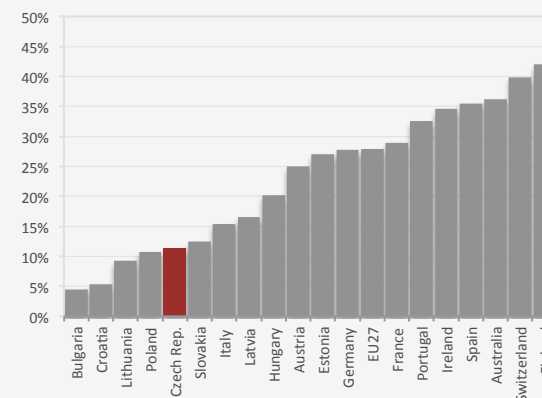
Source: ČNB, ČSÚ, Helgi Analytics

Some 15% of households have a mortgage loan..

The penetration of housing loans has continued to grow for over 15 years now. We estimate that nearly 15% of households in the Czech Republic had a mortgage loan at the end of March 2013. 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

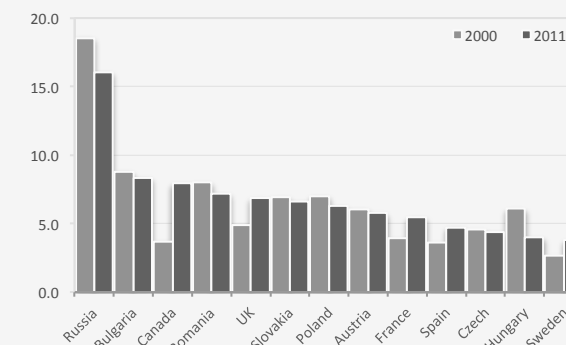
Czech real estate prices have tripled over the last decade in USD terms. The average dwelling (a 64-sqm flat) costs around USD 70,000 (or USD 1,047 per sqm) and one would pay roughly twice as much in Prague, the Czech capital city.

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

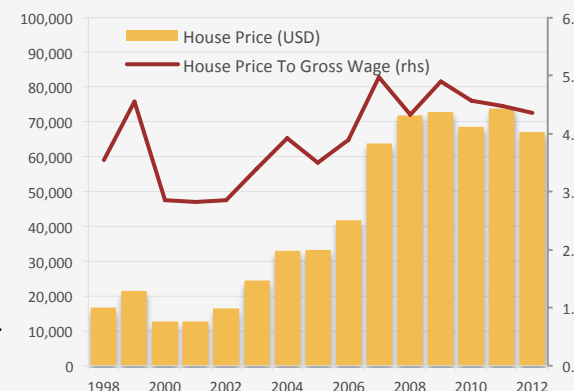
more than two years to save for a flat in Ústí nad Labem or in Ostrava.

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

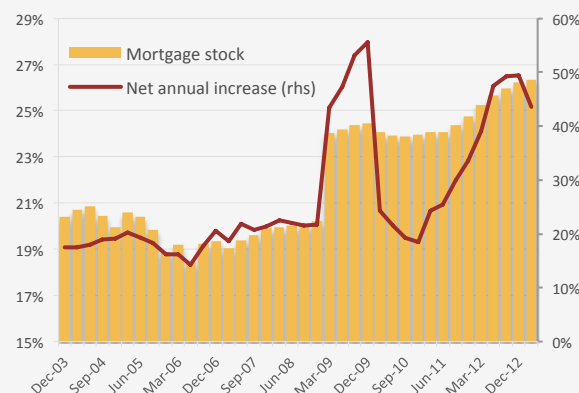
Here, we provide a short overview of the main mortgage players and their performance in 2012 and 1Q13. Ultimately, we try to point out the biggest gains and losses on the mortgage chessboard in the last 12 months. We describe each bank's performance in more detail at the end of the report (starting on page 11).

ČSOB - the undisputed King

ČSOB (or its subsidiary Hypoteční Banka) is the absolute winner of the year 2012 and also of the 1Q13. It strengthened its market position by 1.5% to 26.2% in 2012 and by further 13 bp in 1Q13. The bank granted over CZK 8 bil of new loans in 1Q13, or nearly 29% of total. Hypoteční's financials suggest that the mortgage business forms a quarter of ČSOB's overall profitability.

The first quarter's numbers, however, confirm increasing pressure from Česká Spořitelna, which sold again more mortgage contracts than ČSOB, a second quarter in a row. A new challenger for 2013?

Chart 15: ČSOB's market position



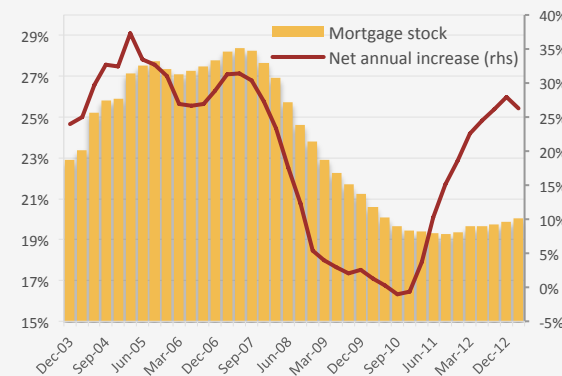
Source: ČSOB, ČNB, Helgi Analytics

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%. Further 18 bp of market share has been gained in 1Q13 when the bank sold over 27% of new mortgages.

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

Chart 16: Česká Spořitelna's market position

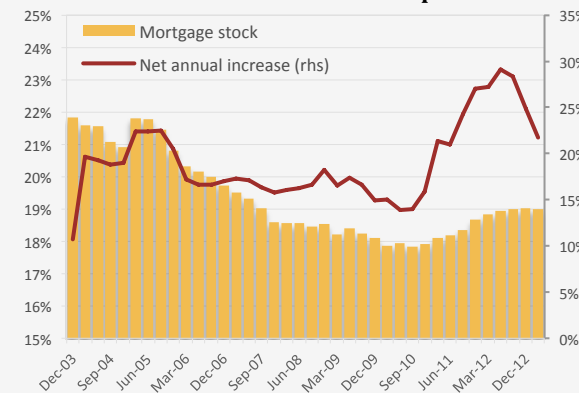


Source: ČS, ČNB, Helgi Analytics

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 1Q13, the bank sold 21% of the new mortgages, compared to the 27% of Česká Spořitelna and 29% of ČSOB.

Chart 17: Komerční Banka's market position

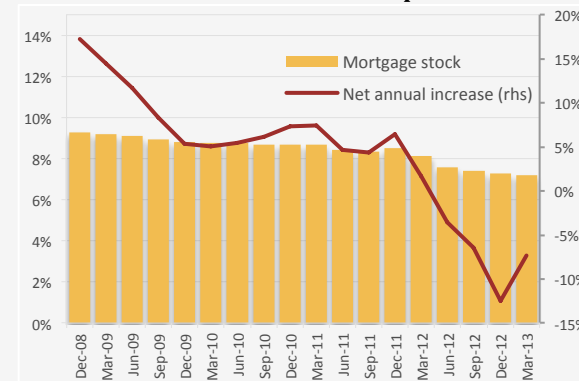


Source: KB, ČNB, Helgi Analytics

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. In 1Q13, the bank is back with a 9.5% of all new mortgages sold:

Chart 18: Raiffeisenbank's market position



Source: Raiffeisenbank, ČNB, Helgi Analytics

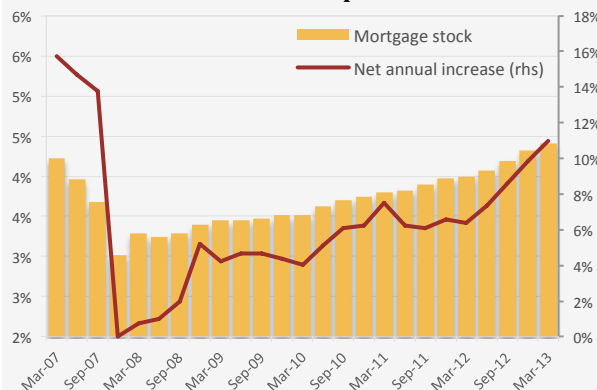
Game Of Mortgage Thrones – Other Banks

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. Further 9 bp has been gained in 1Q13:

Chart 19: UniCredit's market position



Source: UniCredit, ČNB, Helgi Analytics

GE Money Bank – giving up?

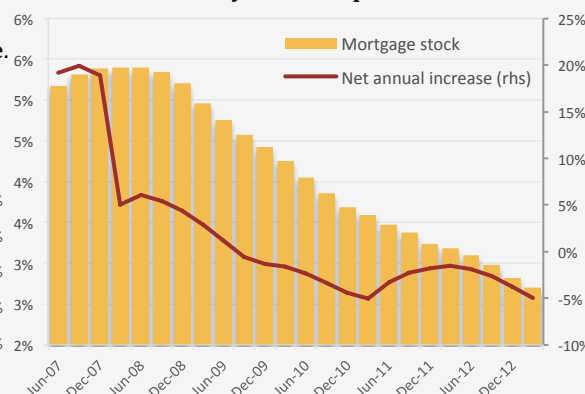
Similarly to Česká Spořitelna, GE Money Bank gave up on mortgage lending in 2008, handing over its share mostly to ČSOB's Hypoteční Banka. From having 5.4% at the end of 2008, GE Money held only 2.8% of the Czech mortgage lending market at the end of 2012.

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.

In 1Q13, the negative trend continued. The bank lost further 12 bp selling 1.0% of new mortgages only:

Chart 20: GE Money's market position



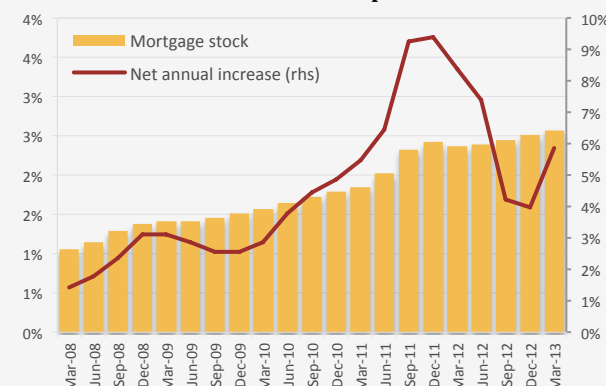
Source: GE Money Bank, ČNB, Helgi Analytics

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

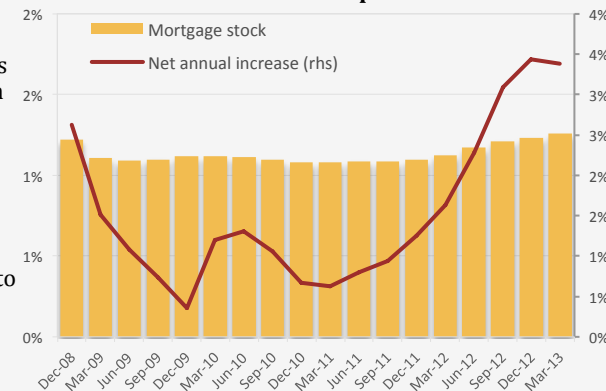


Source: Wüstenrot Hypoteční Banka, ČNB, Helgi Analytics

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

	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
Housing Loans (CZK bil)	743.4	755.7	772.9	777.4	787.4	796.2	810.0	814.2
Mortgage Loans (CZK bil)	630.2	642.7	659.0	665.4	677.0	686.8	700.5	707.3
Building Society Loans (CZK bil)	296.0	295.7	296.0	290.7	288.8	287.1	286.0	280.6
Housing Loans (As % Of GDP)	19.5%	19.7%	20.1%	20.2%	20.4%	20.7%	21.0%	21.0%
Mortgage Loans (As % Of GDP)	16.5%	16.8%	17.2%	17.3%	17.6%	17.8%	18.1%	18.2%
Building Society Loans (As % Of GDP)	7.7%	7.7%	7.7%	7.6%	7.5%	7.4%	7.4%	7.2%
Average interest rate (existing stock)	5.89%	5.80%	5.67%	5.54%	5.44%	5.36%	5.19%	5.00%
Average interest rate (new loans)	4.43%	4.38%	3.98%	3.94%	3.97%	3.83%	3.63%	3.51%
Mortgage (As % Of Total Loans)	28.5%	28.5%	28.6%	28.9%	28.9%	29.3%	29.7%	29.4%
NPLs (As Of Mortgage Loans)	3.2%	3.3%	3.1%	3.1%	3.2%	3.2%	3.2%	3.3%
NPLs (As Of Housing Loans)	3.3%	3.4%	3.2%	3.3%	3.4%	3.4%	3.4%	3.5%
Mortgage Loan Contracts	535,691	552,741	572,633	589,723	608,785	625,680	646,228	662,987
Avg. Size Of Mortgage Loan (CZK '000)	1.18	1.16	1.15	1.13	1.11	1.10	1.08	1.07
Households With a Mortgage Loan	12.1%	12.4%	12.8%	13.2%	13.6%	13.9%	14.4%	14.7%
Residential Dwellings With a Mortgage Loan	11.7%	12.0%	12.4%	12.8%	13.2%	13.6%	14.0%	14.4%
Building Society Loan Contracts	981,359	973,450	956,659	939,557	927,360	913,424	894,358	874,009
Avg. Size Of Building Society Loan (CZK '000)	0.302	0.304	0.309	0.309	0.311	0.314	0.320	0.321
Households with a Building Society Loan	22.1%	21.9%	21.4%	21.0%	20.7%	20.3%	19.9%	19.4%
Building Society Deposit Contracts	4,663,792	4,592,720	4,550,468	4,491,711	4,403,435	4,329,383	4,316,999	4,239,831
Avg. Size Of Building Society Deposit (CZK '000)	0.434	0.432	0.453	0.456	0.458	0.462	0.486	0.492
Households With Building Society Deposits	105%	103%	102%	100%	98%	96%	96%	94%
Loans To Deposits (Of Building Societies)	69.5%	70.2%	68.3%	67.9%	68.0%	68.1%	65.7%	65.2%

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.

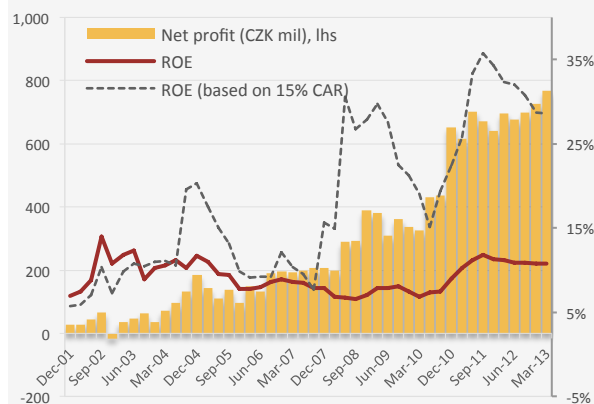
Here are the main conclusions from the exercise:

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



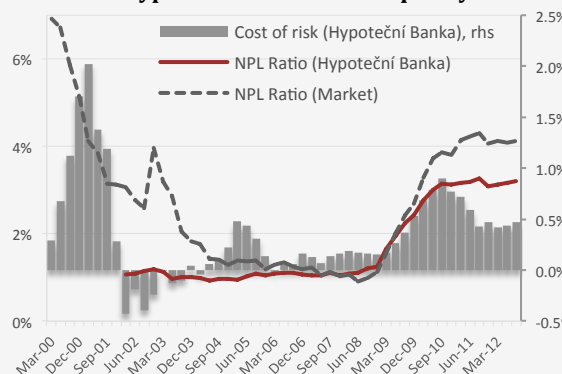
Source: Hypoteční Banka, ČNB, Helgi Analytics

Lesson 2: Mortgage lending is safe

As already shown above, the asset quality of mortgages is very good. At the end of March, non-performing loans accounted for only 3.3% 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



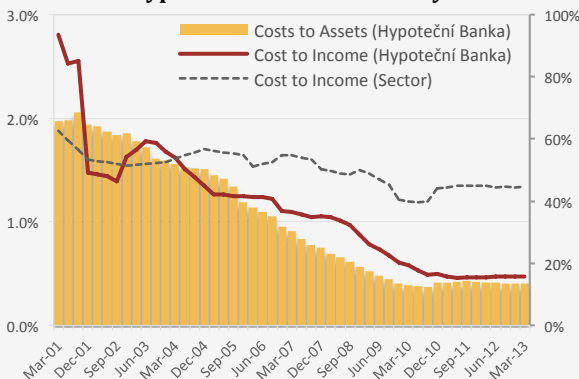
Source: Hypoteční Banka, ČNB, Helgi Analytics

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

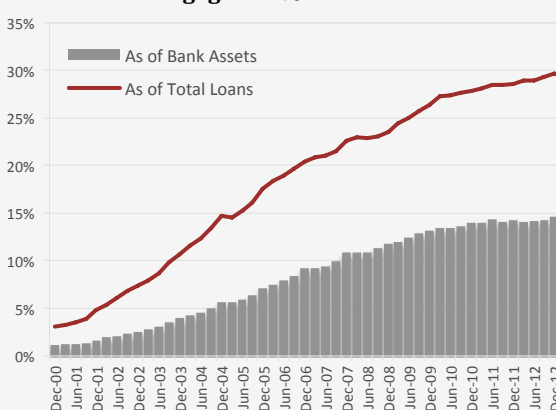


Source: Hypoteční Banka, ČNB, Helgi Analytics

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



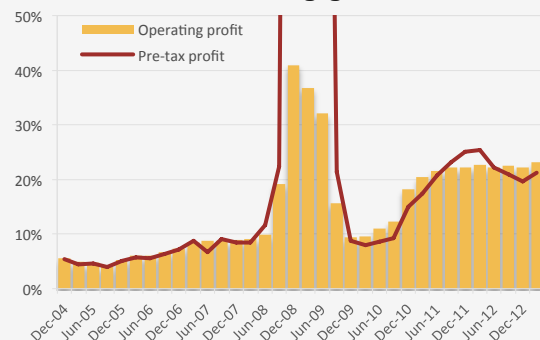
Source: ČNB, Helgi Analytics

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*	5.02%	5.23%	5.13%	4.71%
Net interest margin*	1.76%	2.21%	2.50%	2.31%
Revenue margin*	2.00%	2.45%	2.72%	2.54%
Cost to income	20.3%	16.7%	15.5%	15.8%
Cost of risk*	0.53%	0.77%	0.47%	0.42%
Effective tax rate	20.1%	19.2%	19.1%	19.0%
Net profit*	0.91%	1.12%	1.52%	1.43%

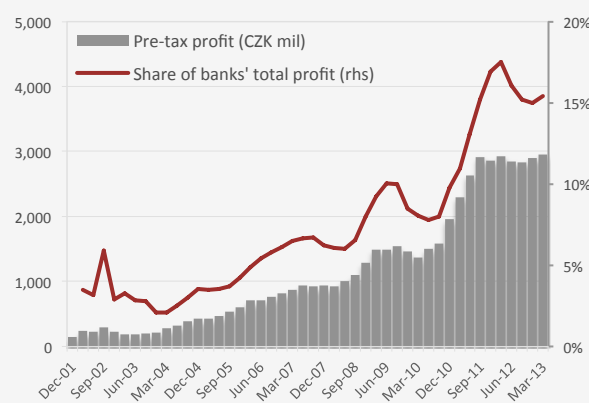
Source: Hypoteční Banka, Helgi Analytics, * as of mortgage loans

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

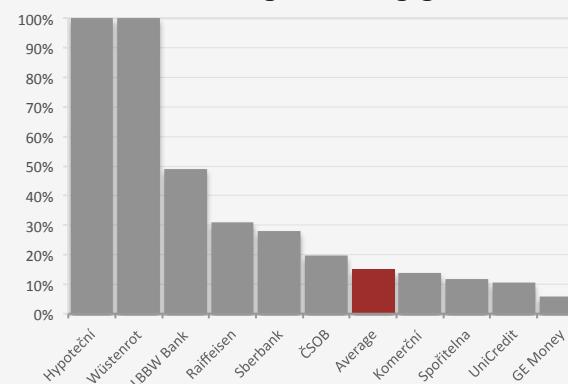


Source: Hypoteční Banka, ČNB, Helgi Analytics

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, 2012



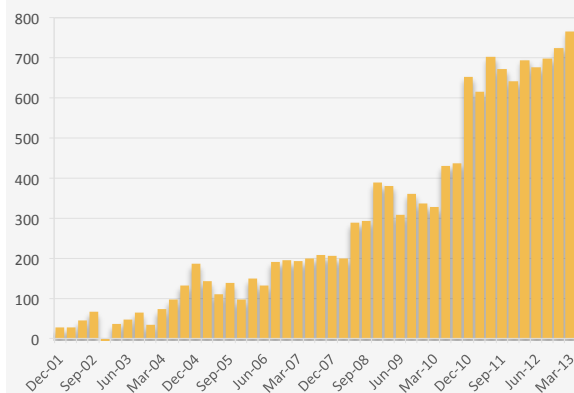
Source: ČNB, Banks, Helgi Analytics

The 49% profit contribution of LBBW Bank and 30% of Raiffeisenbank seem to be the most interesting features within the mid-sized banks. Strong exposure to the mortgage business and weak profitability of their other operations (or one-off losses elsewhere) are the main reasons behind the high profit contribution.

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

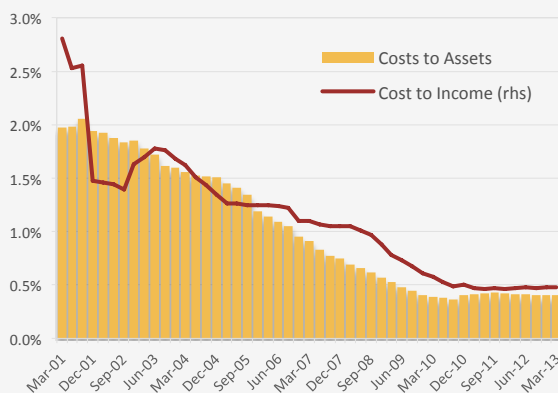
Hypoteční Banka – The Ultimate Benchmark

Chart 30: Net profit (CZK mil)



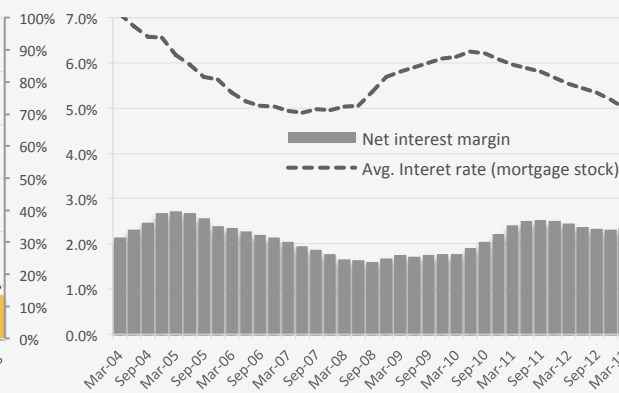
Source: ČSOB, Hypoteční banka, Helgi Analytics

Chart 31: Cost efficiency



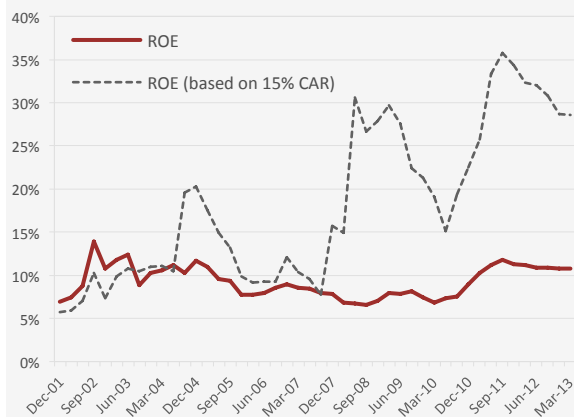
Source: ČSOB, Hypoteční banka, Helgi Analytics

Chart 32: Net interest margin



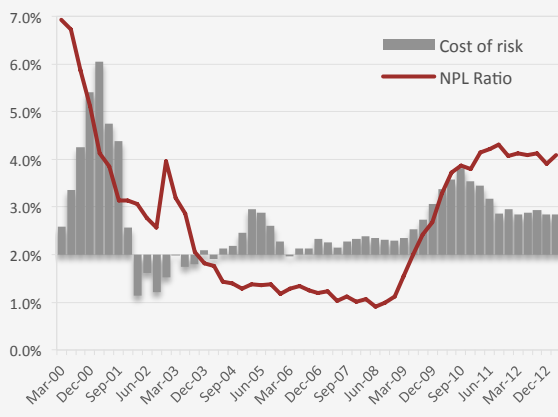
Source: Hypoteční Banka, Helgi Analytics

Chart 33: ROE



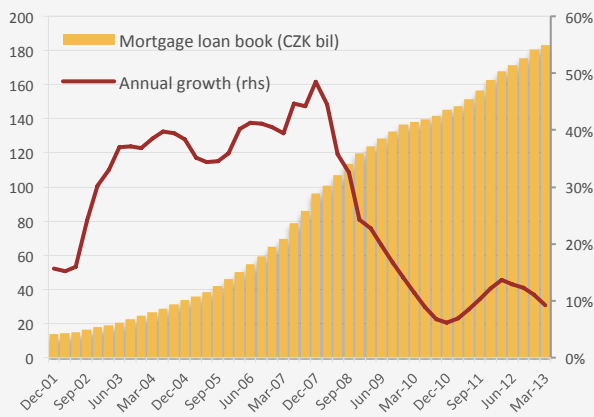
Source: Hypoteční Banka, Helgi Analytics

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

	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
Mortgage Loans (CZK bil)	151.5	156.3	162.8	167.6	171.2	175.6	180.7	183.2
Mortgage Loans (As % Of Assets)	89%	89%	90%	88%	88%	89%	90%	90%
Market Share in Mortgage Loans	24.0%	24.3%	24.7%	25.2%	25.3%	25.6%	25.8%	25.9%
Market Share in New Mortgage Production (ČSOB)	29.1%	28.8%	27.8%	29.3%	30.8%	30.2%	30.0%	29.2%
Market Share in Net Mortgage Increase (ČSOB)	24.0%	28.6%	32.6%	38.3%	42.0%	43.6%	43.1%	37.2%
Net Interest Margin (As % Of Total Assets)	2.50%	2.52%	2.50%	2.44%	2.37%	2.33%	2.31%	2.35%
Avg. Yield On Mortgage Loans	5.29%	5.22%	5.13%	5.02%	4.91%	4.81%	4.71%	4.62%
Cost To Income	15.3%	15.6%	15.5%	15.6%	15.8%	15.6%	15.8%	15.8%
Costs To Assets	0.42%	0.43%	0.42%	0.41%	0.41%	0.40%	0.40%	0.40%
Cost Of Risk	0.59%	0.43%	0.47%	0.42%	0.44%	0.47%	0.42%	0.42%
NPLs (As % Of Total Loans)	4.22%	4.31%	4.07%	4.12%	4.08%	4.12%	3.90%	4.10%
Provisions (As % Of NPLs)	33.2%	33.5%	34.7%	35.3%	37.2%	38.5%	40.2%	40.3%
Hypoteční Banka's Operating Profit (CZK mil)	996	962	1,016	1,048	1,008	1,070	1,060	1,151
- As % Of ČSOB's Operating Profit	23.1%	21.9%	23.5%	22.0%	21.4%	23.0%	22.0%	26.3%
Hypoteční Banka's Pre-tax Profit (CZK mil)	876	829	786	859	836	870	885	948
- As % of ČSOB's Pre-tax Profit	31.8%	26.2%	30.4%	18.3%	18.5%	20.5%	21.7%	24.9%
ROE*	29.5%	32.4%	32.6%	33.5%	32.4%	31.7%	30.5%	29.6%
ROE (ČSOB)	20.0%	19.7%	18.4%	19.1%	20.7%	21.3%	22.5%	20.5%

Source: ČNB, ČSU, 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 1.5% qoq in 4Q (and 10.8% yoy), a third more than the overall market. On the other hand, the loans provided by ČMSS (ČSOB's building society) dropped a further 1.5% qoq or 4.1% yoy:

Chart 36: Housing loan growth

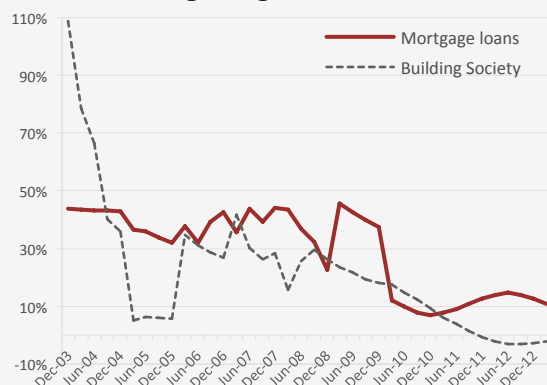
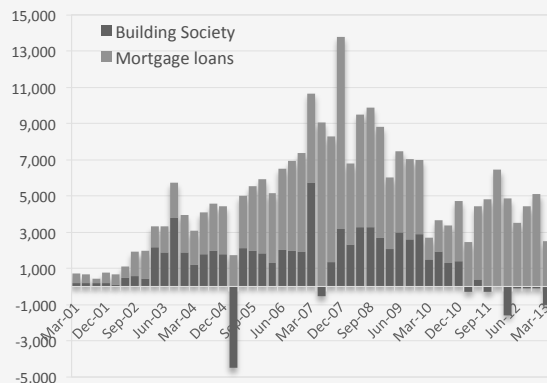


Chart 37: Quarterly change (CZK mil)



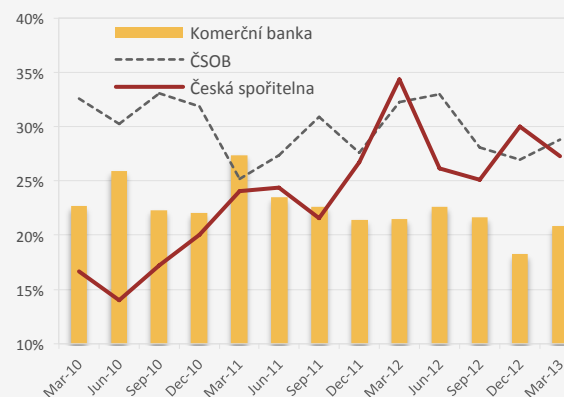
Source: ČSOB, ČMSS, Helgi Analytics

...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 26.3% as of the end of March 2013!

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 and 1Q13 was lower than a year ago. Second, Česká Spořitelna outperformed ČSOB in number of mortgage contracts sold in both, 4Q12 as well as 1Q13, 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

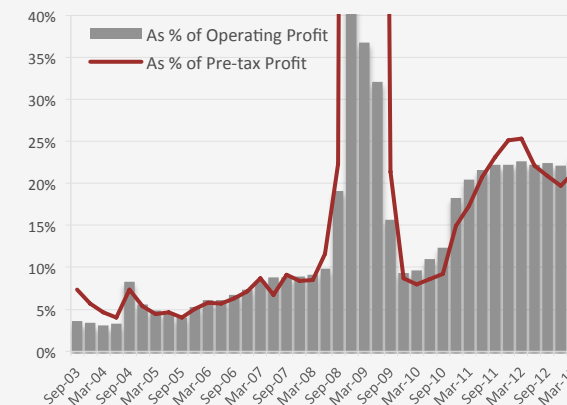
Mortgage lending – 20% of ČSOB's profit?

Mortgage loans represented over 39% of ČSOB's total loans at the end of March 2013. That is three times more than a decade ago. Together with ČMSS, housing loans represented nearly 54% of ČSOB's total loans.

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 we calculated for LBBW Bank, or 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

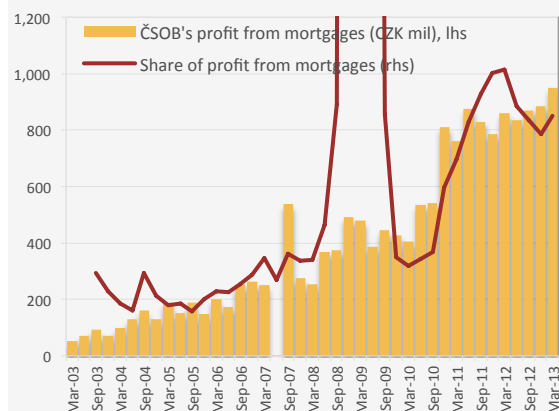


Source: Hypoteční Banka, ČSOB, Helgi Analytics

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.

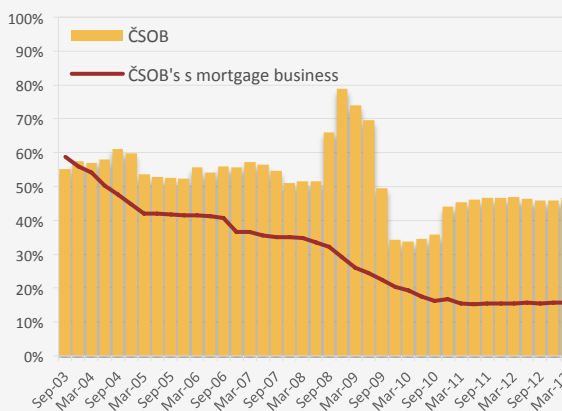
ČSOB

Chart 40: Net profit from mortgages



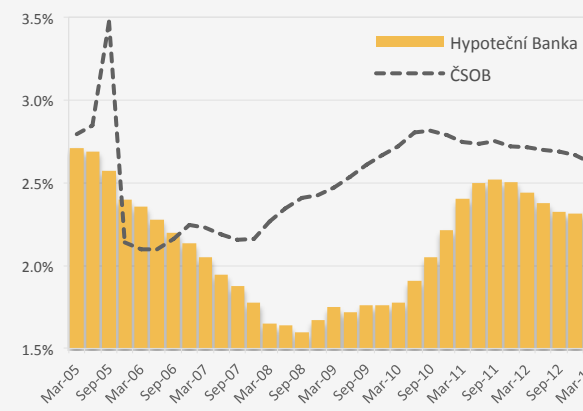
Source: ČSOB, Hypoteční banka, Helgi Analytics

Chart 41: Cost to Income



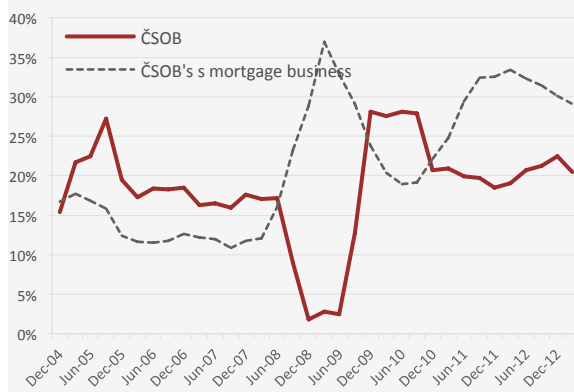
Source: ČSOB, Hypoteční banka, Helgi Analytics

Chart 42: Net interest margin



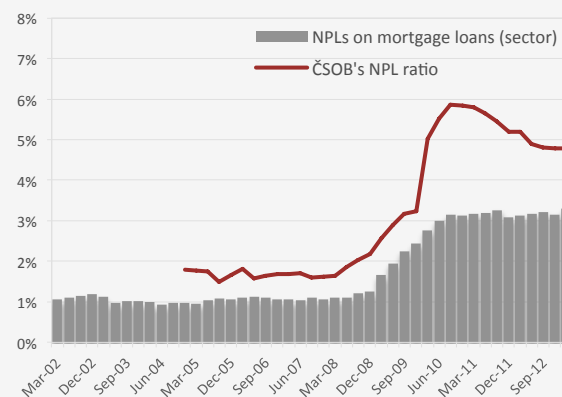
Source: ČSOB, Hypoteční Banka, Helgi Analytics

Chart 43: ROE



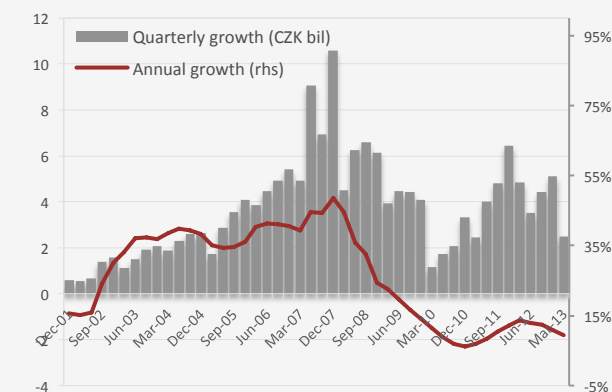
Source: ČSOB, Hypoteční Banka, Helgi Analytics

Chart 44: Asset quality (NPL Ratio)



Source: ČSOB, Hypoteční Banka, Helgi Analytics

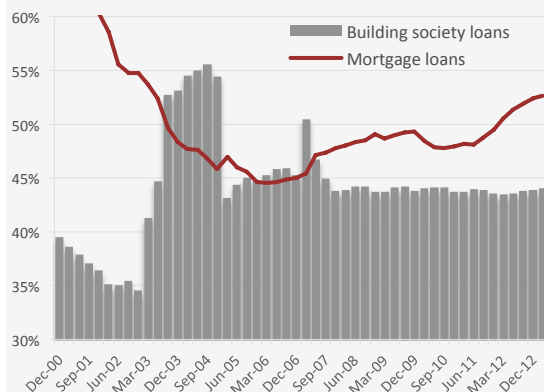
Chart 45: Volume and momentum



Source: ČSOB, Hypoteční Banka, Helgi Analytics

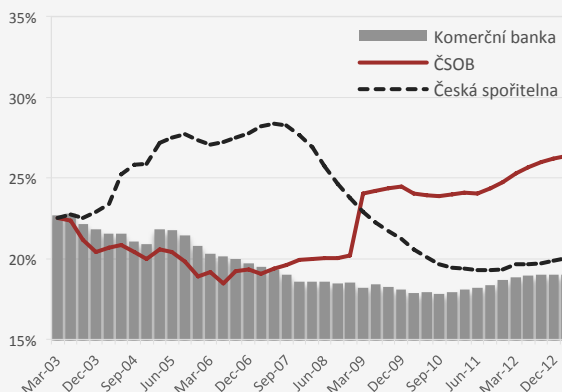
ČSOB

Chart 46: Market share – existing stock



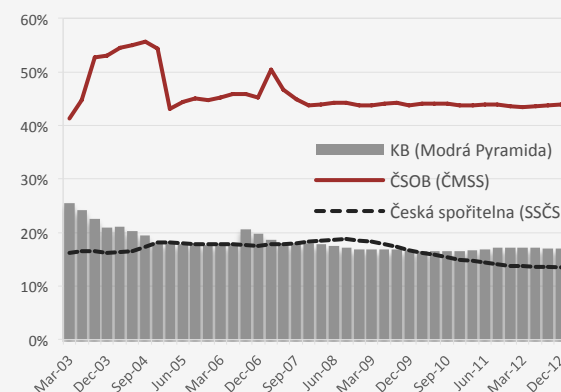
Source: ČSOB, Hypoteční banka, Helgi Analytics

Chart 47: Mortgage loans – existing stock



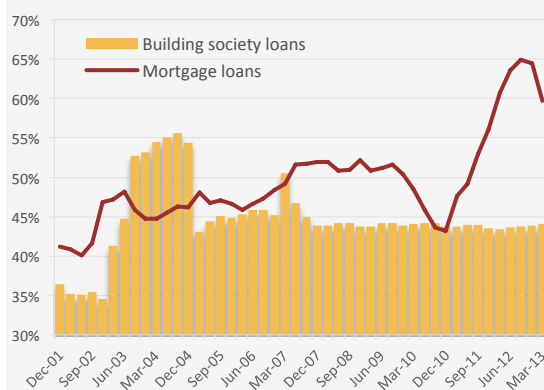
Source: ČSOB, Hypoteční banka, Helgi Analytics

Chart 48: Building Society loans – existing stock



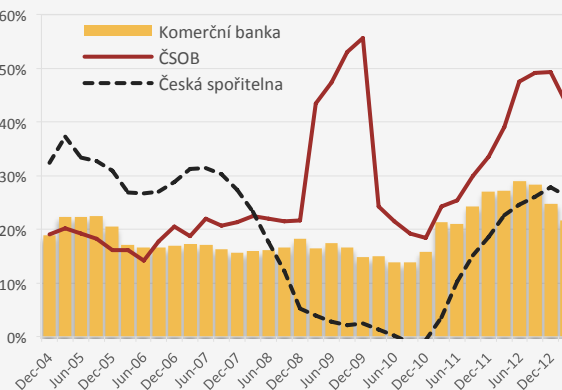
Source: ČSOB, Hypoteční Banka, Helgi Analytics

Chart 49: Market share – new loans



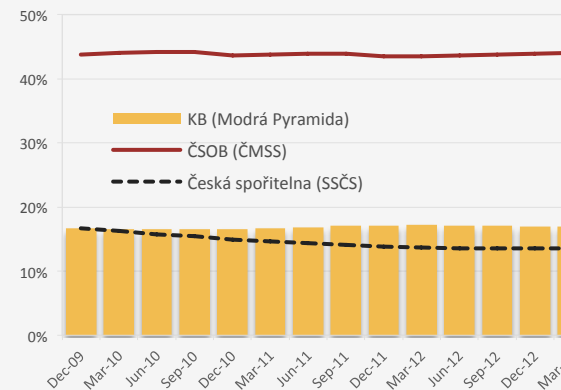
Source: ČSOB, Hypoteční Banka, Helgi Analytics

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 4: Key characteristics of ČSOB's housing lending

	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
Housing Loans (CZK bil)	164.1	165.8	168.5	170.5	172.2	174.5	177.8	179.7
Mortgage Loans (CZK bil)	121.6	124.0	127.6	130.8	133.1	135.5	139.2	141.7
Building Society Loans (CZK bil)	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6
Housing Loans (As % Of Assets)	17.8%	18.0%	18.3%	18.5%	18.7%	19.0%	19.3%	19.5%
Mortgage Loans (As % Of Assets)	13.2%	13.5%	13.9%	14.2%	14.5%	14.7%	15.1%	15.4%
Building Society Loans (As % Of Assets)	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%
Housing Loans (As % Of Loans)	34.8%	35.2%	35.8%	36.2%	36.6%	37.1%	37.8%	38.2%
Mortgage Loans (As % Of Loans)	25.8%	26.3%	27.1%	27.8%	28.3%	28.8%	29.6%	30.1%
Building Society Loans (As % Of Loans)	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%
Market Share in Mortgage Loans	19.3%	19.3%	19.4%	19.7%	19.7%	19.7%	19.9%	20.0%
Market Share in Building Society Loans	14.3%	14.1%	13.8%	13.7%	13.6%	13.6%	13.5%	13.5%
Market Share in New Mortgage Production	21.8%	22.6%	24.3%	26.7%	27.1%	28.0%	28.9%	27.3%
Market Share in Net Mortgage Increase	10.3%	15.2%	18.5%	22.6%	24.5%	26.2%	27.9%	26.2%
Net Interest Margin (As Of Mortgage Loans)	2.82%	2.83%	2.80%	2.74%	2.67%	2.62%	2.61%	2.64%
Cost To Income (On Mortgage Business)	20.3%	20.6%	20.5%	20.6%	20.8%	20.6%	20.8%	20.8%
Cost Of Risk (On Mortgage Business)	0.59%	0.43%	0.47%	0.42%	0.44%	0.47%	0.42%	0.42%
Operating Profit From Mortgages (CZK mil)	734	740	745	747	743	758	763	780
- As % Of Total Bank's Operating Profit	10.0%	10.9%	11.4%	11.5%	11.8%	11.6%	11.5%	11.8%
Pre-tax Profit from Mortgages (CZK mil)	559	611	600	614	601	604	620	635
- As % of Total Pre-tax Profit	11.3%	13.1%	13.3%	13.3%	13.1%	12.0%	11.9%	12.2%
ROE on The Mortgage Business	22.6%	25.9%	28.6%	30.2%	30.3%	29.4%	27.8%	26.6%
ROE Of The Bank	18.8%	18.0%	17.9%	18.2%	18.0%	18.8%	18.7%	17.8%

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

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