

# J&T BANKA's Profile and Long-Term Funding Strategy

RBI's CEE Banking Summit – Vienna

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# Introduction to J&T BANKA

# J&T BANKA | Overview

The eighth largest bank in the Czech Republic by loan book and capital, active in private banking, corporate and investment banking and asset management

- ◆ The eighth largest bank in the Czech Republic by loan book and capital
- ◆ Holds a universal banking license and provides private banking, corporate & investment banking and asset management services to affluent clientele
- ◆ Strong franchise in private banking, structured financing and domestic capital markets
- ◆ Stable, granular funding base – accepting deposits from the general public, subject to a minimum of CZK100k–CZK1m (€4–€40k)<sup>(2)</sup>. As a result, it does not need a country-wide branch network
- ◆ Two international subsidiaries in Croatia and Russia, branches in Slovakia and Germany, also owns two large Czech asset managers
- ◆ Baa2 L-T deposit rating by Moody’s
- ◆ 100% owned by J&T FINANCE GROUP SE

## J&T BANKA – Financial and Operational Highlights

(CZKm)	2018	2019	2020	2021	2022	CAGR
Loan Book	71,528	68,320	98,795	93,154	106,149	10.4%
Deposits	118,999	114,551	138,620	154,330	164,022	8.4%
Equity	19,230	21,514	22,537	26,223	35,856	16.9%
Total Assets	150,104	151,722	175,037	203,251	227,253	10.9%
Operating Income	5,870	6,319	5,906	6,150	11,519	18.4%
Net Profit	2,076	3,156	1,666	2,804	3,380	13.0%
(€m) <sup>(1)</sup>	2018	2019	2020	2021	2022	CAGR
Loan Book	2,861	2,733	3,952	3,726	4,246	10.4%
Deposits	4,760	4,582	5,545	6,173	6,561	8.4%
Equity	769	861	901	1,049	1,434	16.9%
Assets	6,004	6,069	7,001	8,130	9,090	10.9%
Operating Income	235	253	236	246	461	18.4%
Net Profit	83	126	67	112	135	13.0%
	2018	2019	2020	2021	2022	CAGR / Δ
Employees (average)	719	813	816	875	940	6.9%
ROE	10.73%	15.49%	7.56%	11.50%	10.89%	n.m.
CET 1 (individual)	14.41%	15.38%	14.49%	14.45%	14.19%	-22bps
Tier 1 (individual)	16.99%	18.13%	16.68%	17.62%	20.22%	+323bps
CAR (individual)	17.26%	18.28%	16.73%	17.65%	20.36%	+310bps

Notes: (1) Convenience translation at 1 € = 25 CZK. (2) CZK1m applies for a client with no other products with J&T BANKA, CZK100k applies when the client has other (investment) products. Source: Company data



# Business Profile

Connecting client capital with attractive market opportunities by combining suitable products and services. The private banking clientele considerably enhances the financial firepower and, hence, relevance to clients

- ◆ Strategically focused on clients and transactions requiring a greater degree of individual approach
- ◆ Principal competitive advantage is the ability to provide tailor-made solutions with an emphasis on flexibility and speed of execution
- ◆ The only player in the Czech and Slovak market with an in-house capability to arrange financing across the whole capital structure
- ◆ Leveraging long-standing relationships with affluent entrepreneurial clientele
- ◆ Market leader in securities underwriting and placement
- ◆ Considerable synergies between J&T BANKA and its subsidiaries (J&T IB & CM, J&T IS, Amista IS) and sister companies (J&T Mezzanine, 365.bank, 365.invest) bring complementary capabilities and incremental client reach

## J&T BANKA – The Crossroads of Opportunities – Simplified Schematic Perspective<sup>(1)</sup>

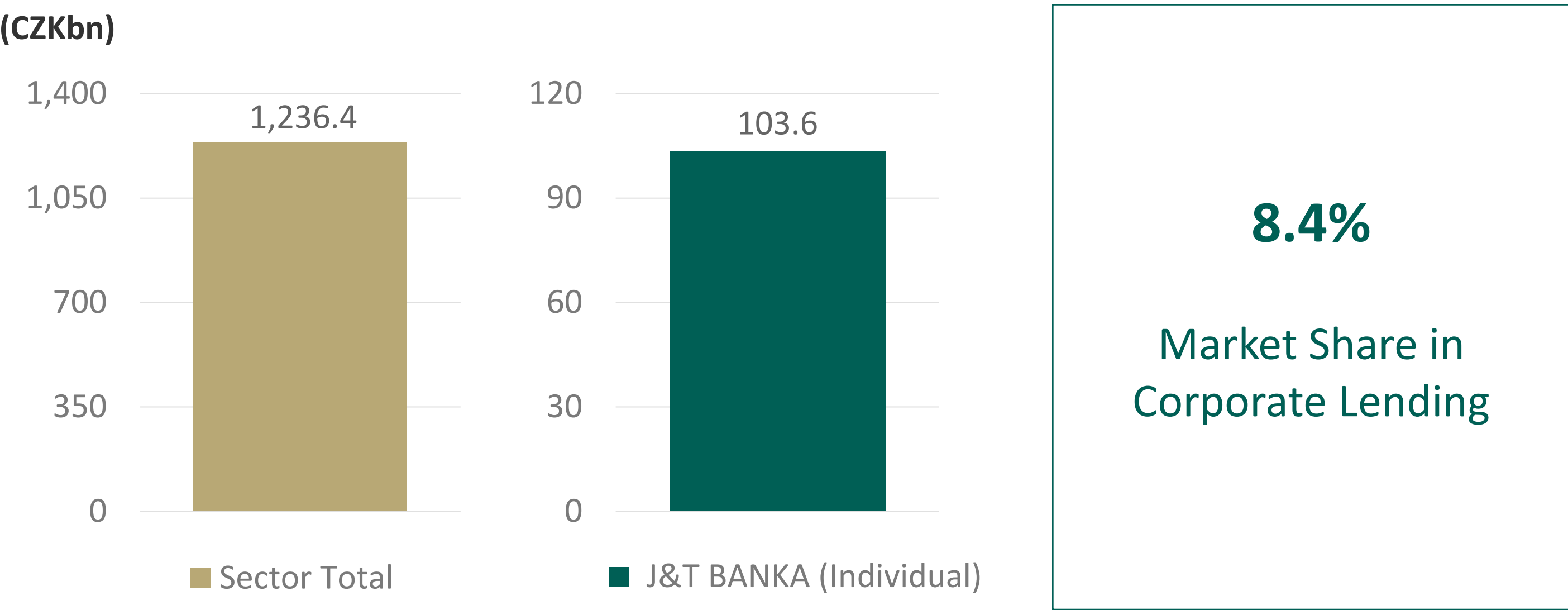


Notes: (1) Convenience translation @ 1 € = 25 CZK. (2) Outstanding bonds arranged by J&T IB & CM. (3) Client assets taken into administration and custody. (4) Including corporate loans of 365.bank. Source: Company data

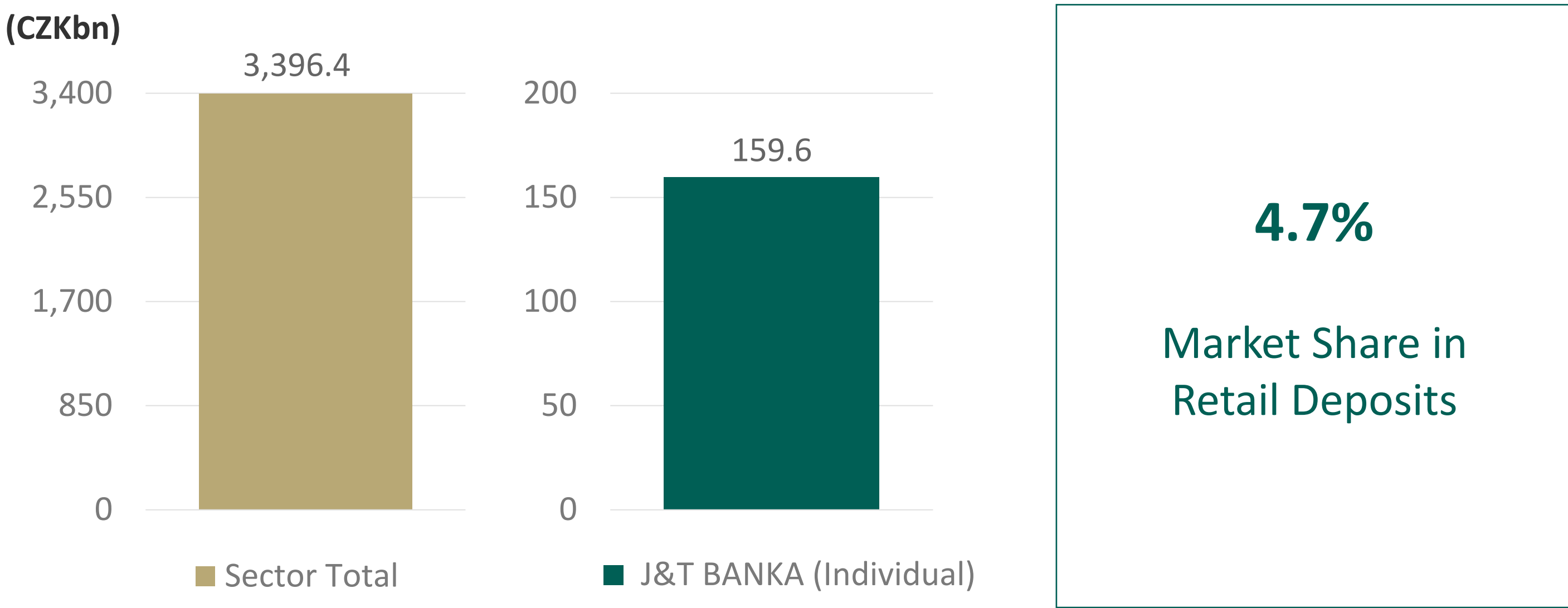
# Established Market Position

Highly recognised franchise in structured financing, private banking and asset management. The largest non-sovereign debt underwriter in the Czech and Slovak markets and a top 10 Czech asset management business

## Corporate Loans – Czech Republic (2022)



## Retail Deposits – Czech Republic (2022)



## Corporate Bond Market League Table CZ + SK (2018 – 2022)<sup>(1)</sup>

Rank	Bookrunner	Amount (CZKbn)	Amount (€bn) <sup>(2)</sup>	Market Share (%)
1	J&T BANKA	97.4	4.2	49%
2	Erste Group	47.6	2.0	24%
3	Societe Generale	17.7	0.8	9%
4	Raiffeisen Bank International	10.2	0.4	5%
5	UniCredit	7.9	0.3	4%
6	JP Morgan	4.3	0.2	2%
7	CSOB / KBC	2.6	0.1	1%
8	BNP Paribas	2.6	0.1	1%
9	LBBW	2.6	0.1	1%
10	PPF Banka	2.0	0.1	1%
	Other	3.9	0.2	2%
	Total	198.8	8.5	100%

## Asset Management (2022)

Rank	Manager	AuM (CZKbn, net)	AuM (€bn, net) <sup>(2)</sup>	Market Share (%)
1	CSOB AM	363.3	14.5	19%
2	Generali CEE AM	343.2	13.7	18%
3	Ceska Sporitelna	333.9	13.4	17%
4	Amundi CZ	199.0	8.0	10%
5	Conseq	123.1	4.9	6%
6	NN Investment Partners	116.4	4.7	6%
7	J&T IS + Amista IS	95.3	3.8	5%
8	Avant	76.3	3.1	4%
9	Uniqa	70.6	2.8	4%
10	Raiffeisenbank	55.1	2.2	3%
	Other	134.2	5.4	7%
	Total	1,910.4	76.4	100%

Notes: (1) Listed bonds only, proportional allocation. (2) Convenience translations @ 1 € = 25 CZK. Source: Czech National Bank, Czech Capital Markets Association, Bloomberg, Prague Stock Exchange, Bratislava Stock Exchange

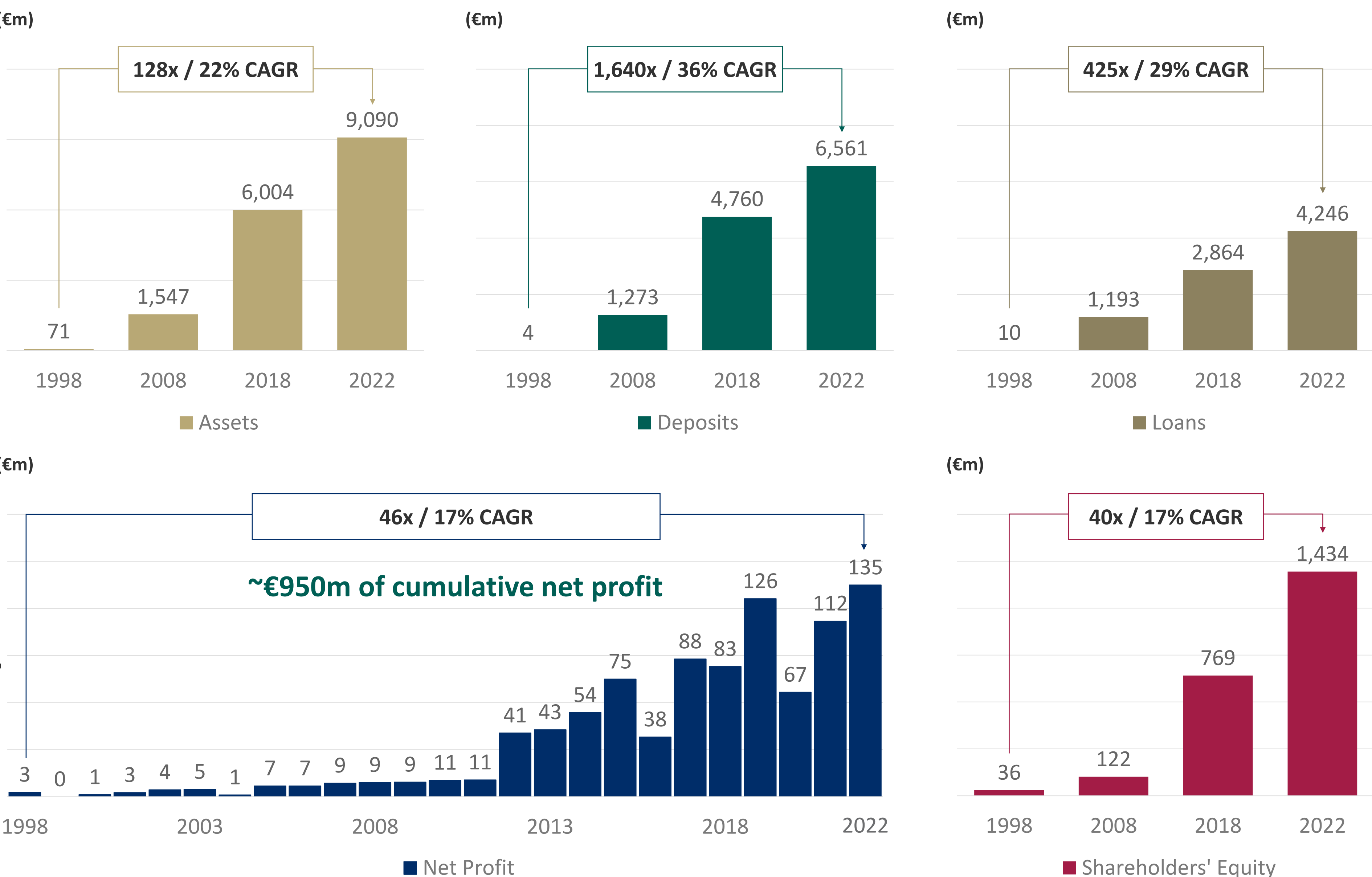
# Key Historical Milestones

Growing together with clients – predominantly top Czech and Slovak entrepreneurs – through a 25-year track record of successful operation in the Czech and Slovak markets and beyond

## J&T BANKA's Selected Milestones

- 1998** Podnikatelská banka acquired by JTFG
- 2006** Branch opened in Bratislava, Slovakia
- 2007** Acquisition of Tretij Rim, a Russian bank
- 2009** Deposits accepted from the general public
- 2011** J&T IB and Capital Markets (investment banking) and J&T INVESTIČNÍ SPOLEČNOST (asset management)
- 2014** Acquisition of 58% in Vaba bank, a Croatian bank
- 2015** CEFC acquires 9.9% in JTFG (can increase up to 50%)
- 2018** CEFC taken over by CITIC, increase in JTFG terminated
- 2022** Ownership in J&T BANKA d.d. (Vaba) increased to 100%  
Ownership in AMISTA IS increased to 80%
- 2023** Baa2 long-term deposit rating assigned by Moody's  
Branch opened in Frankfurt, Germany

## Balance Sheet Growth, Profitability and Earnings Power<sup>(1),(2)</sup>



Notes: (1) Convenience translation at 1 € = 25 CZK. (2) Consolidated data. Source: Company data

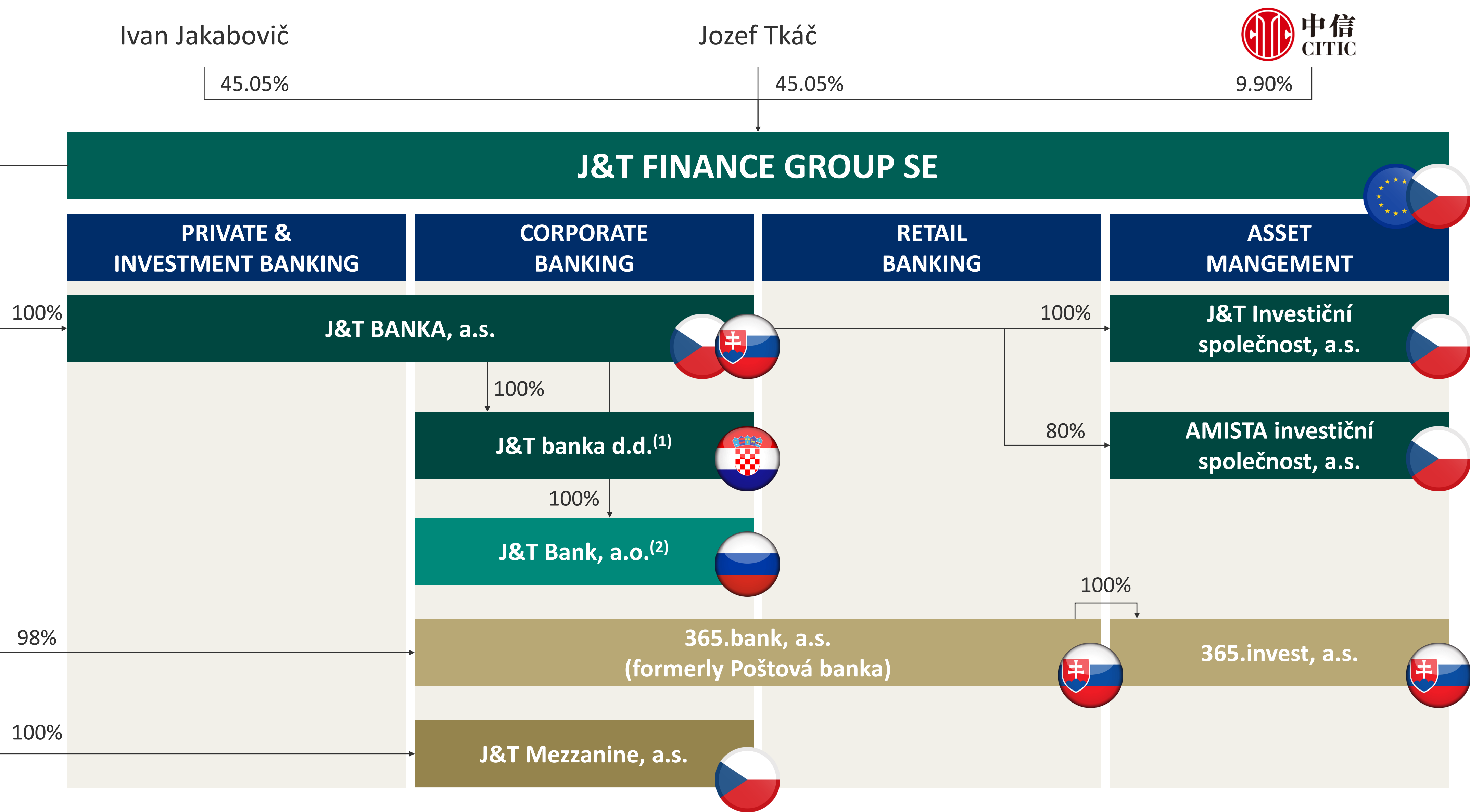


# J&T FINANCE GROUP | Overview

J&T BANKA is the cornerstone of J&T FINANCE GROUP, an international financial services group active in banking and asset management with operations in the Czech Republic, Slovakia, Croatia, Germany and Russia

- ◆ International financial services group active in banking and asset management
- ◆ Core operating entities include:
  - > **J&T BANKA**
  - > **365.bank** (ex-Poštová banka), a retail focused digital bank and asset management operation in Slovakia; and
  - > **J&T Mezzanine**, ~€400m vehicle providing hybrid/subordinated capital
- ◆ Owned by Jozef Tkáč (45.05%), Ivan Jakabovič (45.05%) and Rainbow Wisdom Investments Ltd. (9.90%) which is controlled by CITIC Group Corporation from China
- ◆ Financial holding company subject to prudential regulation and supervision carried out both individually and on the consolidated basis

## J&T FINANCE GROUP – Key Operating Entities – Simplified Structure



Notes: (1) In the process of being transformed into J&T BANKA's branch. (2) Loan portfolio is being run-off, disposal process on-going, although the exact timing is uncertain. Source: JTFG (31 March 2023)

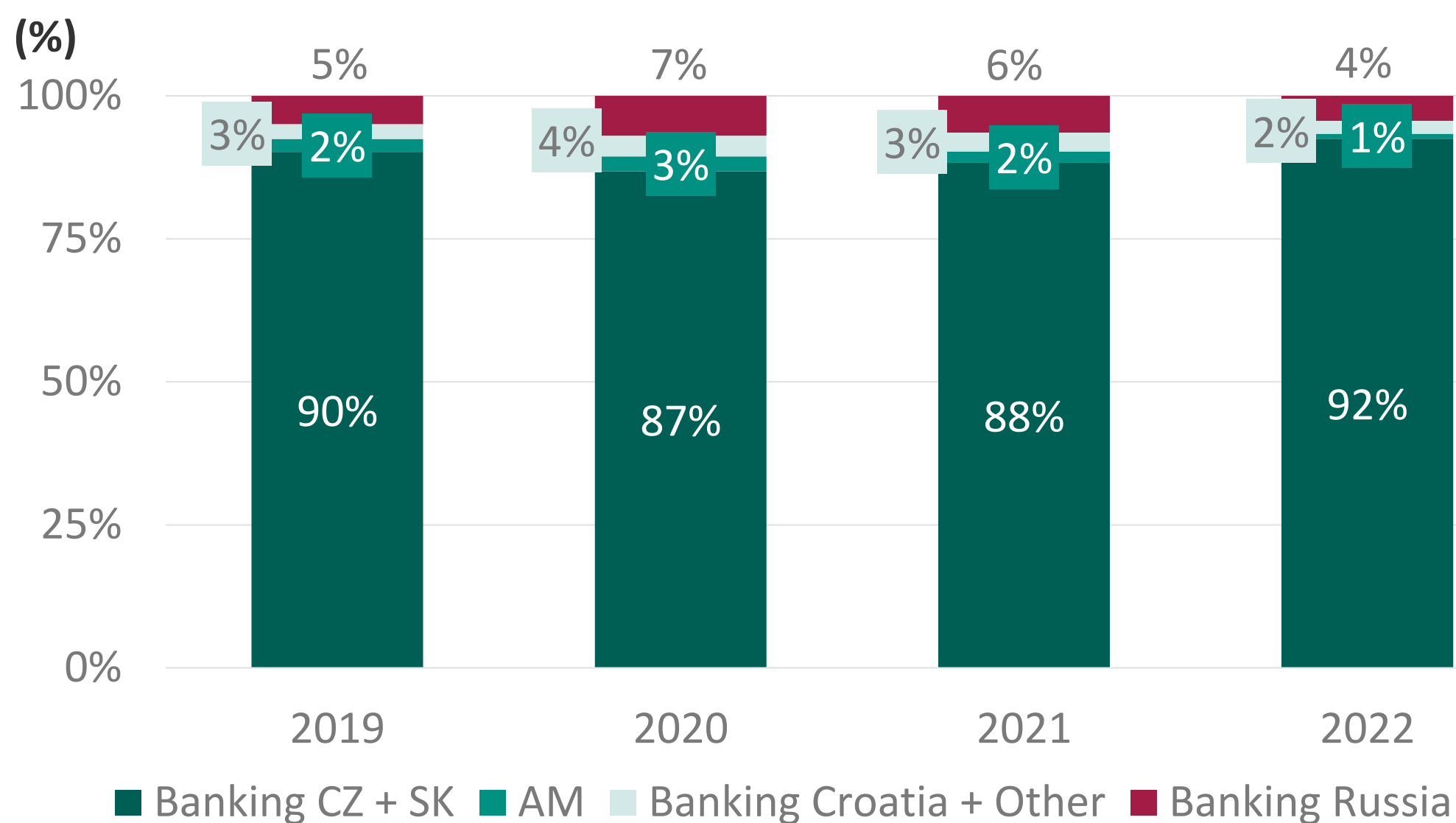


# Russian Exposure is Insignificant

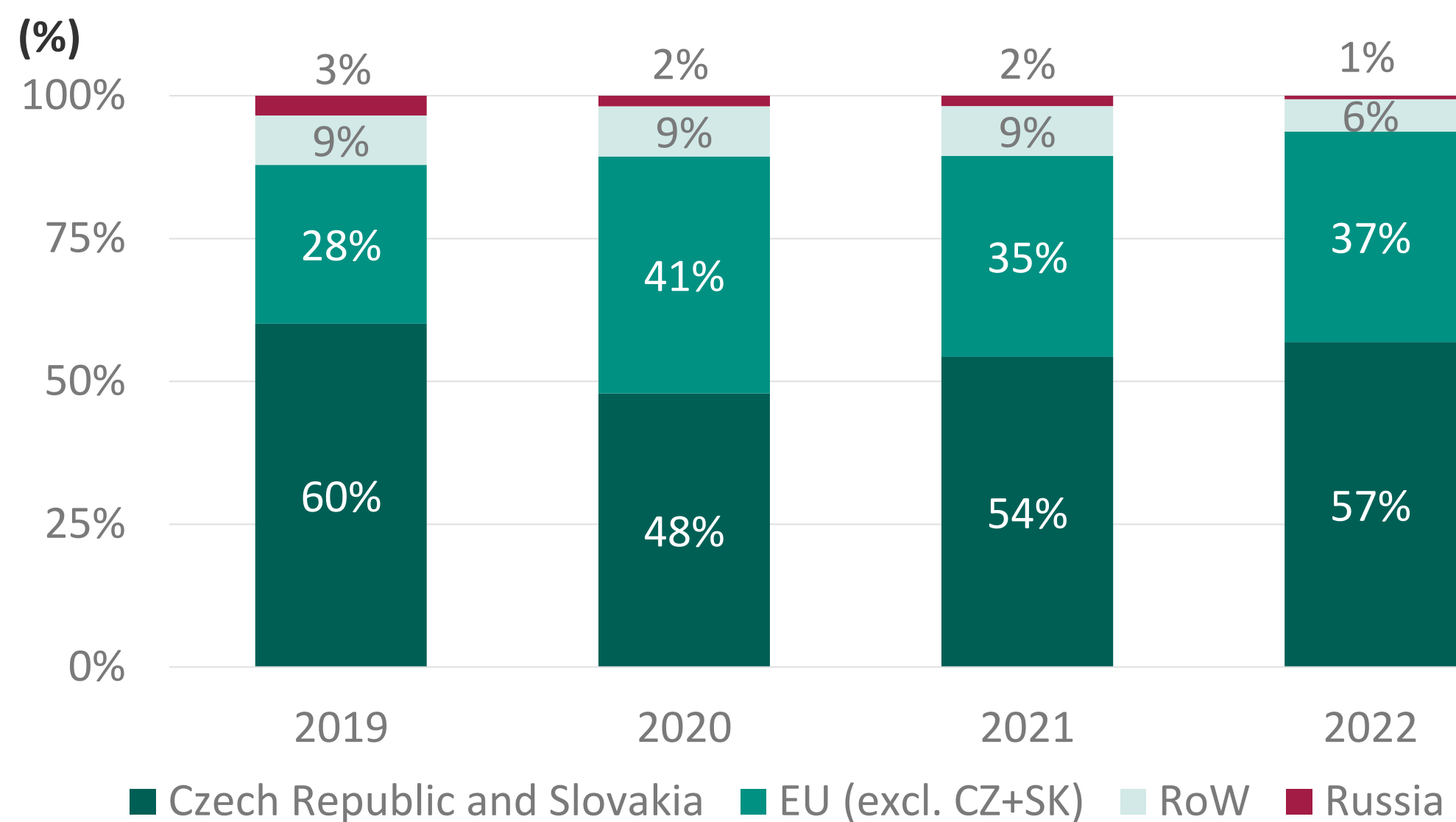
Following the Russian invasion of Ukraine, all business activities were stopped and corresponding provisions and impairment booked in 2022. The impact on J&T BANKA’s profitability and capital position is immaterial

- ◆ J&T BANKA’s activities in Russia have never been significant – Russia accounted for ~5% of net interest income and ~2% of loan book
- ◆ Following the Russian invasion of Ukraine, all business activities in Russia (and Ukraine) were stopped and provisions/impairment charges for the existing exposures booked
- ◆ The Russian subsidiary is self-funded, no new loans are provided, no new deposits are accepted, liquidity from portfolio run-off is placed with the central bank
- ◆ Discussions about a disposal of the Russian subsidiary are on-going, although the outcome is difficult to predict given the circumstances
- ◆ Impact of a complete write-off (if realised) of the residual Russian and Ukrainian exposures on J&T BANKA’s results and capitalization would be immaterial

Net Interest Income (Consolidated)



Loan Book by Geography (Consolidated)<sup>(1)</sup>



J&T BANKA’s Exposure to Russia and Ukraine (Individual)

(CZKm)	31 December 2021	31 March 2022	31 December 2022
Loans - Ukraine (Net)	1,899	1,380	186
Loans - Russia (Net)	196	148	100
Bonds - Ukraine (Fair Market Value)	47	52	54
Ownership Interest in J&T Bank, a.o.	1,462	1,367	241
Terces (J&T Bank, a.o. HQ) <sup>(2)</sup>	278	278	267
Total	3,882	3,225	848

Notes: (1) Loans (net), based on the underlying risk of the client/project. (2) A company owning the building in which J&T Bank, a.o. has its registered office. Source: Company data



# Credit Highlights

- 1 Resilient banking sector
- 2 Robust macroeconomic and institutional backdrop (Czech Republic is the highest rated country in CEE (Aa3/AA-))
- 3 Established market position and highly recognised franchise
- 4 Prudent risk management
- 5 Granular and predictable funding base with ample liquidity
- 6 Robust capitalization with considerable capital buffer
- 7 Experienced professional management team
- 8 Consistently strong financial performance (25-year track record)

J&T BANKA



# Financial Overview



# Conservative and Healthy Balance Sheet Structure

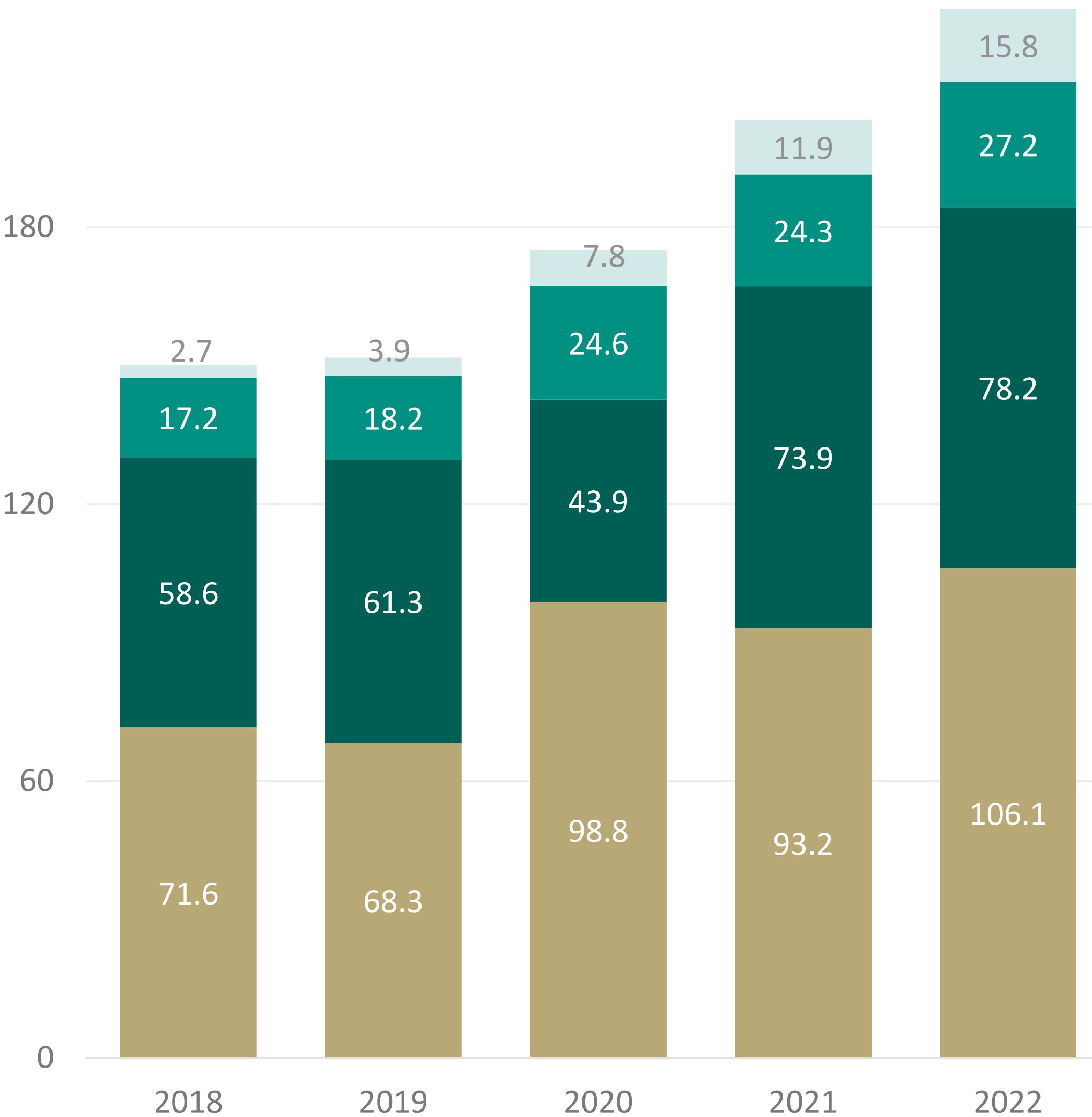
Consistently growing granular and sticky deposit base funds measured loan book and securities portfolio growth. Excess liquidity is placed predominantly into CNB’s T-bills

- ◆ Continued inflow of stable and predictable retail deposits funds carefully managed loan book and securities portfolio growth
- ◆ Excess liquidity is placed into short-term low risk instruments, mainly CNB’s T-bills
- ◆ Over 80% of the securities portfolio is regularly revalued and accounted for at fair value (either MtM, FVTPL or FVOCI)
- ◆ Strong capitalization supported by profit retention (no dividends paid between 2020 and 2022)<sup>(1)</sup>, €200m AT1 issuance during 2022 and ~€120m capital increase completed in Dec 2022

## Asset Growth and Structure

(CZKbn)

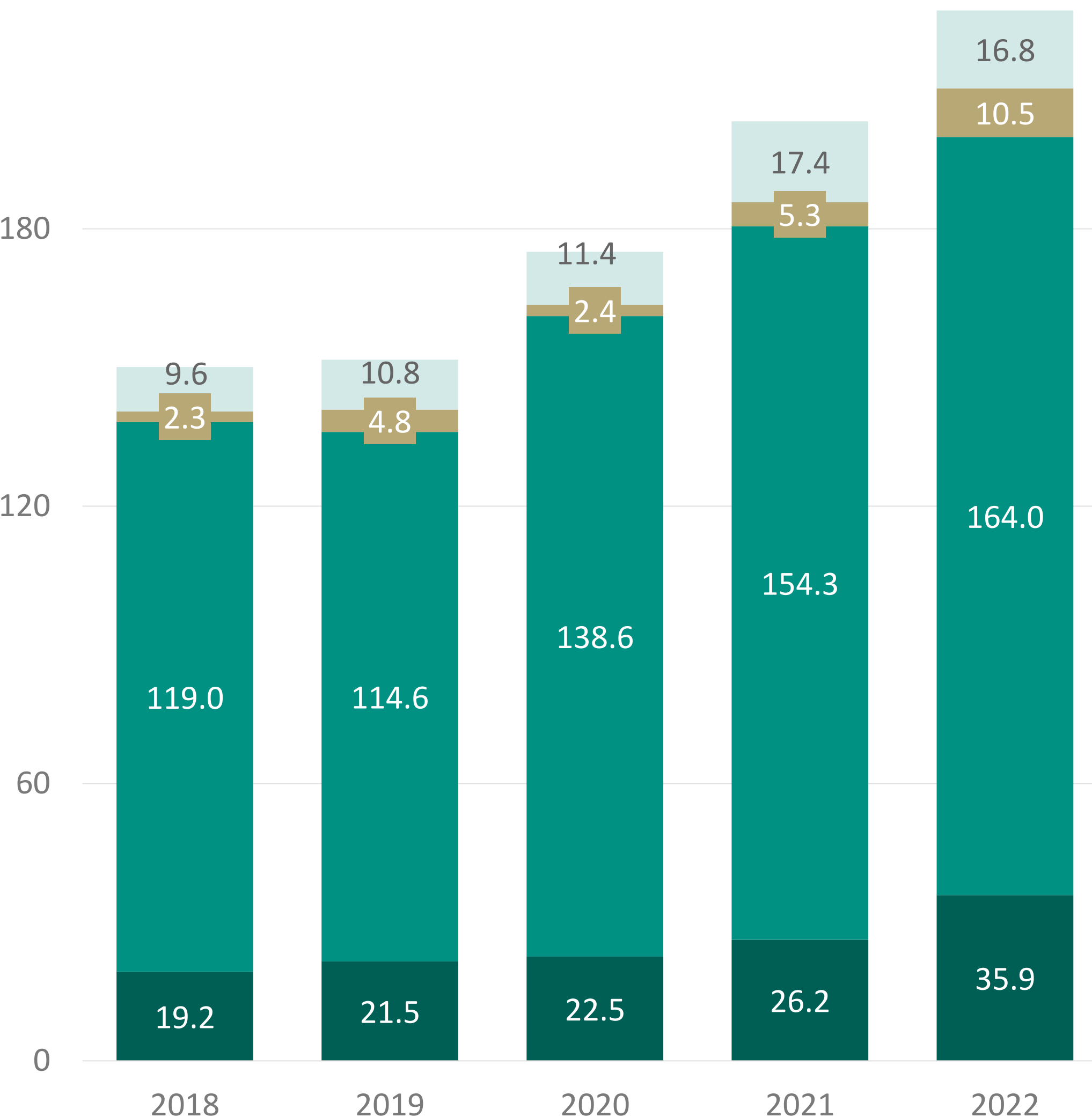
240



## Liabilities and Equity Growth and Structure

(CZKbn)

240



Loan Book Cash and Central Banks Securities PP&E and Other Equity (incl. Minorities and AT1) Deposits Due to FIs Other Liabilities

Note: (1) Dividends paid in year t are paid from the year t-1 net profit in the Czech Republic. Source: Company data

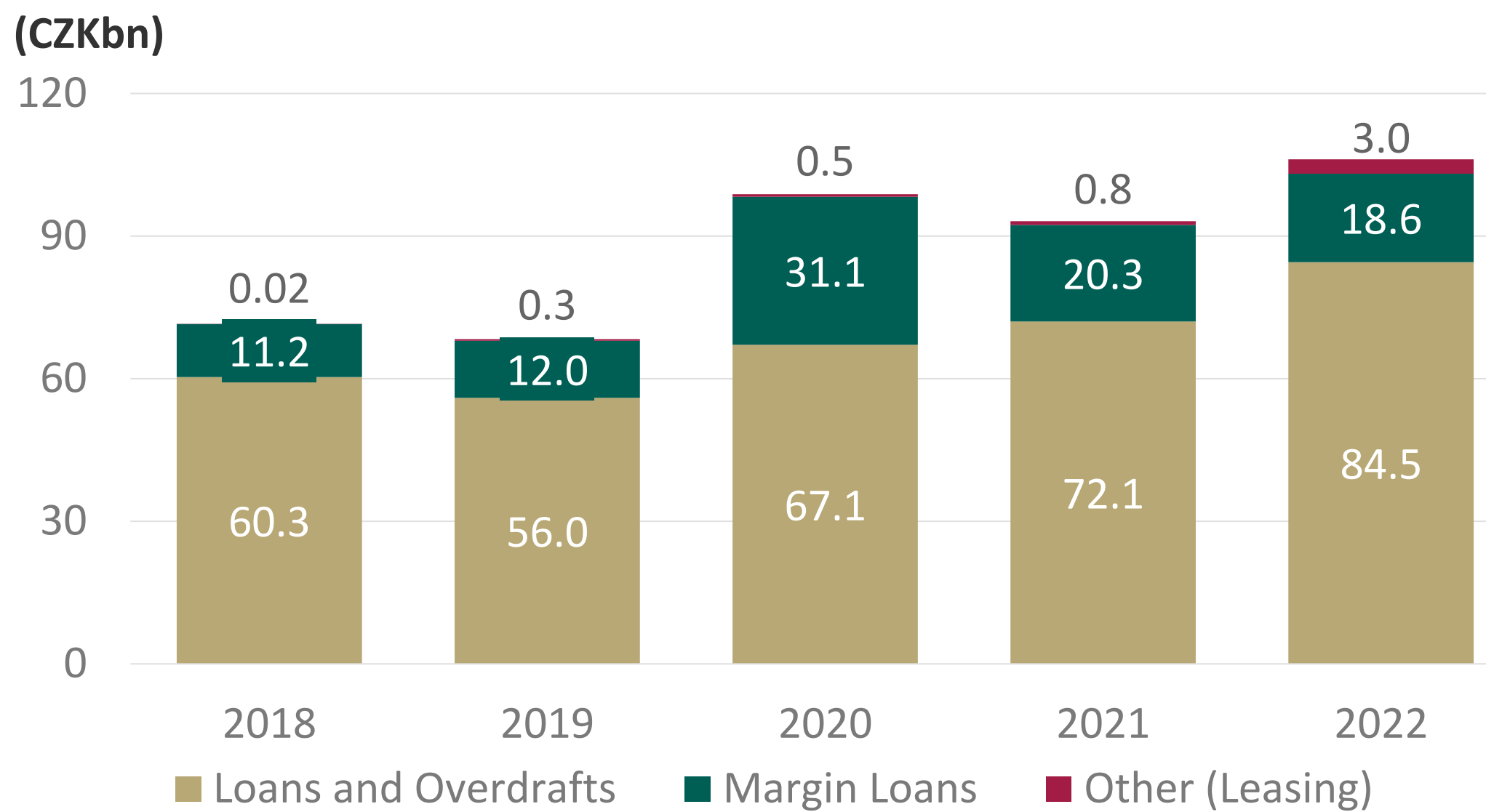


# Measured Asset Growth

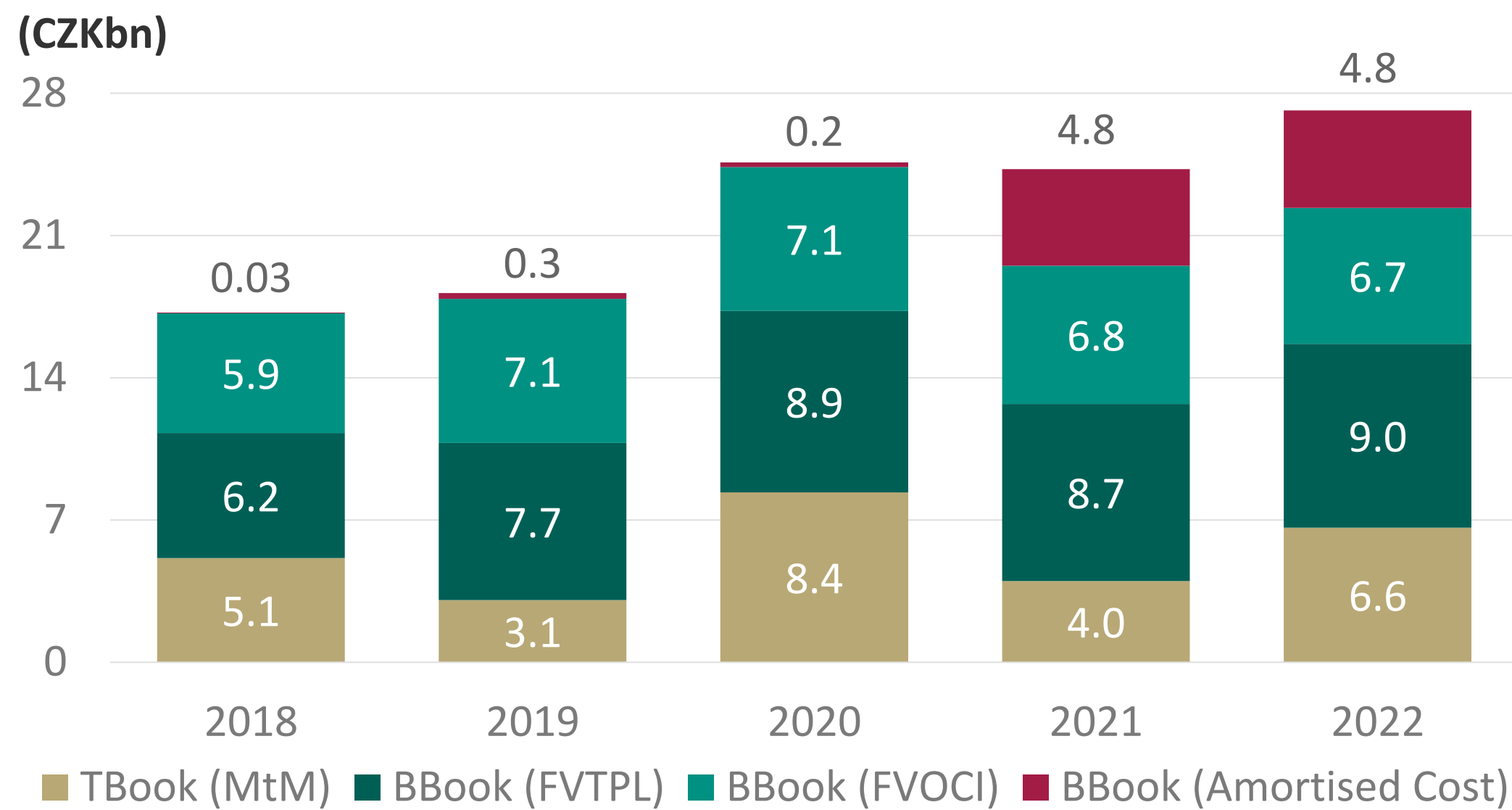
Growing together with its clients, J&T BANKA has been steadily expanding its loan book and securities portfolio on the back of the strong economic convergence of the CEE region

- ◆ Steady but measured loan book growth mostly coming from the Czech and Slovak clients, lending in Russia already stagnated before, and was completely stopped after, the Russian invasion of Ukraine
- ◆ Margin lending against liquid blue chip stocks is an efficient way to increase credit risk exposure with an attractive risk-reward profile
- ◆ Less than one-fifth of the securities portfolio is held to maturity (HtM) and, hence, valued at amortized cost – the HtM component includes Czech government bonds with short duration (2025 maturity)
- ◆ Cash and equivalents principally comprise CNB’s and NBS’s T-bills whereas amounts due from financial institutions mainly include mandatory minimum reserves

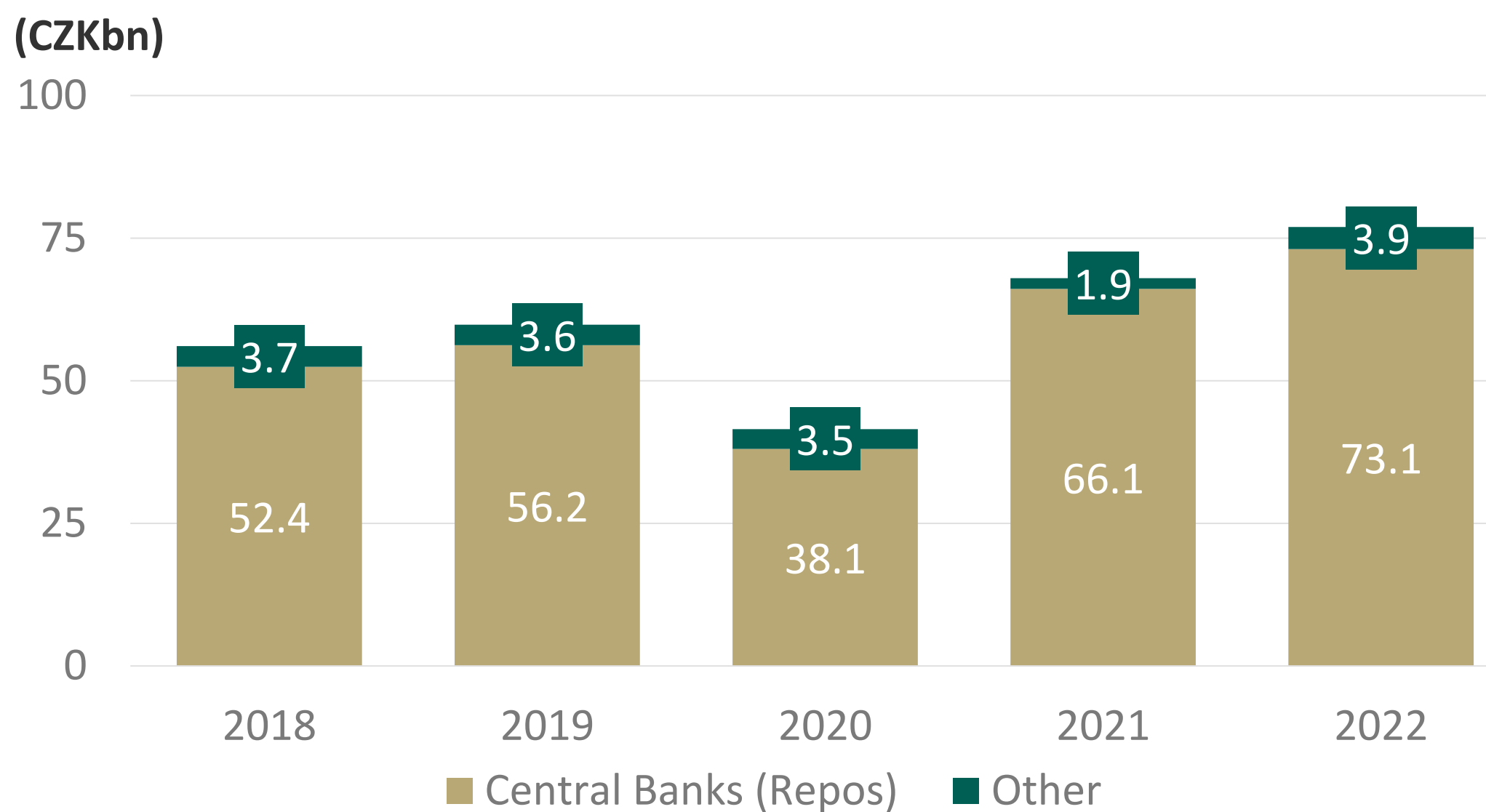
## Loan Book



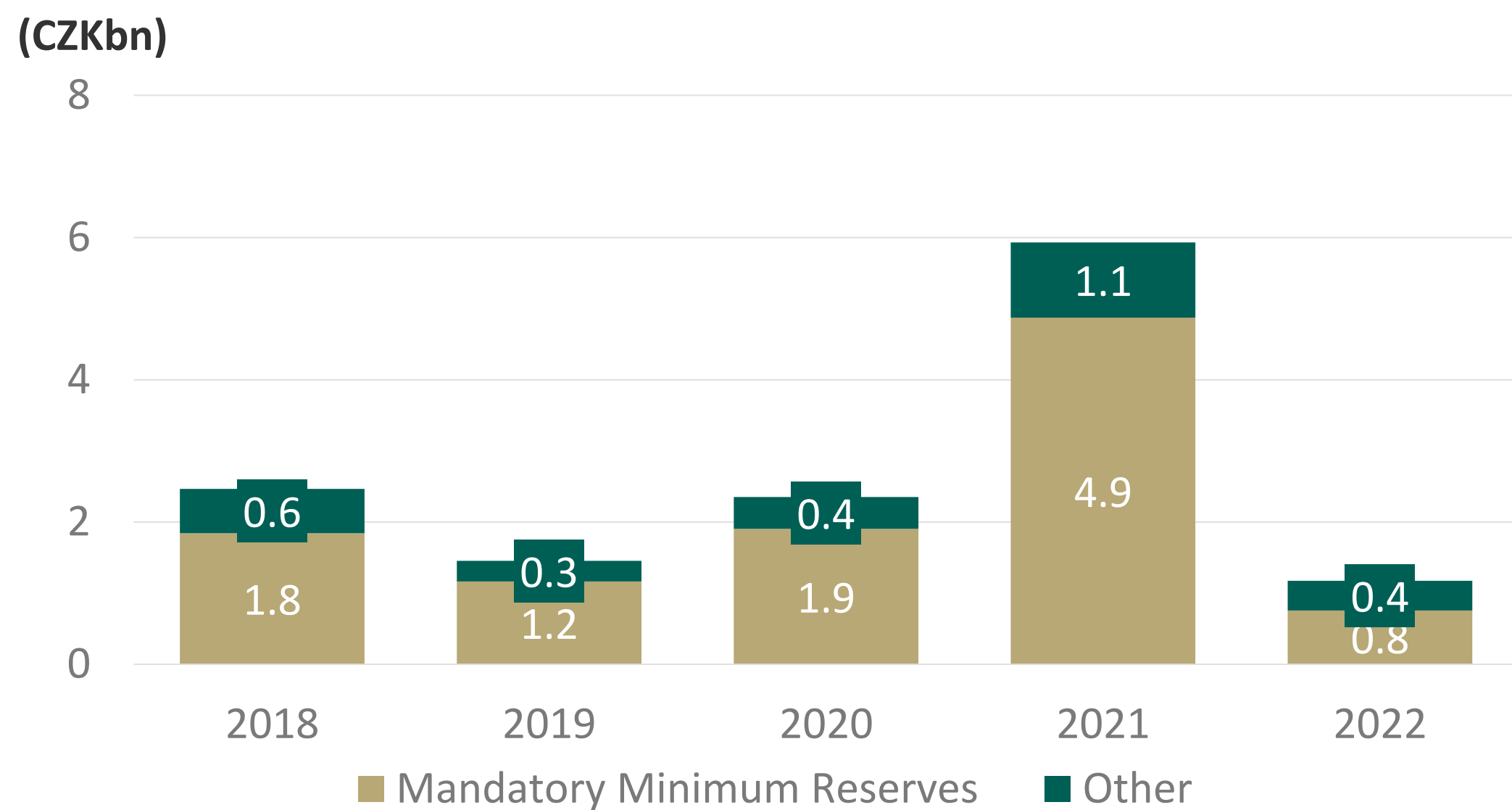
## Securities Portfolio



## Cash and Equivalents



## Due from Financial Institutions



Source: Company data

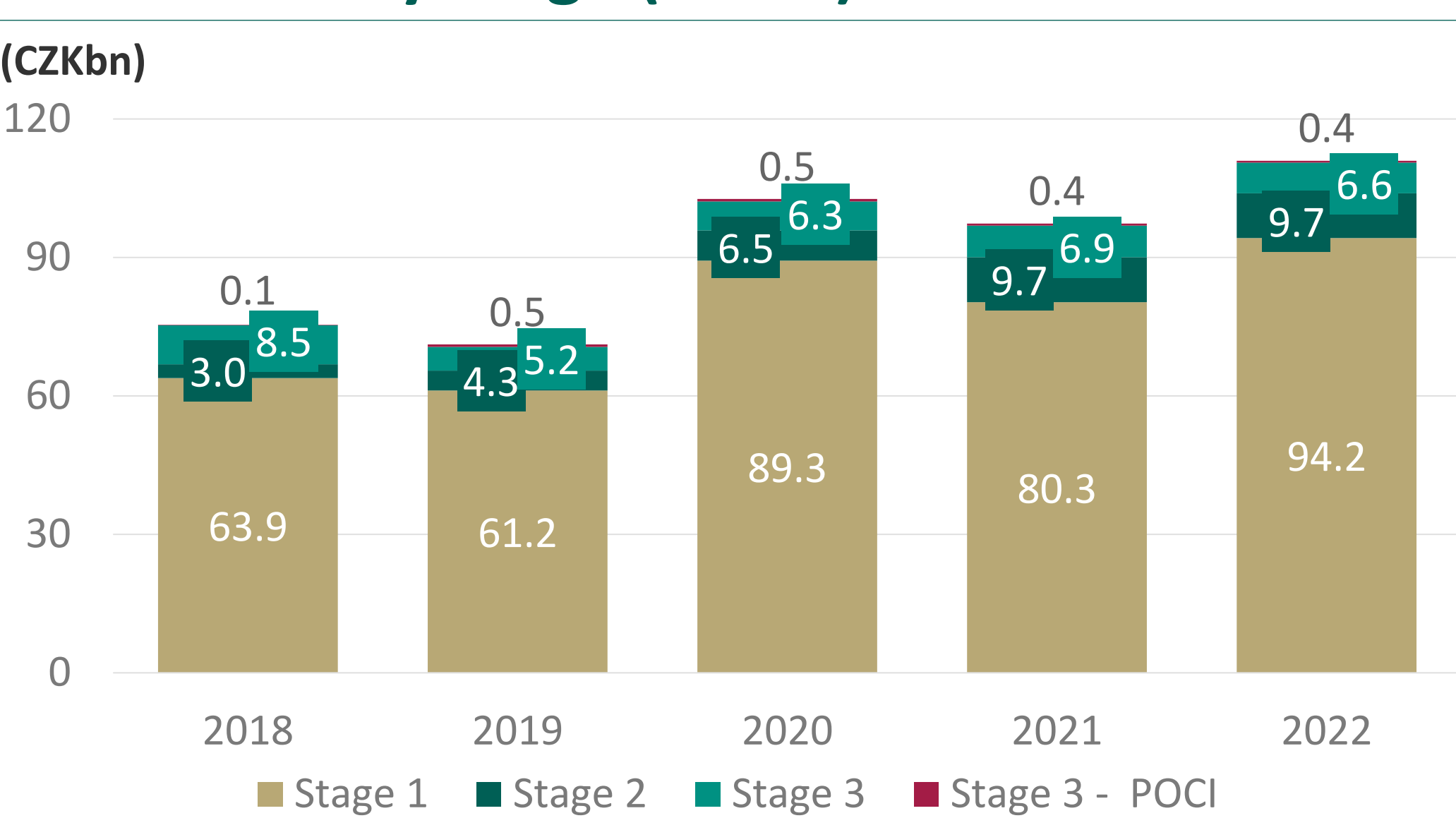


# Good Asset Quality

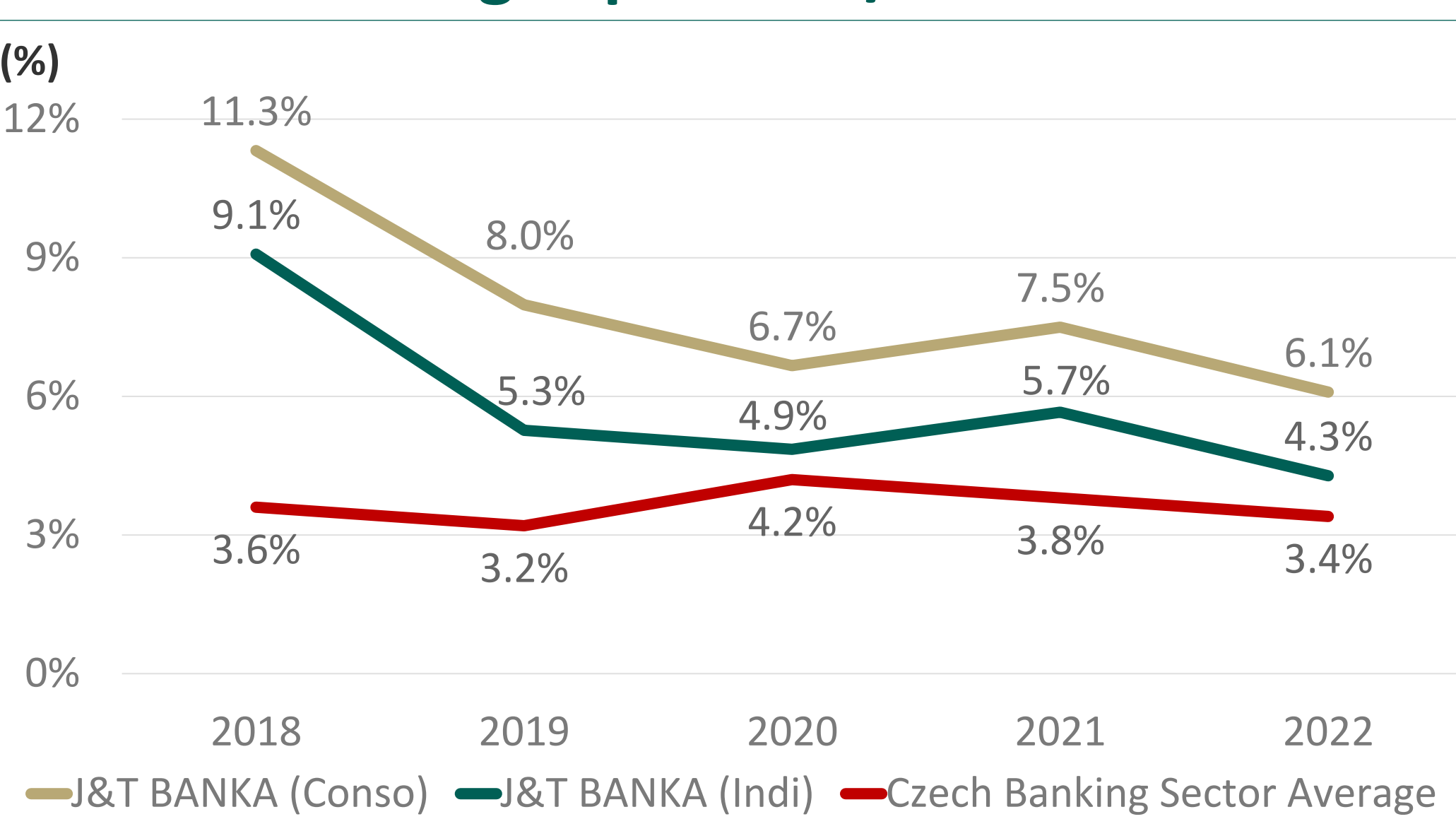
Marked improvement in asset quality with NPLs (individual) now only marginally higher than the Czech banking sector average for corporate lending and adequately covered by provisions

- Consistently improving credit quality now nearly on par with the Czech banking sector average for corporate lending
- While conservative macro assumptions applied during the Covid-19 pandemics (affecting the PDs in particular) led to migration between the stages in 2020 and 2021 and consequently up-tick in ECLs, J&T BANKA did not in the end suffer any material Covid-19 related losses
- In 2022, all outstanding Russian loans were transferred to stage 3 with a corresponding increase in ECLs
- Non-performing loans are adequately covered by provisions

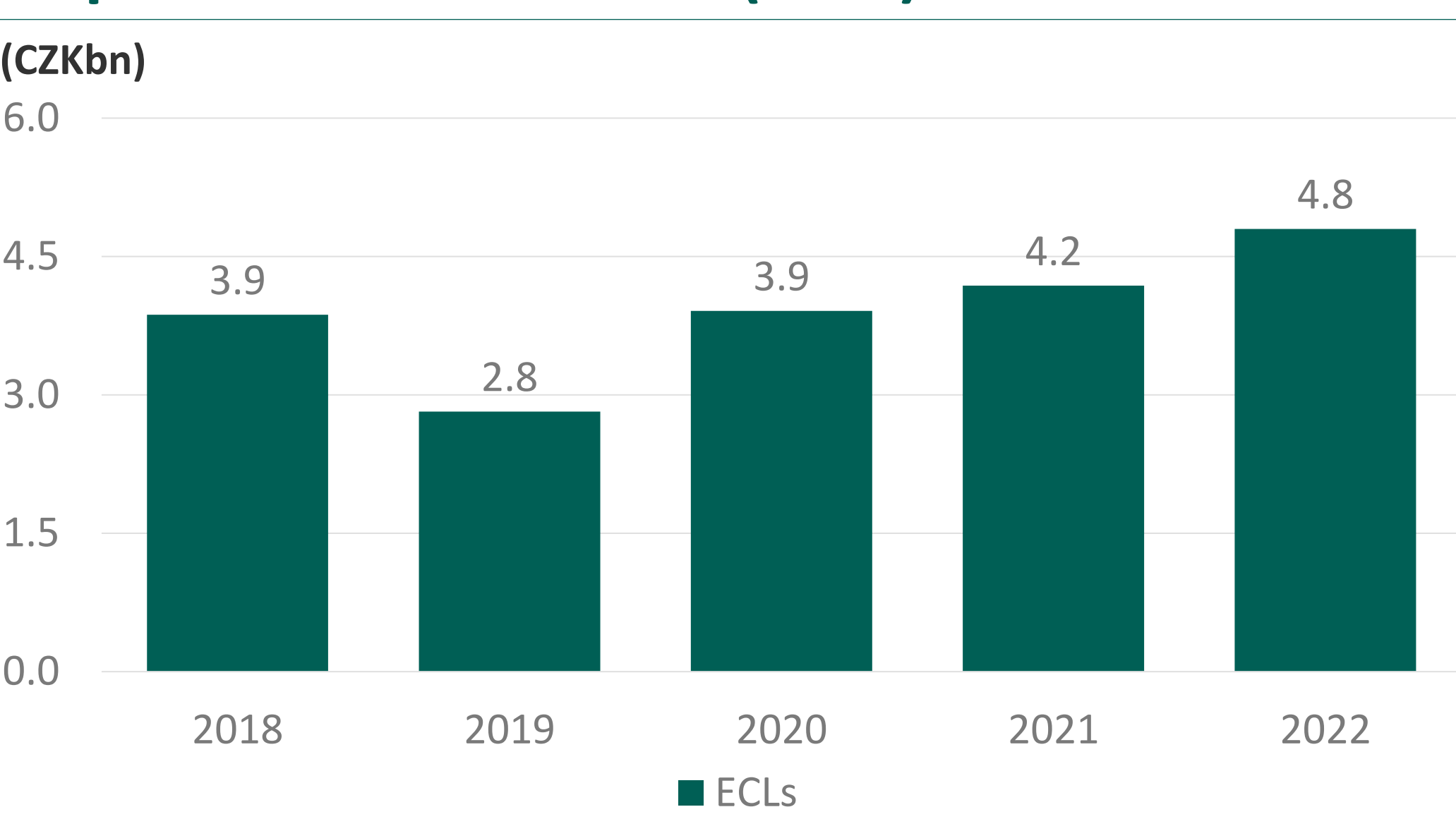
Loan Book by Stage (Gross)<sup>(1)</sup>



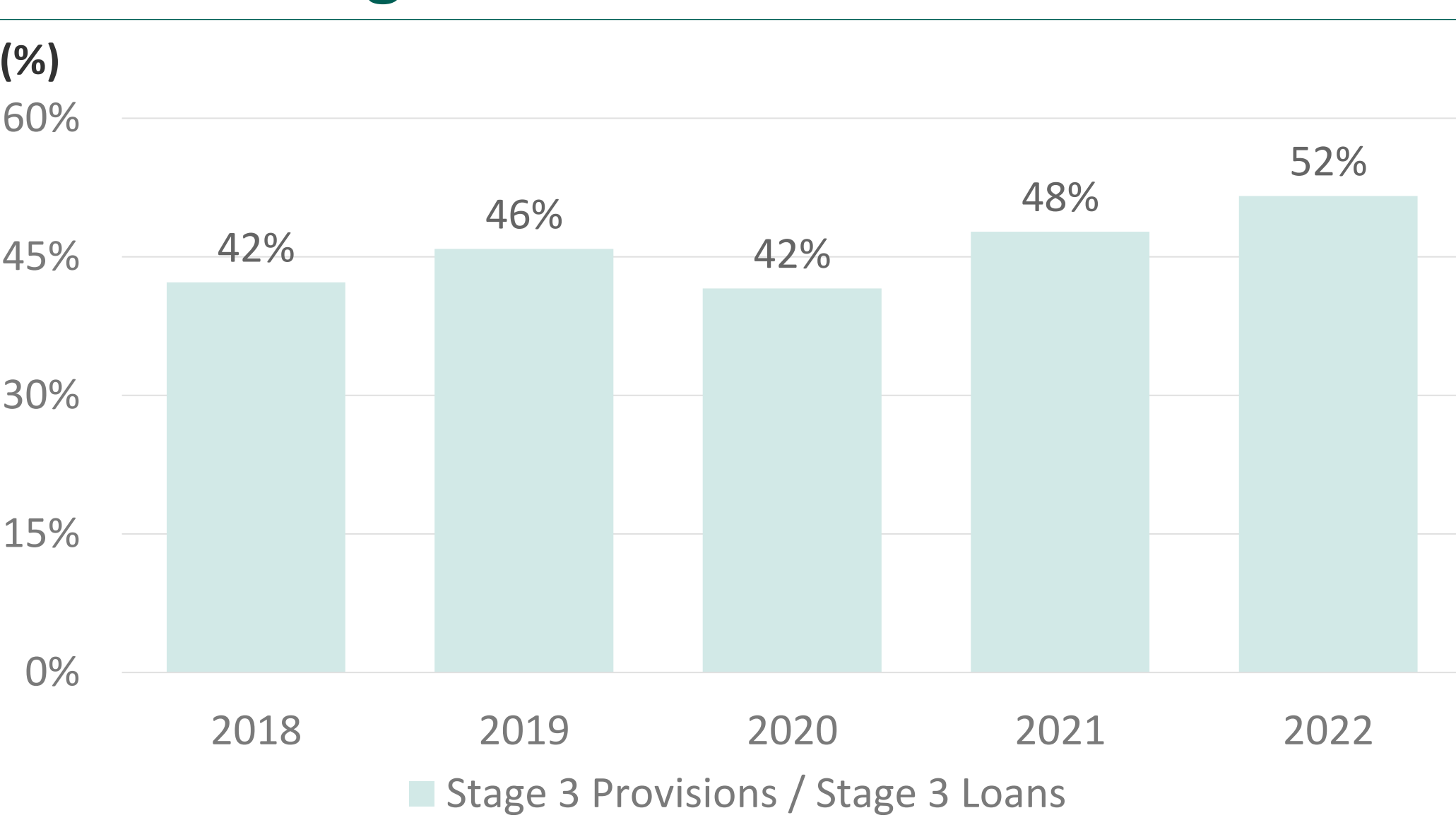
Non-Performing Exposures / Gross Loans<sup>(2)</sup>



Expected Credit Losses (ECLs)



NPL Coverage



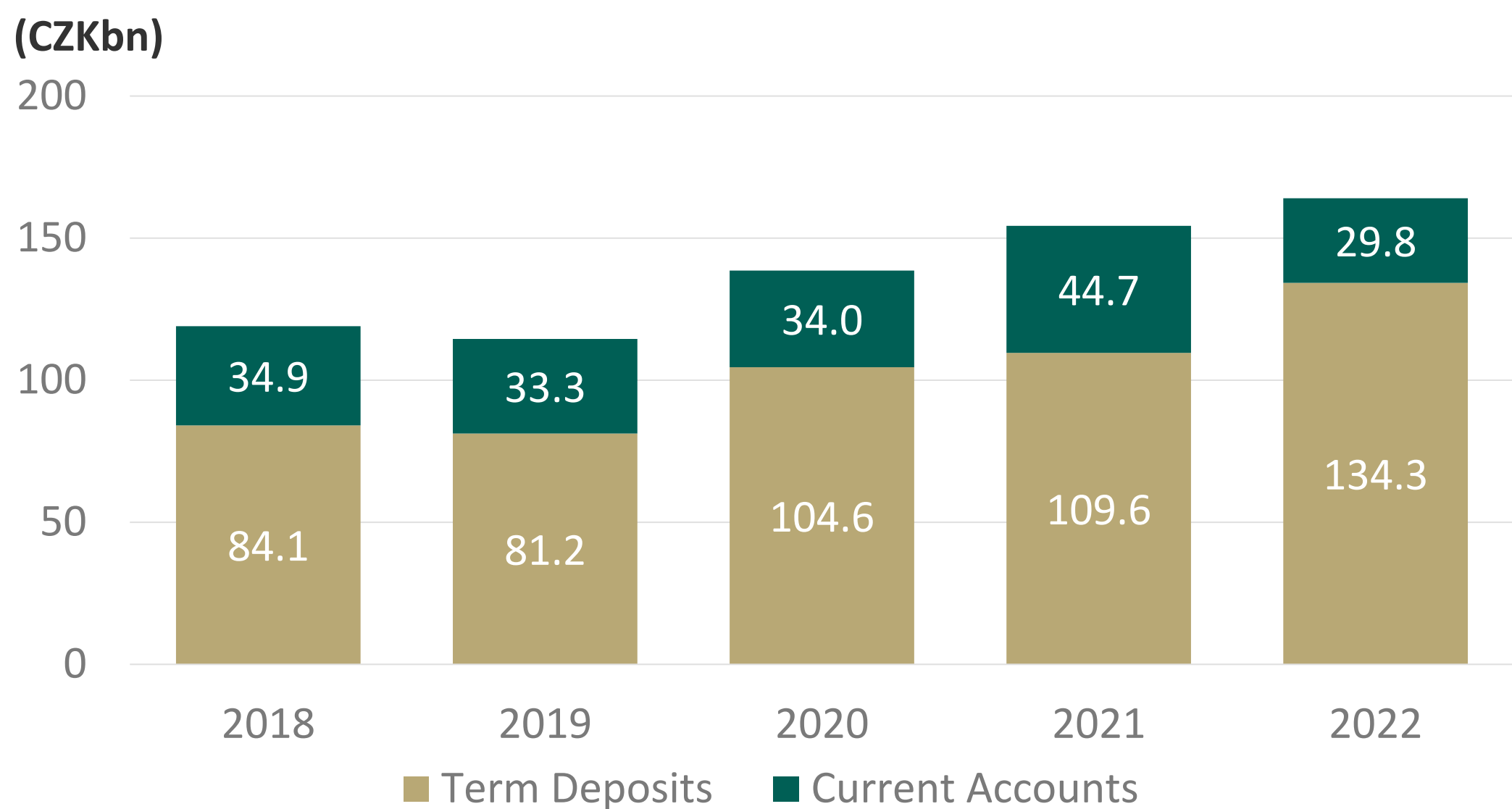
Notes: (1) POCI = Purchased or Originated Credit Impaired (receivables already impaired at the time when purchased/originated). (2) Sector average for loans to non-financial corporations. Source: CNB, Company data

# Stable Funding and Ample Liquidity

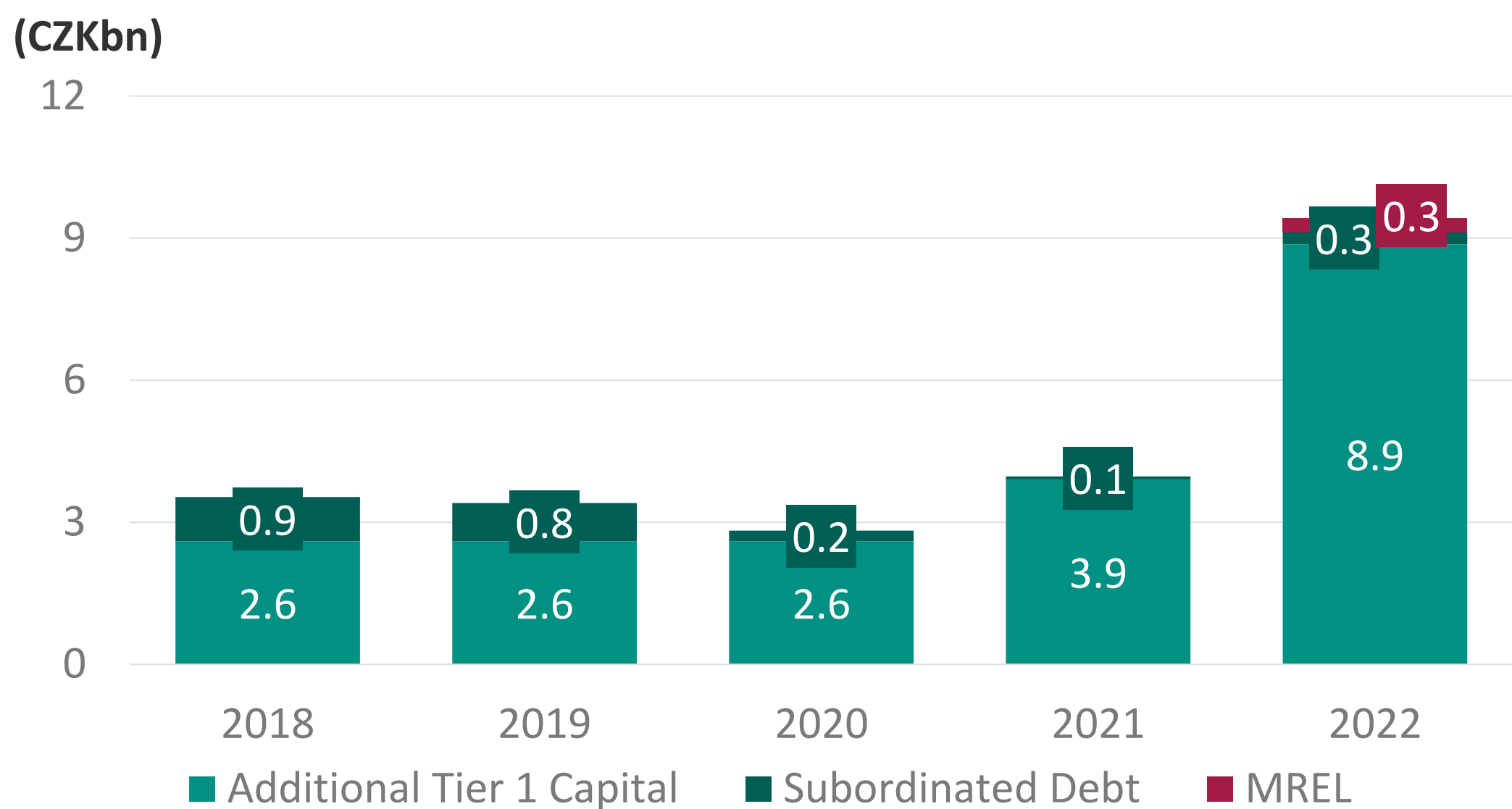
Lending business is almost entirely deposit funded, securities issuance is negligible and has been driven by capital considerations rather than funding needs. Liquidity position is very strong

- ◆ Stable and predictable term deposits are J&T BANKA’s primary source of funding, the international subsidiaries are self-funded
- ◆ Wholesale funding includes AT1 and T2 capital – the issuance has been driven by capital rather than funding considerations (although proceeds have been used for funding)
- ◆ Deposits are mainly denominated in CZK whereas the loan book is mainly denominated in EUR so CZK deposits are swapped to EUR to match the FX structure of the loan book
- ◆ At 2022 year end, approx. ~€532m (~CZK13.3bn) was sourced via two German platforms – Savedo and Raisin
- ◆ In February 2023, a fully digital branch opened in Germany with a view to replacing Savedo and Raisin
- ◆ LCR and NSFR requirements are comfortably met

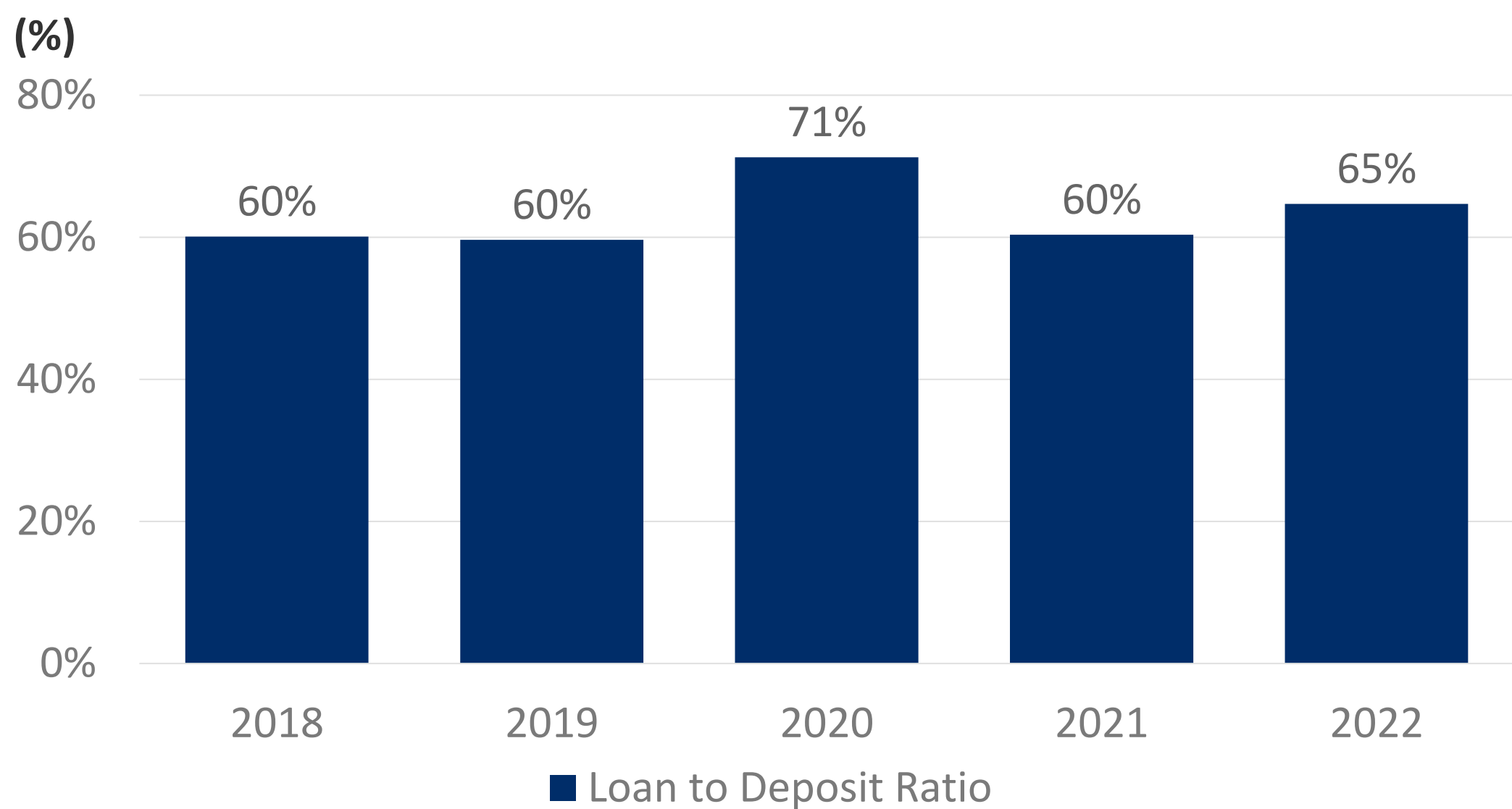
Client Deposits<sup>(1)</sup>



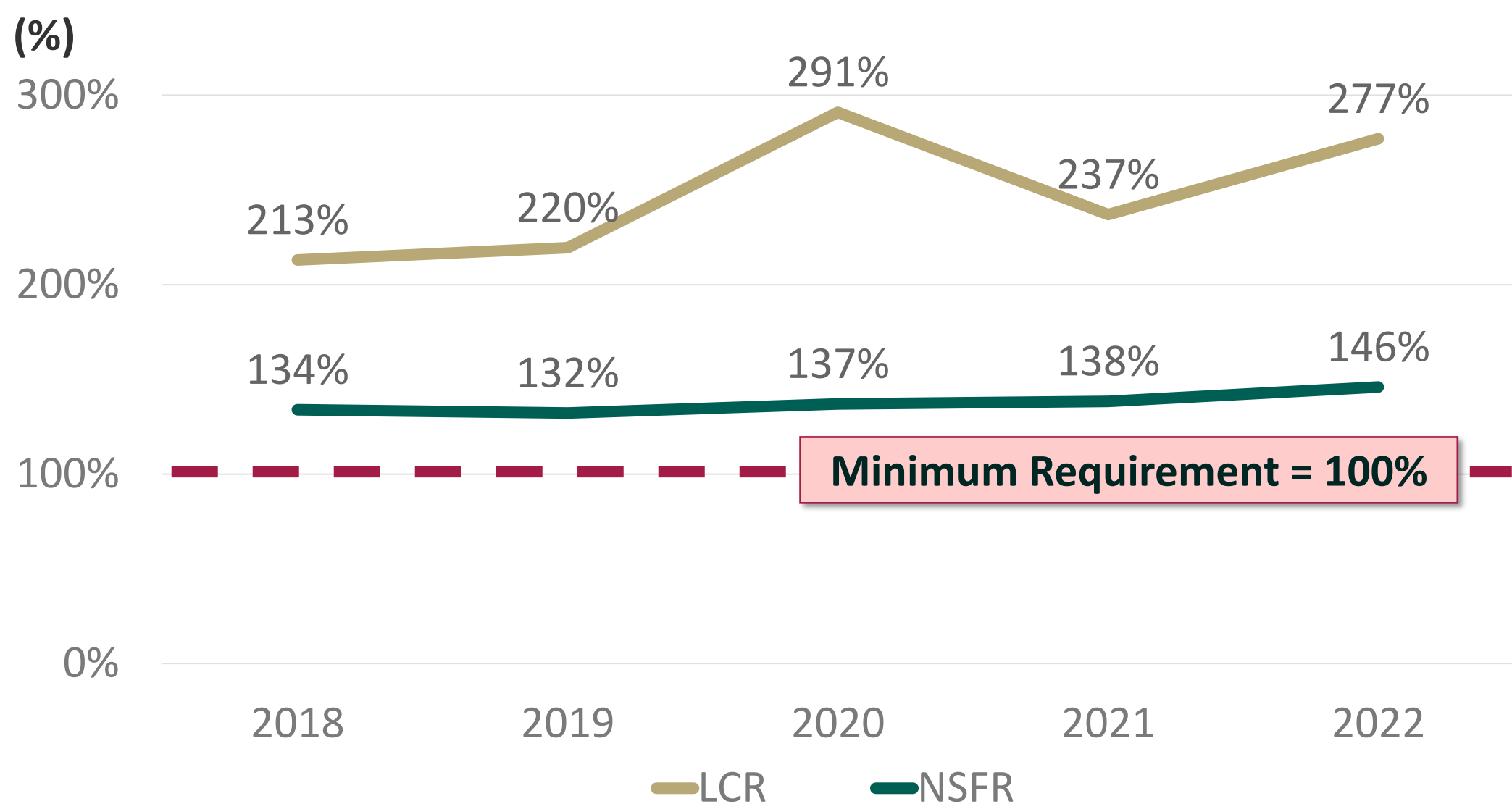
Wholesale Funding



Loan to Deposit Ratio



Liquidity (Individual)<sup>(2)</sup>



Notes: (1) Current Accounts = all non-term deposits, incl. escrow accounts. (2) LCR and NSFR are only prescribed and monitored on an individual basis. Source: Company data

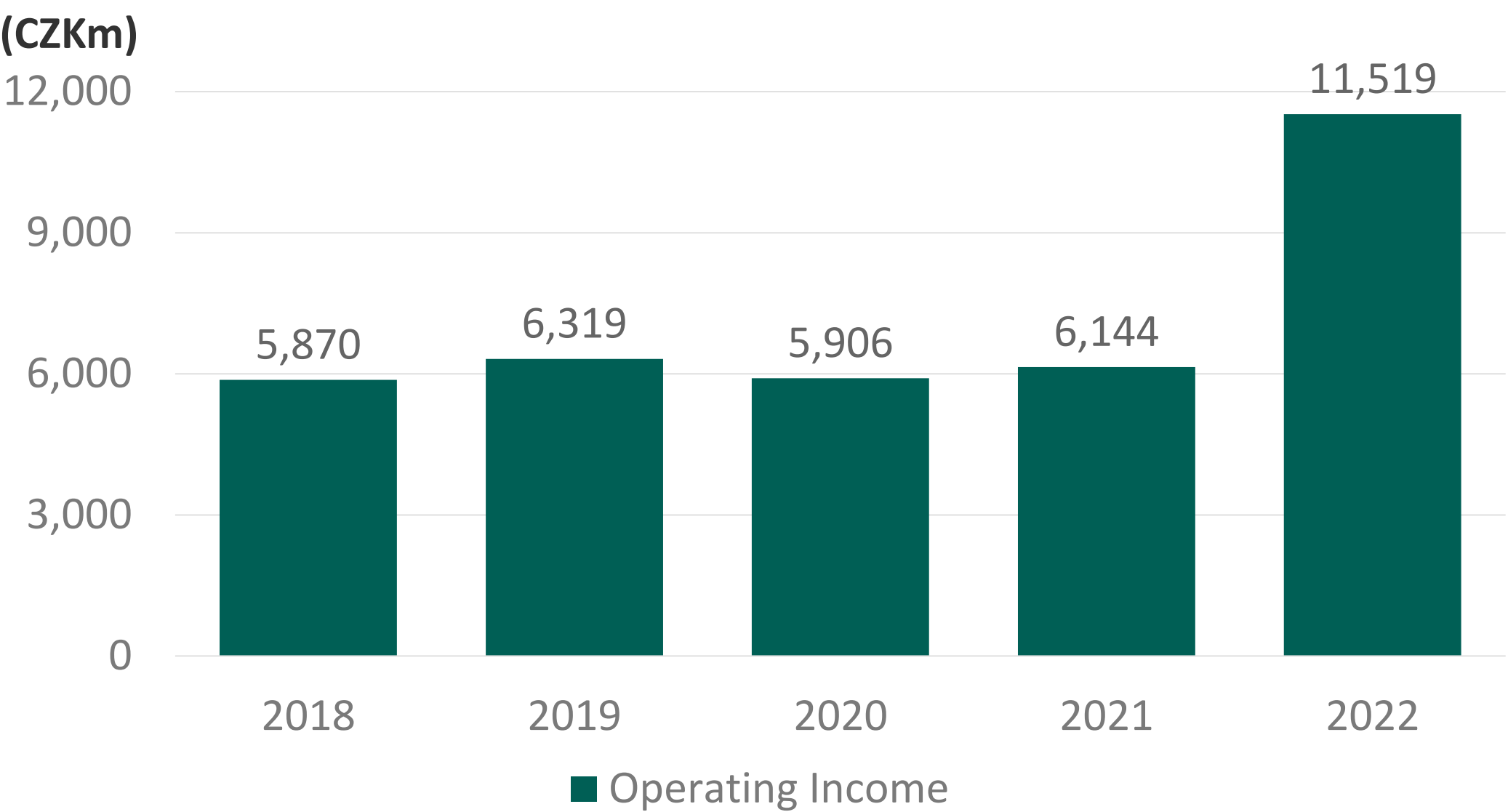


# Steadily Growing Underlying Operating Income

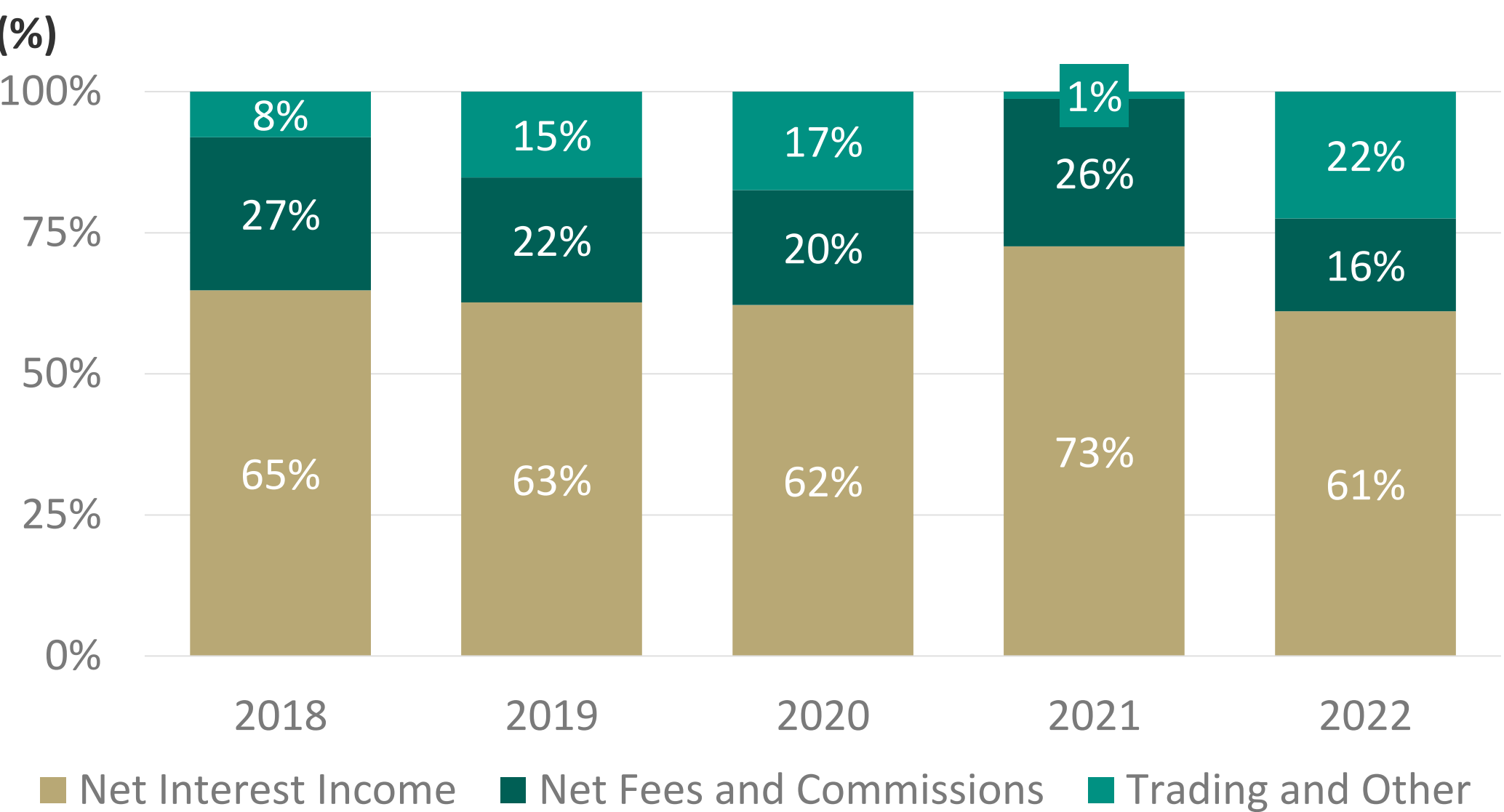
Net interest income and net fees and commissions drive J&T BANKA’s operating income. Trading and other income mainly reflects continuous revaluation of hedges, actual proprietary trading is minimal

- ◆ Net interest income and net fees and commissions are the key revenue drivers
- ◆ Net interest income accounts for ~60 – 70% of operating income and is sensitive to changes in general interest rate environment
- ◆ Net fees and commissions generate ~20 – 25% of operating income and include asset management fees, debt underwriting fees and other banking charges
- ◆ Trading income volatility is caused by continuous revaluation of the derivatives fully hedging the FX and IR mismatch between CZK-denominated deposits and EUR-denominated loan book (no cash flow impact) and also by fair value adjustments and income from the Banking Book
- ◆ Proprietary trading is marginal

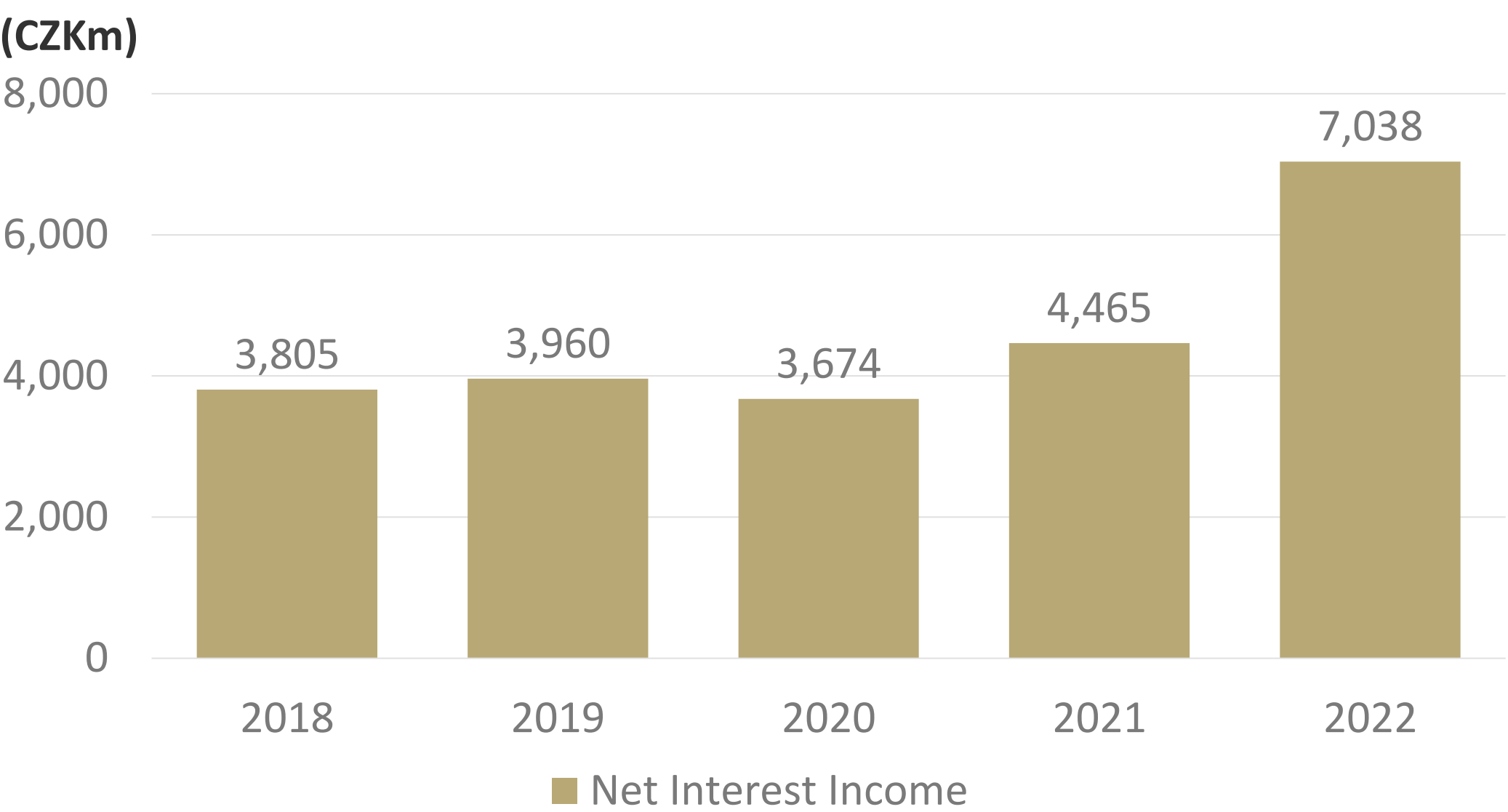
Operating Income



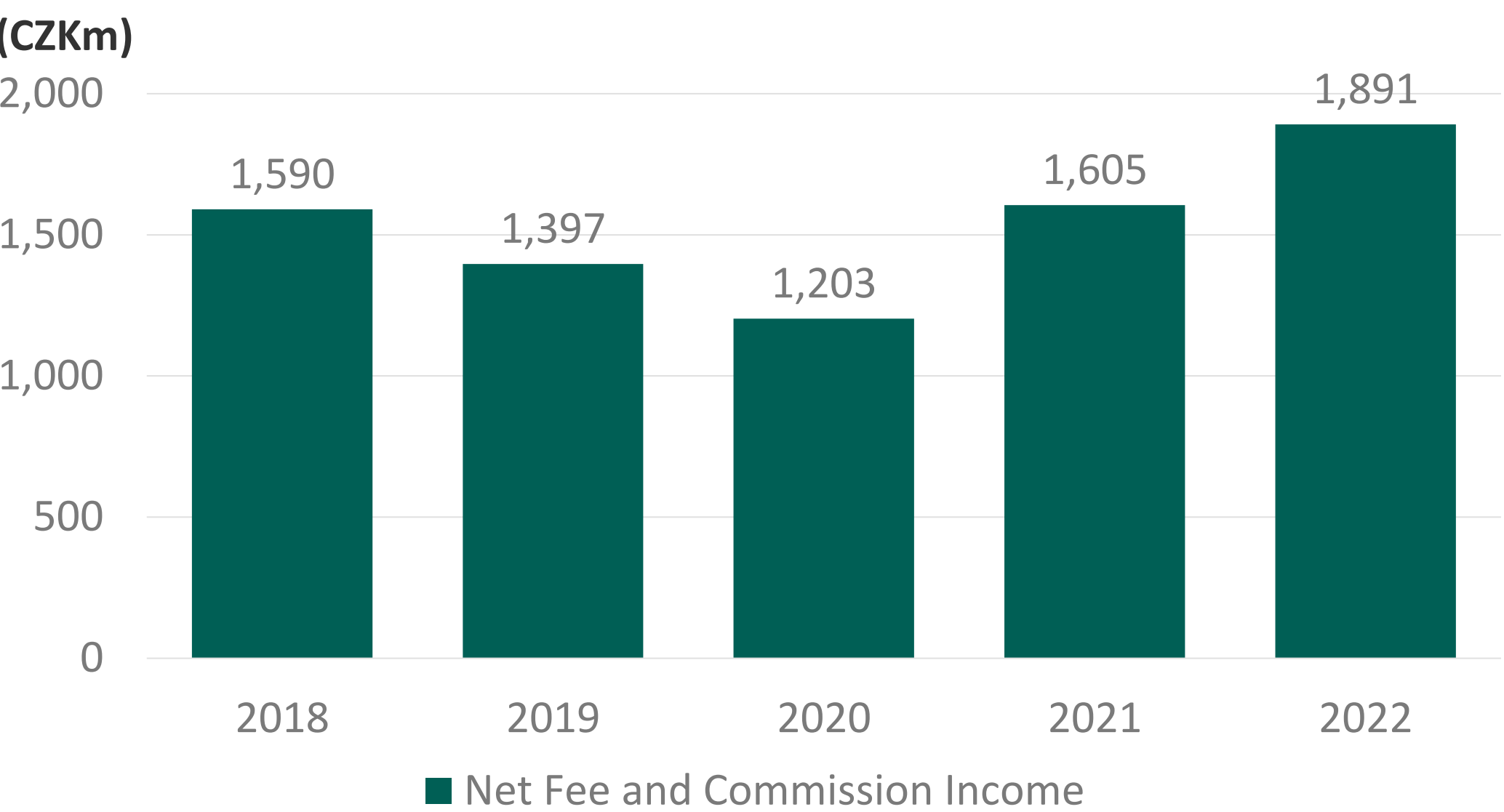
Operating Income Composition



Net Interest Income



Net Fees and Commissions



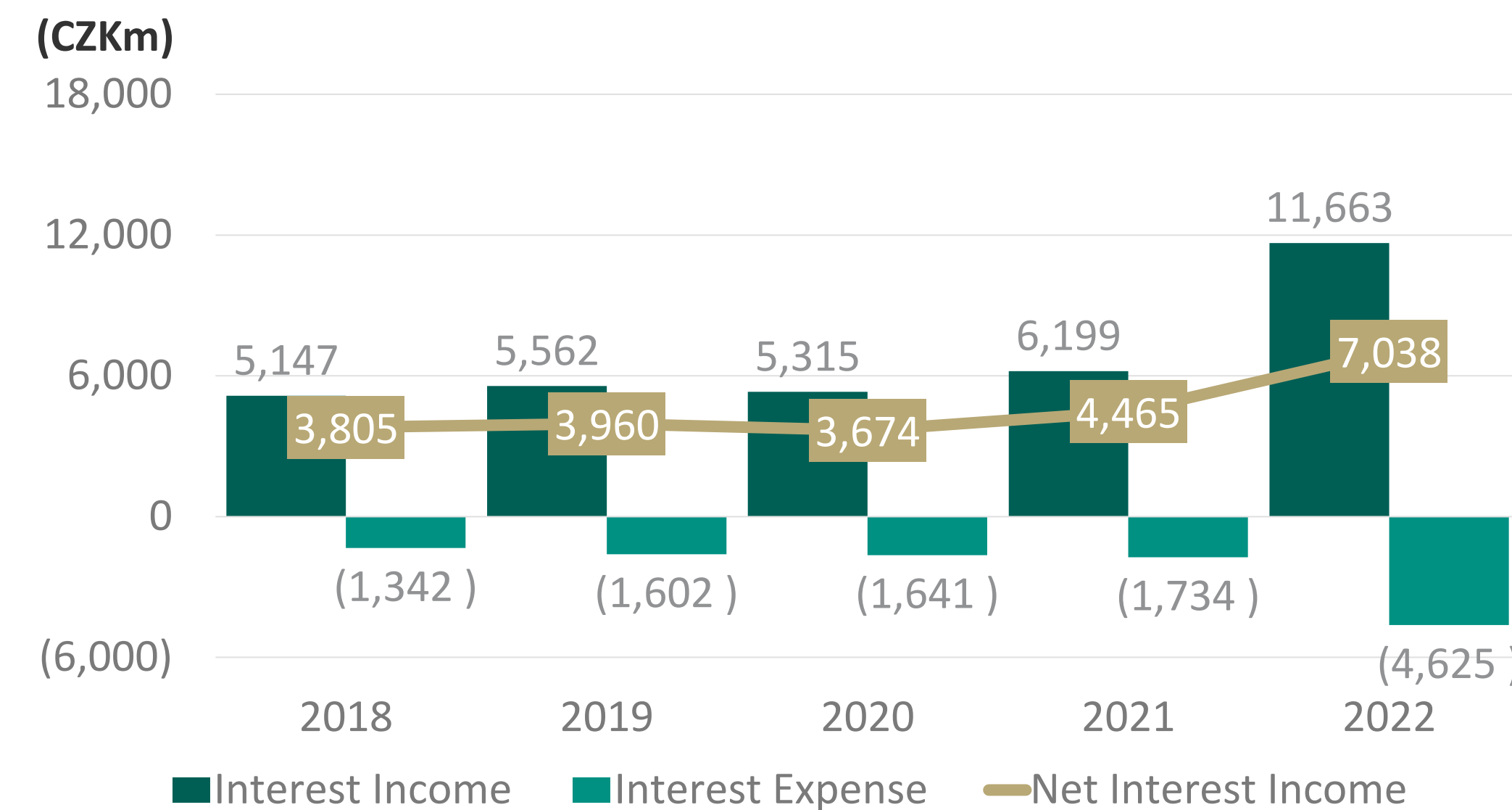
Source: Company data

# Record High Net Interest Income and Net Fees and Commissions in 2022

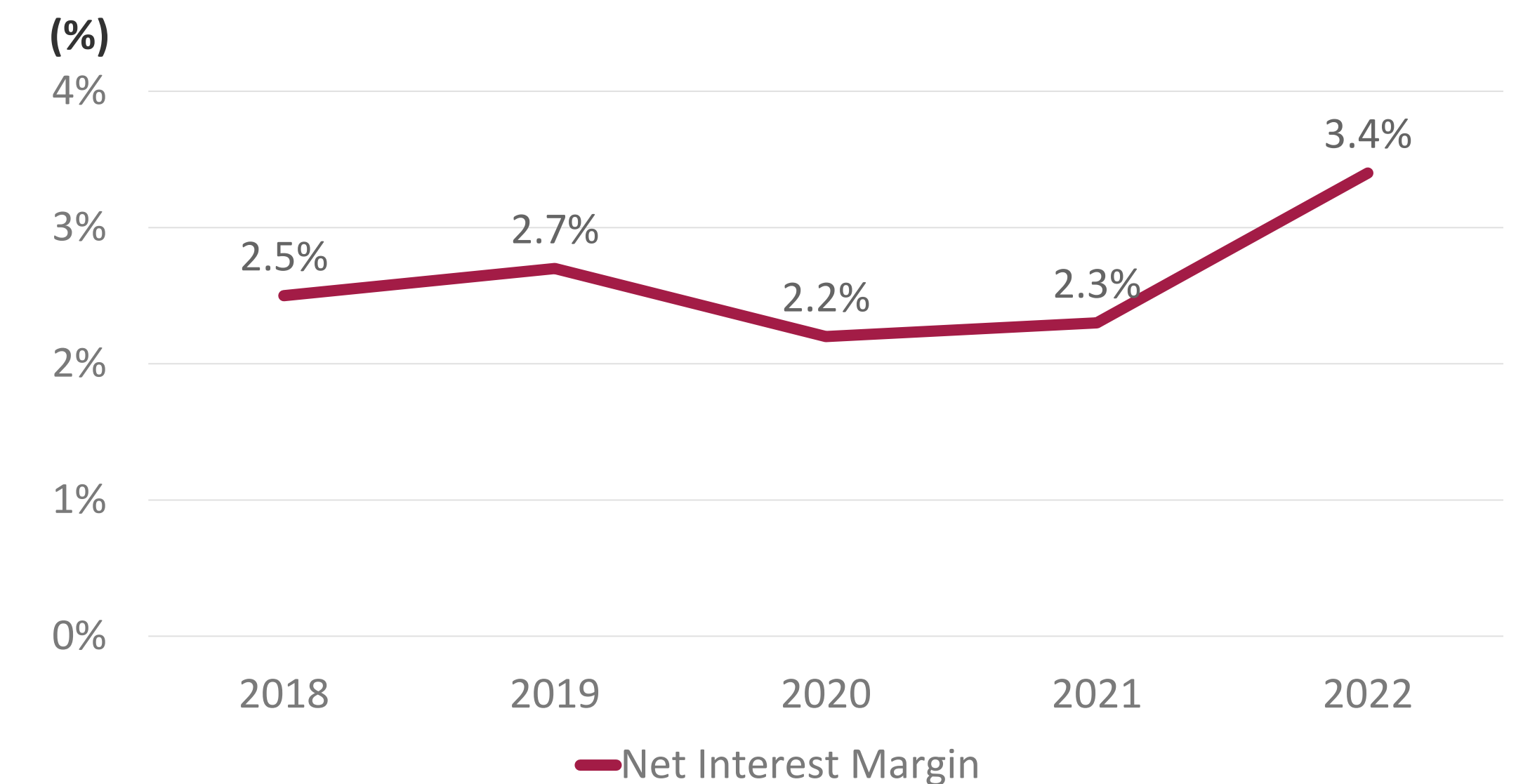
Profound positive impact of the general interest rate environment normalization and continued AuM growth translated into a strong performance in 2022

- ◆ Normalization in general interest rate environment accompanied by monetary policy tightening (2W repo in the Czech Republic is now at 7%) translated into a record high net interest income in 2022
- ◆ Net interest margin widened in 2022 due to growing yields on CNB's T-bills and loan book re-pricing which more than off-set re-pricing of the deposit base consisting of term deposits with >1-year duration
- ◆ Fees and commissions grow steadily, mainly due to a continuous increase in AuM
  - > Asset management fees which account for over 50% of net fees and commissions represent a stable recurring revenue stream
  - > The acquisition of a controlling stake in Amista IS was only completed in Nov 2022 and will be fully reflected in 2023 results

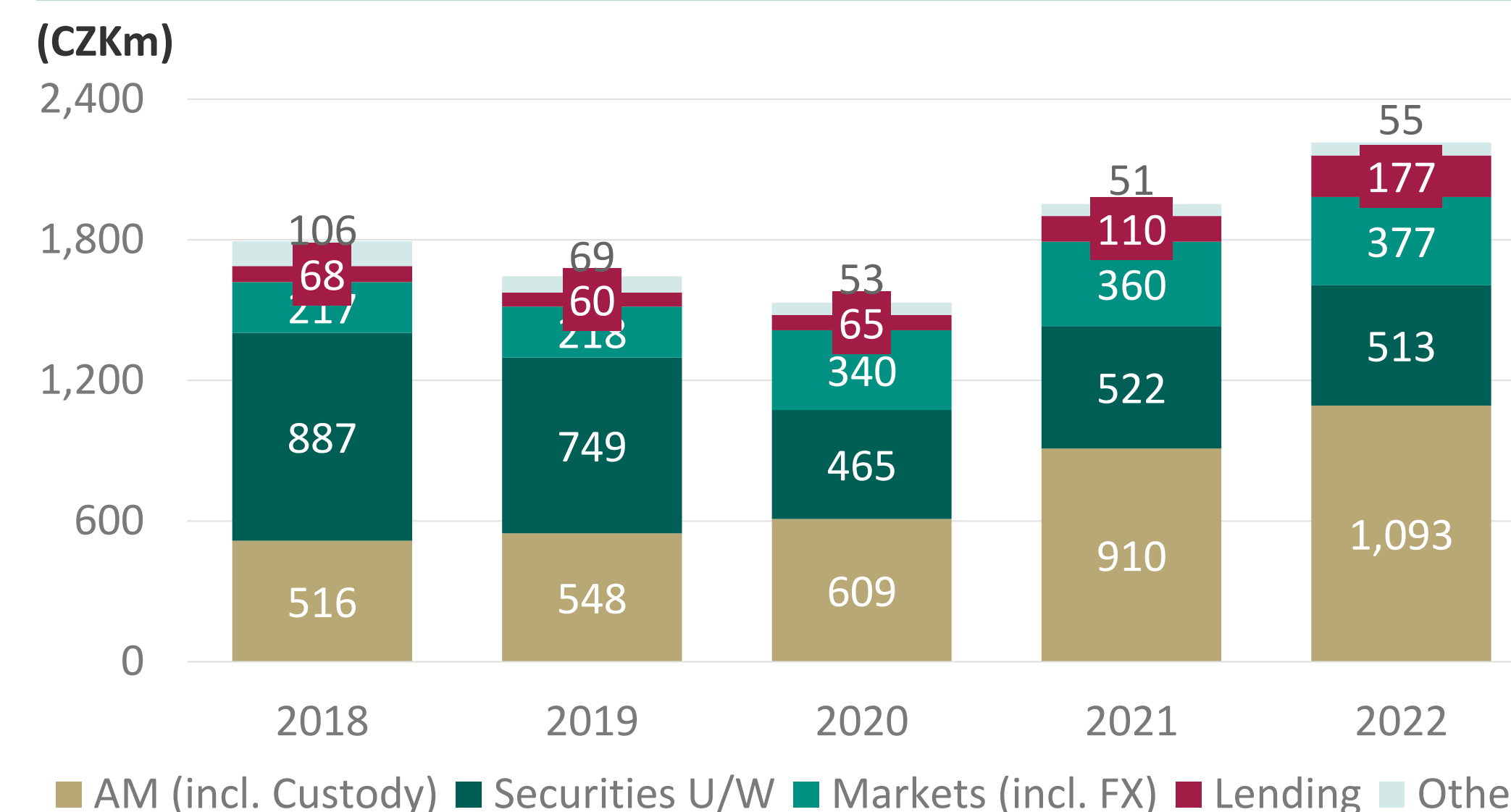
## Net Interest Income Dynamics



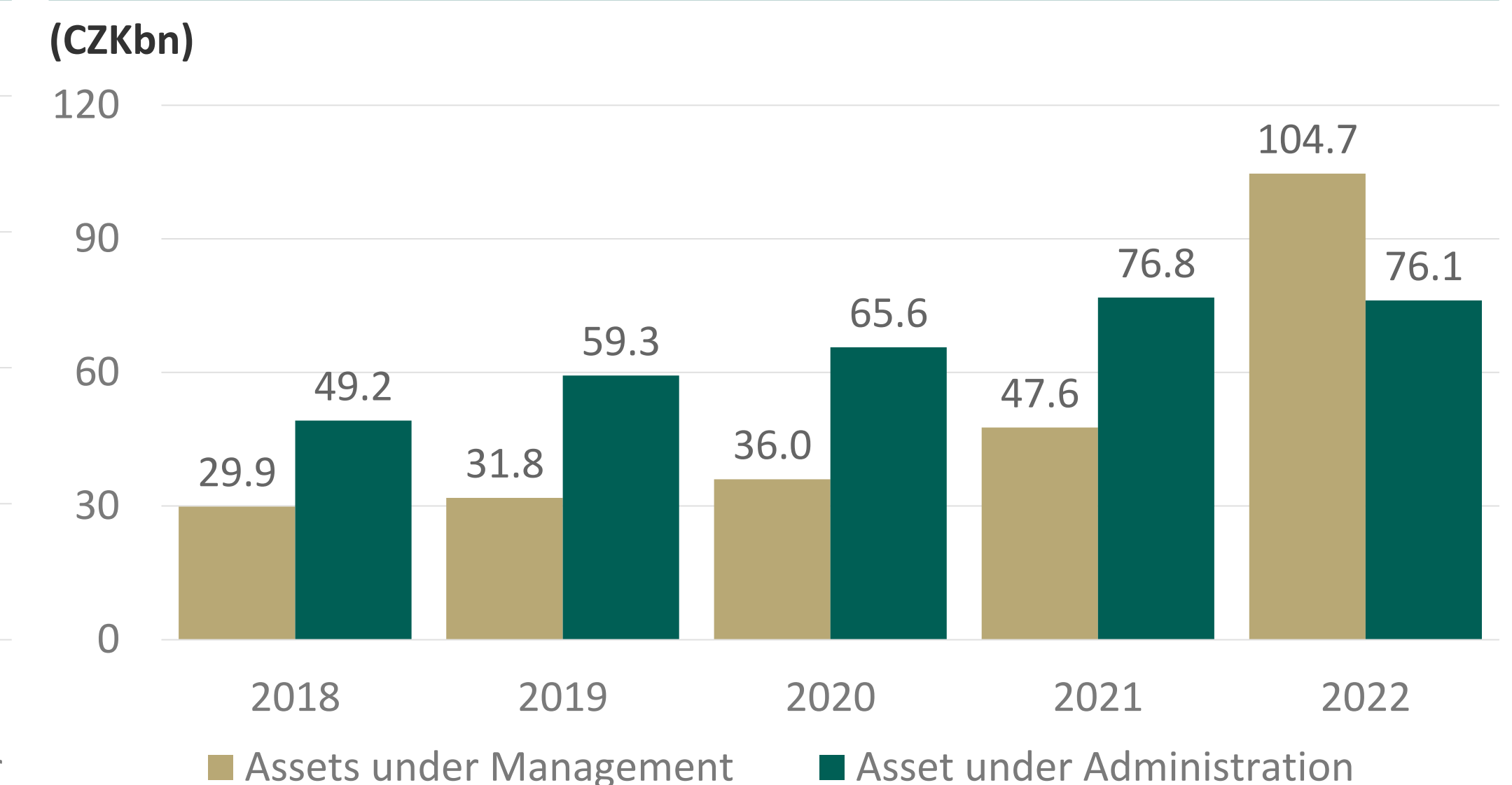
## Net Interest Margin<sup>(1)</sup>



## Fees and Commissions Composition (Gross)



## Assets under Management<sup>(2)</sup>



Notes: (1) Net interest income / daily avg. int. earning assets. (2) AuM = actively managed (fiduciary duty), AuA = client makes investment decisions. 2018 – 2020 comparables shown for consistency. Source: Company data

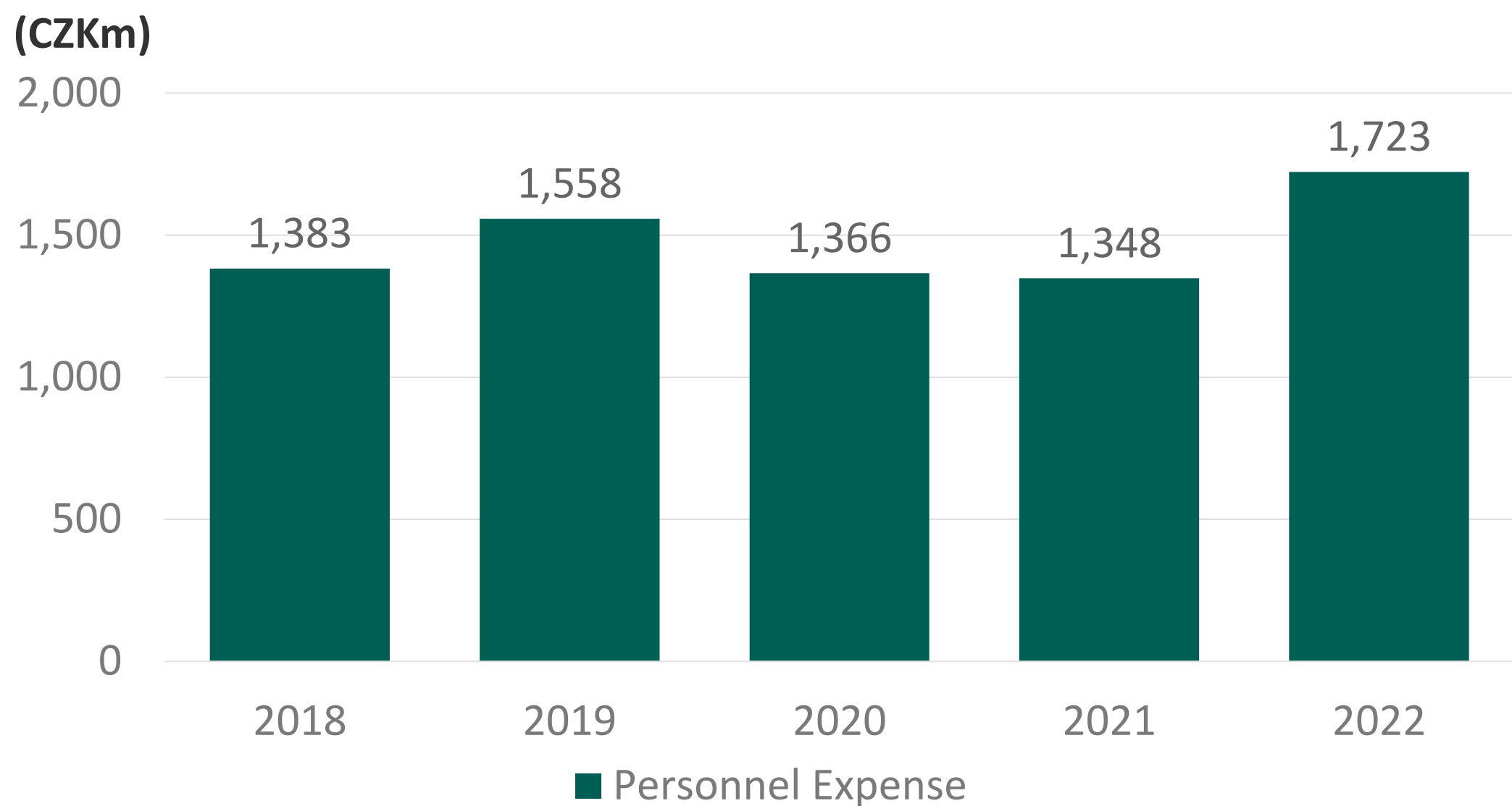


# Lean Cost Base amid Continued Investments

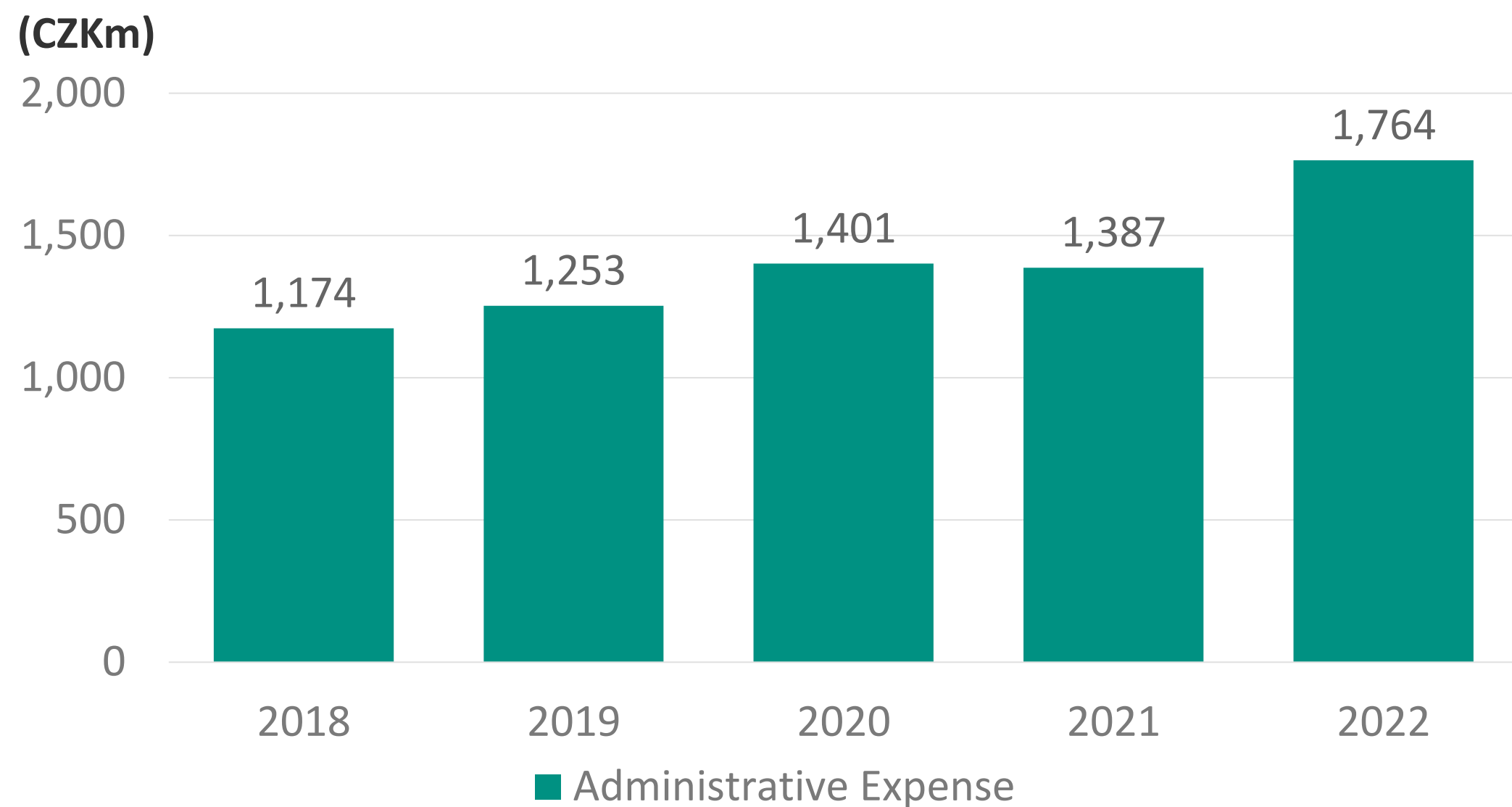
Continuous investments into human capital and IT infrastructure position J&T BANKA for future growth

- ◆ Personnel expense increased primarily due to new hires in asset management where J&T BANKA sees considerable growth potential, regulatory reporting and risk management areas and, to a smaller extent, also due to wage inflation
- ◆ Administrative expense growth driven by large investments into IT infrastructure and higher marketing spend
- ◆ Cost structure broadly in line with the Czech banking sector with sub-50% Cost to Income Ratio which is well below the levels commonly seen in Western Europe

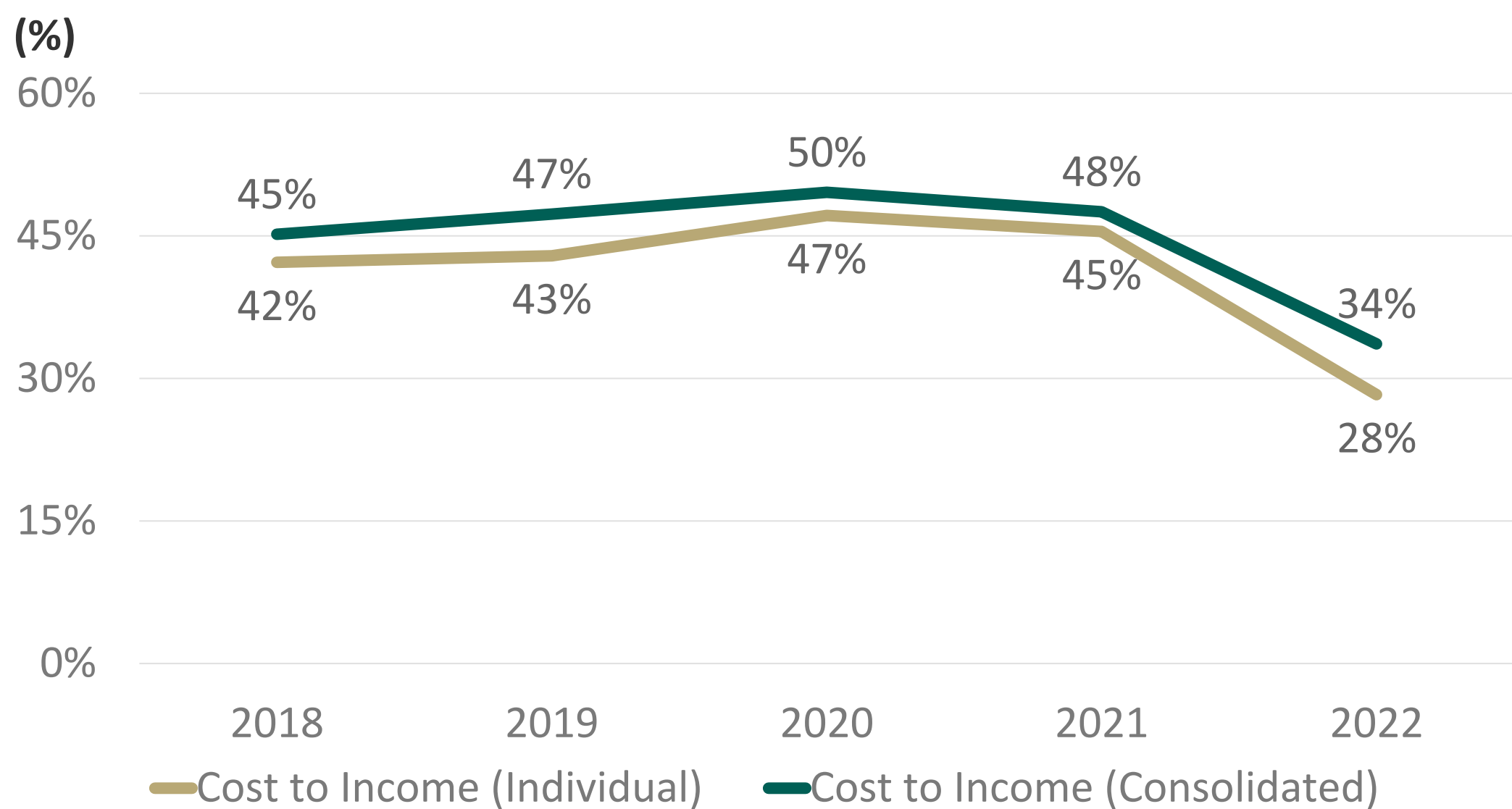
## Personnel Expense Evolution



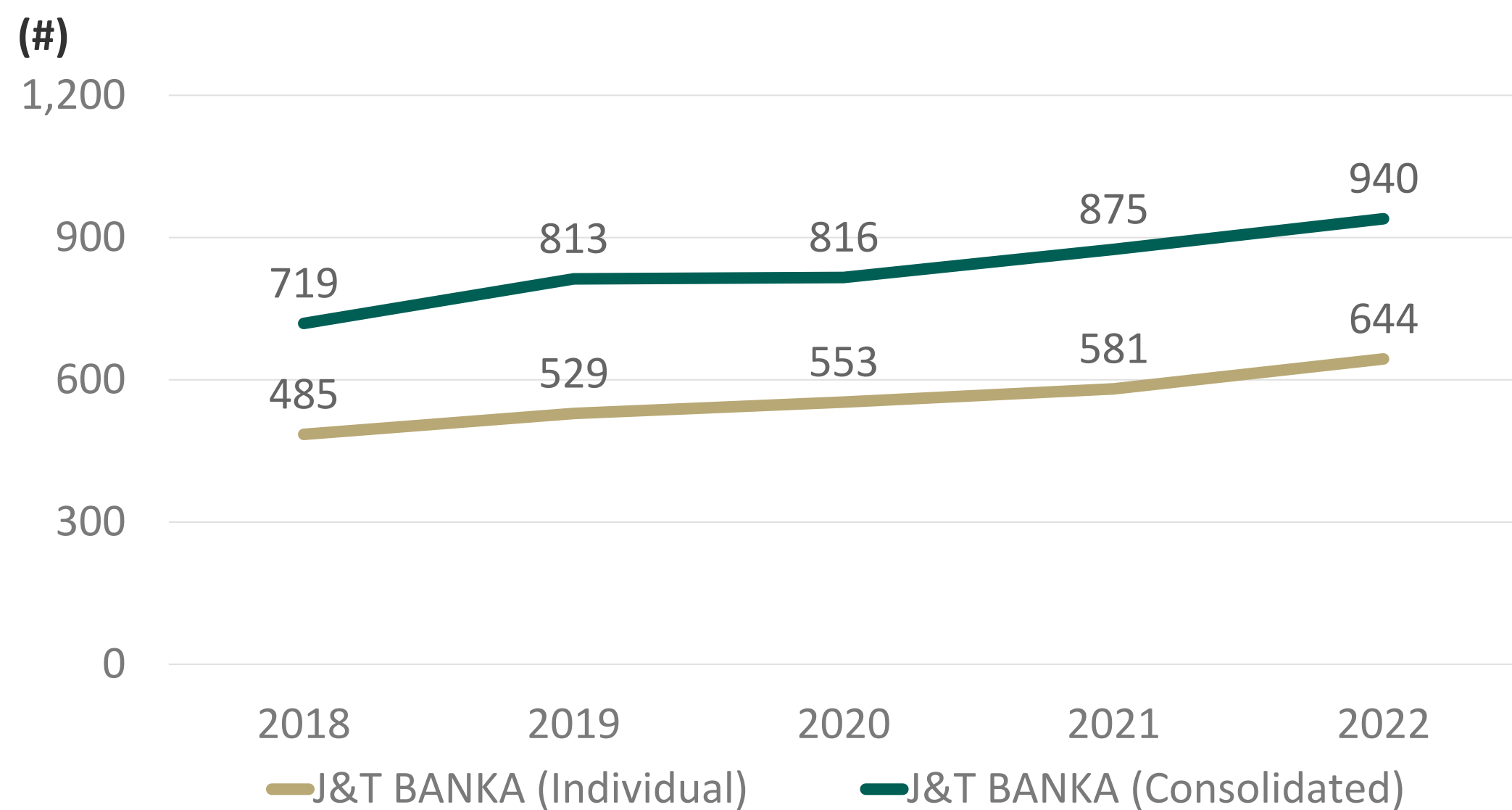
## Administrative Expense Evolution



## Operating Efficiency



## Employees (Average FTEs)



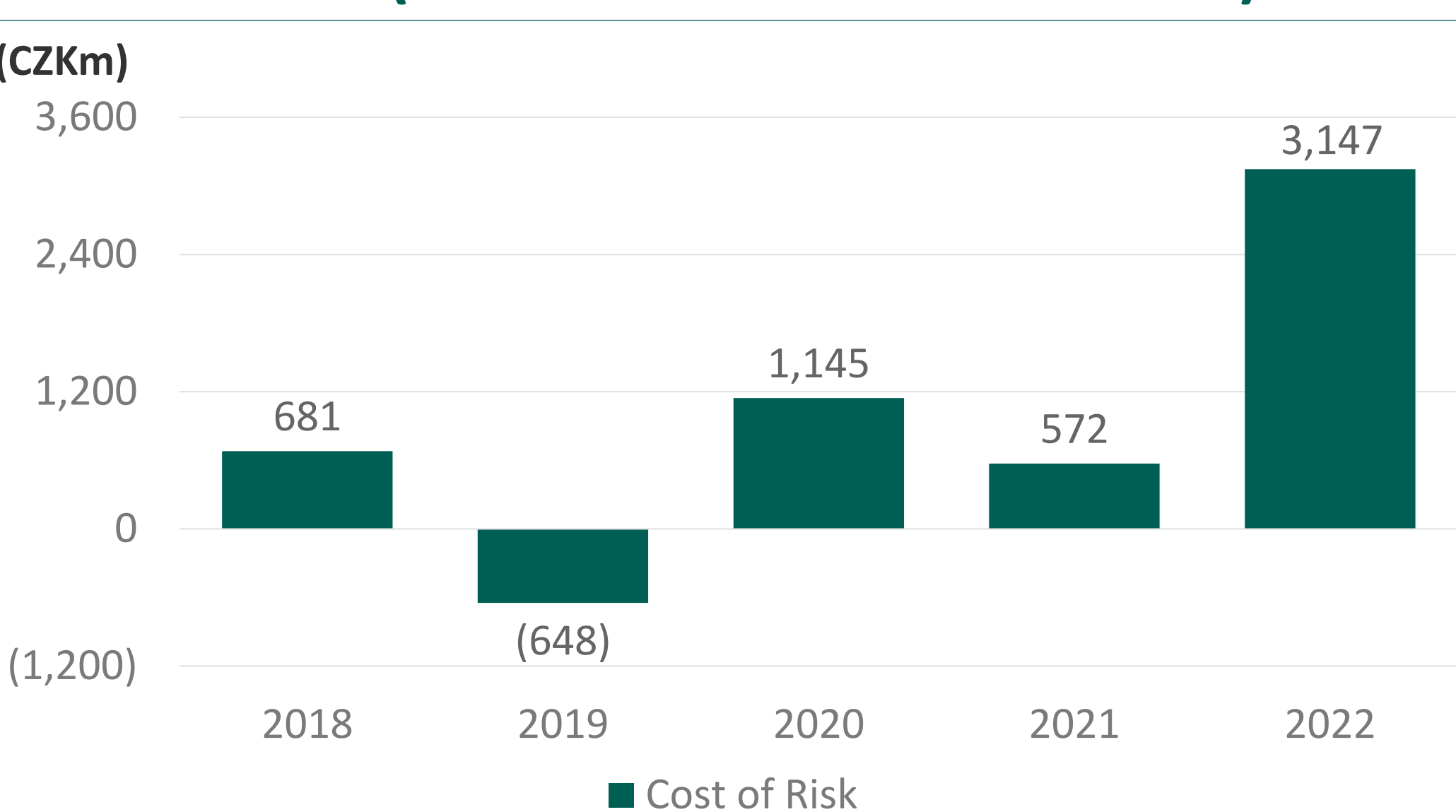
Source: Company data

# Proven Earnings Power

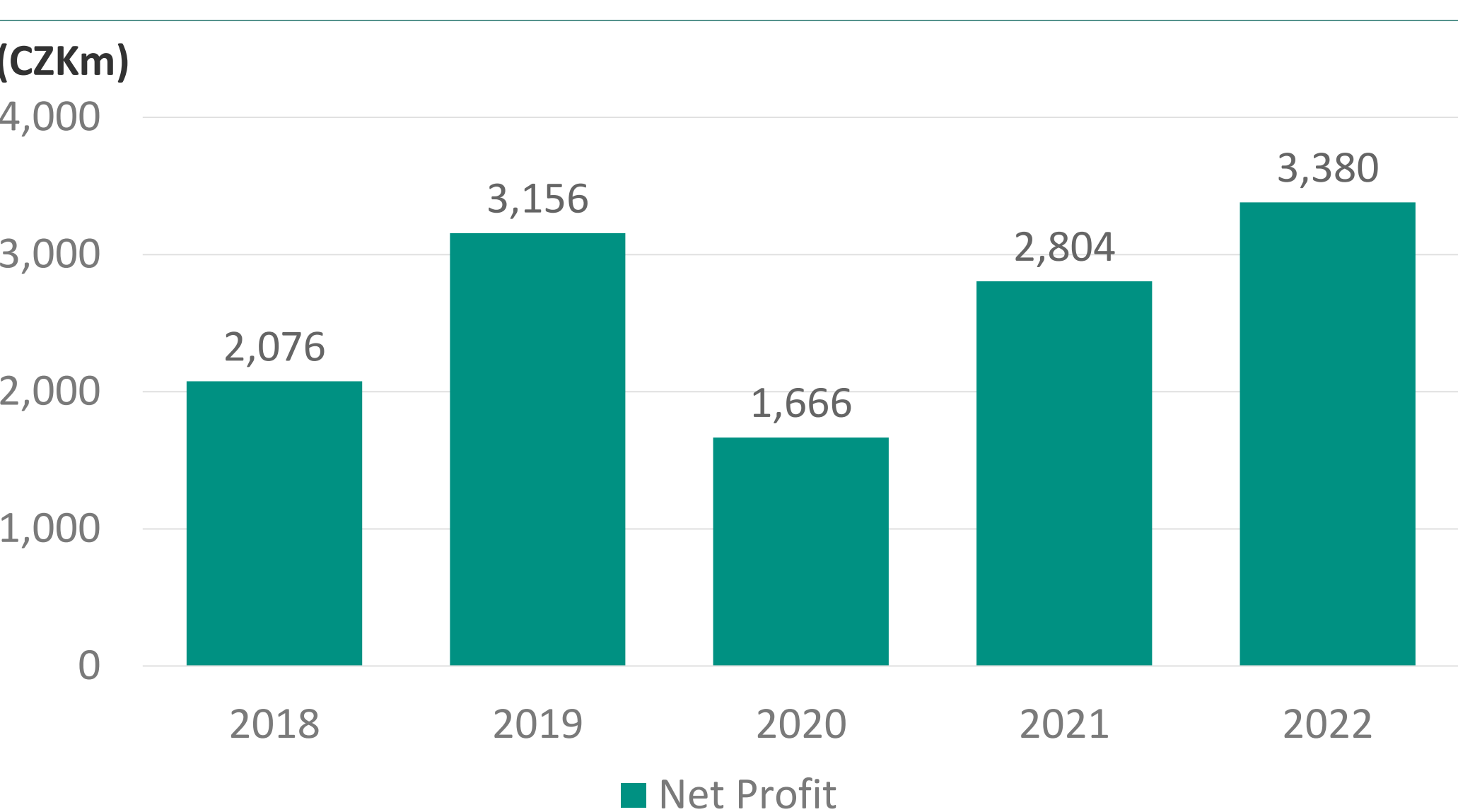
Consistently profitable operation with proven earnings power allowing to self-finance sustainable growth

- ◆ Profitability in 2020 was hit by the Covid-19 pandemics with some provisions created in 2020 subsequently released in 2021 as J&T BANKA did not suffer any material Covid-19 related write-offs
- ◆ Bottom line in 2022 was adversely affected by provisioning of Russian and Ukrainian exposures
- ◆ J&T BANKA’s general dividend policy is to pay out all profits beyond the capital targets set by the management
- ◆ No dividends have been paid by J&T BANKA during the last three years
  - > Regulatory guidance issued by CNB for 2020 and 2021 which all Czech banks followed
  - > Shareholder decision in 2022
- ◆ J&T BANKA to evaluate resuming dividend distribution in 2023, subject to regulatory approval

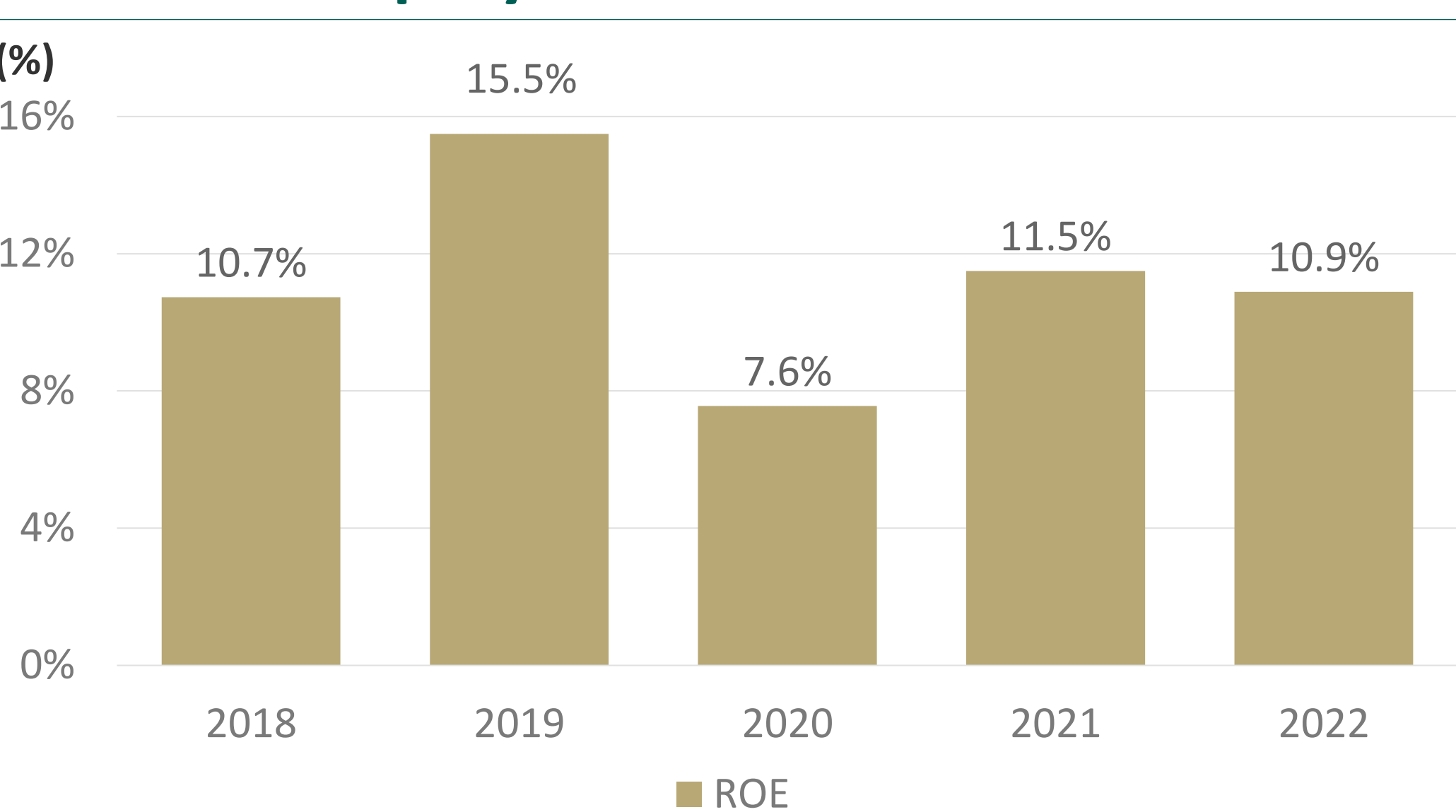
Cost of Risk (On- and Off-Balance Sheet)



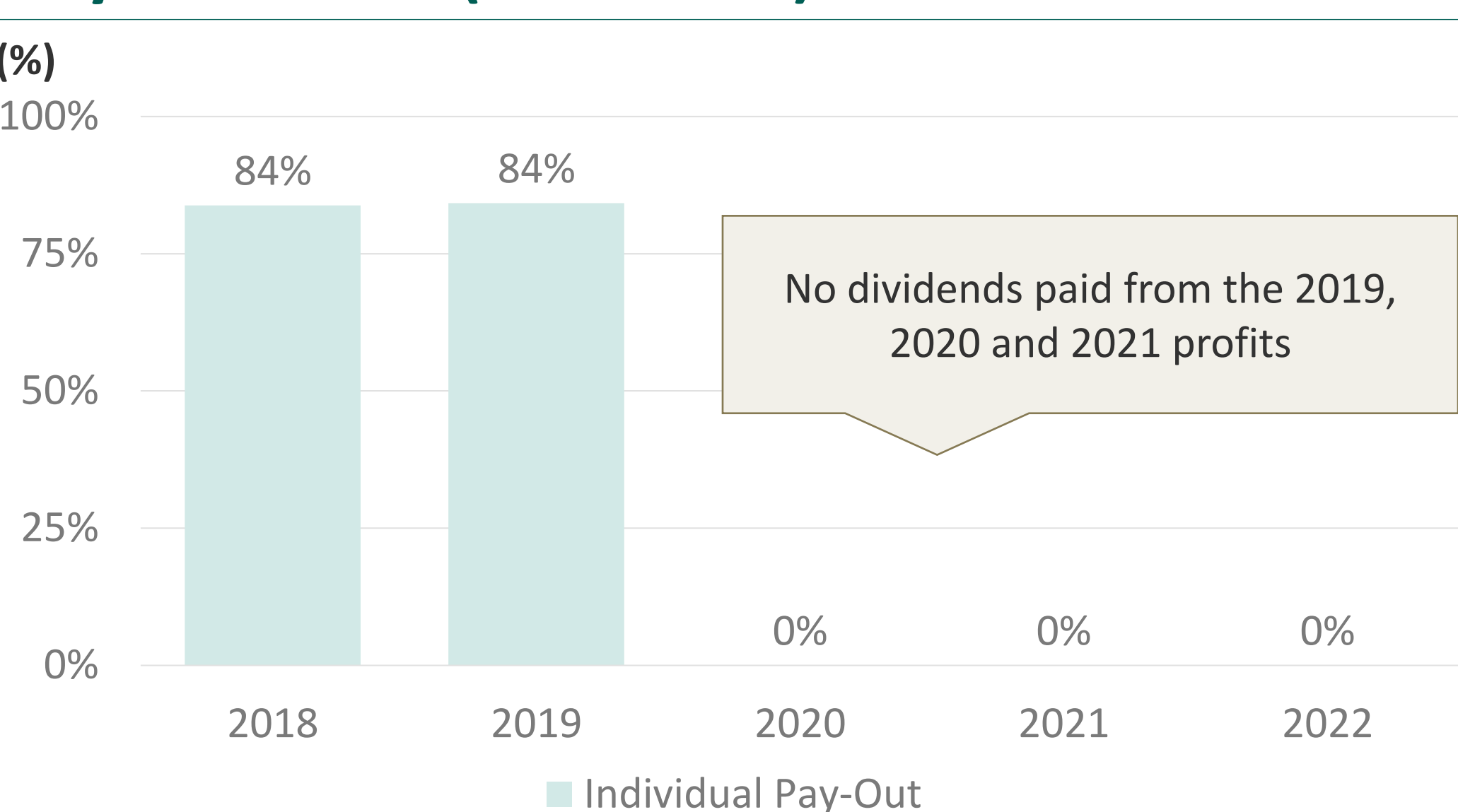
Net Profit



Return on Equity



Pay-Out Ratio (Individual)<sup>(1)</sup>



Note: (1) Dividend in year t divided by net profit in year t-1. Source: Company data



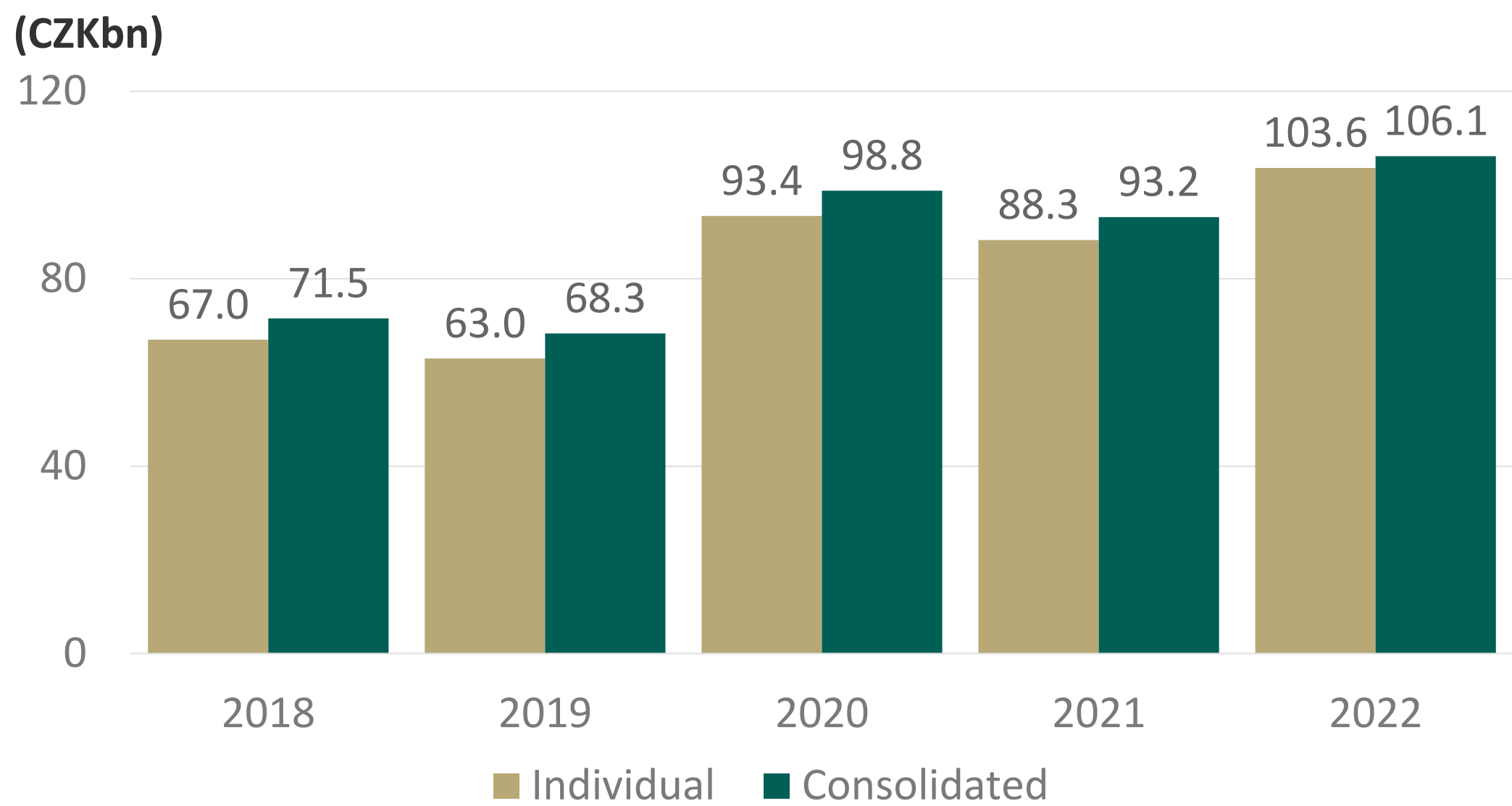
# Capital Management

# Regulatory vs Reporting Perspective | Individual vs Consolidated Data

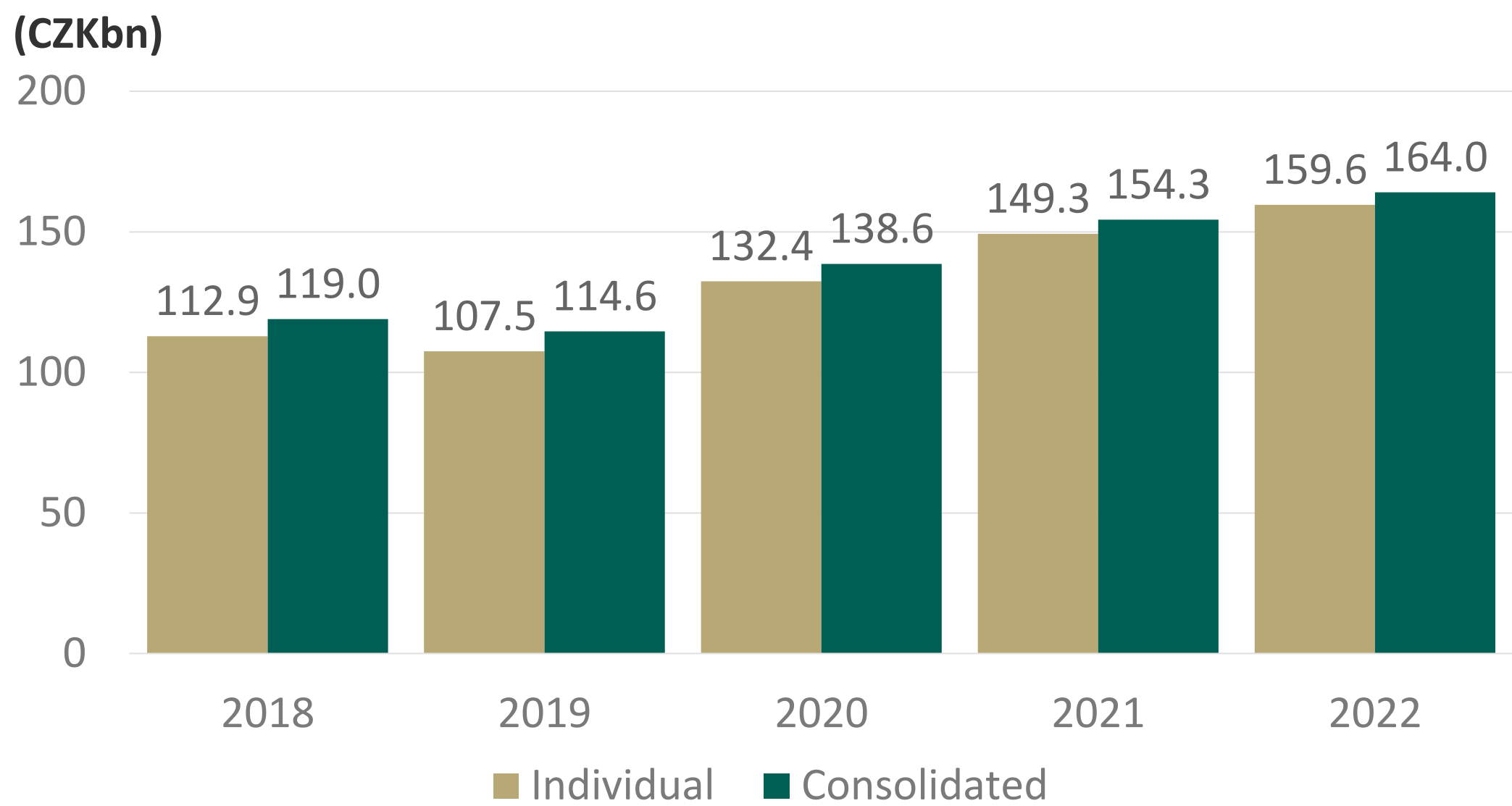
While prudential supervision and regulatory requirements focus on J&T BANKA’s individual numbers, consolidated numbers are prepared for reporting purposes and to comply with reporting obligations

- ◆ **Regulatory limits and prudential requirements** – e.g. capital requirements (CET1, Tier 1, TCR), credit limits (large exposures), liquidity (LCR, NSFR), FX and interest rate risk limits, Pillar II (ICAAP) and Pillar III (information disclosure), stress tests, BRRD and resolution plans, etc. – are all set and monitored by CNB for J&T BANKA **individually**, i.e. excluding its foreign subsidiaries
- ◆ **MREL requirements** are also prescribed **individually** at the J&T BANKA level (MPE resolution strategy adopted by JTFG)
- ◆ **Consolidated** results are prepared in order to comply with the Accounting Law and IFRS **reporting** standards

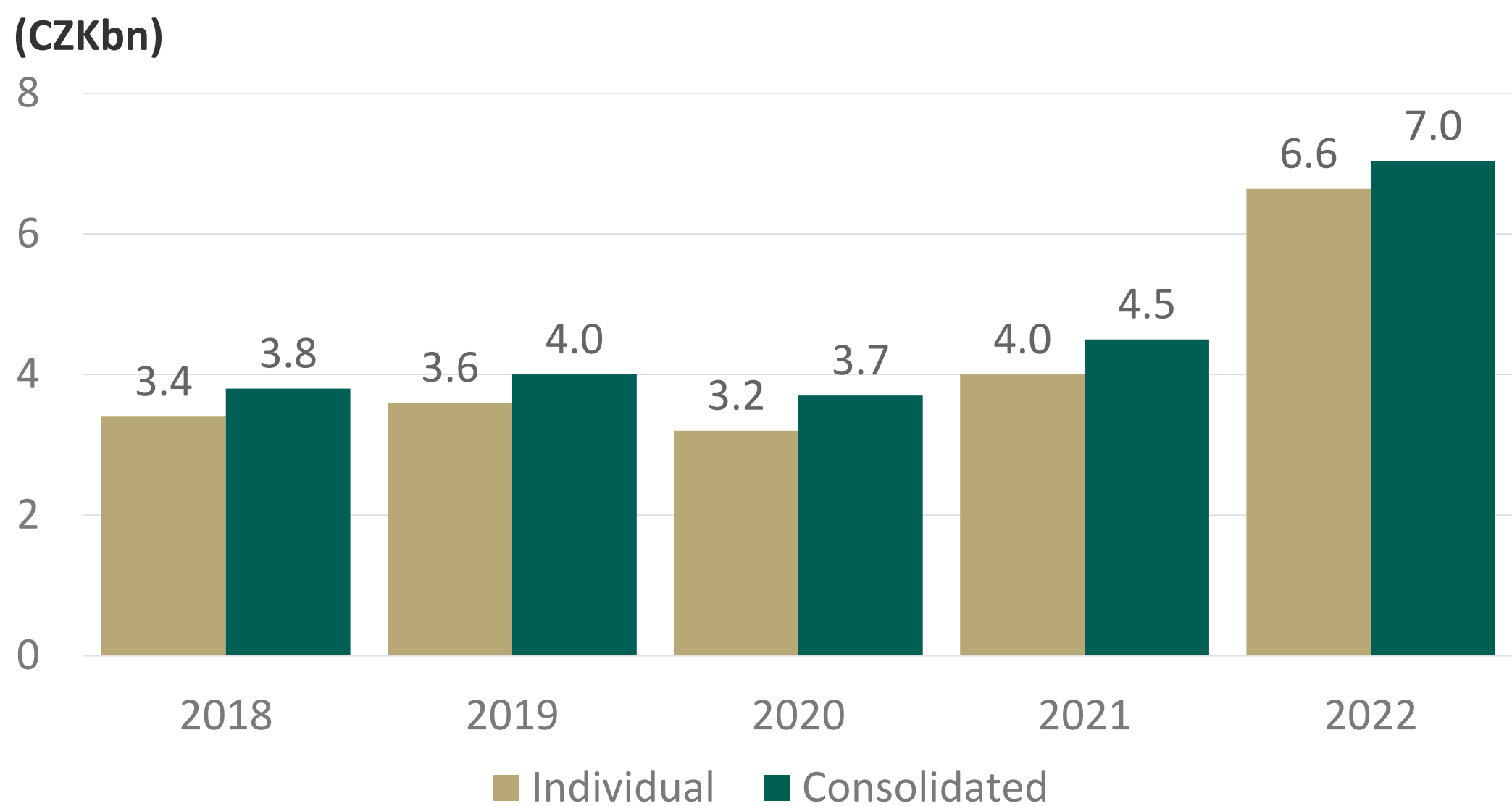
## Loan Book



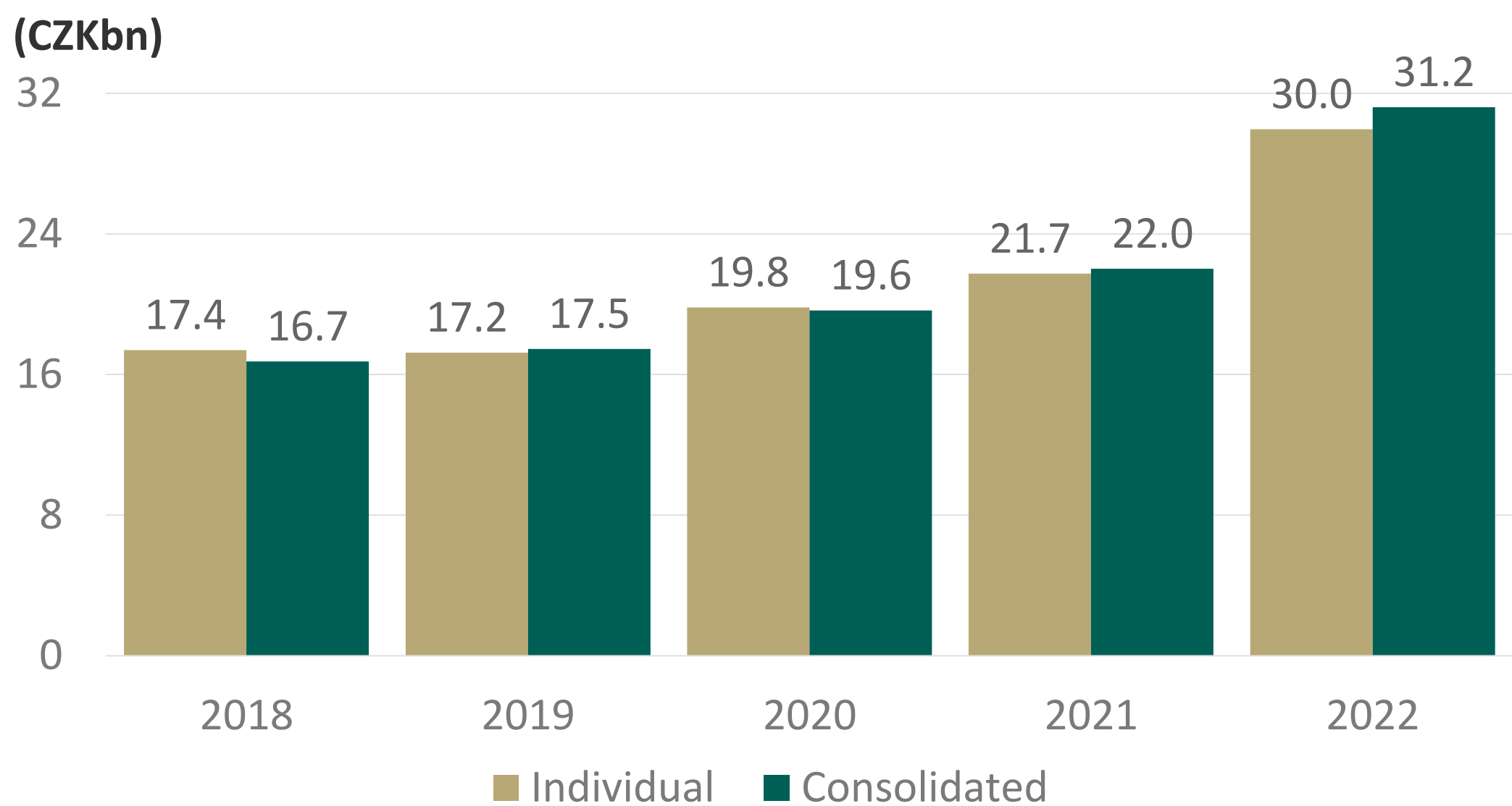
## Customer Deposits



## Net Interest Income



## Regulatory Capital



Source: Company data

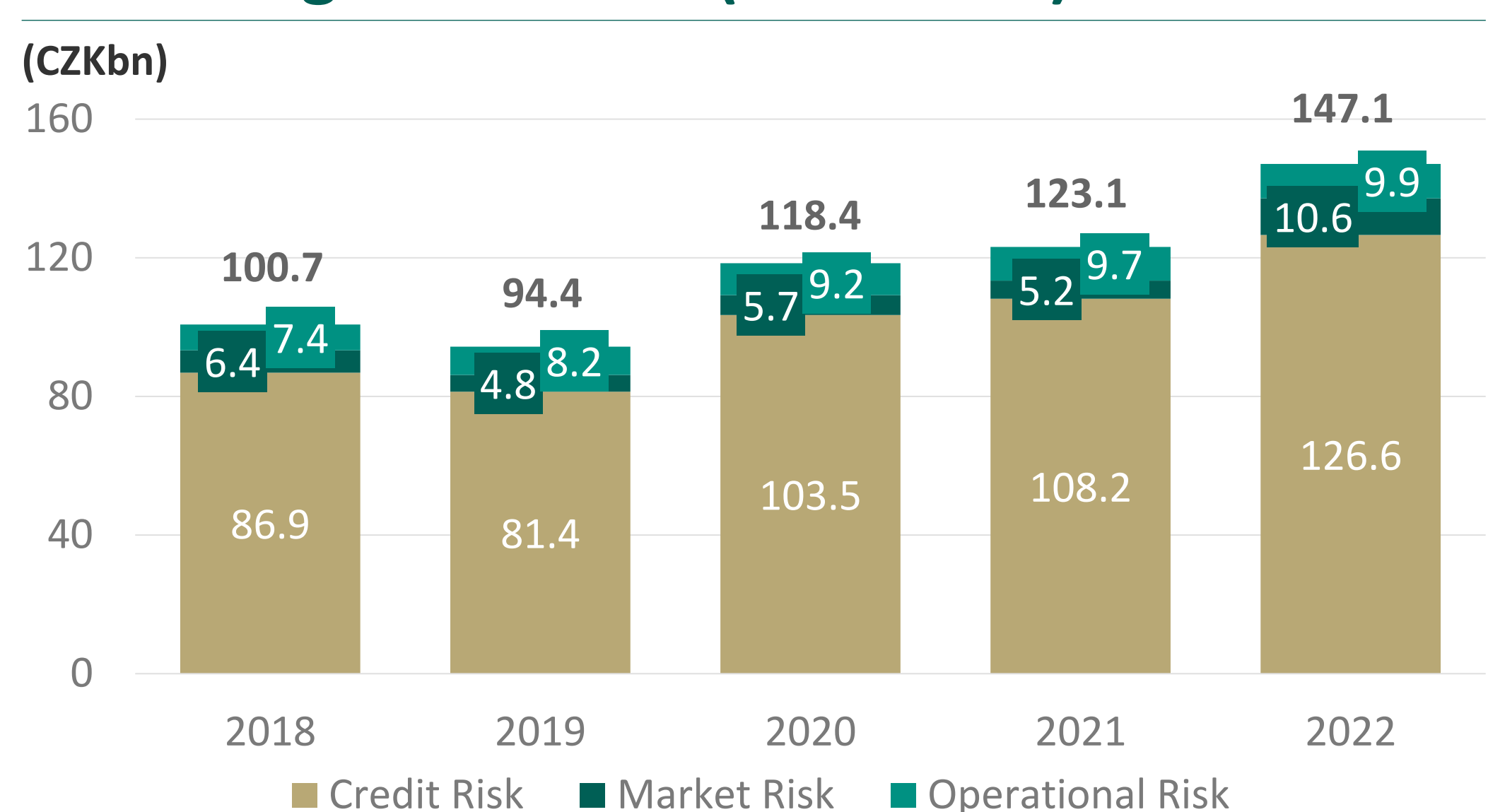


# Robust Capitalization

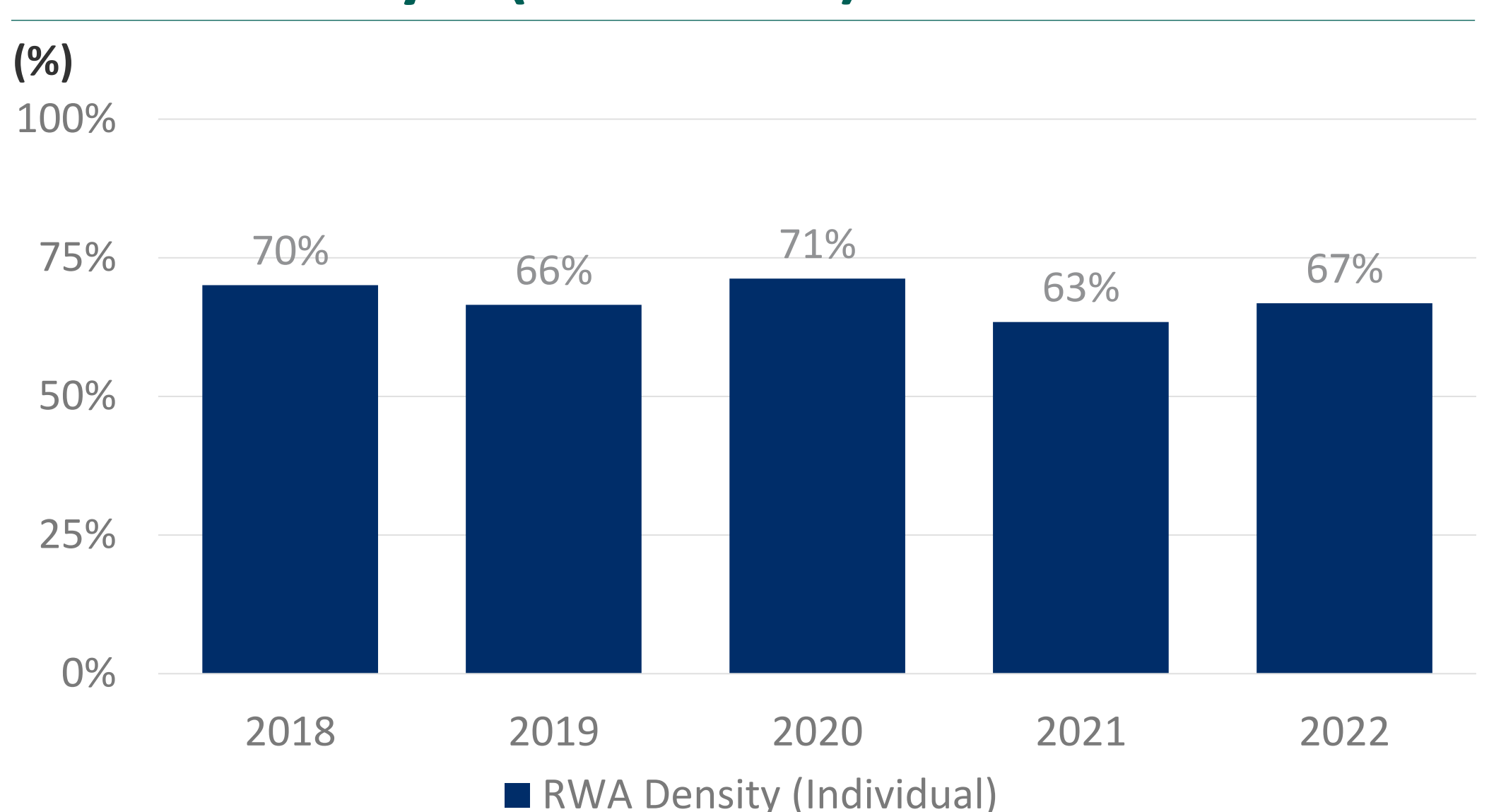
Capital requirement driven by steady growth in RWAs. Strong capital base consisting of high-quality components providing sufficient resources for continued growth

- ◆ Regulatory requirements largely driven by steady growth in RWAs, mainly attributable to credit risk
- ◆ Demonstrated ability to generate sufficient capital internally to underpin sustainable growth
- ◆ Dense capital base consisting of high-quality components: common equity (~70%), AT1 (~30%) and a small amount of Tier 2
  - > Supportive shareholder – three years of earnings retention (2019 – 2021) and ~€120m capital increase (Dec 2022)
  - > €200m AT1 issued in 2022
- ◆ Capitalization calibrated for J&T BANKA’s business model (leverage ratio well above the ~7% Czech banking sector average) and providing more than sufficient runway for continued growth

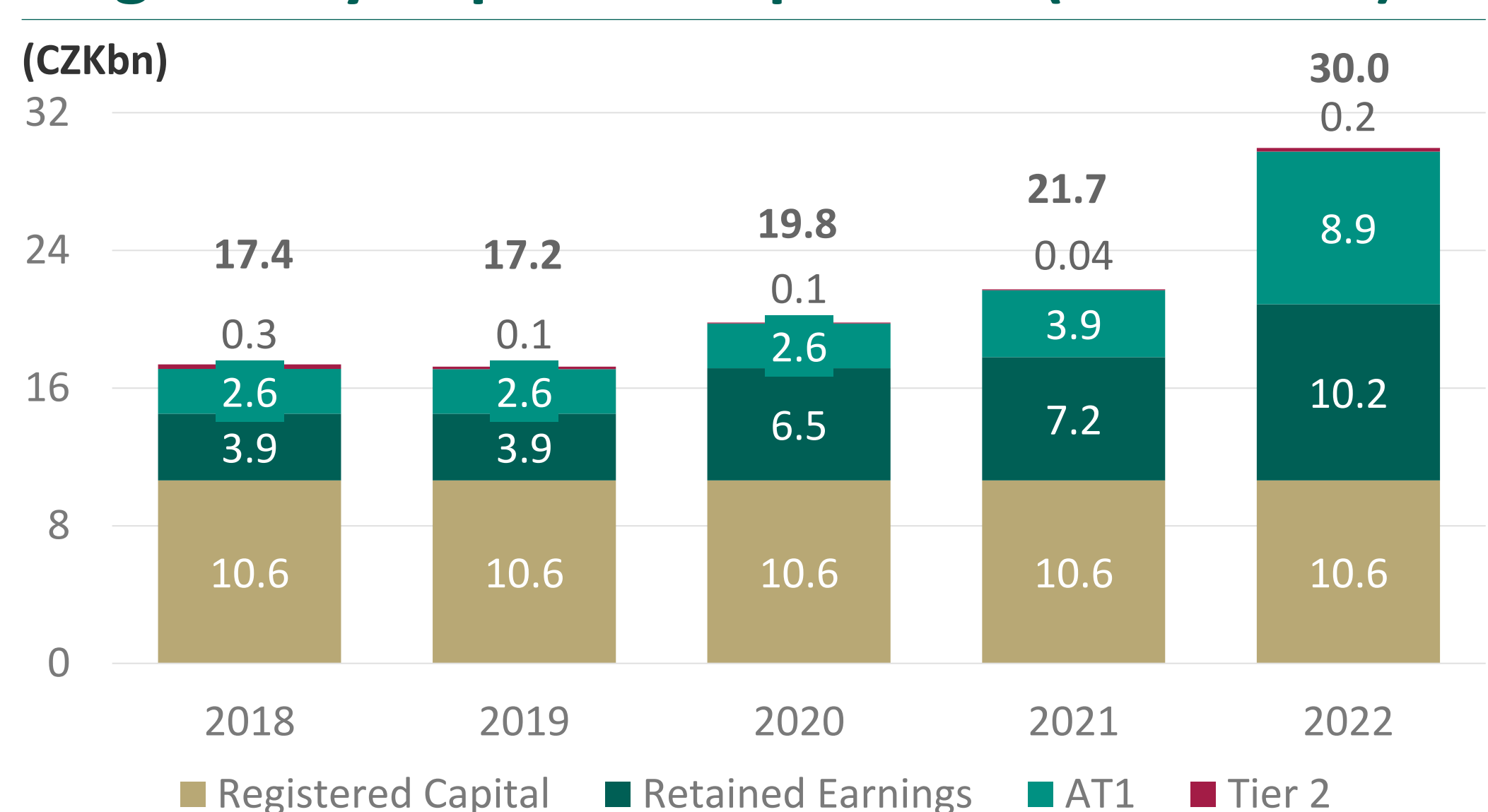
Risk Weighted Assets (Individual)



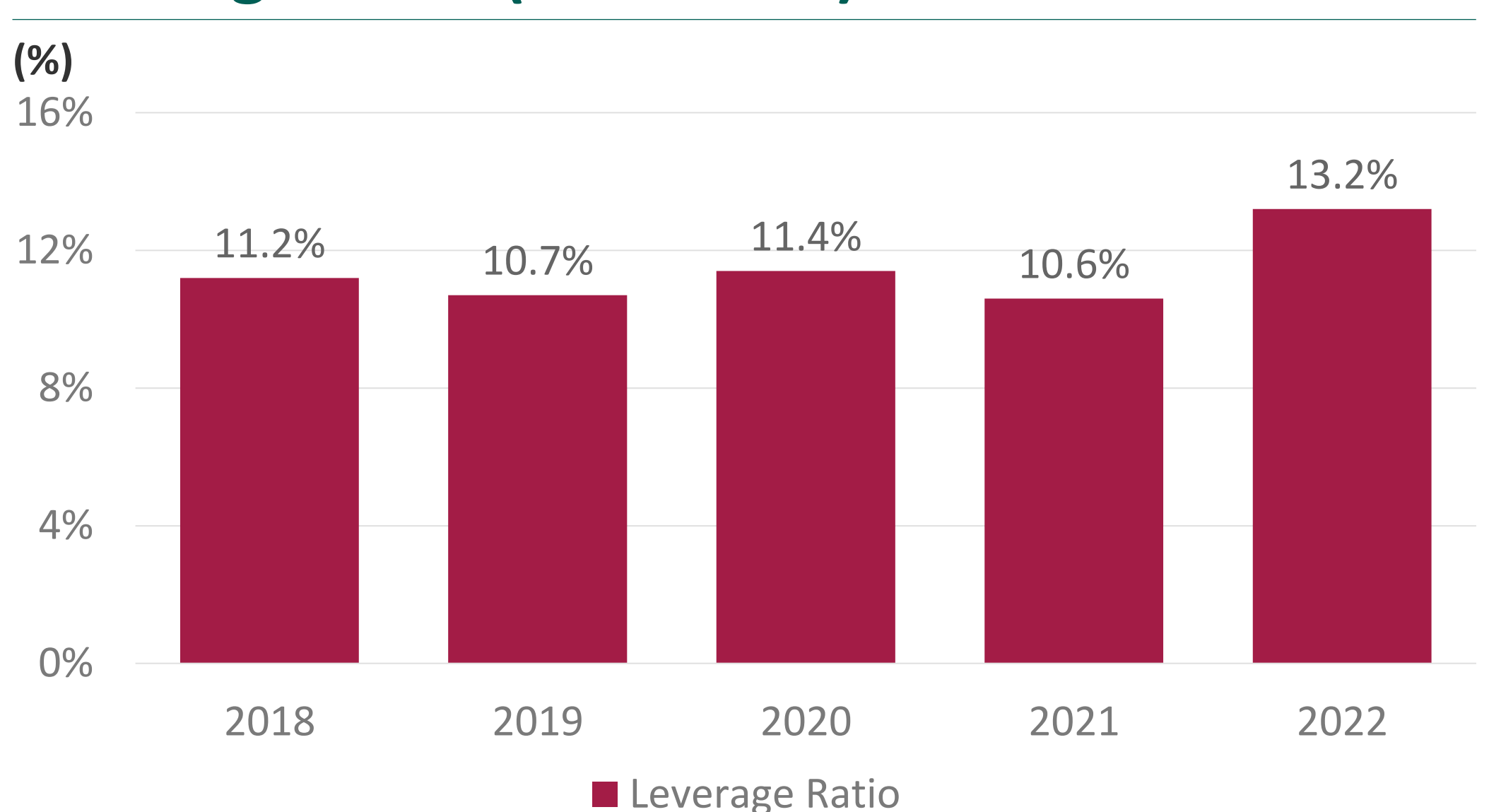
RWA Density<sup>(1)</sup> (Individual)



Regulatory Capital Composition (Individual)



Leverage Ratio (Individual)



Note: (1) Risk weighted assets divided by total assets. Source: Company data

# Considerable Capital Buffer

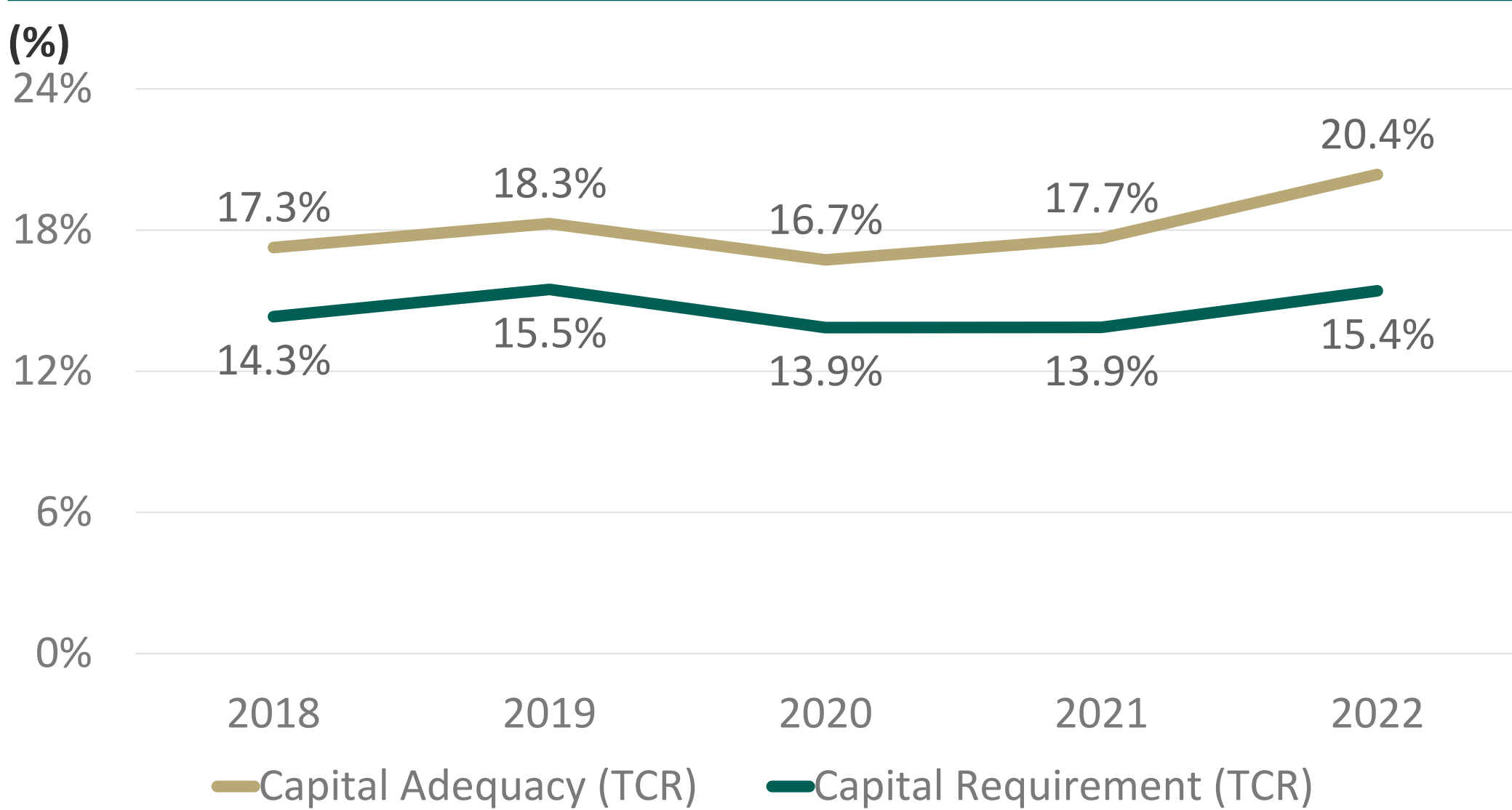
Capital adequacy consistently ~300bps above the minimum requirements set by the regulator

- ◆ J&T BANKA’s capital adequacy has consistently exceeded the minimum requirements set out by CNB by around 300bps
- ◆ The medium-term management target is to increase and maintain CET1 ratio over 15% and reduce Tier 1 ratio to ~18% with the remaining capital requirement covered by the MREL eligible securities

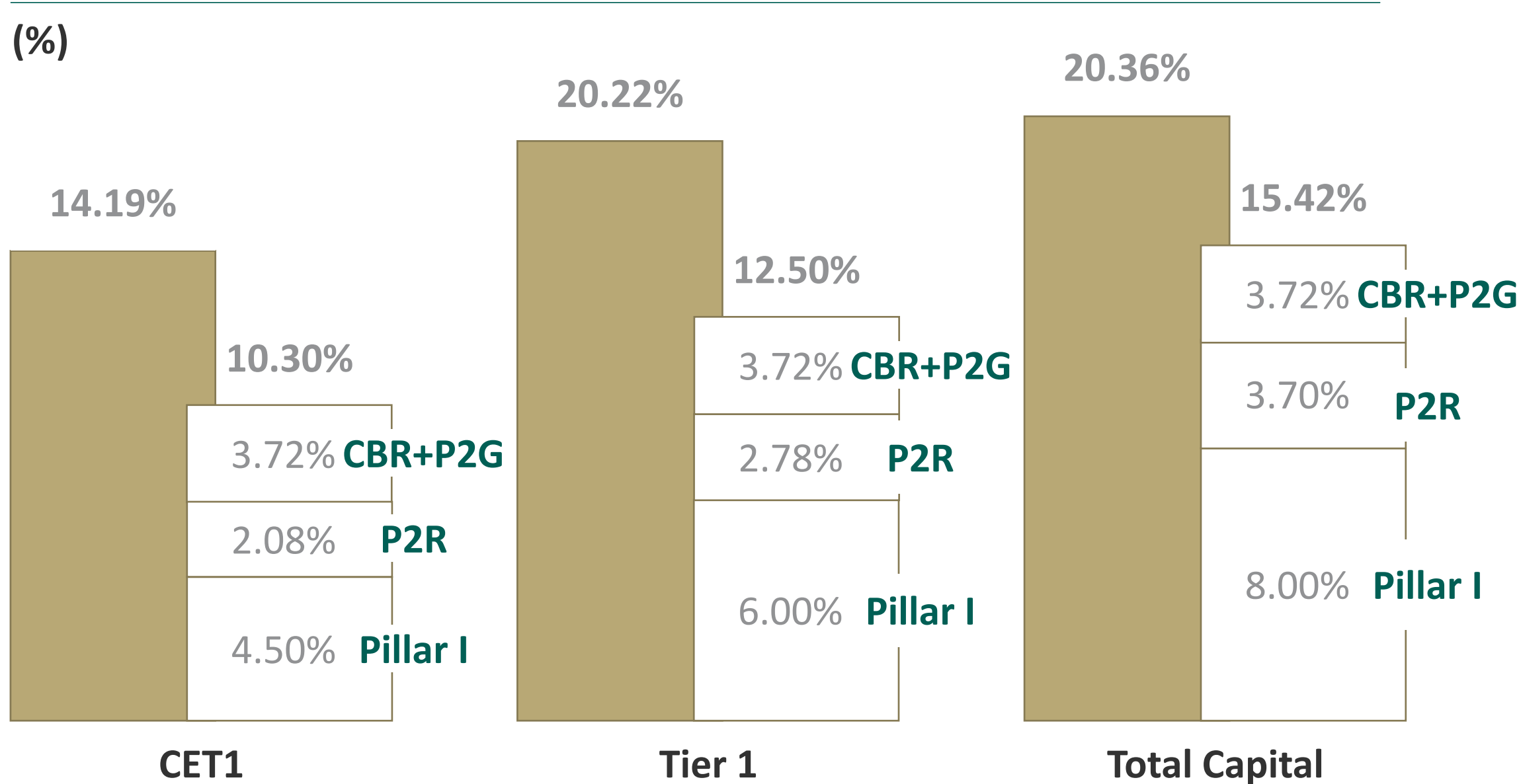
## Regulatory Requirements (Individual)

(%)	2018	2019	2020	2021	2022
Pillar I - CRR (Own Funds)	8.0%	8.0%	8.0%	8.0%	8.0%
Capital Conservation Buffer (CRR)	2.5%	2.5%	2.5%	2.5%	2.5%
Countercyclical Buffer (CRR)	0.6%	0.9%	0.4%	0.4%	0.7%
Pillar II (SREP)	3.2%	4.1%	3.0%	3.0%	3.7%
Pillar 2 Guidance (P2G)	0.0%	0.0%	0.0%	0.0%	0.5%
<b>Total Capital Requirement</b>	<b>14.3%</b>	<b>15.5%</b>	<b>13.9%</b>	<b>13.9%</b>	<b>15.4%</b>
Management Buffer	0.5%	0.5%	0.5%	0.5%	1.0%
<b>Internal Target</b>	<b>14.8%</b>	<b>16.0%</b>	<b>14.4%</b>	<b>14.4%</b>	<b>16.4%</b>

## Capital Adequacy vs Requirement (Individual)



## Capital and Buffers (Individual, 31/12/2022)<sup>(1)</sup>



Ratio	Actual	Required	Capital Buffer	
			(%)	(CZKbn)
<b>CET1</b> (% RWA)	14.19%	10.30%	389bps	5.7
<b>Tier 1</b> (% RWA)	20.22%	12.50%	772bps	11.4
<b>Total Capital (TCR)</b> (% RWA)	20.36%	15.42%	494bps	7.3
<b>Leverage</b> (% LRE)	13.21%	3.00%	1,021bps	23.0

Note: (1) CCyB and CCoB as at 5 May 2023. Source: Company data

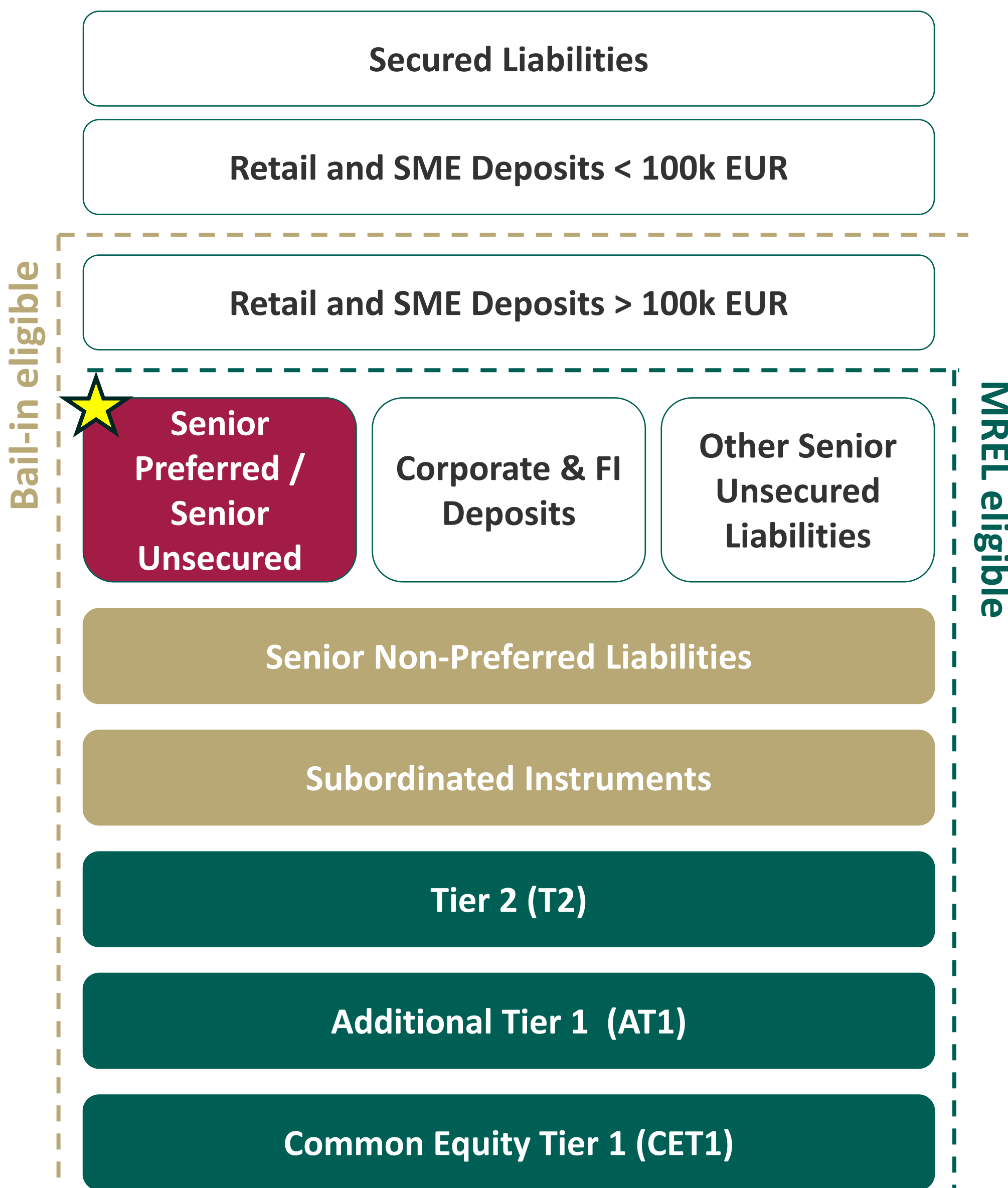


# Resolution and MREL Considerations

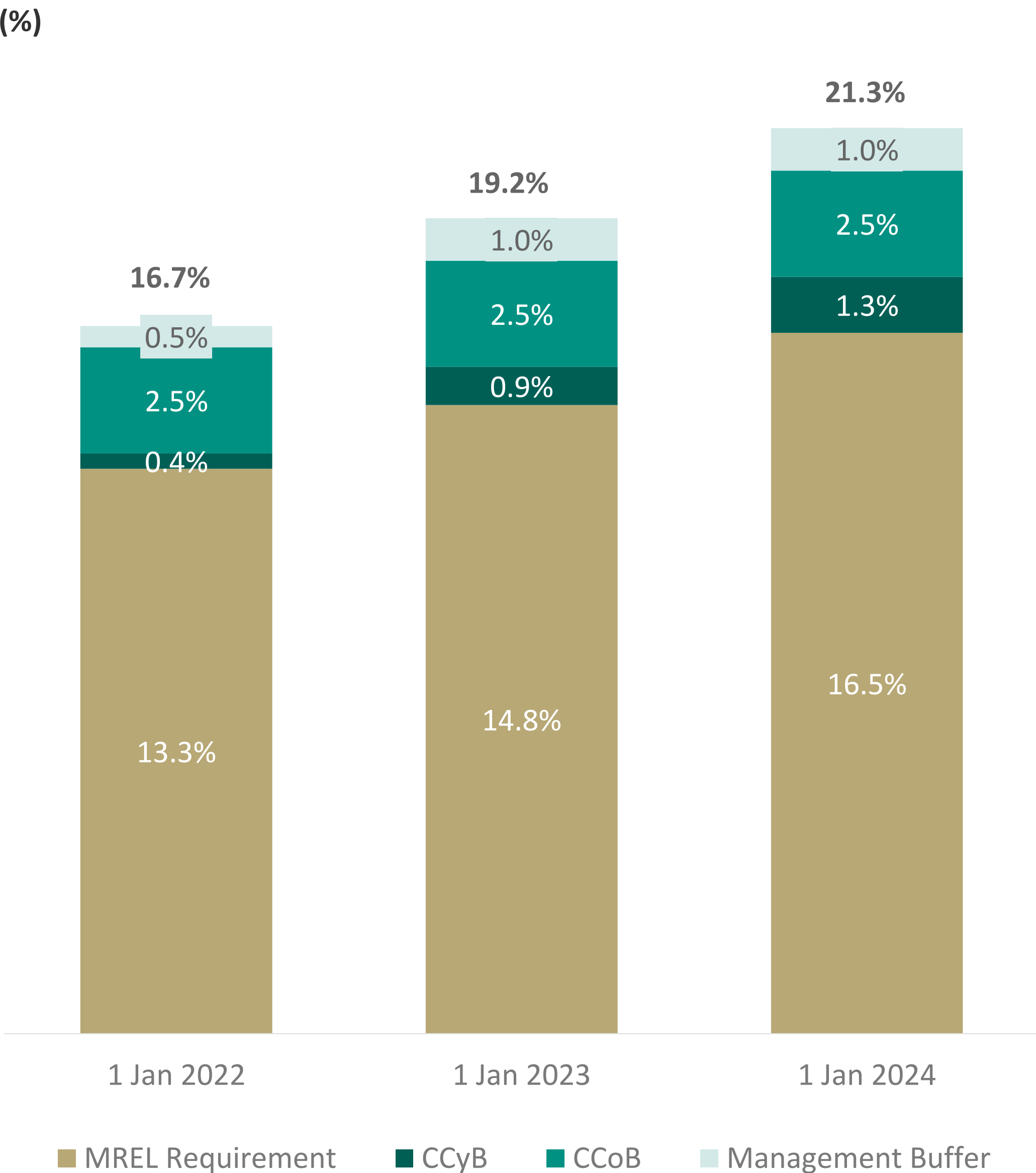
Building-up MREL to anticipate future requirements

- ◆ Multiple point of entry resolution strategy approved for J&T FINANCE GROUP with two resolution entities: J&T BANKA (individually) and 365.bank (consolidated)
- ◆ J&T BANKA is the point of entry for resolution – any losses would be recognized locally and the bail-in would take place at J&T BANKA level with no recourse to any other member of J&T FINANCE GROUP
- ◆ Czech National Bank is the resolution authority for J&T BANKA and sets out its MREL requirements (annually, 1 Jan)<sup>(1)</sup>
- ◆ No subordination requirement for J&T BANKA’s MREL eligible instruments (only applies to the five largest Czech banks)

## Creditor Hierarchy in Insolvency & Resolution



## J&T BANKA’s MREL Position (Individual)<sup>(2)</sup>



Notes: (1) Counter-cyclical buffer calculated quarterly around the end of each quarter. (2) CCyB and CCoB as well as MREL requirement prescription as at 5 May 2023. Source: Company data

# Czech Banking Sector

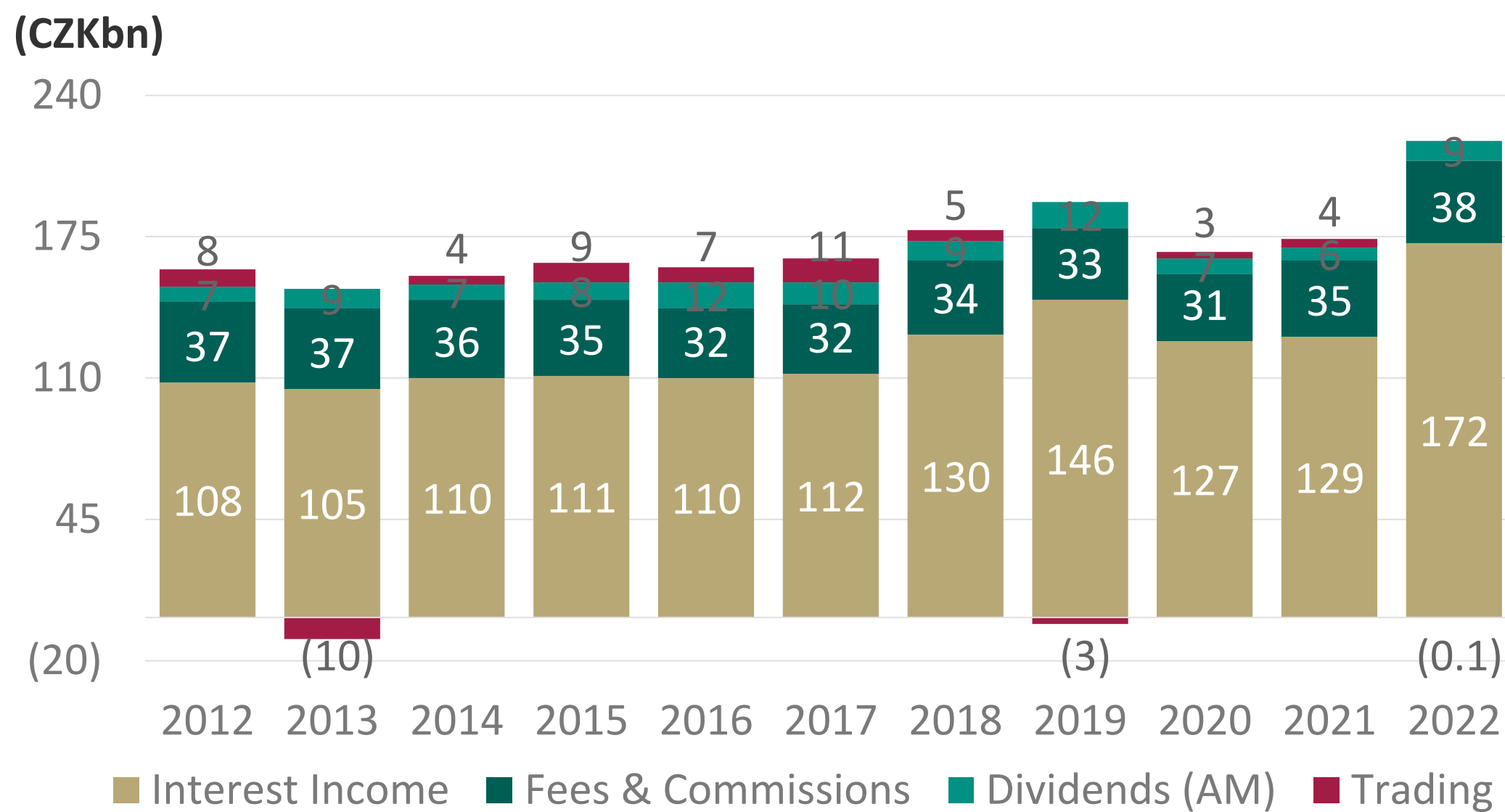


# Highly Profitable and Robustly Capitalized Banking Sector...

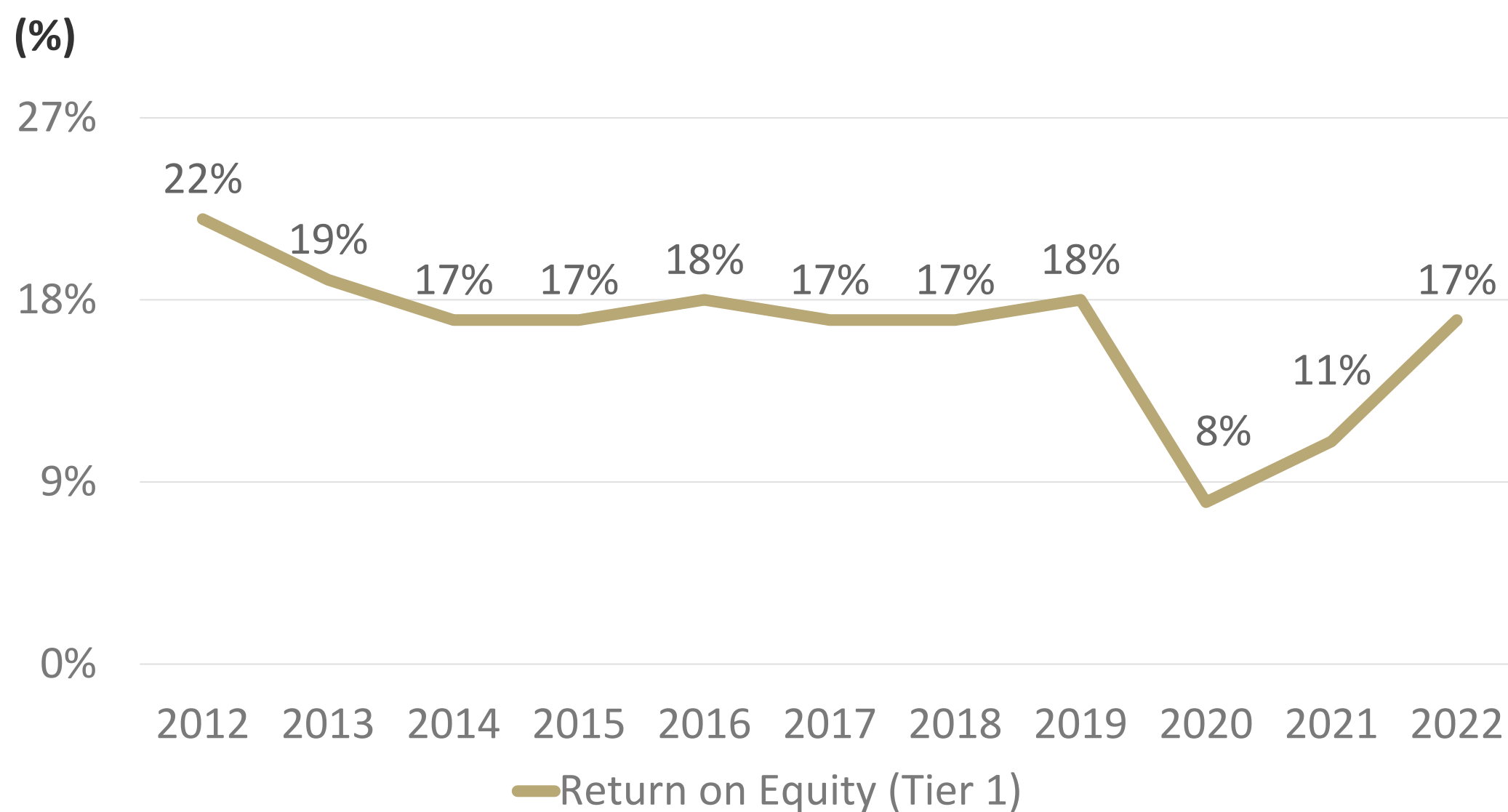
Profitability recovered to the pre-pandemics levels despite the windfall tax imposed on the six largest banks.  
Robust capital base is almost entirely made up of the highest quality Tier 1 capital

- ◆ Czech banks focus on plain vanilla lending – interest income and fees and commissions account for the vast majority of their operating income, financial markets operations are marginal
- ◆ Covid-19 pandemics adversely affected sector profitability but the marked monetary policy tightening since 2021 onwards has had a positive effect on the profitability of the sector as a whole which has recovered to pre-pandemics levels despite a windfall tax imposed on the six largest institutions
- ◆ Czech banks are very efficient with Cost to Income Ratio around 45% (except during the Covid-19 pandemics years) compared to the EU average of >60%
- ◆ Sector is robustly capitalized with capital base almost entirely made up of the highest quality Tier 1 capital

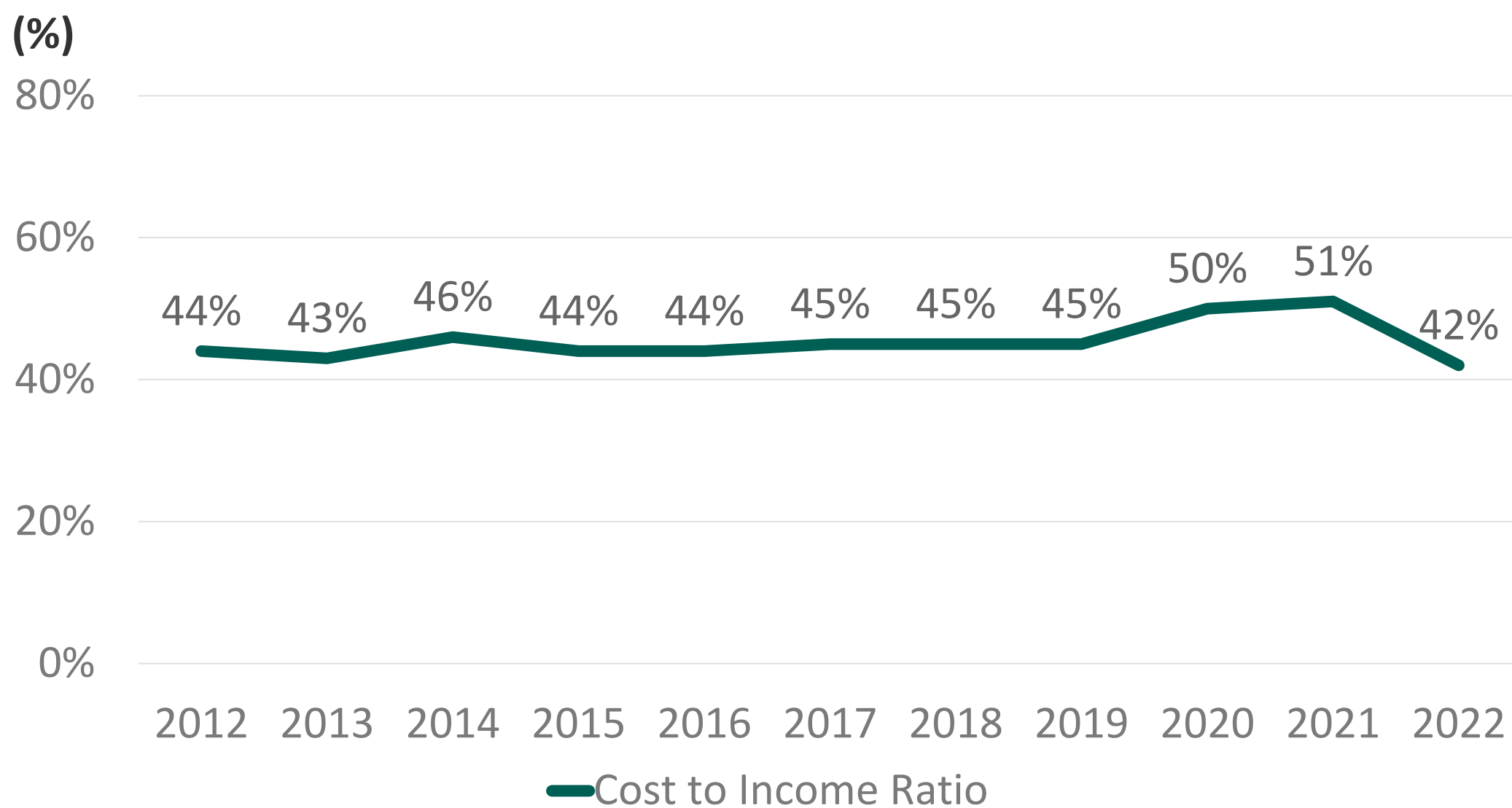
## Key Revenue Streams (Net)



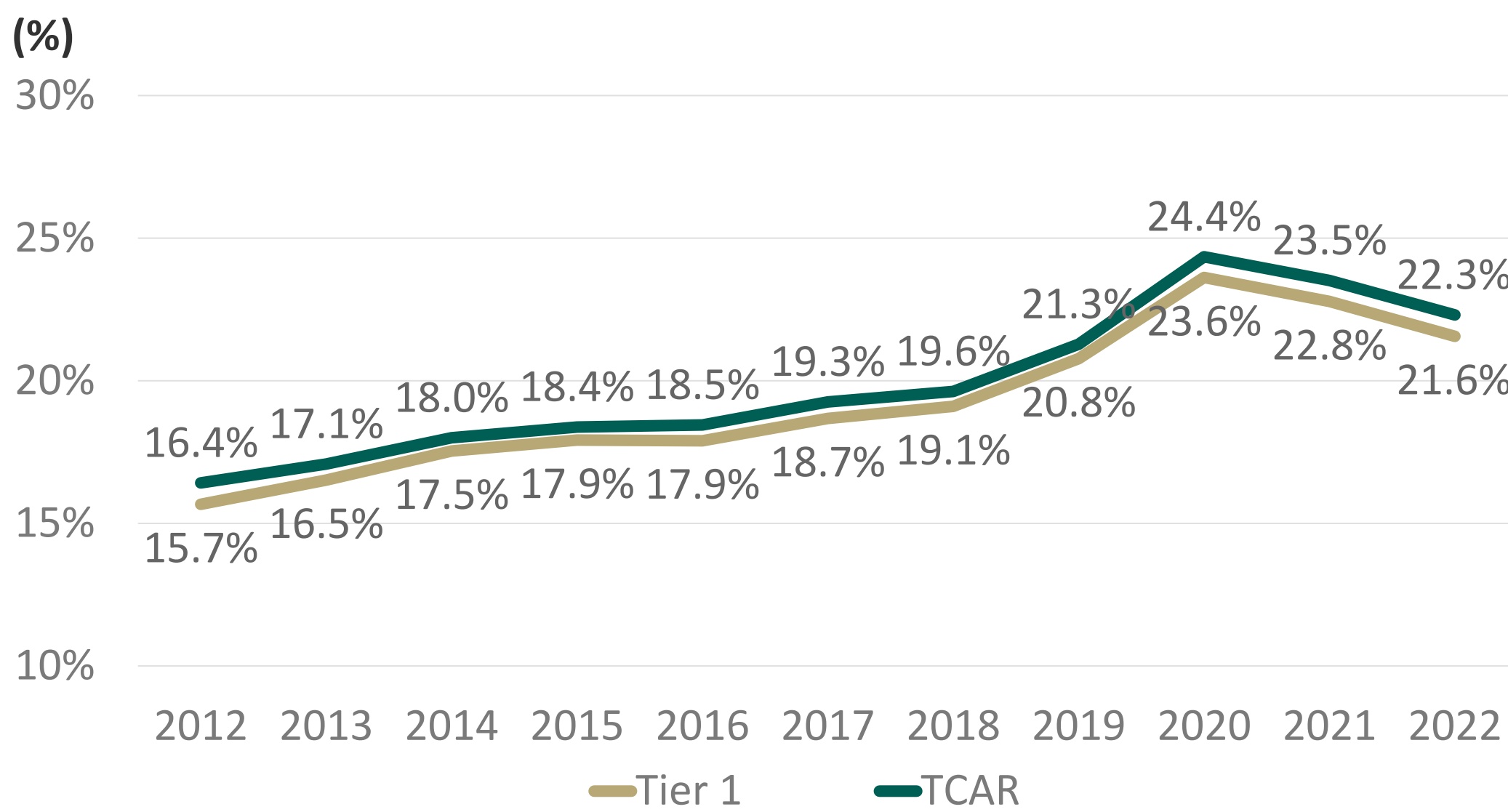
## Return on Equity



## Cost to Income Ratio



## Tier 1 and Total Capital Adequacy



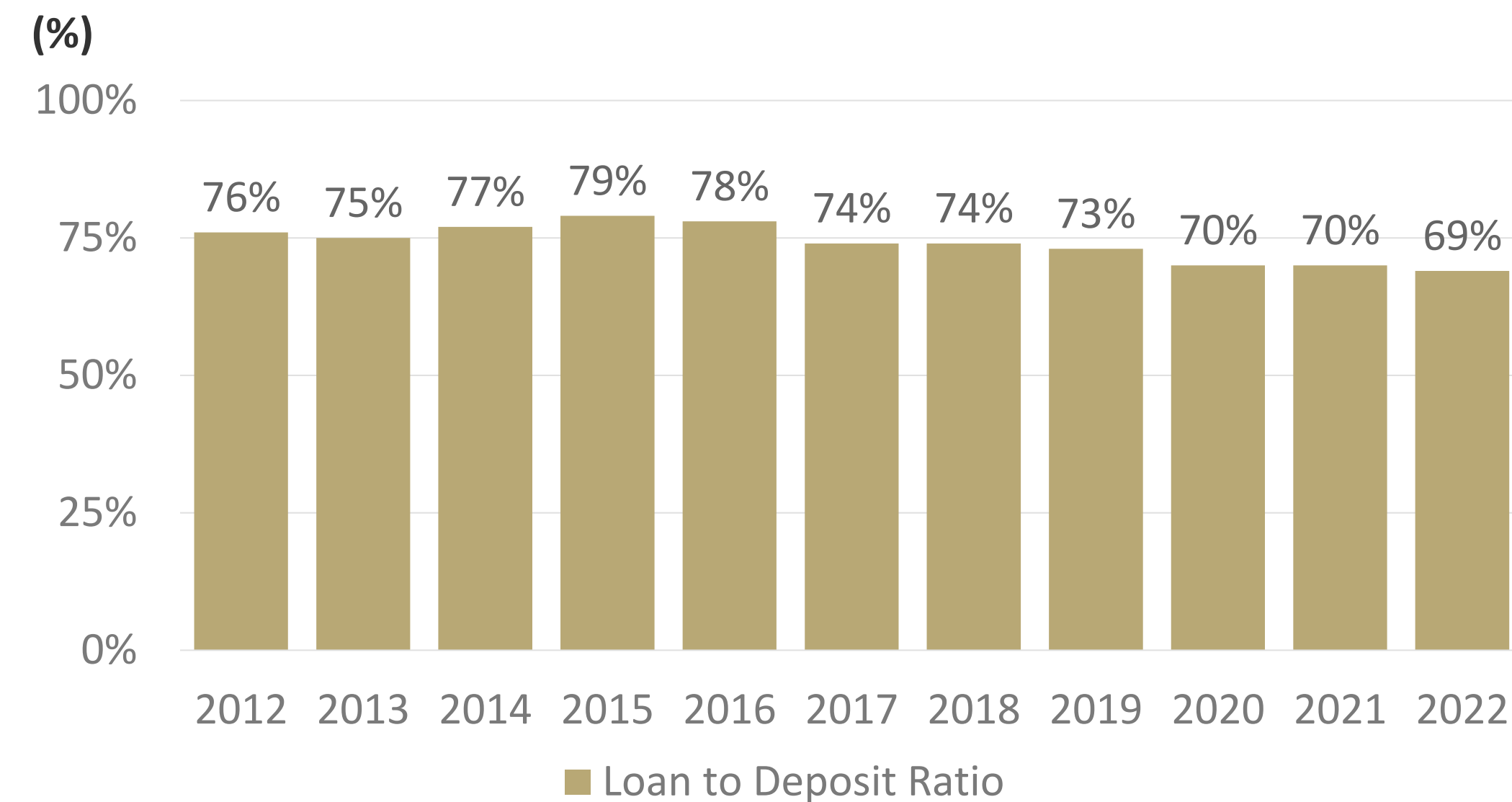
Source: Czech National Bank, European Central Bank

# ... which is Conservatively Funded and has Ample Liquidity

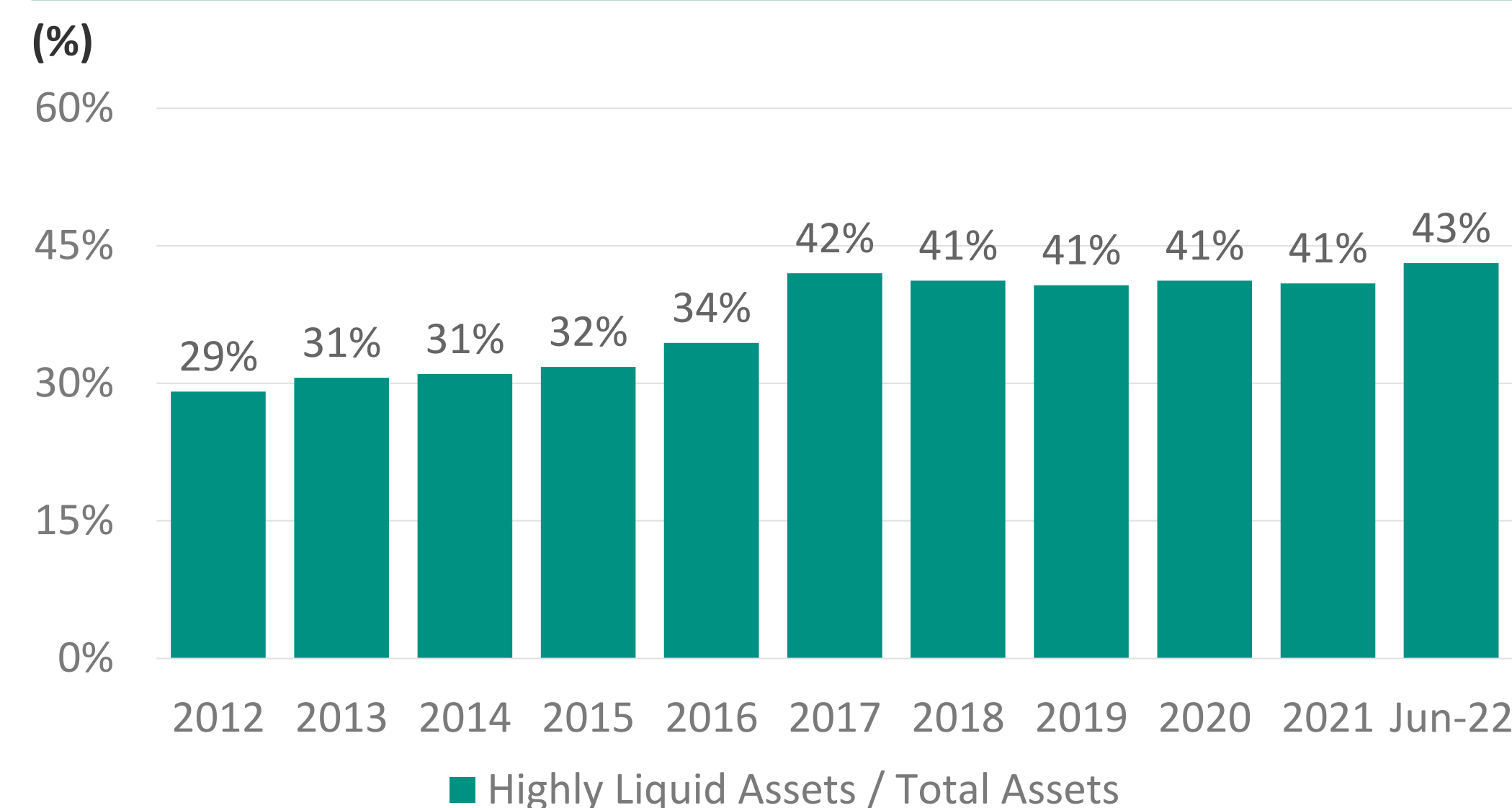
Conservatively funded banking sector with very low loan-to-deposit ratio, minimal use of wholesale funding and considerable liquidity buffer

- ◆ Czech banking sector is very conservatively funded
  - > Loan to Deposit Ratio below 70% and declining compared to the EU average exceeding 100%
  - > Nearly two thirds of all deposits are (insured) household deposits
  - > Wholesale funding (securities issuance) only accounts for ~10% of liabilities and shareholders' equity
- ◆ In addition, Czech banks hold a significant amount of highly liquid assets (e.g. T-Bills, government bonds) amounting to >40% of their total assets
- ◆ LCR at ~230% (vs the EU average of 160%) and NSFR at ~170% (vs the EU average of 130%), both well above the minimum 100% regulatory requirement

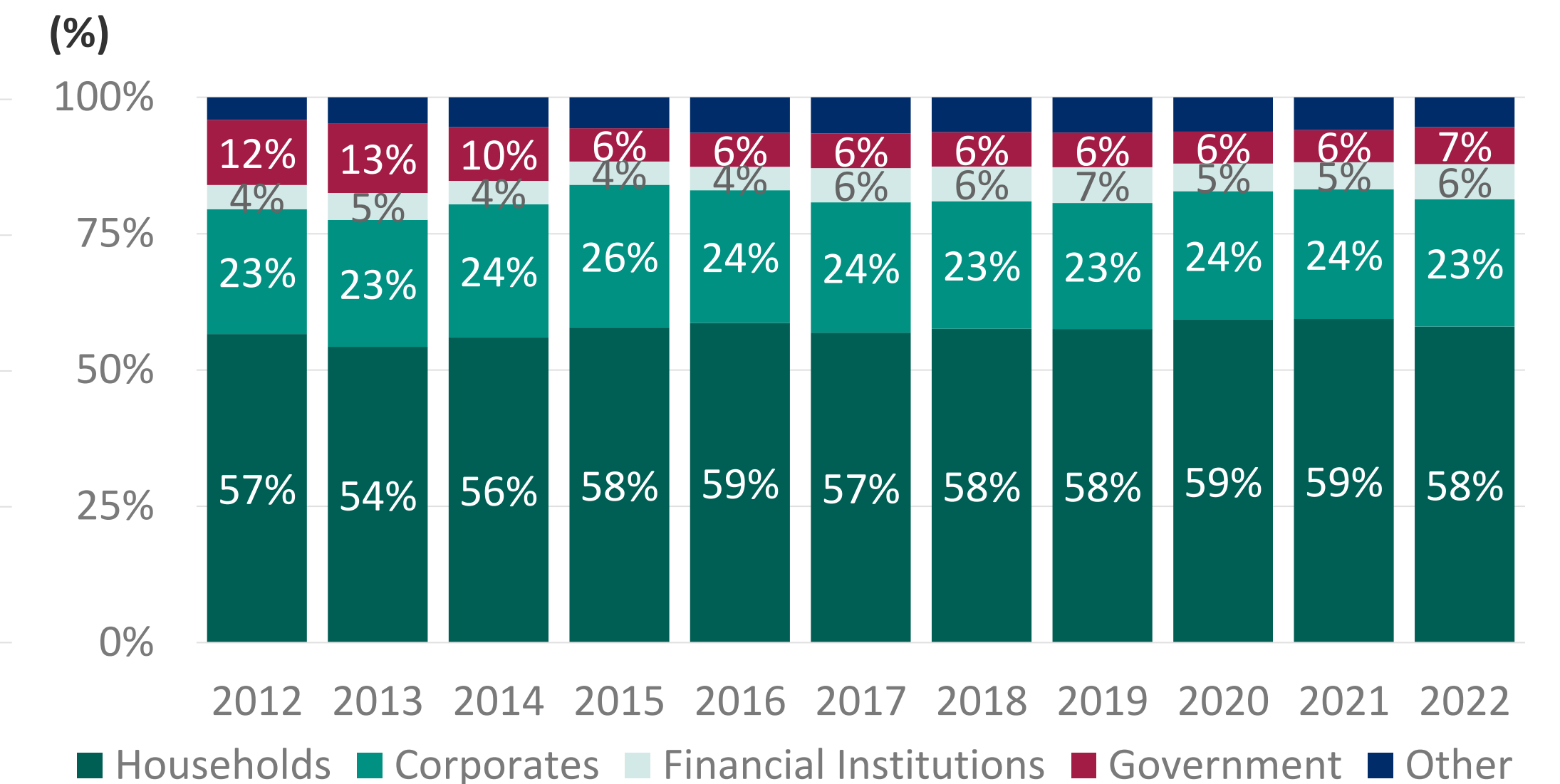
## Loan to Deposit Ratio<sup>(1)</sup>



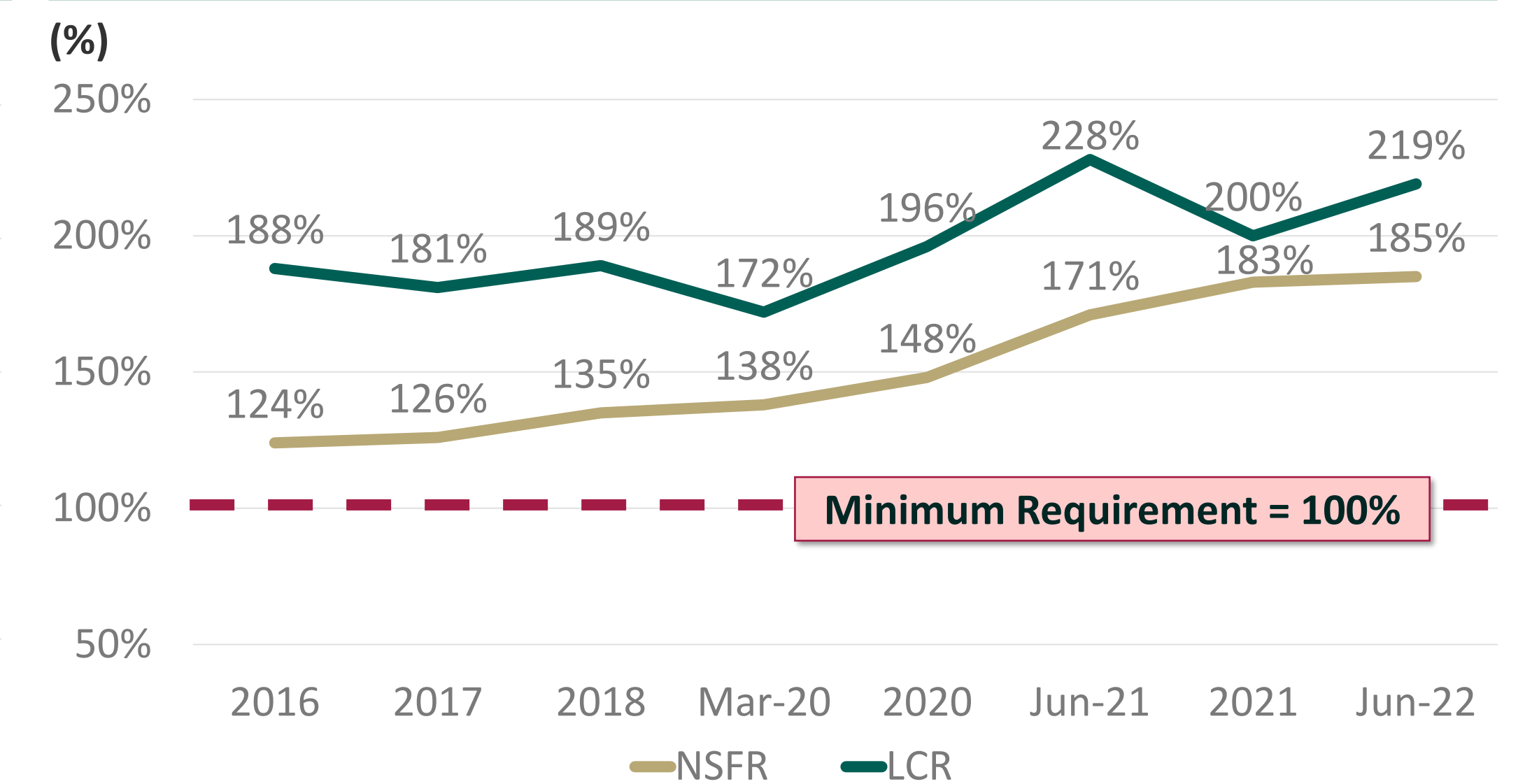
## Highly Liquid Assets / Total Assets<sup>(1)</sup>



## Banking Sector Deposit Base Breakdown



## LCR and NSFR<sup>(1)</sup>



Note: (1) Data as at 30 June 2022 is the latest available. Source: Czech National Bank, European Central Bank



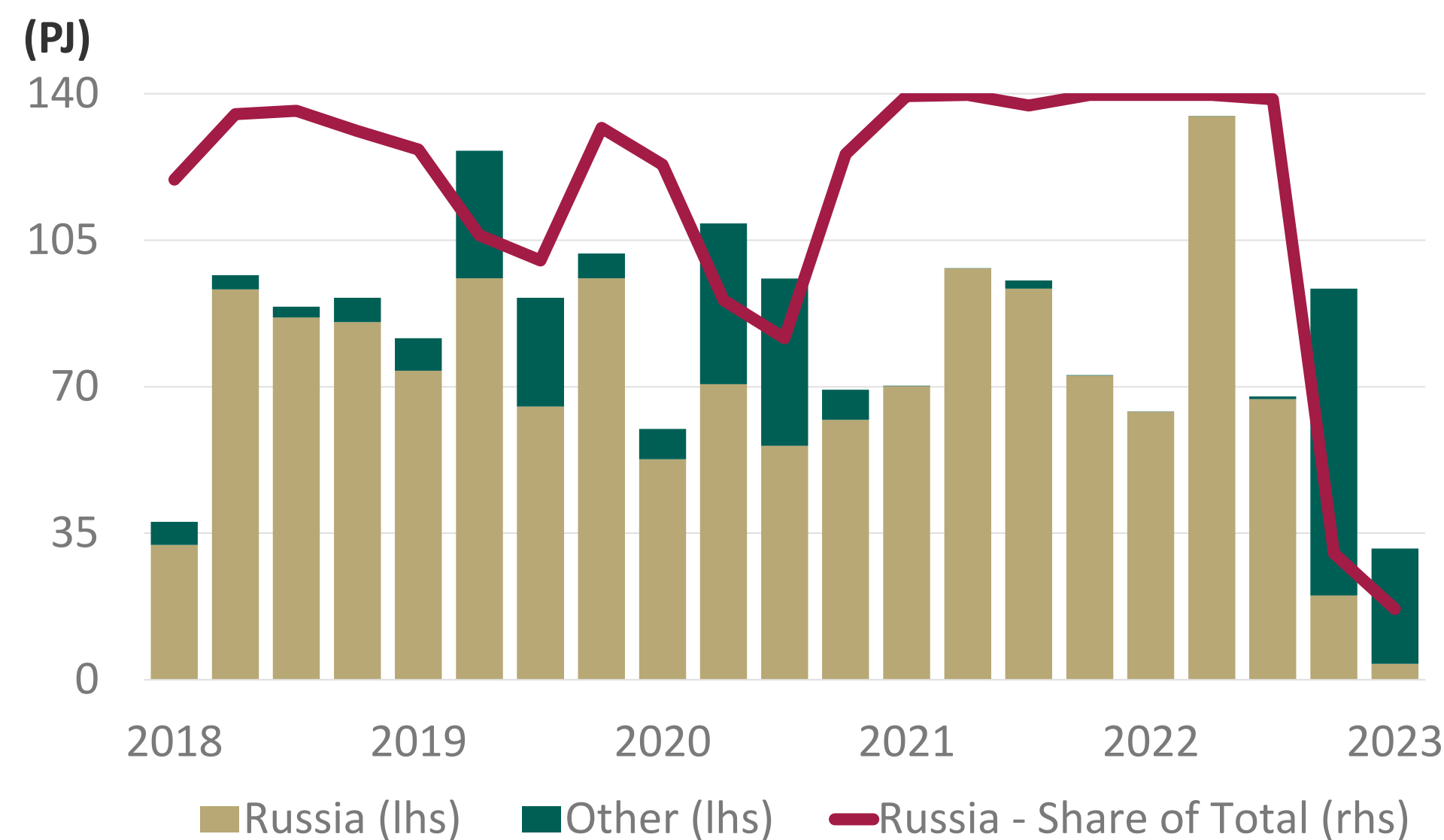
# Czech Macroeconomic Backdrop

# Czech Economy Hit Hard by the War in Ukraine

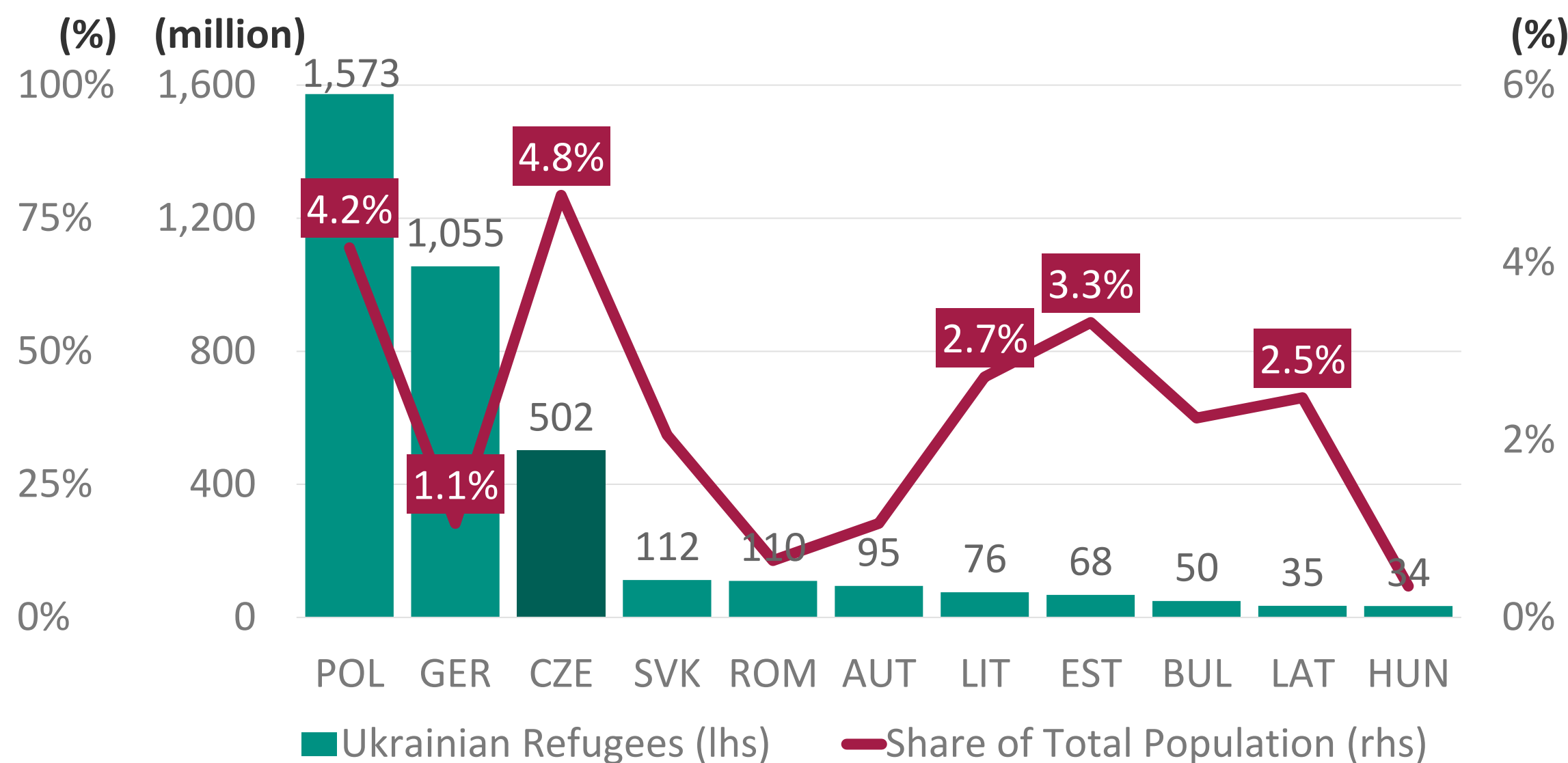
One of the hardest hit economies in the EU, in large part due to its 100% dependence on Russian gas and also an influx of Ukrainian refugees

- ◆ Dealing with the aftermath of the Covid-19 pandemics and disruptions in global supply chain already driving prices up, the Czech economy was hit hard by the Russian invasion of Ukraine and the ensuing energy crisis
- ◆ Before the war in Ukraine, Czech Republic sourced nearly all gas from Russia (albeit routed via Germany). By the end of 1Q 2023, the Russian gas supplies were entirely replaced, although at an enormous cost
- ◆ Presidential election (Feb 23), energy crisis, influx of Ukrainian refugees and Czech support of the Ukrainian war effort contributed to delays in much needed fiscal reform
- ◆ As these pressures subside, the ruling coalition intends to introduce austerity measures aimed at gradually bringing the deficit down towards the 3% Maastricht criterion

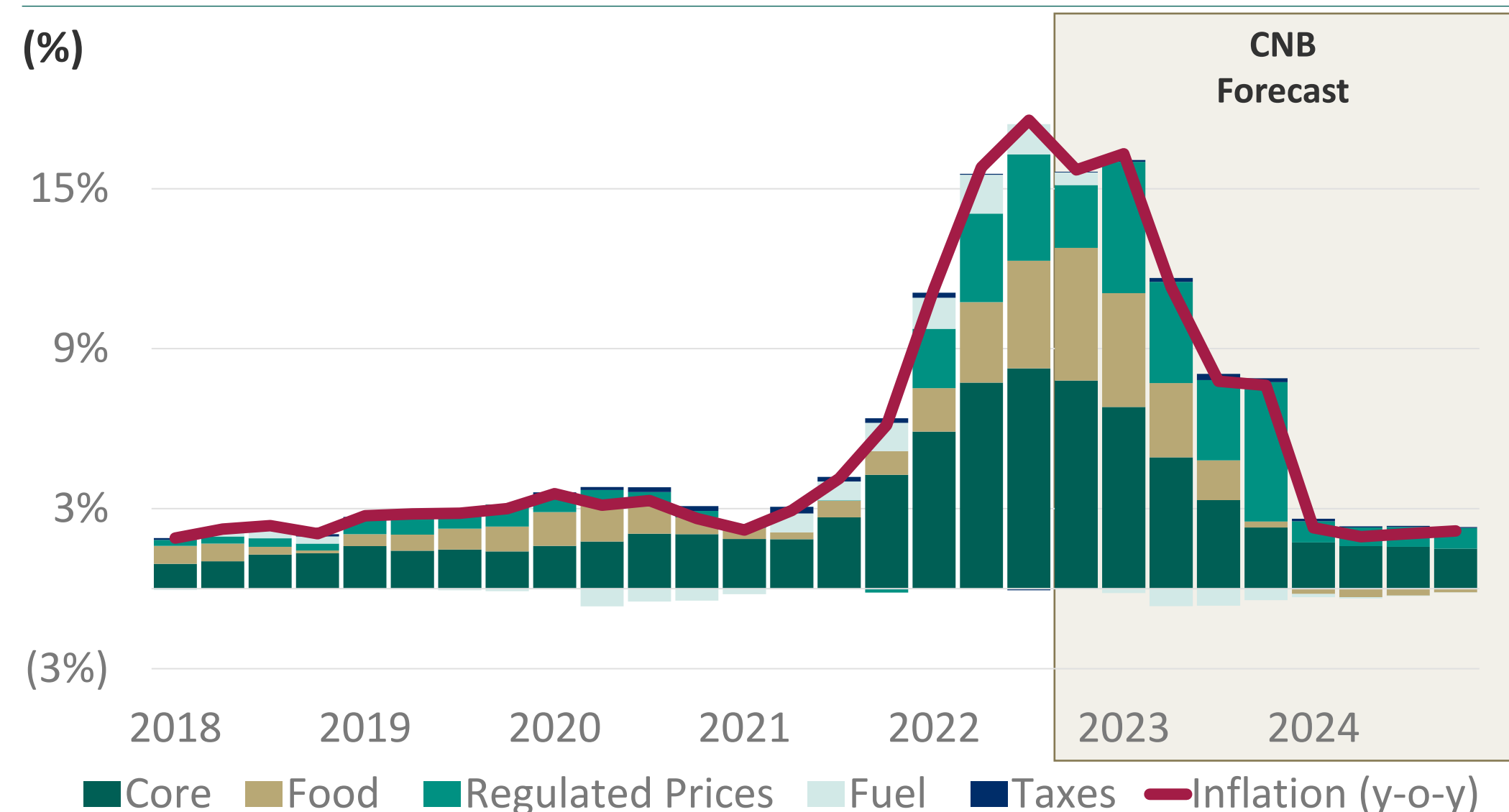
Czech Natural Gas Imports (Quarterly)



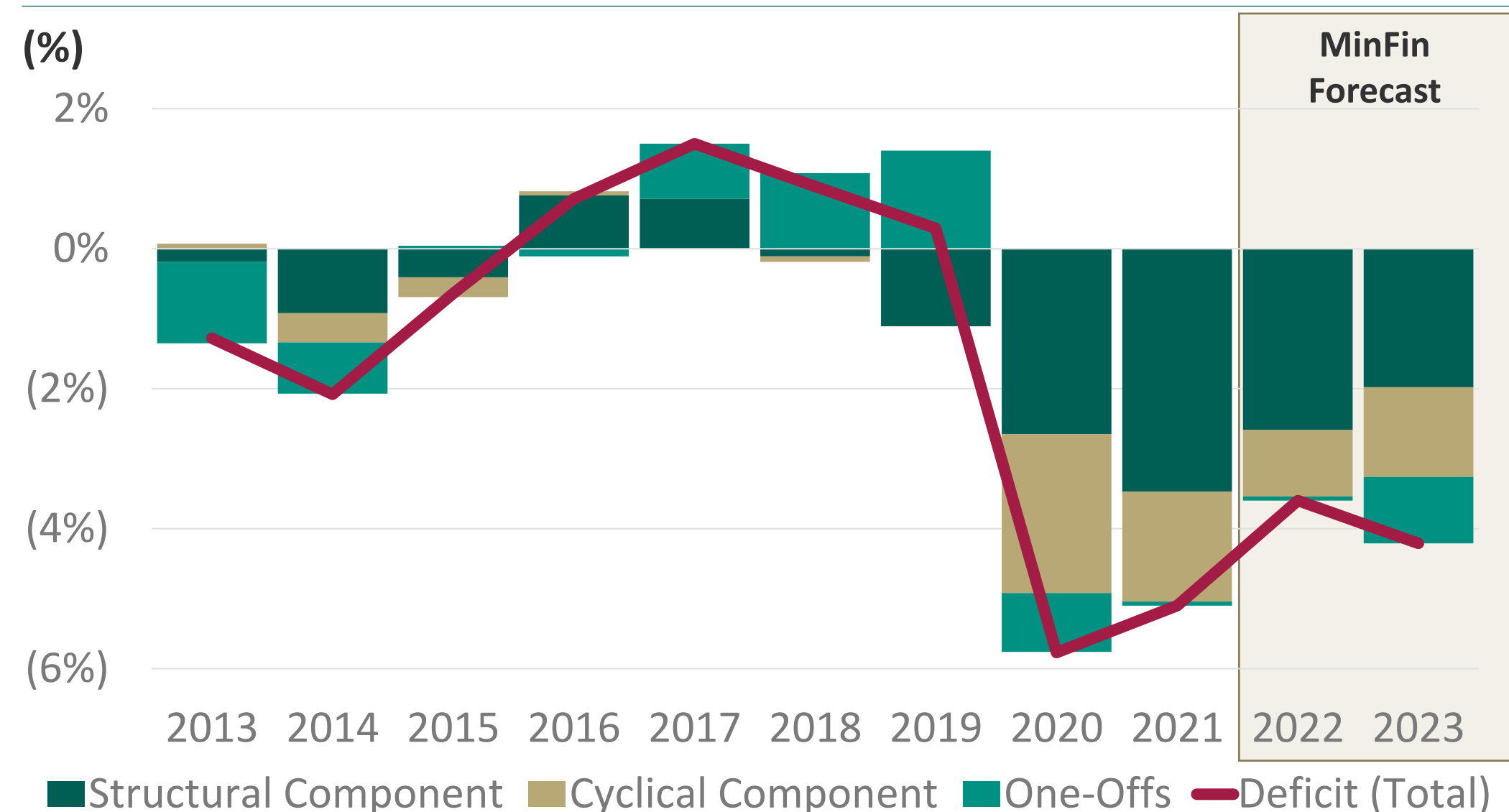
Ukrainian Refugees



Quarterly Inflation (y-o-y)



Budget Deficit



Source: Czech Statistical Office, Eurostat, United Nations (UNHCR), Czech National Bank, Czech Ministry of Finance

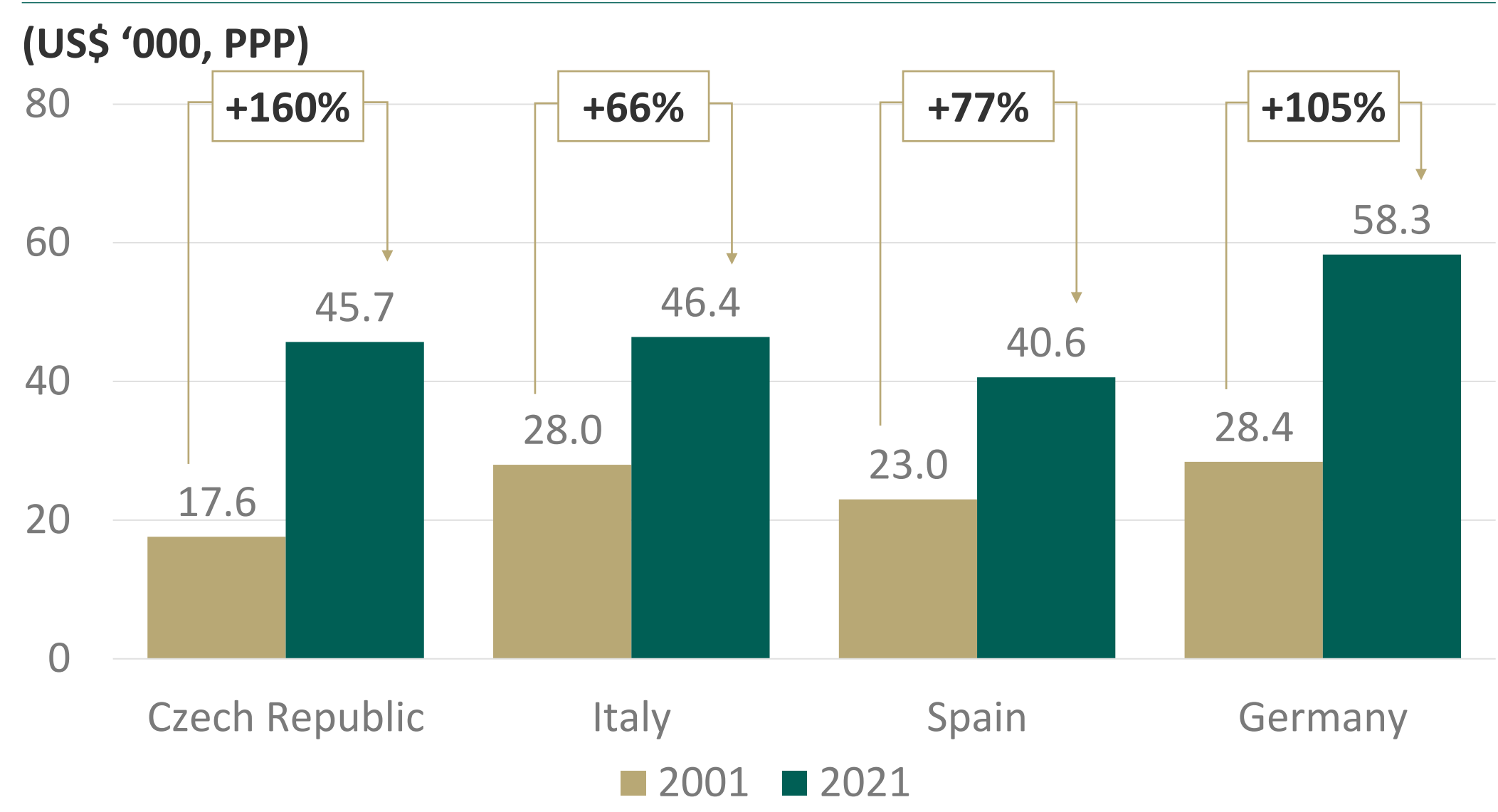


# Czech Republic's Convergence Story Still Stands

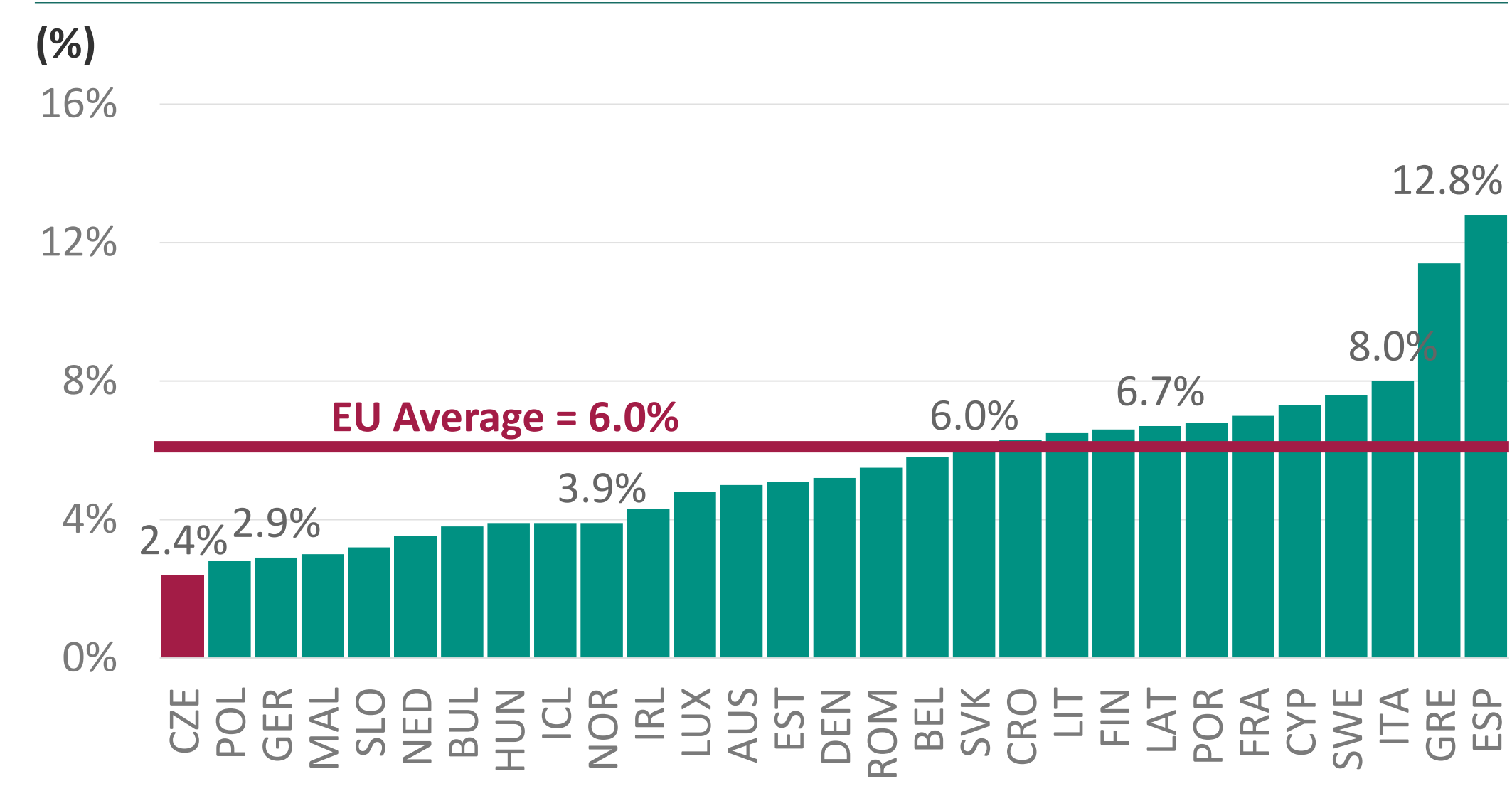
Deep integration into the EU economy and persistently the lowest unemployment rate in the EU underpin the Czech Republic's economic convergence story

- ◆ Czech Republic is deeply integrated into the EU economy and institutions (the EU is by far its biggest trading partner)
- ◆ Over the last 20 years, Czech Republic's real GDP growth has outpaced real GDP growth in most EU countries and unemployment rate has consistently been among the lowest in the EU
- ◆ As a result, Czech Republic's GDP per capita (in PPP, US\$) is now bigger than GDP per capita in Spain, on par with Italy and closing the gap to Germany in absolute terms
- ◆ While debt to GDP continues to increase given the current budget deficits, Czech Republic is still one of the least indebted EU countries
- ◆ Amid those strong fundamentals, Czech Republic is the highest rated sovereign in CEE

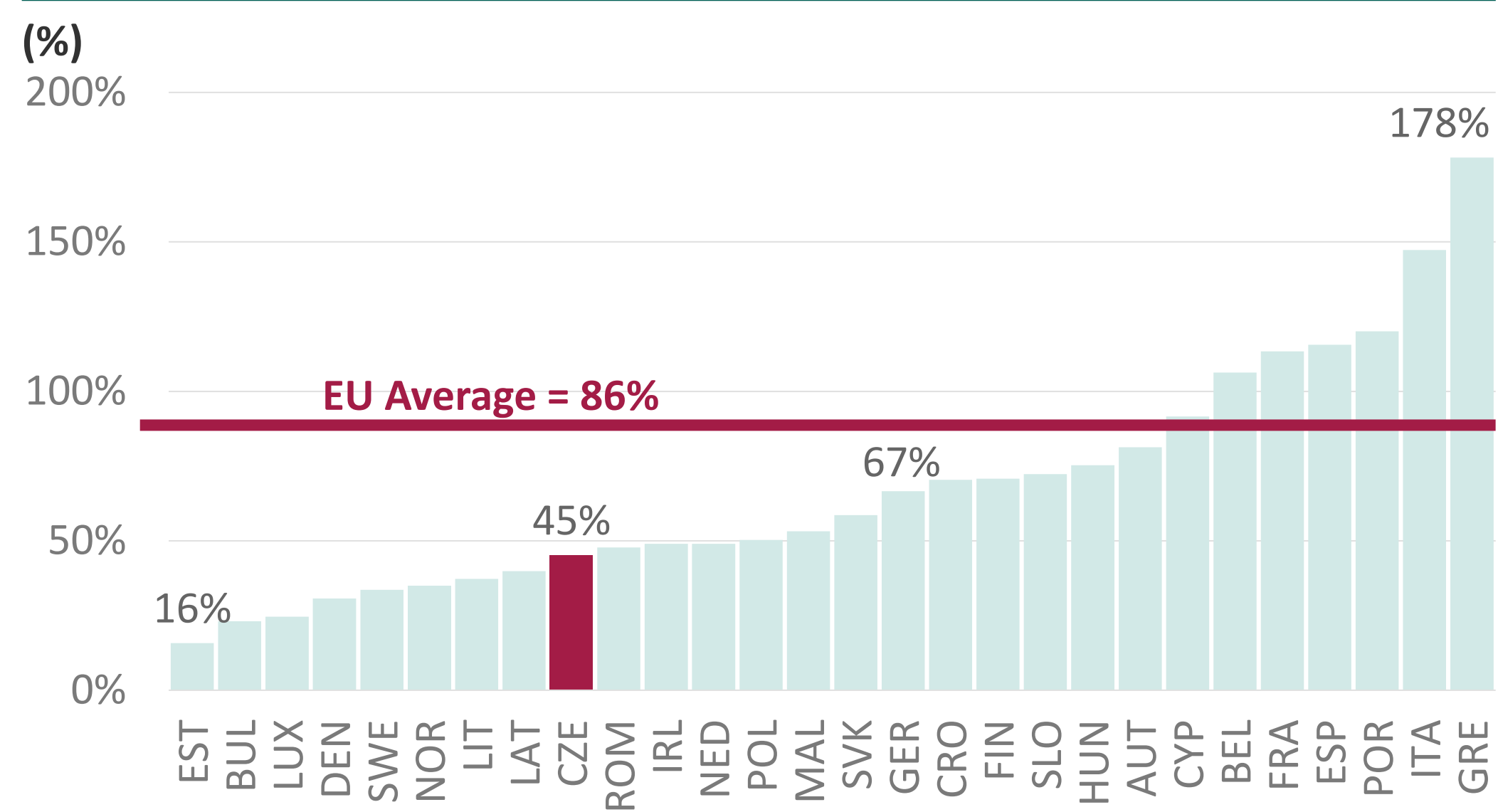
GDP / Capita (US\$, PPP)



Unemployment Rate (March 2023)



Public Debt to GDP (3Q 2022)



Sovereign Ratings – EU Countries (Moody's)

Rating	Country
Aaa	Denmark, Germany, Luxembourg, Netherlands, Sweden
Aa1	Austria, Finland
Aa2	France
Aa3	Belgium, Czech Republic, United Kingdom (non-EU)
A1	Estonia
A2	Ireland, Lithuania, Slovakia, Malta, Poland
A3	Slovenia, Latvia
Baa1	Spain, Bulgaria
Baa2	Portugal, Hungary
Baa3	Italy, Romania
Ba1	Croatia, Cyprus
Ba3	Greece

Source: Eurostat, International Monetary Fund, Czech National Bank

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