Regulatory information

In first quarter 2018, Komerční banka acquired clients, grew loans, deposits and assets under management, and updated its strategy

- **The number of KB Group clients rose to 2,397,000. Standalone Komerční banka increased the number of its clients by 13,200 year on year to 1,666,000. The number of mobile banking users climbed in the same period by 142,300 to 475,000.**
- **The overall volume of standard client deposits in KB Group expanded by 4.3%. Bank deposits from individuals grew by a swift 9.4%. Volume of assets under management in mutual funds, pension assets and life insurance was up by 5.7%.**
- **Housing loans, consumer financing and lending to small business grew at a 6% pace. Corporate lending was flat, influenced by the stronger currency and abundant liquidity in the market.**
- **Recurring operating costs increased by 1.3%, driven by personnel expenses and depreciation reflecting investments. This was offset in part by lower general administrative expenses.**
- **Supported by the favourable macroeconomic environment, the cost of risk remained very low and portfolio quality was excellent. The full application of IFRS 9 had only limited impact.**
- **Recurring net profit decreased by 8.4% to CZK 2.9 billion due to lower income from financial operations. Reported net profit dropped by 26.5%, reflecting a one-off gain in 2017 from sale of a head office building.**
- **KB updated its strategic directions in order to develop itself as real bank for real situations, become a lifetime partner of its customers, and deliver long-term sustainable profitability.**

Prague, 4 May 2018 – Komerční banka reported today its unaudited consolidated results for the first three months of 2018. Deposits from clients grew by 4.3% year on year to CZK 790.7 billion.[1] The volume of KB Group clients' assets in mutual funds, pension savings and life insurance rose by 5.7% to CZK 163.9 billion. Lending to clients increased by 2.8% to CZK 612.7 billion.[2] Within this total, financing of housing from KB and Modrá pyramida expanded by 6.4% and consumer lending by KB and ESSOX grew by 6.0%.

Total revenues declined by 3.2% to CZK 7.6 billion, mainly due to an elevated base from the previous year's gains from financial operations that were linked to strong activity among clients during the first half of 2017 in hedging currency risks (relating to the discontinuation of CNB interventions). Net interest income, the main contributing part of revenues, was higher from the year earlier due to growth in the volumes of deposits and loans, as well as increase in market interest rates that positively influenced returns from reinvestment of deposits. Recurring operating expenditures were

[1] Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 7.5% to CZK 814.7 billion.

[2] Excluding volatile reverse repo operations with clients but including debt securities issued by KB's clients and held by the Bank. Including repo, lending rose by 5.4% YoY to CZK 628.3 billion.

up by 1.3%[3] at CZK 4.1 billion, driven by personnel expenses and depreciation, while administrative costs were lower year on year. The quality of the loan portfolio remained underpinned by the supportive economic conditions, which led to an extraordinary situation enabling a CZK 0.1 billion net release of provisions for loan losses. Moreover, KB recorded a one-off gain of CZK 0.1 billion related to finalisation of the sale price for KB's former stake in the company Cataps in connection with the sale of an additional 19% of that company to Worldline S.A. in February 2018.

Recurring attributable net profit (i.e. excluding one-off contributions from sale and revaluation of headquarters buildings in 2017 and the gain related to sale of the additional stake in Cataps during 2018) decreased by 8.4% to CZK 2.9 billion. The reported net profit attributable to shareholders (including the one-off items mentioned above) was lower by 26.5%, at CZK 3.0 billion.

"The financial result of the first quarter is favourable because we have enjoyed the trust of our growing number of clients, expanded volumes of financing provided, and increased client deposits and assets under management. At the same time, we managed to grow the core revenues and kept operating expenditures firmly under control even as we continue to benefit at the cost-of-risk level from a supportive environment," remarked Jan Juchelka, KB's Chairman of the Board of Directors and Chief Executive Officer.

"Even given Komerční banka's solid standing and good results, we need to address challenges to the future operating model of the Bank, which include continuing pressure on profitability margins, clients' rapidly growing preference to access financial services via digital channels, the activity of established as well as new competitors, and swiftly developing technologies. We aim to be a lifetime partner for our clients and at the same time to provide a sense of purpose and room for growth to our employees, all while assuring long-term sustainable profitability. In accordance with this vision, we are currently updating Komerční banka's strategic direction with a KB Change 2020 plan, so that it will become more agile, lean and competitive in banking market markets while continuing to create value for its clients, employees and shareholders," Mr Juchelka added.

The capital adequacy ratio reached a strong 18.3%, and Core Tier 1 capital stood at 17.7%.

The Bank had 47,959 shareholders as of 31 March 2018 (up by 1,877 year on year), of which 42,676 were private individuals from the Czech Republic (greater by 1,927 from a year earlier). Strategic shareholder Société Générale maintained its 60.4% stake while minority shareholders owned 39.0% and KB held 0.6% of registered capital in treasury.

[3] Excluding the impact from revaluation of a headquarters building in the first quarter of 2017. If this one-off item is included, reported operating expenditures decreased by 4.5%.

Comments on business and financial results

The published financial data are from unaudited consolidated results under IFRS (International Financial Reporting Standards).

BUSINESS PERFORMANCE OF KB GROUP

Market environment[4]

Through the first quarter of 2018, the Czech economy continued to grow at a dynamic pace. The activity indicators suggest that domestic consumption and private investments were strengthening, whereas public investments lagged slightly below their potential.

Tightening in the labour market remained a trend through the beginning of this year. The growing economy was reflected in rapid creation of new jobs and very low unemployment, which Eurostat reported to stand at 2.4% in February (after seasonal adjustment).[5]

Despite inflationary pressures that reflect accelerating wage dynamics in a context of robust growth in the domestic economy, inflation remained low, at slightly below the CNB target of 2% (1.7% in March). The low inflation was mainly due to normalisation in the volatile food prices area after grocery costs had shot up in 2017. Moreover, a stronger Czech crown put a lid on the prices of imported goods.

After the CNB raised its 2-week repo rate on 1 February by 0.25% to 0.75%, the slower pace in price growth has impacted market expectations about further monetary policy reaction. The short-term 3-month PRIBOR rate increased during the quarter by 0.14 percentage points to 0.90%, but the long-term 10-year interest rate swap rate hovered around 1.8%. Although the Czech crown's generally strengthening exchange rate did not slip below 25 CZK/EUR, it was stronger by approximately 6% year on year.

Total lending[6] in the market (excluding repo operations) grew by a slight 4% year on year. The increase was driven mostly by retail lending. Lending to private corporations remained flattish and loans to the public sector declined by a substantial 16%. As in the prior quarter, companies were mainly using their own resources to finance larger shares of their investments and working capital. Meanwhile, slow implementation of investments and projects co-financed by EU funds contributed to a continuous decline in public sector borrowing. In lending to individuals, the volume of housing loans outstanding continued to expand at a pace of almost 9%. Consumer lending grew by less than 5%, which gain was modest given the good levels of consumer confidence. After a long declining trend or stagnation, average interest rates for new mortgages and consumer loans started to rise at the beginning of the year.

The volume of deposits in Czech banks expanded year on year by 6%. Growth for strong for all client segments, except private corporations.

KB's updated strategy

In order to address the key challenges existing in the Czech banking market, including the ongoing erosion of product margins due to competition and regulation, clients' swiftly escalating preference for digital banking channels, and rapid development of banking technologies, Komerční banka has

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[4] Data sources for this section: Czech Statistical Office, Czech National Bank, KB Economic Research, unless stated otherwise. Comparisons are year on year.

[5] http://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Unemployment_rates,_seasonally_adjusted,_February_2018_(%25)_F2.png

[6] Source for comments on banking market loan and deposit development: CNB statistics ARAD, www.cnb.cz

decided to update its strategic direction. Its ultimate goals are to be a lifetime partner with a human touch for active individual, small business and corporate customers, to provide employees a sense of purpose and room for growth, and to deliver long-term sustainable profitability to shareholders while acting responsibly towards society.

The updated strategy focuses on reinforcing or achieving market-leading customer satisfaction status in the target client segments throughout each client's entire lifespan. KB will differentiate itself in the market by best-in-class advisory, a relevant and comprehensive product offer leveraging the global scale of the Komerční banka and Société Générale groups, and its ability to provide better service in a simple and efficient way with tailored financial solutions.

In the years 2018–2020, KB will simplify, digitalise and accelerate key customer processes and journeys in retail and corporate segments. The simple basic services will be increasingly provided through digital and self-service tools. The Bank will be proactively seeking options for improving the experience and value it delivers to customers, including through partnerships with external providers of services that may enrich KB's offer.

Leadership, accountability and information flow will be enhanced by organisational delayering and by optimising the management span of control. Activities leading to change or improvement in the Bank's functions, which represent approximately 30% of headquarters activities, will be organised in agile cross-functional teams built around specific client needs or journeys, with advanced data analytical capacities. Mainly to further strengthen its concentration on client satisfaction, KB will also upgrade the employee motivational schemes. The operating model for the retail network will adapt to the pace of change in consumption of banking services, the network management structure will be simplified, the number of branches will be reduced by 10-15%, and the Bank will increase the share of branches wherein cash services are provided through deposit-taking ATMs. The capacity to share specialised expertise by remote means will be enhanced.

The KB Change 2020 plan is designed to generate recurring financial benefits in terms of faster growth of revenues and gross operating income, mainly driven by stronger growth of lending and assets under management; savings in operating expenditures from improved overall efficiency; and, in the later stage, savings in needed capital expenditures due to improved processes and allocation efficiency. Implementation of the plan will bring a net positive financial contribution starting from 2019.

In support of achieving the plan's goals, KB will enhance its investments in 2018 and 2019, mainly focused on improving its capacity for provision and sales of services through digital channels.

KB is assessing the scope of activities and investments to be undertaken within the KB Change Plan, as well as expenditures directly generated from these steps. Upon finalisation of this assessment during 2Q 2018, KB might consider recognition of costs related to optimisation of certain activities.

Developments in the client portfolio and distribution networks

At the close of March 2018, KB Group was serving 2,397,000 clients on a consolidated basis (+0.4% year on year). Standalone KB recorded 1,666,000 clients (+0.8% year on year), of which 1,408,000 were individuals. The remaining 258,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 486,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 532,000. Services of ESSOX Group (including PSA Finance franchise) were being used by 215,000 active clients.

Komerční banka's clients had at their disposal 382 banking branches (including one branch for corporate clients in Slovakia), 760 ATMs (of which 252 were deposit-taking ATMs), plus full-featured direct banking channels supported by two call centres. The number of clients using at least one direct banking channel (such as internet or telephone banking) reached 1,430,000 by the end of March 2018 and corresponds to 85.9% of all clients. Mobile banking was itself being used by almost 475,000 of KB's clients. Customers held 1,578,000 active payment cards, of which 182,000 were credit cards. The number of active credit cards issued by ESSOX came to 107,000. Modrá pyramida's customers had at their disposal 212 points of sale and approximately 1,000 advisors. SG Equipment Finance (SGEF) was providing its leasing services via nine branches (two of which are in Slovakia), as well as through KB's network.

Loans to customers

Total **gross volume of lending to clients** rose by 2.8% year on year to CZK 612.7 billion.[7]

In lending to individuals, the overall volume of housing loans[I] grew by 6.4% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 4.8% to CZK 220.3 billion. Modrá pyramida accelerated growth of its portfolio to reach 14.6% year on year (CZK 45.2 billion). The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up by 6.0% to CZK 37.8 billion.

The total volume of **loans** provided by KB Group **to businesses** rose just slightly (by 0.2% year on year) to CZK 309.8 billion. This growth rate was below its potential due to strengthening of the Czech currency,[8] increased issuance of bonds by corporations, and intense competition in the market characterised by abundant liquidity. Lending to small businesses grew by 5.8% to CZK 34.4 billion. Impacted by the aforementioned factors, the overall CZK volume of credit granted by KB to medium-sized and large corporate clients in the Czech Republic and Slovakia (inclusive of factor finance outstanding at Factoring KB and business lending by PSA Finance), at CZK 249.4 billion, most impacted by the aforementioned factors, was flattish (- 0.7% year on year). At CZK 26.0 billion, the total credit and leasing amounts outstanding at SGEF were up by 1.9% year over year.

Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group rose by 4.3% year on year to CZK 790.7 billion.[9]

Deposits at Komerční banka from individual clients grew by a swift 9.4% from the year earlier to CZK 258.0 billion. The deposit book at Modrá pyramida contracted by 3.5% to CZK 61.6 billion due to maturing old contracts. Total deposits from businesses and other corporations climbed by 3.6% to CZK 457.7 billion.

Client assets managed by KB Penzijní společnost were higher by 8.4%, at CZK 54.2 billion. Technical reserves in life insurance at Komerční pojišťovna were at almost the same level as a year earlier (-0.2%) at CZK 47.3 billion. The volumes in mutual funds held by KB Group clients grew by 8.3% to CZK 62.4 billion.

The Group's liquidity as measured by the ratio of net loans[10] to deposits (excluding repo operations with clients but including debt securities held by KB issued by the Bank's clients) was at 75.6%.

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[7] Excluding volatile reverse repo operations with clients, but including debt securities issued by KB's corporate clients.

[8] Appreciation of the crown reduced the CZK value of loans denominated in euro (by 5.9% year on year). Euro-denominated loans comprise approximately one-third of KB Group's business loan portfolio.

[9] Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' climbed by 7.5% to CZK 814.7 billion.

[10] Gross volume of loans reduced by the volume of provisions.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement

As part of updating its reporting methodology, and mainly in the context of implementing the new IFRS 9 reporting standard, Komerční banka reclassified with effect from 1 January 2018 certain items of the Income Statement and the Statement of Financial Position. For improved information value, the comparative comments below are based on a pro-forma retrospective restatement of the respective accounting lines of the Income Statement from 2017.

Komerční banka's **revenues** (**net operating income**) for the first three months of 2018 decreased by 3.2% year on year to CZK 7,571 million. This drop was due to a high base of net profit from financial operations in the first half of 2017, when the CNB's discontinuation of its currency commitment had boosted clients' activity in hedging financial risks. On the other hand, core revenues went up as net interest income improved and net fees and commissions were almost stable.

Net interest and similar income[11] was up by 2.6% to CZK 5,349 million. Growth in interest income was slower than the volume growth of deposits and loans, mainly because intense competition on the banking market pushed down spreads on loans. Although the decline in product spreads was most pronounced in retail lending, the rates on new mortgages and consumer loans did start to pick up in the first quarter.[12] Higher interbank rates supported yields from reinvestment of deposits and capital. The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.2% in the first quarter 2018.[13]

Net fee and commission income[14] moved lower by a slight 0.7% to CZK 1,505 million. The overall number of transactions executed by clients increased, most notably in card and foreign payments. Transaction fees declined, however, due to repricing of account packages in 2017. This was partly offset by higher income from account maintenance, as the number of active accounts went up. Fees from cross-selling were higher, supported mainly by volume growth in mutual funds. Income from loan services declined, influenced by decreasing maintenance fees from housing loans in KB and Modrá pyramida and lower fees from certain loans to business clients. Fees from specialised financial services and other fees were somewhat higher year on year.

Net profit on financial operations decreased by 37.2% to CZK 660 million. A decline had been expected, because the 2017 result had been boosted by clients' exceptionally strong currency hedging activity before and shortly after the CNB eliminated its floor under the CZK exchange rate on 6 April 2017. The Bank booked relatively fewer large deals during the first quarter of 2018, which also affected the result. Fees and commissions from FX transactions were lower, reflecting a smaller volume of currency conversions and payments.

Dividend and other income rose by 38.1% to CZK 58 million. This line primarily comprised revenues from intermediation and property rental.

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[11] As from 1 January 2018, Komerční banka reclassified fees for early repayment of loans, compensating the bank for a loss from necessary adjustments of the hedging position, from 'Net fee and commission income' to 'Net interest income'. The 2017 base for the comments in this announcement has been restated.

[12] Source: ARAD Statistics of the Czech National Bank, www.cnb.cz

[13] Net interest margin stood at 2.3% in the first quarter of 2017, but the ratios are not fully comparable, because of impact from application of the new IFRS 9 standard on certain balance sheet values.

[14] As from 1 January 2018, Komerční banka reclassified fees for early repayment of loans, compensating the Bank for a loss from necessary adjustments in the hedging position, from 'Net fee and commission income' to 'Net interest income'. The 2017 base for the comments in this announcement has been restated.

Recurring **operating expenses** were up by a modest 1.3% to CZK 4,060. Including the prior year's one-off impairment of a headquarters building, reported operating expenses were down by 4.5%. Personnel expenses were higher by 4.8% at CZK 1,847 million, reflecting higher average remuneration and a 0.5% increase in the average number of employees to 8,498. General administrative expenses (excluding the regulatory funds) were lower by greater by 6.3%, at CZK 928 million. Part of that decrease, however, is due to changes in the timing of some activities and campaigns. The estimated full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) was booked at CZK 852 million, down 0.5% year on year. Recurring depreciation and amortisation increased by 8.3% to CZK 433 million, driven mainly by new and upgraded software and equipment. This figure is nevertheless lower by 32.6% compared to the value on the line 'Depreciation, impairment and disposal of assets' for first quarter 2017, where an impairment charge for a headquarters building recognised last year is also included.

Profit before allowances for loan losses, provisions for other risk, profit on subsidiaries and income tax (gross operating income) for the three months of 2018 was down by 1.6% to CZK 3,512 million. Recurring gross operating income, excluding one-off impairment of a building booked in first quarter 2017, was down by 7.9%.

Cost of risk was calculated in accordance with the methodology established by the new accounting standard IFRS 9, which changes the classification methodology of receivables and requires booking credit risk provisions on the basis of expected loss. The first-time application of the standard led to an increase in the balance of provisions, created via a charge to the equity account, but the impact on provisioning in the first quarter was very limited. Cost of risk continued to benefit from a supportive economic environment in the Czech Republic and Europe. The default rates remained low, and KB recorded a positive performance from recovery activities and sales of defaulted exposures. This led to an extraordinary net release of provisions in the amount of CZK 83 million. This translates into -5 bps in relative terms as measured over the average volume of the lending portfolio in the first quarter of 2018.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) increased by 12.7% to CZK 62 million. **Profit attributable to exclusion of companies from consolidation** reached CZK 82 million (CZK 0 in three months of 2017) related to finalisation of the sale price for KB's stake in Cataps in connection with the sale of an additional 19% in Cataps in February 2018.

Net profit from other assets reached CZK 14 million for the first quarter, generated from sales of buildings in the held-for-sale portfolio. This had been CZK 1,092 million in the same period of last year when it had included also gain from the sale of a headquarters building.

Income tax increased by 10.2% to CZK 678 million. If the tax effect of the one-off items were to be excluded, income taxes would be down by 2.3%.

KB Group's consolidated **net profit** for the first quarter of 2018, at CZK 3,074 million, was lower by 26.5% in comparison with the prior year's first quarter. Of this amount, CZK 75 million was profit attributable to the Non-controlling owners of minority stakes in KB's subsidiaries (−27.9% versus the year earlier).

Reported **net profit attributable to the Group's equity holders** totalled CZK 2.999 million, which is 26.5% less than in the first quarter of 2017. Recurring attributable net profit (i.e. excluding one-off effects from revaluation and sale of headquarters buildings in 2017 and from finalisation of the sale price for Cataps in 2018) diminished by 8.4% to CZK 2,917 million.

Other comprehensive income, which derives from mainly from revaluations and remeasurements of some hedging, foreign exchange and securities positions reached CZK -203 million. **The Group's comprehensive income** for first quarter 2018 amounted to CZK 2,796 million.

Statement of financial position

Unless indicated otherwise, the following text provides a comparison of the balance sheet values as of 31 March 2018 with the values from the statement of financial position as of 1 January 2018 after first-time application of IFRS 9. Due to a change in accounting methodology for measurement and classification of certain assets, comparison with the audited statement of financial position as of 31 December 2017 would be less meaningful.

Assets
As of 31 March 2018, KB Group's total assets had risen by 8.4% year to date to CZK 1,085.6 billion.

Cash and current balances with central banks were down by 50.6% to CZK 16.1 billion. A large component of this item is comprised of liquidity reserves at central banks.

IFRS 9 introduced a new approach to the classification and measurement of financial assets, a new credit risk impairment methodology and new hedge accounting rules. Financial assets must be classified based on the entity's business model for managing the financial assets and the financial asset's contractual cash-flow characteristics. According to the determined business model, financial assets are measured at amortised cost, at fair value through profit or loss, or at fair value through other comprehensive income.

Financial assets at fair value through profit or loss (trading securities and derivatives and financial assets whose cash flows do not comprise solely payments of principal and interest) increased by 12.6% to CZK 24.2 billion.

The fair value of hedging financial derivatives went down by 4.8% and reached CZK 12.8 billion. A slight year to date decline by 1.6% was also seen in financial assets at fair value through other comprehensive income amounting to CZK 23.7 billion at the end of March. This consisted mainly of public debt securities.

Financial assets at amortised cost increased by 11.1% and reached CZK 985.0 billion. The biggest portion of this, loans and advances to customers, went up by 3.8% to CZK 616.1 billion. A 97.1% proportion of the gross amount of client loans was classified in Stage 1 or Stage 2 class, while 2.9% of the loans were classified in Stage 3 (non-performing loans.) Loans and advances to banks rose by 32.3% and reached CZK 294.8 billion. The majority of this item consists in reverse repos with the central bank. Debt securities went up as well, growing by 5.3% to reach CZK 74.0 billion at the end of Q1.

Revaluation differences on portfolio hedge items shrank by 28.3% to CZK -0.2 billion. Current and deferred tax assets stood at CZK 0.4 billion. Other assets and accrued accounts, which include receivables from security trading and settlement balances grew overall by 8.9% to reach CZK 6.3 billion. Assets held for sale diminished by 65.3% to CZK 0.1 billion.

Investments in subsidiaries and associates increased by 3.8% and reached CZK 1.2 billion.

The net book value of tangible assets rose by 0.2% to CZK 7.4 billion and intangible assets grew by 1.9% to reach CZK 4.8 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF and ESSOX, remained unchanged at CZK 3.8 billion.

Liabilities
Total liabilities were 9.0% higher in comparison to the beginning of 2018 and reached CZK 984.6 billion.

Financial liabilities at amortised costs went up by 8.9% to CZK 926.9 billion. The biggest portion of this total, amounts due to customers, was larger by 6.9%, reaching CZK 814.7 billion. This total included CZK 24.0 billion of liabilities from repo operations with clients and CZK 6.6 billion of other payables to customers. Amounts due to banks increased in 2018's first quarter by 26.2% to CZK 106.1 billion.

The volume outstanding of securities issued increased by 26.9% to CZK 6.1 billion.

Revaluation differences on portfolios hedge items became diminished by 51.1% to CZK -0.7 billion. Current and deferred tax liabilities were unchanged at CZK 1.0 billion. Other liabilities and accruals which include payables from securities trading and settlement balances rose by 20.9% to CZK 22.8 billion.

Provisions decreased by 4.9% to CZK 1.9 billion. The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, self‑insurance and the retirement benefits plan.

Subordinated debt, at 2.5 billion, was down 0.4% year to date, as it is issued in euros and the euro has weakened against the Czech crown.

Equity
Equity increased year to date by 2.9% to CZK 101.0 billion predominantly as a result of accruing the profit of the current year. Of this total, value of non-controlling interests reached CZK 3.8 billion. As of 31 March 2018, KB held in treasury 1,193,360 of its **own shares** constituting 0.63% of the registered capital.

Total **regulatory capital** for the capital adequacy calculation totalled CZK 79.9 billion as of 31 March 2018, up 9.8% year on year. **Capital adequacy** stood at 18.3%. The Core Tier 1 capital amounted to CZK 77.3 billion (+6.3% year on year), and the Core Tier 1 ratio was at 17.7%. The Tier 2 capital amounted to CZK 2.5 billion, or 0.6% of risk-weighted assets.

KB's overall capital requirements as of 1 January 2018 reached 15.5% in relation to the consolidated volume of risk-weighted assets. The required minimum Core Tier 1 capital level is 11.625% and the minimum Tier 1 capital ratio stands at 13.5%.

The CNB announced a further increase in the countercyclical capital buffer for Czech exposures with effect from 1 July 2018 by 50 basis points (to 1.00%) and with effect from 1 January 2019 by an additional 25 basis points (to 1.25%).

As measured by the Liquidity Coverage Ratio, KB's liquidity throughout the first quarter of 2018 safely met requirements established by the applicable regulations.

Changes in the Group structure

With effect from 1 January 2018, the company PSA FINANCE ČESKÁ REPUBLIKA s.r.o. was merged with its sole owner, ESSOX s.r.o. That entity will continue to operate under the name ESSOX s.r.o.

As of 1 January 2018, the company PSA FINANCE SLOVAKIA, s.r.o. changed its name to ESSOX

FINANCE, s.r.o., with registered address at Karadžičova 16, 821 08 Bratislava, Slovak Republic. ESSOX FINANCE, s.r.o. is fully owned by ESSOX s.r.o.

ESSOX s.r.o. is owned by Komerční banka (with a 50.93% stake) and SG Consumer Finance (with the remaining 49.07%).

On 27 February 2018, KB announced the sale of its 19% stake in the company Cataps, s.r.o., with registered office at Lazarská 11/6, 120 00 Prague 2, registration no. 036 33 144 (Cataps) to Worldline SA/NV, with registered office at Haachtsesteenweg 1442, 1130 Brussels, Belgium (Worldline). Upon concluding this transaction, KB's remaining stake is 1% of Cataps.

KB

Regulatory information

ANNEX: Consolidated results as of 31 March 2018 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	Reported 1Q 2017	Reported 1Q 2018	Reported Change YoY	Recurring 1Q 2017	Recurring 1Q 2018	Recurring Change YoY
Net interest income and similar income	5,214	5,349	2.6%	5,214	5,349	2.6%
Net fee & commission income	1,515	1,505	-0.7%	1,515	1,505	-0.7%
Net profit of financial operations	1,051	660	-37.2%	1,051	660	-37.2%
Dividend and other income	42	58	38.1%	42	58	38.1%
Net banking income	**7,821**	**7,571**	**-3.2%**	**7,821**	**7,571**	**-3.2%**
Personnel expenses	-1,763	-1,847	4.8%	-1,763	-1,847	4.8%
General admin. expenses (excl. regulatory funds)	-990	-928	-6.3%	-990	-928	-6.3%
Resolution and similar funds	-856	-852	-0.5%	-856	-852	-0.5%
Depreciation, amortisation and impairment of operating assets	-642	-433	-32.6%	-400	-433	8.3%
Total operating expenses	**-4,251**	**-4,060**	**-4.5%**	**-4,009**	**-4,060**	**1.3%**
Gross operating income	**3,570**	**3,512**	**-1.6%**	**3,812**	**3,512**	**-7.9%**
Cost of risk	83	83	0.0%	83	83	0.0%
Net operating income	**3,653**	**3,594**	**-1.6%**	**3,895**	**3,594**	**-7.7%**
Income from share of associated companies	55	62	12.7%	55	62	12.7%
Profit/(loss) attributable to exclusion of companies from consolidation	0	82	n.a.	0	0	n.a.
Net profits on other assets	1,092	14	-98.7%	33	14	-57.6%
Profit before income taxes	**4,800**	**3,752**	**-21.8%**	**3,983**	**3,670**	**-7.9%**
Income taxes	-615	-678	10.2%	-694	-678	-2.3%
Net profit	**4,185**	**3,074**	**-26.5%**	**3,289**	**2,992**	**-9.0%**
Profit attributable to the Non-controlling owners	104	75	-27.9%	104	75	-27.9%
Profit attributable to the Group's equity holders	**4,081**	**2,999**	**-26.5%**	**3,185**	**2,917**	**-8.4%**

Notes for results on a recurring basis:

1Q 2017: Adjusted for net positive contribution from the sale and revaluation of KB's headquarters buildings (CZK 242 mil. in Depreciation, amortisation and impairment of operating assets; CZK 1,059 mil. in Net profit on other assets; CZK 79 mil. in Income taxes).

1Q 2018: Finalisation of sale price for KB's former stake in Cataps in connection with the sale of additional 19% in Cataps (CZK 82 mil. in Profit attributable to exclusions of companies from consolidation)

KB

Regulatory information

Statement of financial position (CZK million, unaudited)	**31 Mar 2017 According to IAS 39**	**31 Dec 2017 According to IAS 39**	**1 Jan 2018 According to IFRS 9**	**31 Mar 2018 According to IFRS 9**	**Ytd**
Assets	**1,035,880**	**1,004,039**	**1,001,652**	**1,085,628**	**8.4%**
Cash and current balances with central bank	202,454	32,663	32,663	16,147	-50.6%
Loans and advances to banks	82,751	228,373	222,821	294,847	32.3%
Loans and advances to customers (net)	581,554	598,102	593,639	616,082	3.8%
Securities and trading derivatives	128,487	108,468	115,913	121,949	5.2%
Other assets	40,633	36,432	36,616	36,604	0.0%
Liabilities and shareholders' equity	**1,035,880**	**1,004,039**	**1,001,652**	**1,085,628**	**8.4%**
Amounts due to banks	104,898	84,050	84,050	106,087	26.2%
Amounts due to customers	758,150	762,043	762,043	814,673	6.9%
Securities issued	13,961	4,832	4,832	6,133	26.9%
Subordinated debt	0	2,560	2,560	2,548	-0.5%
Other liabilities	52,034	50,208	50,005	55,145	10.3%
Total equity	106,837	100,346	98,162	101,041	2.9%

KB

Regulatory information

Key ratios and indicators	31 Mar 2017	31 Mar 2018	Change year on year
Capital adequacy (CNB)	15.7%	18.3%	▲
Tier 1 ratio (CNB)	15.7%	17.7%	▲
Total risk-weighted assets (CZK billion)	462.7	437.3	-5.5%
Risk-weighted assets for credit risk (CZK billion)	392.3	363.7	-7.3%
Net interest margin (NII/average interest-bearing assets)[II]	n.a.*	2.2%	
Loans (net) / deposits ratio[III]	n.a.*	75.6%	
Cost / income ratio[IV]	54.4%	53.6%	▼
Return on average equity (ROAE)[V]	n.a.*	12.5%	
Return on average regulatory capital[VI]	22.6%	15.1%	▼
Return on average assets (ROAA)[VII]	n.a.*	1.1%	
Earnings per share (CZK)[VIII]	86	64	-26.5%
Average number of employees during the period	8,459	8,498	0.5%
Number of branches (KB standalone in the Czech Republic)	391	381	-10
Number of ATMs	767	760	-7
Number of clients (KB standalone)	1,653,000	1,666,000	0.8%

* n.a. - according to the IAS 39 principles, the following financials were amouting to:

Reported as of 31/03/2017:

- NIM (annualised): 2.3%;
- Loan (net)/deposit ratio (excl. Repo with clients): 76.7%,
- ROAE (annualized): 16.0%,
- ROAA (annualized): 1.7%

Business performance in retail segment – overview	31 Mar 2018	Change year on year
Mortgages to individuals – volume of loans outstanding	220.3 billion	4.8%
Building savings loans (MPSS) – volume of loans outstanding	45.2 billion	14.6%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	37.8 billion	6.0%
Small business loans – volume of loans outstanding	34.4 billion	5.8%
Total active credit cards – number	182,000	-4.8%
– of which to individuals	143,000	-5.1%
Total active debit cards – number	1,396,000	0.6%
Insurance premiums written (KP)	1.3 billion	-40.0%

Financial calendar for the rest of 2018:

2 August 2018: Publication of 6M 2018 and 2Q 2018 results

8 November 2018: Publication of 9M 2018 and 3Q 2018 results

Regulatory information

Definitions of the performance indicators mentioned herein:

I **Housing loans:** mortgages to individuals provided by KB + loans to clients provided by Modrá pyramida;

II **Net interest margin (NIM):** 'Net interest income' divided by average interest-earning assets (IEA) year to date (IEA comprise 'Cash and current balances with central banks' [Current balances with central banks only], 'Loans and advances to banks', 'Loans and advances to customers', 'Financial assets at fair value through profit or loss' [debt securities only], , 'Financial assets at fair value through profit or loss – non SPPI' [debt securities only], , 'Financial assets at fair value through other comprehensive income' [debt securities only], 'Debt securities')

III **Net loans to deposits:** ('Net loans and advances to customers' including debt securities held by KB issued by the Bank's clients less 'reverse repo operations with clients') divided by the quantity (total 'Amounts due to customers' less 'repo operations with clients');

IV **Cost to income ratio:** 'Operating costs' divided by 'Net operating income';

V **Return on average equity (ROAE):** annualised 'Net profit attributable to equity holders' divided by the quantity average group 'Shareholders' equity' less 'Minority equity', year to date;

VI **Return on average regulatory capital:** annualised 'Net profit attributable to equity holders' divided by average group 'Regulatory capital', year to date;

VII **Return on average assets (ROAA):** annualised 'Net profit attributable to equity holders' divided by average 'Total assets', year to date;

VIII **Earnings per share:** annualised 'Net profit attributable to equity holders' divided by the quantity average number of shares issued minus average number of own shares in treasury.

Reconciliation of 'Net interest margin' calculation, (CZK million, consolidated, unaudited):

(source: Profit and Loss Statement)	**1Q 2018**
Net interest income and similar income, year-to-date	**5,349**
Of which:	
Loans and advances at amortised cost	4,465
Debt securities at amortised cost	730
Debt securities other	104
Financial liabilities at amortised cost	-687
Hedging financial derivatives - income	2,274
Hedging financial derivatives - expense	-1,537

(source: Balance Sheet)	**31 Mar 2018**	**1 Jan 2018**
Cash and current balances with central banks/ Current balances with central banks	8,108	22,593
Loans and advances to banks	294,847	222,821
Loans and advances to customers	616,082	593,639
Financial assets at fair value through profit of loss/ Debt securities	3,862	1,633
Financial assets at fair value through profit of loss - non SPPI/ Debt securities	2,587	2,694
Financial asset at fir value through other comprehensive income (FV OCI)/ Debt securities	23,403	23,798
Debt securities	74,047	70,340
Interest bearing assets (end of period)	**1,022,937**	**937,518**
Average interest bearing assets, year-to-date	**980,227**	**980,227**

NIM year-to-date, annualized	**2.18%**