

KB reports growth in financial and commercial results, several new items enhancing banking convenience and safety for clients

The number of KB's shareholders exceeded 50,000

- **KB is registering great success with its KB Key authentication app that allows access to a progressively expanding range of services. In September, more than 381,000 customers were using the KB Key launched just over ten months earlier.**
- **Client service improvements introduced in the third quarter include instant payments 24/7 between KB and four other Czech banks, upgrade of 227 ATMs for contactless access, Modrá pyramida's MP Home app that assists clients in both the savings and lending phases of their relationships with the building society, and the Relay mortgage that allows passing on repayments among family members.**
- **The total volume of KB Group's lending expanded by 4.0% year on year to CZK 654.0 billion. Loans provided to businesses grew by 4.8%. Modrá pyramida's housing loans portfolio added 12.1%. Mortgages from KB were up by 1.7%.**
- **The overall volume of standard client deposits within KB Group expanded by 6.3% to CZK 860.2 billion. Client assets in pension funds managed by KB Penzijní společnost were higher by 7.9% from a year earlier and the volume in mutual funds expanded by 9.7%.**
- **Revenues improved by 3.0%, while the growth rate of recurring operating costs slowed to 2.8%. The Group reported for the nine months a net release of credit risk provisions. Recurring net profit was up by 0.5%, at CZK 11.0 billion. Including various one-off items from this year and last, net profit rose by 0.9%.**

Prague, 6 November 2019 – Komerční banka reported today its unaudited consolidated results for the first three quarters of 2019.

Total revenues increased by 3.0% to CZK 24.4 billion. Within this total, net interest income was higher by 6.0%, while the volume of assets was 7.9% greater year on year. Overall income from fees and commissions was stable, even though that from services to corporations improved swiftly and a growing volume of client assets under management and clients' upgrading to premium account packages also contributed positively. On the other hand, fees for transactions and loans were down. Net gains from financial operations decreased by 10.0% compared with the base from the year earlier that included some extraordinarily large hedging deals put together for clients.

Operating expenditures excluding one-off items from last year (creation of a reserve for restructuring and release of amounts accrued for corporate services) were up by 2.8%, at CZK 11.2 billion. Recurring personnel costs rose by 2.0%, as faster growth in average remuneration was partly offset by a 3.3% decrease in the average number of employees to 8,155. Recurring non-personnel expenses were higher by 3.7%, driven mainly by development of information technologies.

In the nine months of 2019, KB posted a net release of provisions for credit losses of CZK 0.3 billion, as the client default rates were very low and results from recovery activities remained good.

Recurring net profit attributable to KB's shareholders improved by 0.5% year on year to

CZK 11.0 billion. Including various one-off items from this year and last¹, net profit rose by 0.9%.

Lending to clients increased by 4.0% to CZK 654.0 billion.² KB and Modrá pyramida's financing of housing expanded by 3.5% to CZK 281.7 billion. Consumer lending from KB and ESSOX grew by 1.2% to CZK 39.0 billion. KB Group lending to businesses and other clients was up by 4.8%, at CZK 333.2 billion.

Deposits from clients climbed by 6.3% year on year to CZK 860.2 billion.³ The volume of KB Group clients' assets in mutual funds, pension savings, and life insurance swelled by 6.5% to CZK 179.8 billion.

The capital adequacy ratio reached a strong 19.4%, and Core Tier 1 capital stood at 18.9%.

"The changes we've introduced in the past year, and in particular full rollout of the agile@KB work method, are helping us improve our ability to address changes in customers' expectations for our product offer in a timely manner. We've just started working on a strategic update for the period beyond 2020, and we plan to have that ready before next year's shareholders' meeting. Of course, we will remain committed to constantly improving the client value of our services," remarked Jan Juchelka, Komerční banka's Chairman of the Board of Directors and Chief Executive Officer.

The Bank had 50,160 shareholders as of 30 September 2019 (up 1,905 year on year), of which 44,762 were private individuals from the Czech Republic (that number being higher by 1,828 from the year earlier). Strategic shareholder Société Générale maintained its 60.4% stake while minority shareholders owned 39.0% and KB held 0.6% of its registered capital in treasury.

¹ Items considered "one-off" in the covered periods:

9M 2019: Adjustment of the selling price of Komerční pojišťovna (CZK 55 mil. in Profit attributable to exclusion of companies from consolidation)

9M 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), restructuring reserve (CZK -223 mil. in Pers. expenses, CZK -71 mil. in GAE and CZK 56 mil. in Income taxes) and release of corporate service fees for SG assistance (CZK 193 mil. In GAE and CZK -37 mil. in Income taxes)

² Excluding volatile reverse repo operations with clients but including debt securities issued by KB's clients and held by the Bank. If reverse repo operations are included, gross lending increased by 2.6% to CZK 657.1 billion.

³ Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 5.8% to CZK 899.9 billion.

BANKING WITH POSITIVE IMPACT

KB's commitment to the principles of responsible banking is reflected in all aspects of the Bank's business, including in its corporate governance, risk management, rules of business conduct, customer and supplier relationships management, anti-crime measures, privacy protection, protection of the environment and labour practices. At the same time, it is manifested in KB's support of non-commercial activities having positive societal externalities, including charitable activities, culture, sports and education.

In the third quarter of 2019, KB Jistota foundation supported five projects dedicated to improving employment opportunities for physically disadvantaged people. The Foundation also presented grants to seven institutions providing mobile hospice services in peoples' homes. KB's subsidiaries have collectively backed ten organisations focused on improving quality of life for seniors. The employees themselves have contributed in numerous ways, including through volunteering and participating in charitable collections, runs and cycling events. The Bank supported several cultural events, such as the well-established Rock for People music festival and the summer Letní Letná festival of new circus and theatre.

Komerční banka contributes to shaping the society's vision for the future. The Future Port Prague 2019 conference brought together thousands of participants, hundreds of innovative companies, and dozens of speakers from around the world to discuss and show how technology will change business, life and society. KB was a Platinum partner of the event. Furthermore, Komerční banka co-hosted Bankathon 2019, the biggest FinTech hackathon in Europe. Some 100 developers in 27 teams coded their applications providing solutions to particular problems, or hacks, suited for Open Banking and the PSD2 environment. KB's own team won the Multibanking category.

BUSINESS PERFORMANCE OF KB GROUP

Market environment⁴

Growth of the Czech economy in the third quarter of 2019 was again most probably driven by household demand and government consumption. The growth dynamics are accompanied by tight labour market conditions. Unemployment remains the lowest seen anywhere across the entire EU (2.1% in September, according to the Eurostat methodology after seasonal adjustment),⁵ and wage inflation slowed somewhat in the second quarter to 7.2%. Since the beginning of the year, growth in capacity utilisation has gradually slowed to a standstill. Similarly, investment activity has decelerated and its dynamics have been supported solely by public sector activity.

Consumer price inflation reached 2.7% in September, remaining within the upper part of the Czech National Bank's 1–3% inflation tolerance band. The rising price level is propelled mainly by housing and energy prices followed by food prices. Core inflation slowed to the level of 2.5% year on year. Meanwhile, the Czech crown's exchange rate vis-à-vis the euro depreciated continuously throughout the third quarter, touching CZK 25.9 per euro. It finally closed the quarter at CZK 25.8 per euro, 0.4% weaker than at the beginning of the year.

The central bank's policy rates were put on hold after the last hike (to 2%) in May. In tight correlation, three-month interbank rates hovered around 2.15% during the third quarter. Meanwhile, the ten-year interest rate swap decreased further, dipping below 1% in the course of the third quarter before

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

⁵ Source: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Unemployment_statistics. Data up to September 2019.

recovering somewhat towards the end of the period, to 1.35%. Yields from 10 year Czech government bond sank to 1.36% at the end of September compared to 1.56% at the beginning of the quarter while recording a short-term drop below 1% in the middle of the quarter.

Growth in prices for residential real estate was slowing, as demand was curbed by the CNB's tightened macroprudential measures for granting residential mortgages that had come into force at the beginning of last year's fourth quarter and by diminished affordability of housing due to already high prices. Another negative influence was seen in weakening optimism among Czech households. Prices paid in the second quarter for previously owned flats were up 10.3% year on year, while price growth for new flats (in Prague only) slowed to 9.4% compared to the year earlier.⁶

Total bank lending for the overall market (excluding repo operations) grew by 5.0% year on year.⁷ Lending growth retail banking was faster, with growth in the outstanding volume of mortgages showing resilience in light of the regulations imposed last year. Consumer loans growth was mildly accelerating, supported by strong dynamics of households' disposable incomes. Lending to non-financial corporations expanded by 2.4% year on year, driven by financing drawn in euros.

The volume of deposits in Czech banks expanded by 11.5% year over year in September.⁷ Here, the growth in retail deposits and deposits from non-financial corporations was around 8%, but the total market figure was influenced by an inflow of deposits from public sector institutions (including foreign).

Pursuing safe and convenient banking for clients

Based on its long-term ratings from Moody's, Standard & Poor's and Fitch rating agencies, the prestigious magazine Global Finance named Komerční banka The Safest Bank in Central and Eastern Europe 2019, as well as, of course, in the Czech Republic.

During the third quarter, KB introduced a number of innovative solutions aimed specifically at improving banking convenience for clients, better addressing their housing needs, and increasing the value of advisory provided to clients.

KB launched instant interbank payments. That means incoming and outgoing payments denominated in Czech crowns among KB and four other Czech banks are now booked to accounts within a matter of seconds – 24 hours a day, 7 days a week. Some 227 of Komerční banka's ATMs have been modified to accommodate contactless cards, mobile phones or smart watches. KB is continuously evaluating new approaches for delivering its services to clients, such as via Amazon's Alexa virtual assistant.

The new Relay mortgage allows passing on repayments among family members to better match the evolving needs and income development during each member's life cycle. Modrá pyramida has made its clients' lives easier with MP Home, a new smartphone application that assists clients during the savings and financing phases of their relationships with the building society, as well as at the time of acquiring and/or possibly reconstructing a home. KB has launched in start-up mode Cincink.cz, a web portal providing online the most comprehensive set of services related to housing for all buyers, sellers and real estate agents.

For the clients of KB Private banking, the Bank opened the NextGen Academy, sharing experience and know-how for facilitating a smooth and responsible intergenerational transfer of family wealth.

⁶ Source: <https://www.czso.cz/csu/czso/ceny-nemovitosti>. Publication code 014007-19, released 13 September 2019.

⁷ Source of data on banking market developments: ARAD statistics of the CNB, www.cnb.cz. Latest data for September 2019.

Developments in the client portfolio and distribution networks

| | 9M 2018 | 9M 2019 | YoY |
|---|-----------|-----------|---------|
| KB Group's clients | 2,391,000 | 2,367,000 | -24,000 |
| Komerční banka | 1,669,000 | 1,662,000 | -7,000* |
| – individual clients | 1,411,000 | 1,405,000 | -6,000* |
| – using at least one direct banking channel | 1,446,000 | 1,476,000 | 30,000 |
| – internet banking clients | 1,379,000 | 1,414,000 | 35,000 |
| – mobile banking clients | 570,000 | 739,000 | 169,000 |
| Modrá pyramida | 483,000 | 485,000 | 2,000 |
| KB Penzijní společnost | 532,000 | 531,000 | -1,000 |
| ESSOX (Group) | 213,000 | 204,000 | -9,000 |
| | | | |
| KB Retail branches | 375 | 344 | -31 |
| KB Business centres | 10 | 10 | 0 |
| KB Corporate divisions | 5 | 5 | 0 |
| Modrá pyramida points of sale | 212 | 201 | -11 |
| SGEF branches | 9 | 9 | 0 |
| ESSOX Group points of sale | 1,195 | 1,094 | -101** |
| ATMs | 763 | 787 | 24 |
| of which deposit-taking | 299 | 375 | 76 |
| of which contacless | 0 | 227 | 227 |
| | | | |
| Number of active debit cards | 1,388,000 | 1,398,000 | 10,000 |
| Number of active credit cards | 178,000 | 179,000 | 1,000 |
| Number of cards virtualized into payment apps | 19,000 | 142,000 | 123,000 |
| KB key authentication users | 0 | 381,000 | 381,000 |

* Affected by write-off of non-active defaulted clients in recovery in 1Q 2019

** Influenced by the new qualification requirements for intermediaries of consumer financing

Comments on business and financial results

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

Loans to customers

Total **gross volume of lending to clients** rose by 4.0% year on year to CZK 654.0 billion.⁸

In lending to individuals, the overall volume of housing loans¹ grew by 3.5% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 1.7% to CZK 226.8 billion. Modrá pyramida's loan portfolio grew by a strong 12.1% to CZK 54.9 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up 1.2%, to CZK 39.0 billion.

The total volume of **loans to businesses** and other lending provided by KB Group climbed by 4.8%

⁸ Excluding volatile reverse repo operations with clients but including debt securities issued by KB's corporate clients. If reverse repo operations are included, gross lending increased by 2.6% to CZK 657.1 billion.

year on year to CZK 333.2 billion. Lending to small businesses grew by 2.4% to CZK 36.6 billion. The overall CZK volume of credit granted by KB to medium-sized, large corporate and other clients in the Czech Republic and Slovakia⁹ increased by 4.9% year on year to CZK 267.9 billion. At CZK 28.7 billion, the total credit and leasing amounts outstanding at SGEF were 7.0% greater year over year.

Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group rose by 6.3% year on year to CZK 860.2 billion.¹⁰

Deposits at Komerční banka from individual clients grew by 4.8% from the year earlier to CZK 282.8 billion. The deposit book at Modrá pyramida expanded by a slight 0.2% to CZK 61.2 billion. Total deposits from businesses and other corporations climbed by 8.3% to CZK 503.7 billion.

Client assets managed by KB Penzijní společnost were 7.9% higher, at CZK 61.0 billion. Technical reserves in life insurance at Komerční pojišťovna were up by 0.6% year on year, at CZK 47.7 billion. The volumes in mutual funds held by KB Group clients grew by 9.7% to CZK 71.1 billion.

The Group's liquidity as measured by the ratio of net loans¹¹ to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 74.8%.

FINANCIAL PERFORMANCE OF KB GROUP

With effect from 1 January 2019, Komerční banka is applying the new accounting standard IFRS 16 Leases, which replaces the previous standard IAS 17. Particularly as a lessee under operating lease of office buildings and branches, the Bank must recognise those leases on its balance sheet. That increases both the assets (right-of-use assets) and the liabilities (lease liabilities). In addition, the nature of expenses related to those leases has changed, because IFRS 16 replaces the straight-line operating lease expenses with a depreciation charge for right-of-use assets and interest expense on lease liabilities. KB followed the modified retrospective approach in adopting the new standard, which means there was no restatement of comparative information.

Income statement

Komerční banka's **revenues (net operating income)** for the first three quarters of 2019 improved by 3.0% year on year to reach CZK 24,437 million. This growth was driven by net interest income, even as fee income was stable and net gains from financial operations diminished.

Net interest and similar income¹² were up by 6.0%, at CZK 17,670 million. The net interest margin for the first nine months of 2019, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.2%, similar to that of a year earlier. The product spreads on lending were compressed due to stiff market competition. Meanwhile, yields from reinvestment of deposits and capital increased due to their expanding volumes and year-on-year higher interest rates.

⁹ Inclusive of factor finance outstanding at Factoring KB and merchant and car dealers' financing from ESSOX Group.

¹⁰ Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' increased by 5.8% to CZK 899.9 billion.

¹¹ Gross volume of loans reduced by the volume of provisions for loan losses.

¹² As from 1 January 2019, Komerční banka reclassified charges for reservation of funds (commitment fees) from 'Net fee and commission income' to 'Net interest income'. The data for the comparative period have been restated and year-on-year commentaries are made in comparison with the restated base. The contribution of interest expense on lease liabilities newly charged according to IFRS 16 represented 0.2% of net interest income for nine months of 2019.

Net fee and commission income¹³ was virtually stable year on year (-0.1%) at CZK 4,441 million. KB recorded higher income from specialised financial services as higher construction activity brought improved demand for bank guarantees and the Bank also recorded more client activity in loan syndications, issuance of trade finance instruments, and advisory. The maintenance fee income improved, as well, due to clients' continued switching to better account packages that include wider ranging services. Fees from cross-selling were up slightly thanks to income from life insurance products and mutual funds. This positive development was offset by decline in fees for transactions, mainly caused by inclusion of more transactions into the price of account packages, and despite the rapidly increasing number of transactions (especially those effected using payment cards). Income from loan services declined, particularly in connection with smaller loans production in retail.

Net profit on financial operations decreased by 10.0% to CZK 2,177 million. This drop was influenced by some extraordinarily large hedging transactions developed for clients in the previous year. In the nine months of 2019, clients' demand for hedging of financial risks had initially been constrained by an absence of clear trends for CZK exchange and interest rates. This demand recovered since the second quarter, however, with greater volatility of the Czech crown and changed perception for the interest rate outlook. Net gains on FX payment transactions were higher year on year, reflecting an increase in the volume of these transactions and wider spreads.

Dividend and other income declined by 21.9% to CZK 150 million. This line primarily comprises revenues from property rental and ancillary services.

Operating expenses were up by 1.9%, at CZK 11,224 million. Excluding the effects from creating a restructuring reserve and release of over-accrued charges for corporate services, growth in operating expenses reached 2.8%.¹⁴ Adjusted personnel expenses rose by 2.0% to CZK 5,822 million, reflecting mainly higher remuneration even as the average number of employees declined by 3.3% to 8,155.¹⁵ Reported personnel expenses, including the restructuring reserve in the comparative base, were lower by 1.8%. General administrative expenses (not including contributions to the regulatory funds) were down by 5.0%, at 2,745 million. This line was also influenced last year, however, by creation of the restructuring reserve¹³ and in 2019 by implementation of the new IFRS 16 standard that has replaced rent expense with the depreciation expense of rights-of-use. Adjusted for these extraordinary factors, general administrative expenses increased by 2.1%, mainly as a result of higher cost for IT support. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 850 million, up 1.7% year on year. Depreciation and amortisation grew by 32.8% to CZK 1,807 million, including the effect of IFRS 16 implementation. Adjusted depreciation and amortisation charges were higher by 8.7%, driven mainly by new and upgraded software and IT equipment and influenced also by writing of the new headquarters building into use in the last quarter of 2018.

The sum of profit before allowances for loan losses, provisions for other risk, profit on subsidiaries, and income tax (**gross operating income**) was up by 3.9%, at CZK 13,213 million. Excluding the contribution of one-off items from last year¹³, gross operating income improved by 3.1%.

¹³ As from 1 January 2019, Komerční banka reclassified charges for reservation of funds (commitment fees) from 'Net fee and commission income' to 'Net interest income'. The data for the comparative period have been restated and year-on-year commentaries are made in comparison with the restated base.

¹⁴ In the second quarter of 2018, KB created the restructuring reserve for anticipated costs arising from the KB Change programme. These comprised CZK 223 million in expected costs of severance payments recognised in personnel expenses and CZK 71 million in estimated costs of reducing branch facilities recognised in general and administrative expenses. In the same period of 2018, KB released CZK 193 million over-accrued in previous years within general and administrative expenses for various services from entities of Société Générale Group.

¹⁵ Recalculated to a full-time equivalent number.

Cost of risk reached a negative CZK 328 million (net release of provisions), which amount is 50.2% smaller than the net release in the first three quarters of 2018. This extraordinarily good result was achieved as the client default rates were very low and results from recovery activities remained good. The cost of risk in relative terms¹¹ and as measured against the average volume of the lending portfolio during the first three quarters came to -7 basis points. KB is currently in a process of resolution a historic large defaulted corporate exposure with a potential for a significant one-off release of respective credit provisions in the last quarter of 2019.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was up 25.0% year on year, at CZK 215 million. The Group booked CZK 55 million in **profit attributable to exclusion of companies from consolidation** that was from settling the sale price of KB's stake in Komerční pojišťovna agreed in 2006. In the first nine months of 2018, this line had comprised CZK 82 million related to finalising the selling price for KB's stake in Cataps. **Net profits on other assets** were stable at CZK 16 million, which amount was linked to sales of buildings in the held-for-sale portfolio).

Income tax was higher by 4.2%, at CZK 2,530 million.

KB Group's consolidated **net profit** for the first three quarters of 2019, at CZK 11,297 million, was up by 0.7% in comparison with the same period a year ago. Of this amount, CZK 236 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (-9.9% year on year).

Reported **net profit attributable to the Group's equity holders** totalled CZK 11,061 million, which is 0.9% better year on year. Recurring attributable net profit (i.e. excluding one-off effects in 2018 from the restructuring reserve, release of accrual for corporate services, and sale price for Cataps, and in 2019 from settlement of the sale price for Komerční pojišťovna) was up 0.5% year on year (at CZK 11,006 million).

Other comprehensive income, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK 189 million. **Consolidated comprehensive income** for the first nine months of 2019 totalled CZK 11,486 million, of which CZK 236 million was attributable to owners of non-controlling stakes.

Statement of financial position

Unless indicated otherwise, the following text provides a comparison of the balance sheet values as of 30 September 2019 with the values from the statement of financial position as of 31 December 2018 and reflects the newly introduced accounting methodology according to IFRS 16.

Assets

As of 30 September 2019, KB Group's total assets had risen by 15.8% year to date to CZK 1,226.9 billion.

Cash and current balances with central banks were up by 22.8%, at CZK 30.5 billion. 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 51.6% to CZK 34.3 billion. The fair value of hedging financial derivatives rose by 11.8% to CZK 14.0 billion.

Year to date, there was a 40.2% increase in financial assets at fair value through other comprehensive income amounting to CZK 35.4 billion. This consisted mainly of public debt securities.

Financial assets at amortised cost grew by 14.2% to CZK 1,086.1 billion. The largest portion of this consisted of (net) loans and advances to customers, which went up by 3.5%, at CZK 646.9 billion. A 97.7% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.3% of

the loans were classified in Stage 3 (non-performing loans). The volume of loss allowances created for amounts due from customers came to CZK 10.7 billion. Loans and advances to banks rose by 42.8% to CZK 366.1 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was higher by 4.6% and reached CZK 73.1 billion at the end of September 2019.

Revaluation differences on portfolio hedge items were CZK -0.3 billion. Current and deferred tax assets stood at CZK 0.1 billion. Other assets and accrued accounts, which include receivables from securities trading and settlement balances, declined by 3.6% to CZK 5.5 billion. Assets held for sale decreased by 44.3% to CZK 0.1 billion.

Investments in subsidiaries and associates increased by 2.2% to CZK 1.2 billion.

The net book value of tangible assets rose by 35.0% to CZK 10.4 billion, as rights-of-use, recognised under IFRS 16, added CZK 2.9 billion to this total. Intangible assets grew by 9.6% to reach CZK 5.8 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 17.3% higher in comparison to the end of 2018 and stood at CZK 1,122.2 billion.

Financial liabilities at amortised costs went up by 16.7% to CZK 1,059.0 billion. Within that total, lease liabilities, an item under IFRS 16, amounted to CZK 2.9 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 10.8% to CZK 900.0 billion. This sum included CZK 39.7 billion of liabilities from repo operations with clients and CZK 6.8 billion of other payables to customers. Amounts due to banks rose in 2019 by 64.1% to CZK 151.4 billion.

The volume of outstanding securities issued was higher by 85.8% at CZK 4.7 billion.

Revaluation differences on portfolios hedge items turned from CZK -0.7 billion at the end of 2018 to CZK 3.7 billion at the close of 2019's third quarter. Current and deferred tax liabilities increased by 13.1% to CZK 1.0 billion. Other liabilities and accruals, which include payables from securities trading and settlement balances, expanded by 39.1% to CZK 18.7 billion.

Provisions declined by 8.0% to CZK 1.7 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 those for ongoing contracted contingent commitments, legal disputes, self-insurance, and the retirement benefits plan.

Subordinated debt, at CZK 2.6 billion, was up by 0.3% year to date. Because that debt is issued in euro, the change reflects the weakening of the Czech crown over the same period.

Equity

Total equity increased year to date by 1.3% to CZK 104.7 billion. The value of non-controlling interests reached CZK 3.1 billion. As of 30 September, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

Regulatory capital and capital requirements

Total **regulatory capital** for the capital adequacy calculation came to CZK 87.1 billion as of 30 September 2019, up 4.4% year to date. **Capital adequacy** stood at 19.4%. The Core Tier 1 capital amounted to CZK 84.5 billion (+4.6% year to date), and the Core Tier 1 ratio stood at 18.9%. Tier 2 capital totalled CZK 2.6 billion, which was 0.6% of risk-weighted assets.

KB's overall capital requirement as of 30 September 2019 was approximately 16.6% relative to the consolidated volume of risk-weighted assets. The required minimum Core Tier 1 capital level was at 12.7%, and the minimum Tier 1 capital ratio at 14.6%. The requirement applied to KB for systemic risk capital buffer was at 3%, and for conservation capital buffer it was at 2.5%. During 2019, the

Czech National Bank increased the countercyclical capital buffer for Czech exposures twice, each time by 25 basis points, with effect from 1 January 2019 and from 1 July 2019. This brought the effective rate of this requirement to 1.5%. The CNB also raised by 10 basis points to 1.6% the additional requirement set for KB in Pillar II of the EU regulation on prudential requirements for credit institutions and investment firms.

The CNB has announced further increases in the countercyclical capital buffer with effect from 1 January 2020 by 25 basis points (to 1.75%) and by another 25 basis points (to 2.00%) from 1 July 2020.

During the first quarter 2019, KB lowered risk weights applied on Czech sovereign exposures subsequent to an upgrade of Czechia among upper-investment grade sovereigns. During the annual Supervisory Review and Evaluation Process in 2019, the Czech National Bank has discussed with KB the need to harmonise treatment of sovereign exposures with best ratings across the Czech banking system. Based on the ongoing discussion with the CNB, KB now assumes in its baseline scenario for capital planning that it will be required in 2020 to meet the Total SREP Capital Requirement on a consolidated basis at the level of at least 10.2%, thus higher by 60 basis points in comparison with the preceding requirement.

Taking into account the above announced changes, KB assumes that its Overall Capital Requirement as of 1 July 2020 will reach approximately 17.70% of the consolidated volume of risk-weighted assets.

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

Changes in the Group structure (in third quarter 2019)

On 16 September 2019, KB Advisory, s.r.o. (a fully owned subsidiary of KB SmartSolutions, s.r.o.) was established. This new company will provide business advisory services to clients.

ANNEX: Consolidated results as of 30 September 2019 under International Financial Reporting Standards (IFRS)

| Profit and Loss Statement (CZK million, unaudited) | Reported | | | Recurring | | |
|---|----------------|----------------|-------------|----------------|----------------|-------------|
| | 9M 2018 | 9M 2019 | Change YoY | 9M 2018 | 9M 2019 | Change YoY |
| Net interest income and similar income | 16,673 | 17,670 | 6.0% | 16,673 | 17,670 | 6.0% |
| Net fee & commission income | 4,446 | 4,441 | -0.1% | 4,446 | 4,441 | -0.1% |
| Net profit of financial operations | 2,420 | 2,177 | -10.0% | 2,420 | 2,177 | -10.0% |
| Dividend and other income | 192 | 150 | -21.9% | 192 | 150 | -21.9% |
| Net banking income | 23,731 | 24,437 | 3.0% | 23,731 | 24,437 | 3.0% |
| Personnel expenses | -5,931 | -5,822 | -1.8% | -5,708 | -5,822 | 2.0% |
| General admin. expenses (excl. regulatory funds) | -2,888 | -2,745 | -5.0% | -3,010 | -2,745 | -8.8% |
| Resolution and similar funds | -836 | -850 | 1.7% | -836 | -850 | 1.7% |
| Depreciation, amortisation and impairment of operating assets | -1,361 | -1,807 | 32.8% | -1,361 | -1,807 | 32.8% |
| Total operating expenses | -11,015 | -11,224 | 1.9% | -10,915 | -11,224 | 2.8% |
| Gross operating income | 12,716 | 13,213 | 3.9% | 12,816 | 13,213 | 3.1% |
| Cost of risk | 659 | 328 | -50.2% | 659 | 328 | -50.2% |
| Net operating income | 13,375 | 13,541 | 1.2% | 13,475 | 13,541 | 0.5% |
| Income from share of associated companies | 172 | 215 | 25.0% | 172 | 215 | 25.0% |
| Profit/(loss) attributable to exclusion of companies from consolidation | 82 | 55 | -32.9% | 0 | 0 | n.a. |
| Impairment losses on goodwill | 2 | 0 | n.a. | 2 | 0 | n.a. |
| Net profits on other assets | 16 | 16 | 0.0% | 16 | 16 | 0.0% |
| Profit before income taxes | 13,647 | 13,827 | 1.3% | 13,665 | 13,772 | 0.8% |
| Income taxes | -2,428 | -2,530 | 4.2% | -2,447 | -2,530 | 3.4% |
| Net profit | 11,220 | 11,297 | 0.7% | 11,218 | 11,242 | 0.2% |
| Profit attributable to the Non-controlling owners | 262 | 236 | -9.9% | 262 | 236 | -9.9% |
| Profit attributable to the Group's equity holders | 10,958 | 11,061 | 0.9% | 10,956 | 11,006 | 0.5% |

Notes to "Recurring" results:

9M 2019: Adjustment of the selling price of Komerční pojišťovna (CZK 55 mil. in Profit attributable to exclusion of companies from consolidation)

9M 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), restructuring reserve (CZK -223 mil. in Pers. expenses, CZK -71 mil. in GAE and CZK 56 mil. in Income taxes) and release of corporate service fees for SG assistance (CZK 193 mil. in GAE and CZK -37 mil. in Income taxes)

| Statement of financial position (CZK million, unaudited) | 31 Dec 2018 | 30 Sep 2019 | Ytd |
|---|------------------|------------------|--------------|
| Assets | 1,059,932 | 1,226,874 | 15.8% |
| Cash and current balances with central bank | 24,851 | 30,514 | 22.8% |
| Loans and advances to banks | 256,268 | 366,063 | 42.8% |
| Loans and advances to customers (net) | 624,954 | 646,916 | 3.5% |
| Securities and trading derivatives | 117,761 | 142,841 | 21.3% |
| Other assets | 36,099 | 40,540 | 12.3% |
| Liabilities and shareholders' equity | 1,059,932 | 1,226,874 | 15.8% |
| Amounts due to banks | 92,271 | 151,436 | 64.1% |
| Amounts due to customers | 812,451 | 899,950 | 10.8% |
| Securities issued | 2,540 | 4,719 | 85.8% |
| Subordinated debt | 2,578 | 2,587 | 0.3% |
| Other liabilities | 46,764 | 63,519 | 35.8% |
| Total equity | 103,329 | 104,664 | 1.3% |

| Key ratios and indicators | 30 September 2018 | 30 September 2019 | Change year on year |
|--|-------------------|-------------------|---------------------|
| Capital adequacy (CNB) | 18.4% | 19.4% | ▲ |
| Tier 1 ratio (CNB) | 17.8% | 18.9% | ▲ |
| Total risk-weighted assets (CZK billion) | 450.0 | 448.1 | -0.4% |
| Risk-weighted assets for credit risk (CZK billion) | 371.3 | 371.6 | 0.1% |
| Net interest margin (NII / average interest-bearing assets) ^{III} | 2.2% | 2.2% | ▼ |
| Loans (net) / deposits ratio ^{IV} | 76.3% | 74.8% | ▼ |
| Cost / income ratio ^V | 46.4% | 45.9% | ▼ |
| Return on average equity (ROAE) ^{VI} | 15.3% | 14.6% | ▼ |
| Return on average Tier 1 capital ^{VII} | 18.7% | 17.8% | ▼ |
| Return on average assets (ROAA) ^{VIII} | 1.4% | 1.3% | |
| Earnings per share (CZK) ^{IX} | 77 | 78 | 0.9% |
| Average number of employees during the period | 8,435 | 8,155 | -3.3% |

| Business performance in retail segment – overview | 30 September 2019 | Change year on year |
|---|-------------------|---------------------|
| Mortgages to individuals – volume of loans outstanding | CZK 226.8 bil. | 1.7% |
| Building savings loans (MPSS) – volume of loans outstanding | CZK 54.9 bil. | 12.1% |
| Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding | CZK 39.0 bil. | 1.2% |
| Small business loans – volume of loans outstanding | CZK 36.6 bil. | 2.4% |
| Insurance premiums written (KP) | CZK 6.6 bil. | +53.0% |

Financial calendar:

6 February 2020 – FY and 4Q 2019 results

6 May 2020 – 1Q 2020 results

3 August 2020 – 1H and 2Q results

5 November 2020 – 9M and 3Q results

Definitions of the performance indicators mentioned herein:

- ^I **Housing loans:** mortgages to individuals provided by KB + loans to clients provided by Modrá pyramida;
- ^{II} **Cost of risk in relative terms:** annualised 'Allowances for loan losses' divided by the average of 'Gross amount of client loans and advances', year to date;
- ^{III} **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], and 'Debt securities');
- ^{IV} **Net loans to deposits:** ('Net loans and advances to customers' inclusive of debt securities held by KB and issued by the Bank's clients less 'reverse repo operations with clients') divided by the quantity ('Amounts due to customers' less 'repo operations with clients');
- ^V **Cost to income ratio:** 'Operating costs' divided by 'Net operating income';
- ^{VI} **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;
- ^{VII} **Return on average Tier 1 capital:** annualised 'Net profit attributable to equity holders' divided by average group 'Tier 1 capital', year to date;
- ^{VIII} **Return on average assets (ROAA):** annualised 'Net profit attributable to equity holders' divided by average 'Total assets', year to date;
- ^{IX} **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):

CONSOLIDATED (CZK million)

| <i>(source: Profit and Loss Statement)</i> | 9M 2018 | | 9M 2019 | |
|---|-------------------|--------------------|--------------------|--------------------|
| Net interest income and similar income, year to date | 16,673 | | 17,670 | |
| Of which: | | | | |
| Loans and advances at amortised cost | 14,397 | | 18,046 | |
| Debt securities at amortised cost | 1,454 | | 1,327 | |
| Debt securities other | 327 | | 424 | |
| Financial liabilities at amortised cost | -1,628 | | -3,089 | |
| Hedging financial derivatives - income | 7,669 | | 12,658 | |
| Hedging financial derivatives - expense | -5,545 | | -11,697 | |
| <i>(source: Balance Sheet)</i> | 1 Jan 2018 | 30 Sep 2018 | 31 Dec 2018 | 30 Sep 2019 |
| Cash and current balances with central banks/ Current balances with central banks | 22,593 | 6,253 | 16,347 | 21,724 |
| Loans and advances to banks | 222,821 | 330,179 | 256,268 | 366,063 |
| Loans and advances to customers | 593,639 | 630,025 | 624,954 | 646,916 |
| Financial assets at fair value through profit of loss/ Debt securities | 1,633 | 5,142 | 3,248 | 10,205 |
| Financial assets at fair value through profit of loss - non SPPI/ Debt securities | 2,694 | 2,626 | 0 | 0 |
| Financial asset at fir value through other comprehensive income (FV OCI)/ Debt securities | 23,798 | 25,050 | 24,909 | 34,923 |
| Debt securities | 70,340 | 70,238 | 69,881 | 73,130 |
| Interest bearing assets (end of period) | 937,518 | 1,069,514 | 995,608 | 1,152,962 |
| Average interest bearing assets, year to date | | 1,003,516 | | 1,074,285 |
| NIM year to date, annualized | | 2.22% | | 2.19% |