



# Regulatory information

## Komerční banka reports improvement in revenues, growth in number of clients, volumes of loans and deposits

- The total number of the Bank's customers rose by 12,000 year on year to 1,669,000. KB Group was attending to a total of 2,391,000 clients.
- The growth in the number of clients with KB Mobilní banka even accelerated. As of 30 September 2018, 570,000 of the Bank's clients had Komerční banka's mobile banking application, up by 169,000 year on year.
- The total volume of KB Group's lending expanded by 3.8% year on year. Housing loans were higher by 5.4%, with faster growth occurring mainly at Modrá pyramida. Consumer loans grew also by 5.4%. Lending to businesses rose by 3.2%.
- The overall volume of standard client deposits within KB Group expanded by 4.1%. Bank deposits from individuals grew by a swift 9.8%. Volume of assets under management in mutual funds, pension assets, and life insurance was up by 4.9%.
- KB reported a 2.6% increase in revenues. Net interest income was up 5.8% thanks to income volume growth from both deposits and loans, as well as due to rising yields from reinvestment of deposits. Fee income declined by a slight 1.1%, reflecting intense competition on the market. Still achieving an excellent result, net profit from financial operations was down by 10.8% because last year's first half had seen exceptionally strong currency hedging activity among clients in relation to the discontinuation of CNB interventions.
- Recurring operating costs increased by 1.8%, thus by less than the rate of inflation. Reported operating costs inclusive of exceptional items in both 2017 and 2018 were almost flat (+0.4%).
- Successful recovery performance in both corporate and retail segments and in combination with clients' good repayment discipline in the favourable phase of the business cycle allowed KB to record a CZK 0.7 billion net release of loan loss provisions.
- Recurring net profit improved by 6.1% year on year to reach CZK 11.0 billion. Reported net income, including such various one-off items as creation of the restructuring reserve in 2018 and sale of a head office building in 2017, was down 2.4%.
- The Bank is taking further steps in its strategic transformation as formulated in the KB Change programme. It has launched several of the first cross-functional agile teams dedicated to specified client needs. The number of management layers is being reduced across the Bank. Improved efficiency of processes will lead to a reduction in the overall number of employees by 5% through the end of 2019's first half, compared to the end of 2017.

Prague, 8 November 2018 – Komerční banka reported today its unaudited consolidated results for the first three quarters of 2018.

Total revenues increased by 2.6% to CZK 23.7 billion. Within this total, net interest income was higher by 5.8% from the year earlier due to growth in the volumes of deposits and loans, as well as



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higher market interest rates that positively influenced returns from reinvestment of deposits. Net fees and commissions were lower by 1.1%. An expanding number of customers are upgrading to better account packages with more transactions and a wider range of other services included for a flat fee. Net gains from financial operations were strong, at CZK 2.4 billion, but this amount was still off by 10.8% because last year's result had been boosted by clients' exceptionally strong currency hedging activity linked to the discontinuation of currency interventions by the Czech National Bank (CNB).

Recurring operating expenditures were up by 1.8%<sup>1</sup>, at CZK 10.9 billion, driven by personnel expenses and depreciation. Administrative costs, meanwhile, were lower year on year. Reported operating costs, including various one-off items both this year and last, were down by a slight 0.4% to CZK 11.0 billion.

The quality of the loan portfolio remained excellent, reflecting the favourable phase of the business cycle. KB's successful recovery performance and low default rates enabled a net release of loan loss provisions in the amount of CZK 0.7 billion (compared to CZK 0.2 billion a year earlier).

Recurring attributable net profit (i.e. excluding one-off items) reached CZK 11.0 billion, which was 6.1% more than in the first nine months of 2017.

KB recognised several one-off items in the comparison periods of both 2017 and 2018<sup>2</sup>. When these are included, the reported net profit attributable to shareholders was lower by 2.4%, at CZK 11.0 billion.

Lending to clients increased by 3.8% to CZK 628.8 billion.<sup>3</sup> Within this total, financing of housing from KB and Modrá pyramida expanded by 5.4% and consumer lending by KB and ESSOX grew also by 5.4%. Business lending was up by 3.2%.

Deposits from clients grew by 4.1% year on year to CZK 809.5 billion.<sup>4</sup> The volume of KB Group clients' assets in mutual funds, pension savings, and life insurance rose by 4.9% to CZK 168.8 billion.

The capital adequacy ratio reached a strong 18.4%, and Core Tier 1 capital stood at 17.8%.

*"The main contribution to the solid revenues in the first nine months came from interest income and financial operations. On top of that, we have recorded an excellent result in terms of cost of risk and kept operating expenditures under control. I am happy to see the number of our clients increasing, and the growth in users of our mobile banking is indeed impressive. At the same time, the indicators of our clients' satisfaction show improvement and we are all very committed to further enhancing their customer experience in the months to come,"* remarked Jan Juchelka, KB's Chairman of the Board of Directors and Chief Executive Officer.

*"The fundamental changes we are currently implementing and investments we are making in growth opportunities will help us to reinforce our market position going forward and, more broadly, to fulfil*

<sup>1</sup> Excluding the impacts (before tax) in 2017 from revaluation of a headquarters building of CZK 242 million (negative, i.e. higher costs) and in 2018 from creation of the restructuring reserve for branch optimisation of CZK 295 million (negative, i.e. higher costs) and from release of over-accrued amounts for corporate services of CZK 193 million (positive, i.e. lower costs).

<sup>2</sup> In 9M 2017: revaluation and sale of head office buildings with a positive net impact of CZK 896 million. In 9M 2018: finalisation of the sale price for KB's former stake in Cataps with a positive net impact of CZK 82 million, creation of a restructuring reserve with a negative net impact of CZK 238 million, and release of over-accrued amounts for corporate services with a positive net impact of CZK 156 million.

<sup>3</sup> Excluding volatile reverse repo operations with clients but including debt securities issued by KB's clients and held by the Bank. Inclusive of repo operations, lending rose by 2.4% year over year to CZK 640.7 billion.

<sup>4</sup> Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 6.7% to CZK 850.9 billion.



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*our vision of delivering long-term value to our clients, employees and shareholders while acting responsibly towards society,” he added.*

The Bank had 48,225 shareholders as of 30 September 2018 (up by 2,710 year on year), of which 42,934 were private individuals from the Czech Republic (greater by 2,608 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.



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## 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<sup>5</sup>**

The growth of the Czech economy through the first three quarters of 2018 was driven by household demand and private sector investments. Compared to 2017, the economy has slowed noticeably, constrained as it is by the tight labour market. With unemployment at the lowest level seen anywhere within the entire EU (2.3% in September, according to the Eurostat methodology after seasonal adjustment)<sup>6</sup> and wage inflation exceeding 8%, businesses are hesitant to invest into expanding their production capacities despite their high capacity utilisation. Nevertheless, private sector investments are rising at a solid pace, underpinned by companies striving to improve their productivity.

Higher wage costs and more expensive raw materials pushed the dynamics of industrial producer prices above 3%. Consumer price inflation eased in September to 2.3%, but this was influenced by decrease in regulated prices (reduction in transport fares for seniors and youngsters). Meanwhile, the CZK exchange rate developed in a quite narrow range. As of 30 September 2018, at 25.715 Czech crowns per euro, the Czech currency was stronger by 1.2% quarter on quarter and up by 1.0% year on year.

With both consumer price inflation and core inflation above the Czech National Bank's monetary policy target and the Czech crown relatively calm, the central bank appeared confident in twice raising its main two-week repo rate during the third quarter, to 1.5% from 27 September (and subsequently to 1.75% following the fifth hike in 2018 on 1 November). Market interest rates also moved higher. Three-month PRIBOR rose by 54 basis points to 1.70% in the third quarter, and the long-term ten-year interest rate swap added 42 basis points to hit 2.45%. Yields on Czech government bonds were more stable.

The growth of prices on the housing market, which had led the Czech National Bank to announce a new round of tightening in prudential policy effective from October 2018, somewhat moderated. Prices paid in the second quarter for second-hand flats were up 5.6% year on year, although the prices obtained for new flats (in Prague only) were higher by 14.8% from the year earlier<sup>7</sup>.

Total bank lending for the overall market (excluding repo operations) grew by 6% year on year.<sup>8</sup> Lending growth was faster in retail banking, with mortgage growth still keeping pace and consumer loans gradually accelerating with support from high levels of consumer confidence and growing incomes. Although lending to corporations picked up somewhat in recent months, it remained still quite subdued in a year-on-year comparison. Public sector credit declined significantly, influenced by sluggish investment activity in that part of the economy.

The volume of deposits in Czech banks expanded by 5% year over year<sup>9</sup>. Here, too, growth was faster

<sup>5</sup> Data sources for this section: Czech Statistical Office, Czech National Bank, KB Economic Research, unless stated otherwise. Comparisons are year on year.

<sup>6</sup> Source: [http://ec.europa.eu/eurostat/statistics-explained/index.php?title=Unemployment\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php?title=Unemployment_statistics). Data up to September 2018.

<sup>7</sup> Source: <https://www.czso.cz/csu/czso/ceny-nemovitosti>. Publication code 014007-18, released 13 September 2018.

<sup>8</sup> Source of data on banking market developments: ARAD statistics of the CNB, [www.cnb.cz](http://www.cnb.cz).

<sup>9</sup> Source of data on banking market developments: ARAD statistics of the CNB, [www.cnb.cz](http://www.cnb.cz).



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in retail banking and corporate deposits increased only slightly.

## Quarterly update on KB Change strategic transformation programme

Komerční banka had announced its strategic transformational programme KB Change in May 2018. Its ultimate vision is 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.

During the third quarter, KB Group introduced several items enhancing the client value proposition. Following a facelift of the Mojobanka banking application, KB prepared itself for launching from November so-called account aggregation, whereby clients may check their transactions and balances with some other banks via KB's internet and mobile banking. Komerční banka is the first bank in the Czech Republic to provide this service through both internet and mobile banking applications. Moreover, from October, clients have been able to log onto the Mojobanka online banking very conveniently using just the new KB Key application in their mobile devices. That means customers may no longer need to use the security certificates. Komerční pojišťovna has teamed up with a fintec platform, Creative Dock, to launch a fully online Mutumutu life insurance that promotes a healthy lifestyle and nudges people to take good care of themselves. Komerční banka has also improved transparency of its pricelist, removed certain unpopular items and reduced its length by one-half.

The Bank has established its first cross-functional agile teams dedicated to business financing, consumer financing, and housing financing. It has appointed leaders of additional agile tribes and centres of excellence which will become operational in the coming weeks and months. KB has also been streamlining its operating structures in both the head office and the distribution network. The number of management layers is being reduced and the span of control of individual managers is increasing. The improved coordination and efficiency of processes will bring a 5% reduction in the number of employees from the end of 2017 through the end of 2019's first half. The control environment of the Bank will remain unaffected.

## Developments in the client portfolio and distribution networks

At the end of September 2018, KB Group was serving 2,391,000 clients on a consolidated basis. Standalone KB recorded 1,669,000 clients (+0.7% year on year), of which 1,411,000 were individuals. The remaining 258,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 483,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 532,000. Services of ESSOX Group (including the PSA Finance franchise) were being used by 213,000 active clients.

The number of clients using at least one direct banking channel (such as internet or telephone banking) reached 1,446,000 by the end of September 2018 and corresponds to 86.7% of all clients. Mobile banking was itself being used by 570,000 of KB's clients. Customers held 1,559,000 active payment cards, of which 178,000 were credit cards. The number of active credit cards issued by ESSOX came to 104,000.

Komerční banka's clients had at their disposal 376 banking branches (including one branch for corporate clients in Slovakia), 763 ATMs (of which 299 were deposit-taking ATMs), plus full-featured direct banking channels supported by two call centres. Modrá pyramida's customers had at their disposal 212 points of sale and 767 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. Financing from ESSOX was available at more than 2,300 merchants.



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## Loans to customers

Total **gross volume of lending to clients** rose by 3.8% year on year to CZK 628.6 billion.<sup>10</sup>

In lending to individuals, the overall volume of housing loans<sup>1</sup> grew by 5.4% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 3.3% to CZK 223.1 billion. Modrá pyramida accelerated growth of its portfolio to reach 16.7% year on year (CZK 49.0 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 5.4%, at CZK 39.1 billion.

The total volume of **loans to businesses** provided by KB Group climbed by 3.2% year on year to CZK 318.6 billion. Lending to small businesses grew by 5.4% to CZK 35.8 billion. 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 car dealers' financing from PSA Finance) increased by 2.5% year on year to CZK 256.0 billion. At CZK 26.8 billion, the total credit and leasing amounts outstanding at SGEF were up by 7.0% year over year.

## Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group rose by 4.1% year on year to CZK 809.5 billion.<sup>11</sup>

Deposits at Komerční banka from individual clients grew by a swift 9.8% from the year earlier to CZK 269.8 billion. The deposit book at Modrá pyramida contracted by 2.2% to CZK 61.1 billion due to maturing of older contracts. Total deposits from businesses and other corporations climbed by 2.7% to CZK 465.1 billion.

Client assets managed by KB Penzijní společnost were higher by 8.4%, at CZK 56.6 billion. Technical reserves in life insurance at Komerční pojišťovna were down by 0.4% year on year to CZK 47.4 billion. The volumes in mutual funds held by KB Group clients grew by 6.2% to CZK 64.8 billion.

The Group's liquidity as measured by the ratio of net loans<sup>12</sup> to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) was at 75.9%.

## 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 quarters of 2018 improved by 2.6% year on year to CZK 23,731 million. Within this total, net interest income increased and net fees and commissions declined slightly. Net profit from financial operations was excellent but still

<sup>10</sup> 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 2.4% to CZK 640.7 billion.

<sup>11</sup> Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' climbed by 6.7% to CZK 850.9 billion.

<sup>12</sup> Gross volume of loans reduced by the volume of provisions for loan losses.



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lower than in the first three quarters of 2017, when the clients' activity in hedging financial risks had been elevated in connection with release of the CNB's currency commitment.

**Net interest and similar income**<sup>13</sup> was up by 5.8% to CZK 16,528 million. The result was underpinned by growing volumes of loans and deposits. Higher market interest rates also supported yields from reinvestment of deposits and capital. On the other hand, intense competition on the banking market pushed down spreads on loans. 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 nine months of 2018.<sup>14</sup>

**Net fee and commission income**<sup>15</sup> moved lower by 1.1% to CZK 4,591 million. The decline was mainly due to lower income from transaction fees even though there was a rise in the overall number of transactions (most notably card payments) executed by clients. More and more of clients' transactions are nevertheless included in the prices of their account packages. At the same time, an increasing number of clients are upgrading to better packages including a wider range of services, and that leads to higher account maintenance fees. Fees from cross-selling were supported mainly by volume growth in mutual funds. Income from loan services declined due to smaller fees related to housing loans from KB and Modrá pyramida. Fees from specialised financial services were down, mainly because the comparison base had been elevated in 2017 by several large deals.

**Net profit on financial operations** decreased by 10.8% to CZK 2,420 million. That was still an excellent result, and it was boosted by extraordinarily large hedging deals developed for clients in the third quarter. A level lower than in 2017 had been expected, because last year's result had been boosted by clients' exceptionally strong currency hedging activity linked to the end of currency interventions by the CNB. In recent months, some clients have not perceived the market interest rates as making it particularly attractive enter into new positions for hedging interest rate risks. The existing interest rate differential between CZK and EUR limits the range of convenient FX hedging options. Fees and commissions from FX transactions were higher year on year, reflecting a slight increase in the volume of these transactions and adjusted pricing.

**Dividend and other income** rose by 30.6% to CZK 192 million. This line primarily comprises revenues from property rental and ancillary services.

**Recurring operating expenses** were up by 1.8% to CZK 10,915 million. Recurring personnel expenses rose by 3.5% to CZK 5,708 million, reflecting mainly an increase in average remuneration as the number of employees was down by a slight 0.4% to 8,435.<sup>16</sup> Recurring general and administrative expenses (excluding the regulatory funds) were lower by 3.6%, at CZK 3,010 million. Savings were achieved in expenditures for marketing and telecommunications services. The cost of Resolution and similar funds declined by 2.6% to CZK 836 million. This amount comprises the full-year cost of contributions to the Deposit Insurance Fund and Resolution Fund. Recurring depreciation and amortisation grew by 11% to CZK 1,361 million, driven mainly by new and upgraded software and IT equipment, as well as technical improvements to buildings.

<sup>13</sup> As from 1 January 2018, Komerční banka reclassified fees for early repayment of loans, which compensate the Bank for a loss from necessary adjustments of the hedging position, from 'Net fee and commission income' to 'Net interest income'. Year-on-year commentaries are made in comparison with the restated base.

<sup>14</sup> Net interest margin stood at 2.2% in the first three quarters of 2017. These ratios are not fully comparable, however, due to impacts from application of the new IFRS 9 standard on certain balance sheet values.

<sup>15</sup> As from 1 January 2018, Komerční banka reclassified fees for early repayment of loans, which compensate the Bank for a loss from necessary adjustments in the hedging position, from 'Net fee and commission income' to 'Net interest income'. Year-on-year commentaries are made in comparison with the restated base

<sup>16</sup> Recalculated to a full-time equivalent number.



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In both comparison periods, KB Group has reported several non-recurring items in operating expenses. In 2017, this concerned the impairment of a head office building by CZK 242 million. In 2018, it was the restructuring reserve for expected costs arising from the KB Change programme, comprising CZK 223 million in expected costs of severance payments recognised in personnel expenses and CZK 71 million in expected cost of reducing branch facilities recognised in general and administrative expenses. Also in 2018's second quarter, KB released CZK 193 million over-accrued in previous years within general and administrative expenses for various services from entities of Société Générale Group. Including these non-recurring items, **reported operating expenses** were up by a slight 0.4%, at CZK 11,015 million.

**Recurring profit** before allowances for loan losses, provisions for other risk, profit on subsidiaries, and income tax (**gross operating income**), excluding one-off impairment of a building booked in first quarter 2017, as well as one-off creation of the restructuring reserve and one-off release of the over-accrued amounts for corporate services in second quarter 2018, was up by 3.4% to CZK 12,817 million. Reported gross operating income for the first three quarters of 2018 increased by 4.6% to CZK 12,716 million.

**Cost of risk** reached a negative CZK 659 million (net release of provisions). This exceptional result was driven by continued low client default rates and good performance from recovery activities. Additional release in the third quarter resulted from a regular calibration of provisioning models in the retail defaulted portfolios. The economic environment in the Czech Republic and Europe was supportive throughout the nine months of 2018. Cost of risk in relative terms<sup>II</sup> and as measured against the average volume of the lending portfolio during this period came to --14 basis points.

**Income from shares in associated undertakings** (i.e. Komerční pojišťovna) increased by 3.6% to CZK 172 million. **Profit attributable to exclusion of companies from consolidation** reached CZK 82 million (CZK 0 in the three quarters of 2017). That was related to finalising the selling price for KB's stake in Cataps in connection with the sale of an additional 19% in that company in February 2018.

**Net profit from other assets** totalled CZK 16 million and was generated from sales of buildings in the held-for-sale portfolio. This had been CZK 1,133 million in the first three quarters of last year, when it had included also a gain from the sale of a headquarters building.

**Income tax** was higher by 10.8%, at CZK 2,428 million. If the tax effect of the one-off items were to be excluded, income taxes would be up by 7.8%.

KB Group's consolidated **net profit** for the first three quarters of 2018, at CZK 11,220 million, was lower by 2.3% in comparison with the prior year's first nine months. Of this amount, CZK 262 million was profit attributable to the Non-controlling owners of minority stakes in KB's subsidiaries (flat year on year).

Reported **net profit attributable to the Group's equity holders** totalled CZK 10,958 million, which is 2.4% less than in the first three quarters 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, creation of the restructuring reserve, and release of over-accrual for corporate services in 2018) was up 6.1% year on year to CZK 10,957 million (as one-off items from the first nine months of 2018 generally offset one another).

**Other comprehensive income**, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK -387million. **The Group's comprehensive income** for the nine months of 2018 amounted to CZK 10,833 million, of which CZK 262 million was attributable to owners of non-controlling stakes.





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## Statement of financial position

Unless indicated otherwise, the following text provides a comparison of the balance sheet values as of 30 September 2018 with the values from the statement of financial position as of 1 January 2018 and reflect newly introduced IFRS 9. Since the start of 2018, the IFRS 9 reporting standard has 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 on the financial assets' 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. Due to this change in accounting methodology, comparison with the audited statement of financial position as of 31 December 2017 would be less meaningful.

### Assets

As of 30 September 2018, KB Group's total assets had risen by 13.5% year to date to CZK 1,136.7 billion.

Cash and current balances with central banks were down by 57.0%, at CZK 14.1 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 40.6% to CZK 34.1 billion. The fair value of hedging financial derivatives declined by 18.1% to CZK 11.0 billion.

Year to date, there was a 5.6% rise in financial assets at fair value through other comprehensive income amounting to CZK 25.4 billion. This consisted mainly of public debt securities.

Financial assets at amortised cost grew by 16.2% to CZK 1,030.4 billion. The largest portion of this consisted of (net) loans and advances to customers, which went up by 6.1% to CZK 630.0 billion. A 97.2% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.8% of the loans were classified in Stage 3 (non-performing loans). Loans and advances to banks rose by 48.2% to CZK 330.2 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was down slightly, as it declined by 0.1% to reach CZK 70.2 billion at the end of the third quarter.

Revaluation differences on portfolio hedge items were CZK -0.7 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, declined overall by 21.3% to CZK 4.6 billion. Assets held for sale diminished by 59.4% to CZK 0.1 billion.

Investments in subsidiaries and associates decreased by 16.5% to CZK 1.0 billion.

The net book value of tangible assets rose by 3.9% to CZK 7.7 billion, and intangible assets grew by 5.7% to reach CZK 5.0 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 14.8% higher in comparison to the beginning of 2018 and stood at CZK 1,037.2 billion.

Financial liabilities at amortised costs went up by 15.2% to CZK 980.1 billion. The largest proportion of this total, amounts due to customers, was greater by 11.7% and reached CZK 850.9 billion. This total included CZK 41.4 billion of liabilities from repo operations with clients and CZK 8.0 billion of



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other payables to customers. Amounts due to banks increased in 2018's first three quarters by 49.3% to CZK 125.5 billion.

The volume of outstanding securities issued declined by 23.3% to CZK 3.7 billion.

Revaluation differences on portfolios hedge items expanded to CZK -11.0 billion. Current and deferred tax liabilities increased by 2.5% to CZK 1.0 billion. Other liabilities and accruals, which include payables from securities trading and settlement balances, declined by 0.7% to CZK 18.7 billion.

Provisions rose by 3.8% to CZK 2.0 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 0.7% 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 grew year to date by 1.4% to CZK 99.5 billion. The value of non-controlling interests reached CZK 3.3 billion. As of 30 September 2018, 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 82.6 billion as of 30 September 2018, up 9.3% year on year. **Capital adequacy** stood at 18.4%. The Core Tier 1 capital amounted to CZK 80.0 billion (+5.9% year on year), and the Core Tier 1 ratio was at 17.8%. The Tier 2 capital amounted to CZK 2.6 billion, or 0.6% of risk-weighted assets.

KB's overall capital requirement as of 30 September 2018 was approximately 16.0% relative to the consolidated volume of risk-weighted assets, the required minimum Core Tier 1 capital level was at 12.125%, and the minimum Tier 1 capital ratio at 14.0%. This followed the increase by 50 basis points to 1.00% in the countercyclical capital buffer for Czech exposures with effect from 1 July 2018.

The CNB announced a further rise in this buffer with effect from 1 January 2019 by 25 basis points (to 1.25%) and by an additional 25 basis points (to 1.5%) from 1 July 2019.

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

### Changes in corporate governance

With effect from 5 October 2018, Mr. Libor Löfler has terminated his membership on the Board of Directors of Komerční banka and the position of Chief Administrative Officer. Mr Löfler will remain at KB until the end of 2018 as an advisor to the CEO.

On 4 October 2018, KB announced that the Nominations Committee had proposed Ms. Cecile Camilli to become a member of the Supervisory Board. She should join the Supervisory Board upon receipt of consent from the Czech National Bank. Ms. Camilli is Managing Director and head of CEEMEA Debt Capital Markets at Société Générale.



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**ANNEX:** Consolidated results as of 30 September 2018 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	Reported			Recurring		
	9M 2017	9M 2018	Change YoY	9M 2017	9M 2018	Change YoY
Net interest income and similar income	15,621	16,528	5.8%	15,621	16,528	5.8%
Net fee & commission income	4,644	4,591	-1.1%	4,644	4,591	-1.1%
Net profit of financial operations	2,714	2,420	-10.8%	2,714	2,420	-10.8%
Dividend and other income	147	192	30.6%	147	192	30.6%
<b>Net banking income</b>	<b>23,126</b>	<b>23,731</b>	<b>2.6%</b>	<b>23,126</b>	<b>23,731</b>	<b>2.6%</b>
Personnel expenses	-5,517	-5,931	7.5%	-5,517	-5,708	3.5%
General admin. expenses (excl. regulatory funds)	-3,124	-2,888	-7.6%	-3,124	-3,010	-3.6%
Resolution and similar funds	-858	-836	-2.6%	-858	-836	-2.6%
Depreciation, amortisation and impairment of operating assets	-1,468	-1,361	-7.3%	-1,226	-1,361	11.0%
<b>Total operating expenses</b>	<b>-10,967</b>	<b>-11,015</b>	<b>0.4%</b>	<b>-10,725</b>	<b>-10,915</b>	<b>1.8%</b>
<b>Gross operating income</b>	<b>12,160</b>	<b>12,716</b>	<b>4.6%</b>	<b>12,401</b>	<b>12,817</b>	<b>3.4%</b>
Cost of risk	220	659	>100%	220	659	>100%
<b>Net operating income</b>	<b>12,380</b>	<b>13,375</b>	<b>8.0%</b>	<b>12,621</b>	<b>13,476</b>	<b>6.8%</b>
Income from share of associated companies	166	172	3.6%	166	172	3.6%
Profit/(loss) attributable to exclusion of companies from consolidation	0	82	n.a.	0	0	n.a.
Impairment losses on goodwill	0	2	n.a.	0	2	n.a.
Net profits on other assets	1,133	16	-98.6%	74	16	-78.4%
<b>Profit before income taxes</b>	<b>13,679</b>	<b>13,647</b>	<b>-0.2%</b>	<b>12,861</b>	<b>13,666</b>	<b>6.3%</b>
Income taxes	-2,192	-2,428	10.8%	-2,271	-2,447	7.8%
<b>Net profit</b>	<b>11,487</b>	<b>11,220</b>	<b>-2.3%</b>	<b>10,590</b>	<b>11,219</b>	<b>5.9%</b>
Profit attributable to the Non-controlling owners	262	262	0.0%	262	262	0.0%
<b>Profit attributable to the Group's equity holders</b>	<b>11,225</b>	<b>10,958</b>	<b>-2.4%</b>	<b>10,328</b>	<b>10,957</b>	<b>6.1%</b>

Notes to "Recurring" results:

9M 2017: Excluding net positive contribution from the sale and revaluation of KB's headquarters buildings (CZK -242 million in 'Depreciation, amortisation and impairment of operating assets'; CZK 1,059 million in 'Net profit on other assets'; CZK 79 million in 'Income taxes').

9M 2018: Excluding finalisation of sale price for KB's former stake in Cataps in connection with the sale of an additional 19% in Cataps (CZK 82 million in 'Profit attributable to exclusions of companies from consolidation'), restructuring reserve (CZK -223 million in 'Personnel expenses', CZK -71 million in 'General and administrative expenses', and CZK 56 million in 'Income taxes'), and release of corporate service fees for SG assistance (CZK 193 million in 'General and administrative expenses' and CZK -37 million in 'Income taxes').



## Regulatory information

<b>Statement of financial position</b>	<b>30 Sep 2017</b>	<b>31 Dec 2017</b>	<b>1 Jan 2018</b>	<b>30 Sep 2018</b>	<b>Ytd</b>
(CZK million, unaudited)	<b>According to IAS 39</b>	<b>According to IAS 39</b>	<b>According to IFRS 9</b>	<b>According to IFRS 9</b>	
<b>Assets</b>	<b>1,060,409</b>	<b>1,004,039</b>	<b>1,001,652</b>	<b>1,136,746</b>	<b>13.5%</b>
Cash and current balances with central bank	92,119	32,663	32,663	14,060	-57.0%
Loans and advances to banks	202,849	228,373	222,821	330,179	48.2%
Loans and advances to customers (net)	613,015	598,102	593,639	630,025	6.1%
Securities and trading derivatives	115,840	108,468	115,913	129,710	11.9%
Other assets	36,587	36,432	36,616	32,773	-10.5%
<b>Liabilities and shareholders' equity</b>	<b>1,060,409</b>	<b>1,004,039</b>	<b>1,001,652</b>	<b>1,136,746</b>	<b>13.5%</b>
Amounts due to banks	98,533	84,050	84,050	125,518	49.3%
Amounts due to customers	797,130	762,043	762,043	850,904	11.7%
Securities issued	15,051	4,832	4,832	3,706	-23.3%
Subordinated debt	0	2,560	2,560	2,577	0.7%
Other liabilities	50,610	50,208	50,005	54,538	9.1%
Total equity	99,086	100,346	98,162	99,502	1.4%

Key ratios and indicators	30 Sep 2017	30 Sep 2018	Change year on year
Capital adequacy (CNB)	16.8 %	18.4 %	▲
Tier 1 ratio (CNB)	16.8 %	17.8 %	▲
Total risk-weighted assets (CZK billion)	450.6	450.0	-0.2 %
Risk-weighted assets for credit risk (CZK billion)	380.8	371.3	-2,5 %
Net interest margin (NII/average interest-bearing assets) <sup>III</sup>	n.a.*	2.2 %	
Loans (net) / deposits ratio <sup>IV</sup>	n.a.*	75.9 %	
Cost / income ratio <sup>V</sup>	47.4 %	46.4 %	▼
Return on average equity (ROAE) <sup>VI</sup>	n.a.*	15.3 %	
Return on average regulatory capital <sup>VII</sup>	20.3 %	18.1 %	▼
Return on average assets (ROAA) <sup>VIII</sup>	n.a.*	1.4 %	
Earnings per share (CZK) <sup>IX</sup>	79	77	-2.4 %
Average number of employees during the period	8,469	8,435	-0.4 %
Number of branches (KB standalone in the Czech Republic)	388	375	-13
Number of ATMs	765	763	-2
Number of clients (KB standalone)	1,657,000	1,669,000	0.7 %

\* n.a. – Data in accordance with IFRS 9 is not available. According to the IAS 39 standard, the following financial indicators as of 30 September 2017 were:

- NIM (annualised): 2.2%;
- Loan (net)/deposit ratio (excl. repo operations with clients): 76.2%,
- ROAE (annualised): 15.2%,
- ROAA (annualised): 1.5%

Business performance in retail segment – overview	30 Sep 2018	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 223.1 billion	3.3%
Building savings loans (MPSS) – volume of loans outstanding	CZK 49.0 billion	16.7%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	CZK 39.1 billion	5.4%
Small business loans – volume of loans outstanding	CZK 35.8 billion	5.4%
Total active credit cards – number	178,000	-4.7%
– of which to individuals	139,000	-5.1%
Total active debit cards – number	1,382,000	-0.9%
Insurance premiums written (KP)	CZK 4.3 billion	-10.7%



# Regulatory information

## Financial calendar:

7 February 2019:	Publication of FY 2018 and 4Q 2018 results
3 May 2019:	Publication of 1Q 2019 results
1 August 2019:	Publication of 2Q 2019 results
6 November 2019:	Publication of 3Q 2019 results

## Definitions of the performance indicators mentioned herein:

- <sup>I</sup> **Housing loans:** mortgages to individuals provided by KB + loans to clients provided by Modrá pyramida;
- <sup>II</sup> **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;
- <sup>III</sup> **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');
- <sup>IV</sup> **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');
- <sup>V</sup> **Cost to income ratio:** 'Operating costs' divided by 'Net operating income';
- <sup>VI</sup> **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;
- <sup>VII</sup> **Return on average regulatory capital:** annualised 'Net profit attributable to equity holders' divided by average group 'Regulatory capital', year to date;
- <sup>VIII</sup> **Return on average assets (ROAA):** annualised 'Net profit attributable to equity holders' divided by average 'Total assets', year to date;
- <sup>IX</sup> **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.

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

<b>(source: Profit and Loss Statement)</b>	<b>9M 2018</b>	
<b>Net interest income and similar income, year-to-date</b>	<b>16,528</b>	
Of which:		
Loans and advances at amortised cost	14,252	
Debt securities at amortised cost	1,454	
Debt securities other	327	
Financial liabilities at amortised cost	-1,628	
Hedging financial derivatives - income	7,669	
Hedging financial derivatives - expense	-5,545	
	<b>30 Jun</b>	<b>1 Jan</b>
<b>(source: Balance Sheet)</b>	<b>2018</b>	
Cash and current balances with central banks/ Current balances with central banks	6,253	22,593
Loans and advances to banks	330,179	222,821
Loans and advances to customers	630,025	593,639
Financial assets at fair value through profit of loss/ Debt securities	5,142	1,633
Financial assets at fair value through profit of loss - non SPPI/ Debt securities	2,626	2,694
Financial asset at fair value through other comprehensive income (FV OCI)/ Debt securities	25,050	23,798
Debt securities	70,238	70,340
<b>Interest bearing assets (end of period)</b>	<b>1,069,514</b>	<b>937,518</b>
<b>Average interest bearing assets, year-to-date</b>	<b>1,003,516</b>	
<b>NIM year-to-date, annualized</b>	<b>2.20%</b>	