

Massive increase in use of KB's mobile banking

Revenues increased, operating costs under control, risk costs still excellent

- **Komerční banka registered a 38% year-on-year increase in the number of its clients with KB Mobile Banking to 655,000. The volume of transactions submitted in the first three months through mobile devices rose by 82% to CZK 15.6 billion. This confirmed KB's no. 1 position on the Czech market in mobile banking.**
- **Clients of KB had tokenized 91,000 payment cards into their mobile wallet applications. The vast majority of these were tokenized after the February launch of Apple Pay service.**
- **In April, more than 200,000 customers were using the KB Key authentication app, just five months after its launch.**
- **The total volume of KB Group's lending expanded by 4.0% year on year to CZK 637.3 billion. Within KB Group, the portfolio of housing loans from Modrá pyramida enlarged fastest, by 15.2%. Consumer lending grew by 3.4%. Lending to businesses rose by 4.2%.**
- **The overall volume of standard client deposits within KB Group expanded by 4.5% to CZK 826.1 billion. Bank deposits from individuals were higher by 7.7% from a year earlier.**
- **Revenues improved by 5.1%, while operating costs were up by just 3.2% despite faster growth in average salaries. KB was once again able to release some provisions for credit losses. Net profit grew by 5.9% year on year to CZK 3.2 billion.**

Prague, 3 May 2019 – Komerční banka reported today its unaudited consolidated results for the first quarter of 2019.

Total revenues increased by 5.1% to CZK 8.0 billion. Within this total, net interest income was higher by 9.2% from the year earlier, reflecting growth in the volume of assets and higher CZK interest rates, which supported yields from reinvestment of deposits and capital. Net fees and commissions were lower by 2.1%, because improving fees for services to corporations and from clients' upgrading to higher account packages were more than offset by lower income from transactions and loans. Net gains from financial operations decreased by 13.5% to CZK 0.6 billion, influenced by revaluation of derivative positions.

Operating expenditures were up by 3.2%, at CZK 4.2 billion. The paces of growth were very similar for both personnel and non-personnel expenses. Faster growth in average remuneration was partly offset by decrease in the average number of employees by 3.9% to 8,167.

The quality of the loan portfolio remained excellent, and KB was able to book a net release of provisions for credit risk amounting to CZK 176 million. This result was due to the still-supportive economic environment, continued low client default rates, and good performance in recovery activities.

Net profit attributable to the Group's equity holders totalled CZK 3,176 million, which was an

improvement by 5.9% year on year.

Lending to clients increased by 4.0% to CZK 637.3 billion.¹ KB and Modrá pyramida's financing of housing expanded by 3.9% while consumer lending by KB and ESSOX grew by 3.4%. KB Group lending to businesses was up by 4.2%.

Deposits from clients climbed by 4.5% year on year to CZK 826.1 billion.² The volume of KB Group clients' assets in mutual funds, pension savings, and life insurance rose by 5.5% to CZK 172.9 billion.

The capital adequacy ratio reached a strong 18.9%, and Core Tier 1 capital stood at 18.4%.

"We observed rapid proliferation of digital banking among the clients in the beginning of this year, as had been an assumption underlying the KB Change strategic transformation programme. KB has invested significant resources into making our digital channels convenient, safe and attractive to clients. These investments are paying off, as KB has a larger number of mobile banking clients and greater volume of mobile banking transactions than any other Czech bank. Importantly, we make digital banking easy to use for all generations, and clients' satisfaction with Mobilní banka has been rising from the already high levels," remarked Jan Juchelka, Komerční banka's Chairman of the Board of Directors and Chief Executive Officer.

"The financial results for the first quarter confirm the positive trajectory of overall revenues, mainly thanks to net interest income. Even while investing in digitalisation and changing the Bank, we have maintained disciplined management of operating expenditures. Of course, the bottom line result was supported by the still-strong loan repayment discipline demonstrated by clients," he added.

The Bank had 47,718 shareholders as of 31 March 2019 (down 241 year on year), of which 42,392 were private individuals from the Czech Republic (lower by 284 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 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, amounts due from clients rose by 1.9% year on year to CZK 640.5 billion.

² Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 5.2% to CZK 856.6 billion.

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 environment³

Growth of the Czech economy in the first quarter of 2019 was most probably again driven by household demand and fixed investments. The economy is following a downward sloping path of slowing GDP growth, although 2018's fourth quarter constituted an exception from that trend. The economy continues to be constrained by tight labour market conditions. Unemployment remains the lowest seen anywhere across the entire EU (1.9% in February, according to the Eurostat methodology after seasonal adjustment),⁴ but wage inflation eased somewhat in the fourth quarter to 6.9%. Moreover, high capacity utilisation is supporting private sector investments directed to improving productivity in an environment of essentially zero availability of additional labour force and exploiting the favourable demand and financing situation for investment. In the second half of 2018, investments began to accelerate also due to the public sector, which had some catching up to do from its sluggish investment dynamics in recent years.

Consumer price inflation reached 3% in March, touching the upper boundary of the Czech National Bank's 2% inflation target tolerance band. The rising price level was mainly due to volatile prices for items like food and fuels, but stable administered prices also exerted an influence. Core inflation continued at its elevated level of around 3%. Meanwhile, the Czech crown's exchange rate was mostly stable in the range of CZK 25.6–25.8 per euro and with no clear signs of breaking out in either direction. It closed the first quarter at CZK 25.8 per euro, 0.3% weaker than at the beginning of the year.

Both headline as well as core inflation are at the upper bound of the monetary policy targets tolerance band. The decisions of the CNB Bank Board do not rely on current inflation numbers, however, but rather take into account anticipated future development. The effective period for the mechanisms transmitting rate changes through the economy is estimated between four and six quarters. On this horizon, according to comments from some CNB Bank Board members, the probability is increasing that risks for adverse economic development will arise. The risks most often mentioned are cooling of the Germany economy and Brexit-related uncertainty. For this reason, we can only see one more hike this year, in addition to the rate hike from May 2. Interbank market interest rates did not change much during most of 2019's first quarter. Three-month PRIBOR hovered around 2.01% in the quarter, but the ten-year interest rate swap rose from 1.66% to 1.73% at the end of the quarter. Yields on Czech government bonds recovered from 1.79% at the beginning of the year to 1.92% at the end of March.

Price increases for residential real estate picked up speed in the fourth quarter of 2018. That was despite the CNB's new prudential policy measures that had come into force on 1 October 2018 and which tightened conditions for granting residential mortgages. This partially reflects a base effect, however, inasmuch as the quarter-on-quarter dynamics did slow. Prices paid in the fourth quarter for previously owned flats were up 11% year on year, but prices obtained for new flats (in Prague only) were 7.8% higher from the year earlier.⁵

³ 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.

⁴ Source: http://ec.europa.eu/eurostat/statistics-explained/index.php?title=Unemployment_statistics. Data up to February 2019.

⁵ Source: <https://www.czso.cz/csu/czso/ceny-nemovitosti>. Publication code 014007-18, released 18 March 2019.

Total bank lending for the overall market (excluding repo operations) grew by 6.5% year on year.⁶ Lending growth was faster in retail banking, with mortgage growth slowing slightly as measured by the total amount of mortgage debt outstanding. New mortgage production in fact slowed significantly. Consumer loans growth kept its pace, supported by high levels of consumer confidence and strong dynamics in wages growth. Lending to corporations, too, remained at the elevated dynamics seen in recent months, even as the dynamics of public sector borrowing were erratic despite a revival of public investment activity during 2018's second half.

The volume of deposits in Czech banks expanded by 8.4% year over year in March.⁷ Here, the growth was faster in retail deposits, and deposits from non-financial corporations increased more slowly.

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 first quarter, KB completed establishment of the agile organisational structure at headquarters. A total of 16 teams dedicated to defined client journeys or business processes is supported by 5 centres of expertise, with the goals to accelerate KB's time to market, improve the internal corporate culture and adaptability in the uncertain context, and attract talent. Approximately 40% of employees at KB headquarters now work according to the agile@KB methodology, which involves an iterative way of working within multidisciplinary teams that are autonomous and empowered but nevertheless aligned.

KB has made sure it remains at the leading edge of the digital transformation of banking. In February, KB was among the first banks to introduce Apple Pay service on the Czech market. In less than two months' time (by the end of March), clients had tokenized some 57,000 payment cards in Apple's Wallet application. In total, Komerční banka's customers had virtualised 91,000 cards into payment applications from Apple, Google, Garmin and Fitbit. The Bank also recorded a rapid roll-out of its new KB Key authentication application. More than 100,000 clients downloaded KB Key during the first quarter, bringing the number of users to 152,000 as of 31 March 2019. As of end of April, the number of clients with KB Key exceeded 200,000.

Corporate social responsibility

In the first quarter, KB supported education at all levels. It was the main partner of the SingularityU Czech Summit, a conference featuring leading experts on new technologies, including artificial intelligence, education, mobility, robotics, medicine, neuroscience, and blockchain. Moreover, KB sponsored attendance at the event by talented students 15–25 years of age. Komerční banka is also a general partner of the Economic Olympics, a knowledge contest for students from secondary schools and universities. In the same period, KB's Jistota Foundation co-operated with the Czech Streetwork Association to host seminars on financial literacy for vulnerable young people.

KB again was the main partner of the campaign Uklidíme Česko (Let's tidy up Czechia). Scores of employees took part, many using their one day for volunteer activities that KB has newly made available to each employee.

KB's Jistota Foundation decided to underpin four long-term projects in various parts of the Czech Republic for assisting young people leaving children's home institutions on their way towards leading

⁶ Source of data on banking market developments: ARAD statistics of the CNB, www.cnb.cz.

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

full and independent lives. The Foundation also selected for its support five regional projects focused on families with small children and on mitigating hindrances to their healthy development.

Continuing in its support of non-professional sports, KB was the main partner of the 2019 Superfinals for the women's and men's national floorball championships. The event comprised also the KB Floorball Challenge tournaments for secondary school students.

Developments in the client portfolio and distribution networks

	1Q 2018	1Q 2019	YoY
Number of clients			
KB Group's clients	2,397,000	2,379,000	-18,000
Komerční banka	1,666,000	1,658,000	-8,000 *
– individual clients	1,408,000	1,401,000	-7,000 *
– using at least one direct banking channel	1,430,000	1,460,000	30,000
– internet banking clients	1,361,000	1,393,000	32,000
– mobile banking clients	475,000	655,000	180,000
Modrá pyramida	486,000	491,000	5,000
KB Penzijní společnost	532,000	532,000	0
ESSOX (Group)	215,000	211,000	-4,000
Distribution network			
KB Retail branches	381	345	-36
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	1,755	946	-809**
ATMs	760	779	19
of which deposit-taking	200	336	136

* 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

Loans to customers

Total **gross volume of lending to clients** rose by 4.0% year on year to CZK 637.3billion.⁸

In lending to individuals, the overall volume of housing loans¹ grew by 3.9% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 1.6% to CZK 223.9 billion. Modrá pyramida's loan portfolio grew by a strong 15.2% to CZK 52.1 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up 3.4%, at CZK 38.6 billion.

The total volume of **loans to businesses** and other lending provided by KB Group climbed by 4.2% year on year to CZK 322.7 billion. Lending to small businesses grew by 3.0% to CZK 35.4 billion. The overall CZK volume of credit granted by KB to medium-sized, large corporate and other clients

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 1.9% to CZK 640.5 billion.

in the Czech Republic and Slovakia⁹ increased by 4.1% year on year to CZK 259.6 billion. At CZK 27.7 billion, the total credit and leasing amounts outstanding at SGEF were 6.7% higher year over year.

Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group rose by 4.5% year on year to CZK 826.1 billion.¹⁰

Deposits at Komerční banka from individual clients grew by 7.7% from the year earlier to CZK 277.9 billion. The deposit book at Modrá pyramida was essentially unchanged (-0.1%) at CZK 61.5 billion. Total deposits from businesses and other corporations climbed by 4.1% to CZK 476.3 billion.

Client assets managed by KB Penzijní společnost were 8.4% higher, at CZK 58.8 billion. Technical reserves in life insurance at Komerční pojišťovna were up by 0.4% year on year, at CZK 47.5 billion. The volumes in mutual funds held by KB Group clients grew by 6.8% to CZK 66.6 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) was at 75.3%.

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. As a lessee under operating lease of office buildings and branches, in particular, the Bank must recognise those leases on the 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, as 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 quarter of 2019 improved by 5.1% year on year to reach CZK 7,956 million. This growth was driven by net interest income, while fee income and net gains from financial operations diminished.

Net interest and similar income¹² was up by 9.2%, at CZK 5,892 million. The result reflected growth in the volume of assets and higher CZK interest rates, which supported yields from reinvestment of deposits and capital. Meanwhile, the spreads on loans have been pressed down by intense competition. The net interest margin for the first three months of 2019, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.3%. That compares to 2.2% a year earlier.

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 5.2% to CZK 856.6 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 the quarterly net interest income.

Net fee and commission income¹³ moved lower by 2.1% to CZK 1,428 million. KB recorded higher income from specialised financial services, such as issuance of trade finance instruments, guarantees and loan syndications. The maintenance fee income improved, as well, due to clients' increasing preference for better account packages that include a wider range of services. On the other hand, transaction fees dropped despite a rise in the overall number of transactions. Fees from cross-selling were down slightly due to lower income from mutual funds and life insurance products. Income from loan services declined, mainly in connection with smaller loans production in retail.

Net profit on financial operations decreased by 13.5% to CZK 571 million. This drop was influenced by counterparty credit risk adjustments (DVA) recognised in the value of derivative positions. Clients' demand for hedging of financial risks was limited by an absence of clear trends for CZK exchange and interest rates during the quarter. 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 rose by 12.1 % to CZK 65 million. This line primarily comprises revenues from property rental and ancillary services.

Operating expenses were up by 3.2%, at CZK 4,188 million. Personnel expenses rose by 3.1% to CZK 1,905 million, reflecting mainly remuneration increases as the average number of employees declined by 3.9% to 8,167.¹⁴ General administrative expenses (excluding contributions to the regulatory funds) were lower by 9.4%, at CZK 841 million. Implementation of the new IFRS 16 standard replaced rent expense with the depreciation expense of rights-of-use. Adjusted for this switch, general administrative expenses increased by 2.3%, mainly as a result of higher cost of IT support. The estimated full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) was booked at CZK 846 million. Depreciation and amortisation grew by 37.6% to CZK 596 million, including the effect of IFRS 16 implementation. Adjusted depreciation and amortisation charges were higher by 12.6%, driven mainly by new and upgraded software and IT equipment.

Profit before allowances for loan losses, provisions for other risk, profit on subsidiaries, and income tax (**gross operating income**) was up by 7.3%, at CZK 3,768 million.

Cost of risk reached a negative CZK 176 million (net release of provisions), which amount is 112% greater than the net release in the first quarter of 2018. This was made possible by the still supportive economic environment, continued low client default rates, and good performance from recovery activities. The cost of risk in relative terms¹¹ and as measured against the average volume of the lending portfolio during the first three months came to -11 basis points.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was flat year on year, at CZK 62 million. The Group did not book any **profit attributable to exclusion of companies from consolidation**. That compares with CZK 82 million booked a year earlier, which had been related to finalising the selling price for KB's stake in Cataps. **Net profits on other assets** were also negligible (compared to CZK 14 million in 2018 linked to sales of buildings in the held-for-sale portfolio).

Income tax was higher by 11.7%, at CZK 757 million.

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 Recalculated to a full-time equivalent number.

KB Group's consolidated **net profit** for the first quarter of 2019, at CZK 3,249 million, was higher by 5.7% in comparison with the first quarter a year ago. Of this amount, CZK 73 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (-2.7% year on year).

Reported **net profit attributable to the Group's equity holders** totalled CZK 3,176 million, which is 5.9% better year on year. Recurring attributable net profit (i.e. excluding one-off effects from the sale price for Cataps in 2018) was up 8.9% year on year.

Other comprehensive income, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK 76 million. **Consolidated comprehensive income** for the first three months of 2019 amounted to CZK 3,325 million, of which CZK 73 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 31 March 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 31 March 2019, KB Group's total assets had risen by 6.9% year to date to CZK 1,133.3 billion.

Cash and current balances with central banks were down by 26.9%, at CZK 18.2 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 6.9% to CZK 24.2 billion. The fair value of hedging financial derivatives declined by 13.0% to CZK 10.9 billion.

Year to date, there was a 12.4% increase in financial assets at fair value through other comprehensive income amounting to CZK 28.4 billion. This consisted mainly of public debt securities.

Financial assets at amortised cost grew by 7.9% to CZK 1,025.8 billion. The largest portion of this consisted of (net) loans and advances to customers, which went up by 0.6% to CZK 628.6 billion. A 97.5% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.5% 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 11.7 billion. Loans and advances to banks rose by 24.5% to CZK 319.0 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 11.9% and reached CZK 78.2 billion at the end of the first quarter.

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 overall by 6.8% to CZK 5.4 billion. Assets held for sale slid by 2.5% to CZK 0.2 billion.

Investments in subsidiaries and associates decreased by 7.5% to CZK 1.2 billion.

The net book value of tangible assets rose by 33.8% to CZK 10.3 billion, as rights-of-use, newly recognised under IFRS 16, added CZK 2.8 billion to this total. Intangible assets grew by 1.8% to reach CZK 5.3 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 7.3% higher in comparison to the end of 2018 and stood at CZK 1,026.7 billion.

Financial liabilities at amortised costs went up by 7.2% to CZK 972.8 billion. Within that total, lease liabilities, a new item under IFRS 16, amounted to CZK 2.7 billion. Amounts due to customers

comprise the largest proportion of this total, and these grew by 5.4% to CZK 856.6 billion. This total included CZK 30.6 billion of liabilities from repo operations with clients and CZK 5.9 billion of other payables to customers. Amounts due to banks increased in 2019 by 18.9% to CZK 109.7 billion.

The volume of outstanding securities issued was up by 46.7%, at CZK 3.7 billion.

Revaluation differences on portfolios hedge items expanded to CZK -2.2 billion. Current and deferred tax liabilities decreased by 1.6% to CZK 0.9 billion. Other liabilities and accruals, which include payables from securities trading and settlement balances, expanded by 33.0% to CZK 17.8 billion.

Provisions declined by 1.6% to CZK 1.8 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 grew year to date by 3.2% to CZK 106.7 billion. The value of non-controlling interests reached CZK 3.5 billion. As of 31 March 2019, 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 84.4 billion as of 31 March 2019, up 5.6% year on year. **Capital adequacy** stood at 18.9%. The Core Tier 1 capital amounted to CZK 81.8 billion (+5.8% year on year), and the Core Tier 1 ratio stood at 18.4%. Tier 2 capital totalled CZK 2.6 billion, which was 0.6% of risk-weighted assets.

KB's overall capital requirement as of 31 March 2019 was approximately 16.35% relative to the consolidated volume of risk-weighted assets. The required minimum Core Tier 1 capital level was at 12.450%, and the minimum Tier 1 capital ratio at 14.35%. This followed the rise by 25 basis points to 1.25% in the countercyclical capital buffer for Czech exposures with effect from 1 January 2019 and increase by 10 basis points to 1.6% in the additional requirement set in Pillar II of the EU regulation on prudential requirements for credit institutions and investment firms.

The CNB has announced further increases in this buffer with effect from 1 July 2019 by 25 basis points (to 1.5%), and by another 25 basis points (to 1.75%) from 1 January 2020.

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

Changes in corporate governance

Members of the Supervisory Board Mr Pavel Jelínek, Mr Bořivoj Kačena and Mrs Miroslava Šmídová terminated their functions on 13 January 2019. With effect from 14 January 2019, Ms Sylva Kynychová, Mr Ondřej Kudrna and Mr Vojtěch Šmajer were elected members of the Supervisory Board. The newly elected members of the Supervisory Board are employees of Komerční banka.

With effect from 14 January 2019, Mr Margus Simson was elected by the Supervisory Board as a new member of the Board of Directors. Mr Simson holds the post of Chief Digital Officer.

The Supervisory Board appointed Ms Cécile Camilli a substitute member of the Supervisory Board with effect from 15 January 2019 until the next general meeting. The General Meeting held on 24

April 2019 then elected Ms Camilli as a member of the Supervisory Board with effect from 25 April 2019.

The General Meeting has elected Ms Petra Wendelová as a member of the Supervisory Board with effect from 25 April 2019 and as a member of the Audit Committee with effect from 25 April 2019.

With effect from 14 January 2019, Mr Pavel Jiráček became Chairman and CEO of Modrá pyramida stavební spořitelna.

With effect from 1 February 2019, Mr Jan Kotík became Chairman and CEO of Factoring KB.

Changes in the Group structure

On 7 January 2019, KB SmartSolutions, s.r.o. (a fully owned subsidiary of KB) was established with the aim of facilitating preparations of some new KB Group services. Subsequently, My Smart Living, s.r.o. (a fully owned subsidiary of KB SmartSolutions, s.r.o.) was established on 8 January 2019. This new company will address clients' needs in relation to housing.

ANNEX: Consolidated results as of 31 March 2019 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	Reported			Recurring		
	1Q 2018	1Q 2019	Change YoY	1Q 2018	1Q 2019	Change YoY
Net interest income and similar income	5,394	5,892	9.2%	5,394	5,892	9.2%
Net fee & commission income	1,459	1,428	-2.1%	1,459	1,428	-2.1%
Net profit of financial operations	660	571	-13.5%	660	571	-13.5%
Dividend and other income	58	65	12.1%	58	65	12.1%
Net banking income	7,571	7,956	5.1%	7,570	7,956	5.1%
Personnel expenses	-1,847	-1,905	3.1%	-1,847	-1,905	3.1%
General admin. expenses (excl. regulatory funds)	-928	-841	-9.4%	-928	-841	-9.4%
Resolution and similar funds	-852	-846	-0.7%	-852	-846	-0.7%
Depreciation, amortisation and impairment of operating assets	-433	-596	37.6%	-433	-596	37.6%
Total operating expenses	-4,060	-4,188	3.2%	-4,060	-4,188	3.2%
Gross operating income	3,512	3,768	7.3%	3,511	3,768	7.3%
Cost of risk	83	176	>100%	83	176	>100%
Net operating income	3,594	3,944	9.7%	3,593	3,944	9.8%
Income from share of associated companies	62	62	0.0%	62	62	0.0%
Profit/(loss) attributable to exclusion of companies from consolidation	82	0	n.a.	0	0	n.a.
Net profits on other assets	14	0	n.a.	14	0	n.a.
Profit before income taxes	3,752	4,007	6.8%	3,669	4,006	9.2%
Income taxes	-678	-757	11.7%	-678	-757	11.7%
Net profit	3,074	3,249	5.7%	2,991	3,249	8.6%
Profit attributable to the Non-controlling owners	75	73	-2.7%	75	73	-2.7%
Profit attributable to the Group's equity holders	2,999	3,176	5.9%	2,916	3,176	8.9%

Notes to "Recurring" results:

1Q 2019: No adjustments for one-off items.

1Q 2018: Excluding final determination of the 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').

Statement of financial position (CZK million, unaudited)	31 Dec 2018	31 Mar 2019	Ytd
Assets	1,059,932	1,133,345	6.9%
Cash and current balances with central bank	24,851	18,164	-26.9%
Loans and advances to banks	256,268	319,000	24.5%
Loans and advances to customers (net)	624,954	628,571	0.6%
Securities and trading derivatives	117,761	130,762	11.0%
Other assets	36,099	36,848	2.1%
Liabilities and shareholders' equity	1,059,932	1,133,345	6.9%
Amounts due to banks	92,271	109,720	18.9%
Amounts due to customers	812,451	856,629	5.4%
Securities issued	2,540	3,727	46.7%
Subordinated debt	2,578	2,586	0.3%
Other liabilities	46,764	54,020	15.5%
Total equity	103,329	106,663	3.2%

Key ratios and indicators	31 Mar 2018	31 Mar 2019	Change year on year
Capital adequacy (CNB)	18.3%	18.9%	▲
Tier 1 ratio (CNB)	17.7%	18.4%	▲
Total risk-weighted assets (CZK billion)	437.3	445.5	1.9%
Risk-weighted assets for credit risk (CZK billion)	363.7	369.2	1.5%
Net interest margin (NII / average interest-bearing assets) ^{III}	2.2%	2.3%	▲
Loans (net) / deposits ratio ^V	75.6%	75.3%	▼
Cost / income ratio ^V	53.6%	52.6%	▼
Return on average equity (ROAE) ^{VI}	12.5%	12.5%	▼
Return on average regulatory capital ^{VII}	15.1%	15.1%	▲
Return on average assets (ROAA) ^{VIII}	1.1%	1.2%	▲
Earnings per share (CZK) ^{IX}	64	67	5.9%
Average number of employees during the period	8,498	8,167	-3.9%
Number of branches (KB standalone in the Czech Republic)	381	345	-36
Number of ATMs	760	779	19
Number of clients (KB standalone)	1,666,000	1,658,000	-0.5%

Business performance in retail segment – overview	31 Mar 2019	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 223.9 bil.	1.6%
Building savings loans (MPSS) – volume of loans outstanding	CZK 52.1 bil.	15.2%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	CZK 38.6 bil.	3.4%
Small business loans – volume of loans outstanding	CZK 35.4 bil.	3.0%
Total active credit cards – number	177,000	-2.6%
– of which to individuals	141,000	-1.9%
Total active debit cards – number	1,393,000	-0.3%
Insurance premiums written (KP)	CZK 2.1 bil	+59.5%

Financial calendar:

1 August 2019: Publication of 2Q 2019 results

6 November 2019: Publication of 3Q 2019 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 regulatory capital:** annualised 'Net profit attributable to equity holders' divided by average group 'Regulatory 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>	1Q 2018		1Q 2019	
Net interest income and similar income, year-to-date	5,394		5,892	
Of which:				
Loans and advances at amortised cost	4,510		5,795	
Debt securities at amortised cost	730		475	
Debt securities other	104		122	
Financial liabilities at amortised cost	-687		-858	
Hedging financial derivatives - income	2,274		3,971	
Hedging financial derivatives - expense	-1,537		-3,613	

<i>(source: Balance Sheet)</i>	1 Jan 2018	31 Mar 2018	31 Dec 2018	31 Mar 2019
Cash and current balances with central banks/ Current balances with central banks	22,593	8,108	16,347	10,276
Loans and advances to banks	222,821	294,847	256,268	319,000
Loans and advances to customers	593,639	616,082	624,954	628,571
Financial assets at fair value through profit of loss/ Debt securities	1,633	3,862	3,248	4,496
Financial assets at fair value through profit of loss - non SPPI/ Debt securities	2,694	2,587	0	0
Financial asset at fair value through other comprehensive income (FV OCI)/ Debt securities	23,798	23,403	24,909	27,968
Debt securities	70,340	74,047	69,881	78,200
Interest bearing assets (end of period)	937,518	1,022,937	995,608	1,068,510
Average interest bearing assets, year-to-date		980,227		1,032,059
NIM year-to-date, annualized		2.20%		2.28%