Komerční banka grows number of clients and volume of deposits and assets from individuals, further enhances digital banking

Net profit higher due to release of provisions

- **Komerční banka continued to grow the number of its clients. As of 31 December 2017, the Bank had 1,664,000 clients, which is 10,100 more than a year earlier.**
- **KB introduced several new features to its mobile banking, including mobile payments with Android Pay, full administration of payment cards via mobile, transactions authorisation via face recognition and banking applications for smart watches with Android as well as for Apple Watch. At the same time, it enhanced security of the digital banking channels.**
- **Standard client deposits grew by 8.9% from the year earlier to CZK 756.1 billion. Of this total, deposits from individuals accumulated at an even faster 9.3% pace to CZK 251.5 billion.**
- **Assets of KB Group's clients in mutual funds, pension savings and life insurance climbed by 8.0% to CZK 163.9 billion.**
- **The Group's lending to clients (excluding repo operations) rose by 1.8% year on year to CZK 606.1 billion. Within this total, financing of housing expanded by 6.5% and consumer lending grew at the same pace.**
- **Recurring revenues increased by a slight 0.9% to CZK 31.1 billion. Recurring operating costs were higher by 1.2%, at CZK 14.2 billion. The Group reported a net release of provisions for loan losses in the amount of CZK 0.4 billion.**
- **Recurring attributable net profit was higher by 15.2%, at CZK 14.0 billion. Reported net profit, including one-off contributions from revaluation and sale of headquarters this year as well as reimbursement for KB's stakes in Cataps and in VISA Europe during 2016, improved by 9.1% to CZK 14.9 billion.**

Prague, 8 February 2018 – Komerční banka reported today its unaudited consolidated results for the year 2017. Client deposits climbed by 8.9% to CZK 756.1 billion.[1] The volume of KB Group clients' assets in mutual funds, pension savings and life insurance rose by 8.0% to CZK 163.9 billion. Total gross loans to clients increased by 1.8% to CZK 606.1 billion.[2] Within this total, financing of housing from KB and Modrá pyramida expanded by 6.5% and consumer lending by KB and ESSOX grew also by 6.5%.

Recurring revenues were up by a slight 0.9%, at CZK 31.1 billion[3], mainly due to strong activity

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[1] Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 9.0% to CZK 762.0 billion.

[2] Excluding volatile reverse repo operations with clients. The total gross volume under 'Loans and advances to customers' expanded by 2.0% year on year to CZK 607.4 billion.

[3] Reported revenues declined by 2.2% due to one-off gains in 2016 from divestment of KB's stakes in Cataps

among clients during the first half in hedging currency risks (relating to the discontinuation of CNB interventions). To the contrary, interest income, fees and commissions were down slightly year on year, even though that trend began improving toward the end of 2017. Recurring operating expenditures grew more slowly than inflation, by 1.2% to CZK 14.2 billion[4]. Successful recovery performance and good repayment discipline among clients led to an extraordinary situation enabling a CZK 0.4 billion net release of provisions for loan losses.

Recurring attributable net profit (i.e. excluding the one-off gains from disposals of KB's stakes in VISA Europe and in card payment processing subsidiary Cataps in 2016, as well as effects from revaluation and sale of headquarters buildings in 2017) increased by 15.2% to CZK 14.0 billion. The reported net profit attributable to shareholders advanced by 9.1% to CZK 14.9 billion.

"The result at the level of total revenues and operating costs is in accordance with the targets we have set for 2017. The costs of risk are even better than planned, but their current level is not sustainable. The development of deposits attested to the high level of clients' trust in Komerční banka. The lending performance was satisfactory in retail segments. Financing of corporations was affected by pricing distortions related to currency interventions, which led corporations to prefer euro as a funding currency to the Czech crown," remarked Jan Juchelka, KB's Chairman of the Board of Directors and Chief Executive Officer.

"In 2018, we are focused on further improving KB's adaptability to rapid changes occurring on the banking market. Due to technological developments, regulation and offers from competitors, clients' preferences and their need for convenience are evolving. We remain, as always, a reliable bank providing to the clients valuable, secure and up-to-date financial services. As we continue striving to confirm our leading position in digital banking on the Czech market, we will be introducing a range of enhancements to Komerční banka's convenient internet and mobile banking for individual as well as corporate clients," Mr Juchelka added.

The capital adequacy ratio reached a strong 18.6%, and Core Tier 1 capital stood at 18.0%. On 9 October 2017, KB reinforced its regulatory capital base with a Tier 2 capital component. KB had previously disclosed this in a separate announcement.

The Bank had 47,110 shareholders as of 31 December 2017 (up by 309 year on year), of which 41,869 were private individuals from the Czech Republic (greater by 290 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.

In accordance with its intention announced in February 2017 regarding the share of 2017's net profit to be paid out in dividends, and in view of KB's 2017 result, the capital position and the outlook for capital requirements, including two increases of the countercyclical reserve requirement announced by the Czech National Bank for 2018 and 2019, Komerční banka's Board of Directors has decided to propose to the Supervisory Board a dividend payment of CZK 8,932 million. That would come to CZK 47 per share and put the payout ratio at 60% of KB Group's attributable consolidated net profit. The corresponding gross dividend yield based on 2017's closing share price is 5.14%. The distribution of the year's earnings, including the decision on dividend payment, is subject to a vote of the Annual General Meeting.

KB management strives to maintain the Bank's capital structure so that it is both safe and efficient while of course remaining fully in compliance with applicable regulatory requirements. In order to maintain KB's strong capital position, KB management intends for 2018 to propose distributing as dividends 65% of recurring attributable consolidated net profit earned in the year.

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and in VISA Europe.

[4] Excluding the gain from restructuring the portfolio of headquarters buildings. If this one-off item is included, reported operating expenditures decreased by 4.6% to CZK 13.4 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 environment[5]

In the fourth quarter of 2017, the Czech economy probably extended the period of its expansion, which has continued uninterrupted since the second quarter of 2013. According to the activity indicators, demand for Czech production was strong both at home as well as abroad.

The growing economy was reflected in rapid creation of new jobs and very low unemployment, which Eurostat reported to stand at 2.3% in December (after seasonal adjustment).[6] Emerging wage inflation,[7] together with a stronger currency,[8] already has been eating into profit margins and forcing businesses to invest more to improve productivity. Private investments became a main driver of Czech economic growth, along with household consumption, while public investments remained subdued in 2017.

The inflation data published for December showed a slight easing to 2.4% year on year, mainly due to decelerating core inflation, which mainly reflects domestic inflationary trends. This compares with the Czech National Bank's 2% inflation target. After its first increase in August 2017, the CNB again raised its main 2-week repo rate on 2 November 2017 and on 1 February 2018 to 0.75%. In accordance with statements from the central bank's representatives and the market consensus, the CNB is expected to continue tightening monetary conditions throughout 2018. The outlook for inflation and monetary policy also influenced market interest rates. As of 31 December, the 10-year interest swap rate had reached 1.85%. That was up 21 bps from the previous quarter and a whole percentage point higher than at the beginning of the year. The short-term 3M PRIBOR rate had moved to 0.76% from the 0.47% seen as of 30 September.

The banking market was only gradually shaking off the effects of the currency interventions, but it remained characterised by excessive liquidity and strong competition. Total lending on the market (excluding repo operations) grew by 5% year on year. This was driven by a faster pace in retail lending, even as lending to private corporations was flattish and loans to the public sector declined significantly (−14%). Companies generally were financing larger shares of their investments and working capital needs from their own resources, and the decline in public sector borrowing was related to, among other things, very slow implementation of projects co-financed by EU money. In lending to individuals, the volume of housing loans outstanding continued to expand at a pace of around 9%. Consumer lending grew by 4%, which gain was modest given the good levels of consumer confidence.

The volume of deposits in Czech banks increased year on year by 11%, but that growth came mainly in the first months of the year due to a strong inflow of liquidity into the country before the end of currency interventions. The total volume of deposits declined during the final quarter, combining continuing growth in deposits from retail clients and private businesses with an outflow of deposits from public sector and from non-bank financial institutions.

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

[6] http://ec.europa.eu/eurostat/. Press release 'Euro area unemployment at 8.7%' issued 31 January 2018

[7] Nominal wage growth was 6.8% year on year in third quarter 2017, according to the Czech Statistical Office (www.czso.cz).

[8] The Czech crown gained 5.5% year on year vis-à-vis the euro. In the final quarter of 2017 alone, it appreciated by 1.7%. Source: Czech National Bank (www.cnb.cz)

Developments in the client portfolio and distribution networks

At the close of December 2017, KB Group was serving 2.4 million clients on a consolidated basis. Standalone KB recorded 1,664,000 clients (+0.6% year on year), of which 1,406,000 were individuals. The remaining 258,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 488,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 532,000. ESSOX's services were being used by 197,000 active clients, and PSA Finance was providing its services to almost 18,000 clients in the Czech Republic and Slovakia.

Komerční banka's clients had at their disposal 387 banking branches (including one branch for corporate clients in Slovakia), 764 ATMs (of which 238 were deposit-taking ATMs), plus full-featured direct banking channels supported by two call centres. The number of clients using at least one direct banking channel (such as internet or telephone banking) reached 1,422,000 by the end of December 2017 and corresponds to 85.4% of all clients. Mobile banking was itself being used by more than 436,000 of KB's clients. Customers held 1,583,000 active payment cards, of which 184,000 were credit cards. The number of active credit cards issued by ESSOX came to 110,000. Modrá pyramida's customers had at their disposal 216 points of sale and approximately 1,000 advisors. SG Equipment Finance (SGEF) was providing its leasing services via nine branches (two of which are in Slovakia), as well as through KB's network.

Selected business achievements and innovations

Komerční banka is developing a multi-channel business model. The personal relationships between clients and their dedicated banking advisors create an important pillar of this model. At the same time, the Bank allows its clients to choose the manner of accessing financial services most convenient for them. Mobile banking is currently the fastest growing distribution channel, and KB introduced in the fourth quarter several new features that underscore KB's leading position on the Czech market in mobile banking.

KB was one of the first banks in the Czech Republic to introduce payments by mobile device using the Android Pay application. It was the first bank in Europe to enable access to frequently used functionalities of mobile banking through Android shortcuts. Clients of Mobilní banka can access the application and authorise transactions by a fingerprint and most recently even through facial recognition (Face ID). Moreover, they can administer their payment cards from the mobile, including to lock cards, set limits, allow internet payments, and more. The clients have newly available a space for secure online exchange of documents with the Bank. Modrá pyramida has implemented a fully paperless process of granting loans to clients. The security of digital channels is a precondition for their increasing use, and KB's customers can protect their devices against threats from cyberspace utilising the Trusteer Rapport solution from IBM. Trusteer has been customised for computers as well as for mobile devices with Android and iOS operating systems.

According to external surveys, satisfaction of KB's clients with their mobile banking ranks among the highest on the Czech market[9]. That level of client satisfaction helped Komerční banka to defend the prestigious title The Bank of the Year in the Czech Republic once again in 2017.

Loans to customers

Total **gross volume of loans to clients** rose by 1.8% year on year to CZK 606.1 billion.[10]

In lending to individuals, the overall volume of housing loans[I] grew by 6.5% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 5.3% to CZK 218.9 billion.

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[9] Byzkids Top App client satisfaction survey among Czech banks, IPSOS survey

[10] Excluding volatile reverse repo operations with clients. The total gross volume under 'Loans and advances to customers' was up 2.0% year on year, at CZK 607.4 billion.

Modrá pyramida reported growth of its portfolio by 12.4% to CZK 43.6 billion. The volume of KB Group's consumer lending (provided by the Bank, ESSOX and PSA Finance in the Czech Republic and Slovakia) was up by 6.5% to CZK 37.5 billion.

The total volume of **loans** provided by KB Group **to businesses** declined by 2.3% year on year to CZK 304.6 billion. This result of business lending was influenced by the strengthening of the Czech currency[11], increased issuance of bonds by corporations, lasting effects of the currency interventions and by intense competition on the market with excess of liquidity. Lending to small businesses grew by 5.3% to CZK 34.1 billion. The overall volume of credit granted by KB to medium-sized and large corporate clients in the Czech Republic and Slovakia (inclusive of factor finance outstanding at Factoring KB and business lending by PSA Finance), at CZK 244.4 billion, was lower by 3.6%. This drop was caused by the extraordinary situation on the market in 2017, as described above. At CZK 26.1 billion, the total credit and leasing amounts outstanding at SGEF were up by 1.2% year over year.

Amounts due to customers and assets under management

The overall **volume of client deposits** within KB Group climbed by 8.9% year on year to CZK 756.1 billion.[12]

Deposits at Komerční banka from individual clients grew by 9.3% from the year earlier to CZK 251.5 billion. The deposit book at Modrá pyramida contracted by 2.2% to CZK 62.7 billion due to maturing old contracts, but sales of new saving contracts went up significantly. Total deposits from corporations and other businesses climbed by 9.6% to CZK 432.3 billion.

Client assets managed by KB Penzijní společnost were higher by 8.8%, at CZK 53.3 billion. Technical reserves in life insurance at Komerční pojišťovna expanded by 1.7% to CZK 47.8 billion. The volumes in mutual funds held by KB Group clients grew by 12.5% to CZK 62.9 billion.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement

At CZK 31,060 million, Komerční banka's total revenues (**net banking income**) in 2017 were lower by 2.2% from the year earlier. This comparison was markedly influenced by 2016's gain from reimbursement for KB's stake in VISA Europe Ltd. Excluding this one-off impact, the revenues were up by 0.9%. This growth was driven by net gains from financial operations, even as net interest income and net fees and commissions declined.

Net interest income was down by 1.2% to CZK 20,808 million. Average yields from reinvestment of deposits were lower than in 2016, but market interest rates did begin to increase gradually. That rise was being reflected positively into this item during the second half of the year. On the other hand, excessive market liquidity and intense competition caused loan spreads to decline, particularly in retail lending. The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, narrowed to 2.3% in 2017 from 2.5% one year earlier.

Net fees and commissions moved lower by 3.3% to CZK 6,465 million. Transaction fee income declined after KB sold during 2016's third quarter a majority stake in Cataps, its provider of merchant acquiring services. Excluding this effect, the numbers of payment transactions rose (with the exception of cash transactions). Numbers of card and foreign payments were up most. The number of the Bank's clients continued to climb, but the fee income from deposit products decreased as KB introduced new account packages, including a basic one with no maintenance fee. Moreover, the

[11] Appreciation of koruna reduced the CZK value of loans granted in euro (by 5.5% year on year). Euro-denominated loans represent approximately one third of KB Group's business loan portfolio.

[12] Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' climbed by 9.0% to CZK 762.0 billion.

number of old contracts at Modrá pyramida diminished. Fees for housing loans declined, as did fees for early loan repayment at Modrá pyramida. Net commission revenue decreased in ESSOX due to increase in commissions paid. Fees from cross-selling were higher, supported by volume growth in mutual funds and life insurance. Fees from specialised financial services rose, mainly because more services were being provided to corporate clients in Slovakia and by SGEF.

Recurring **net gains from financial operations,** excluding the gain from divestment of KB's stake in VISA Europe in 2016, were higher by 24.3%, at CZK 3,576 million. The non-adjusted result was down 6.8%. This year's result was boosted by clients' exceptionally strong currency hedging activity before and shortly after the CNB eliminated its floor under the CZK exchange rate on 6 April. Demand for hedging weakened in summer, as many clients had had their exposures pre-hedged, but higher volatility of market rates brought a recovery in the final months of the year. The fees and commissions from FX transactions were stable as the higher transactions turnover was offset by lower average prices for executing those transactions.

Recurring **operating expenditures** climbed by 1.2% to CZK 14,191 million. The reported result, including a net gain in 2017's first quarter from the sale and revaluation of a part of the portfolio of headquarters buildings, was a decline in operating expenses by 4.6% to CZK 13,375 million. Personnel expenses were up by 4.1%, at CZK 7,320 million, due to higher average remuneration and an 0.4% increase in the average number of employees to 8,492. General administrative expenses (excluding the regulatory funds) were greater by 0.8%, at CZK 4,407 million. The Group achieved some savings previously related to merchant acquiring services after sale of its subsidiary Cataps at the end of September last year. The cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 862 million, down 2.0% year on year. The recurring item 'Depreciation, impairment and disposal of assets' was lower by 8.1%, at CZK 1,602 million, mainly due to completed amortisation of certain software that was offset only in part by introduction of new software and reflecting sales of some buildings in the held-for-sale portfolio. In 2017's first quarter, KB had realised a net gain of CZK 817 million from the sale and revaluation of a part of its portfolio of headquarters buildings, which was reduced from four buildings to three. The reported total on the line 'Depreciation, impairment and disposal of assets' thus reached CZK 785 million, which is 55.0% less than in 2016.

Recurring gross **operating income**, excluding one-off items booked in 2016 to net profit from financial operations (VISA Europe) and in 2017 to operating expenditures (headquarters buildings), improved by a slight 0.6% to CZK 16,869 million. Reported gross operating income for the full year 2017 was almost flat (-0.2%), at CZK 17,686 million.

The **cost of risk** was influenced by favourable economic conditions in the Czech Republic, successful recovery performance at the Bank as well as subsidiaries, and a low volume of newly defaulted exposures. This led to an extraordinary opportunity for a net release of provisions in the amount of CZK 392 million. That compares to net provisions creation of CZK 1,818 million a year earlier. This translates into -6 bps in relative terms[II] as measured over the average volume of the lending portfolio in 2017.

Income from shares in associated undertakings decreased by 78.4% due to last year's gain from sale of KB's stake in card payment processing subsidiary Cataps. Excluding this one-off item, income from associates was lower by 12.6%, at CZK 209 million.

Income taxes increased by 7.6% to CZK 3,012 million. If the tax effect of the one-off items were to be excluded, income taxes would be up by 18.1%.

KB Group's consolidated net profit for the full year 2017, at CZK 15.274 million, was 8.5% higher in comparison with the prior year. Of this amount, CZK 344 million was profit attributable to holders of minority stakes in KB's subsidiaries (−10.9% versus the year earlier).

Reported **net profit attributable to the Bank's shareholders** totalled CZK 14,930 million, which is 9.1% more than in 2016. **Recurring attributable net profit** (i.e. excluding one-off gains from the 2016 disposal of KB's stakes in VISA Europe and in Cataps, as well as effects from revaluation and sale of headquarters buildings in 2017) increased by 15.2% to CZK 14,035 million.

Statement of financial position

As of 31 December 2017, KB Group's **total assets** had risen by 8.8% year on year to CZK 1,004.0 billion.

Cash and current balances with central banks were down by 70.9% to CZK 32.7 billion. A large component of this item is comprised of liquidity reserves at central banks. Overnight deposits with the CNB recorded in the line 'Cash and current balances with central banks' earn the discount rate (5 bps throughout 2017).

Amounts due from banks more than tripled to reach CZK 228.4 billion. The majority of this item consists in reverse repos with the central bank. At the repo tenders, the CNB's two-week repo rate serves as the maximum limit rate.

Financial assets measured at fair value through profit or loss (trading securities and derivatives) decreased by 36.6% to CZK 18.8 billion.

Total net loans and advances to customers grew by 3.1% in comparison with the end of the previous year to reach CZK 598.1 billion. The gross amount of loans and advances to customers[III] was up by 2.0% to CZK 607.4 billion and included CZK 1.3 billion of reverse repo transactions with clients. The share of standard loans within that total climbed to 95.4% (CZK 579.3 billion), while the proportion of loans rated watch was 1.6% (CZK 9.5 billion). Loans under special review (substandard, doubtful and loss) comprised 3.1% of the portfolio and totalled CZK 18.6 billion. The volume of provisions created for loans came to CZK 12.7 billion. That was 18.2% less than at the close of 2016.

The portfolio of securities available for sale (AFS) shrank by 24.6% to CZK 29.7 billion. Within this portfolio, debt securities totalled CZK 29.5 billion. These included CZK 19.6 billion in Czech government bonds plus foreign government bonds with value CZK 7.4 billion. The volume of securities in the held-to-maturity (HTM) portfolio diminished by 8.5% to CZK 59.9 billion. Within this portfolio, Czech government bonds totalled CZK 50.2 billion and foreign government bonds CZK 9.7 billion.

The net book value of tangible fixed assets rose by 11.1% to CZK 7.4 billion, and that of intangible fixed assets added 20.5% to reach CZK 4.7 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF and ESSOX, remained unchanged at CZK 3.8 billion.

Total liabilities were 10.6% higher in comparison to the close of 2016 and reached CZK 903.7 billion. Amounts due to customers were up by 9.0%, reaching CZK 762.0 billion. This total included CZK 6.0 billion of liabilities from repo operations with clients and CZK 7.6 billion of other payables to customers. The volume outstanding of issued securities plummeted by 64.0% to CZK 4.8 billion, as more bonds matured than were issued. To reinforce its capital adequacy ratio, KB took on subordinated debt in the volume of EUR 100 million (CZK 2,560 million), with 10-year maturity and a repayment option after 5 years.

The Group's **liquidity** as measured by the ratio of net loans to deposits (excluding repo operations with clients) was 78.9% (compared to 83.6% as of 31 December 2016).

Shareholders' equity declined year to date by 4.8% to CZK 100.3 billion as accumulation of retained earnings was more than offset by decrease in revaluation reserve for cash flow hedges, reflecting higher interest rates. Revaluation of cash flow hedges and AFS bonds during their lives was driven by changes in respective interest rates and, for bonds, credit spreads. The benchmark

10-year interest swap rate had risen to 1.85% by 31 December 2017 from 0.89% on 31 December 2016. AFS revaluation gains were also influenced by gradual amortisation of securities reclassified from the AFS to the HTM portfolio in 2014. In November 2017, KB redesignated the hedging relationship of interest rate swaps from the "cash flow hedging" to the "fair value hedging" portfolio. At the date of reclassification the associated gains recognised for cash flow hedges in other comprehensive income (OCI) were insignificant. Consequently, the future movements of the interest rates will not impact the OCI from hedging derivatives. The remaining OCI from hedging derivatives will result from changes in the value of cross currency swaps.

As of 31 December 2017, KB held in treasury 1,193,360 of its **own shares** constituting 0.63% of the registered capital.

Total regulatory capital for the capital adequacy calculation totalled CZK 79.1 billion as of 31 December 2017, up 10.4% year on year. **Capital adequacy** stood at 18.6%. The Core Tier 1 capital amounted to CZK 76.5 billion (+6.8% year on year), and the Core Tier 1 ratio was at 18.0%. The newly added Tier 2 capital amounted to CZK 2.6 billion, or 0.60% of risk-weighted assets.

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

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

As measured by the Liquidity Coverage Ratio, KB's liquidity throughout 2017 safely met requirements established by the applicable regulations.

Changes in the Group structure

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

As of 1 January 2018, the company PSA FINANCE SLOVAKIA, s.r.o. changed its name to ESSOX FINANCE, s.r.o., with registered address at Karadžičova 16, 821 08 Bratislava, Slovak Republic. ESSOX FINANCE, s.r.o. is fully owned by ESSOX s.r.o.

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

Regulatory information

ANNEX: Consolidated results as of 31 December 2017 under International Financial Reporting Standards (IFRS)

Profit and loss statement (CZK million, unaudited)	Reported			On a recurring basis		
	FY 2016	FY 2017	Change y-o-y	FY 2016	FY 2017	Change y-o-y
Net interest income	21,068	20,808	-1.2%	21,068	20,808	-1.2%
Net fees and commissions	6,683	6,465	-3.3%	6,683	6,465	-3.3%
Net gains from financial operations	3,837	3,576	-6.8%	2,878	3,576	24.3%
Other income	163	211	29.4%	163	211	29.4%
Net banking income	**31,751**	**31,060**	**-2.2%**	**30,792**	**31,060**	**0.9%**
Personnel expenses	-7,029	-7,320	4.1%	-7,029	-7,320	4.1%
General administrative expenses (excl. Resolution and similar funds)	-4,374	-4,407	0.8%	-4,374	-4,407	0.8%
Resolution and similar funds	-880	-862	-2.0%	-880	-862	-2.0%
Depreciation, impairment and disposal of assets	-1,743	-785	-55.0%	-1,743	-1,602	-8.1%
Operating costs	**-14,026**	**-13,375**	**-4.6%**	**-14,026**	**-14,191**	**1.2%**
Gross operating income	**17,725**	**17,686**	**-0.2%**	**16,766**	**16,869**	**0.6%**
Cost of risk	-1,818	392	+/-	-1,818	392	+/-
Net operating income	**15,907**	**18,077**	**13.6%**	**14,948**	**17,261**	**15.5%**
Profit on subsidiaries and associates	967	209	-78.4%	239	209	-12.6%
Profit before income taxes	**16,873**	**18,286**	**8.4%**	**15,187**	**17,470**	**15.0%**
Income taxes	-2,799	-3,012	7.6%	-2,617	-3,091	18.1%
Net profit	**14,074**	**15,274**	**8.5%**	**12,570**	**14,379**	**14.4%**
Minority profit/(loss)	386	344	-10.9%	386	344	-10.9%
Net profit attributable to the Bank's shareholders	**13,688**	**14,930**	**9.1%**	**12,184**	**14,035**	**15.2%**

Notes for results on a recurring basis:

FY 2016: Adjusted for sale of Cataps (CZK 728 million in 'Net profit from subsidiaries and associate's') and for payment received for KB's stake in VISA Europe Ltd (CZK 959 million in 'Net gains from financial operations', CZK −182 million in 'Income taxes').

FY 2017: Adjusted for net positive contribution from the sale and revaluation of KB's headquarters buildings (CZK 817 million in 'Depreciation, impairment and disposal of assets', CZK 79 million in 'Income taxes').

Regulatory information

Statement of financial position (CZK million, unaudited)	**31 Dec 2016**	**31 Dec 2017**	**Change year on year**
Assets	**922,737**	**1,004,039**	**8.8%**
Cash and balances with central banks	112,241	32,663	-70.9%
Amounts due from banks	51,771	228,373	>100%
Loans and advances to customers (net)	580,198	598,102	3.1%
Securities	134,591	108,468	-19.4%
Other assets	43,935	36,432	-17.1%
Liabilities and shareholders' equity	**922,737**	**1,004,039**	**8.8%**
Amounts due to banks	54,124	84,050	55.3%
Amounts due to customers	699,377	762,043	9.0%
Securities issued	13,423	4,832	-64.0%
Subordinated debt	0	2,560	n.a.
Other liabilities	50,412	50,208	-0.4%
Shareholders' equity	105,400	100,346	-4.8%
Of which: *Cash flow hedging*	*11,379*	*119*	*-99.0%*
Available-for-sale portfolio revaluation reserve	*3,424*	*2,368*	*-30.8%*
Minority equity	*3,831*	*3,797*	*-0.9%*

Key ratios and indicators	**31 Dec 2016**	**31 Dec 2017**	**Change year on year**
Capital adequacy (CNB)	16.2%	18.6%	▲
Tier 1 ratio (CNB)	16.2%	18.0%	▲
Total risk-weighted assets (CZK billion)	442.9	424.6	-4.1%
Risk-weighted assets for credit risk (CZK billion)	376.9	352.9	-6.4%
Net interest margin (NII/average interest-bearing assets)[IV]	2.5%	2.3%	▼
Loans (net) / deposits ratio[V]	83.6%	78.9%	▼
Cost / income ratio[VI]	44.2%	43.1%	▼
Return on average equity (ROAE)[VII]	13.4%	15.1%	▲
Adjusted return on average equity (adjusted ROAE)[VIII]	16.0%	16.5%	▲
Return on average regulatory capital[IX]	19.8%	19.8%	▲
Return on average assets (ROAA)[X]	1.5%	1.5%	▲
Earnings per share (CZK)[XI]	72	79	9.1%
Average number of employees during the period	8,458	8,492	0.4%
Number of branches (KB standalone in the Czech Republic)	391	386	-5
Number of ATMs	768	764	-4
Number of clients (KB standalone)	1,654,000	1,664,000	0.6%

Regulatory information

Business performance in retail segment – overview	31 Dec 2017	Change year on year
Mortgages to individuals – volume of loans outstanding	218.9 billion	5.3%
Building savings loans (MPSS) – volume of loans outstanding	43.6 billion	12.4%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	37.5 billion	6.5%
Small business loans – volume of loans outstanding	34.1 billion	5.3%
Total active credit cards – number	184,000	-5.2%
– of which to individuals	145,000	-5.8%
Total active debit cards – number	1,399,000	-0.1%
Insurance premiums written (KP)	6.1 billion	-7.7%

Financial calendar for the rest of 2018:

4 May 2018: Publication of 3M 2018 results

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

8 November 2018: Publication of 9M 2018 and 3Q 2018 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 'Gross amount of client loans and advances', year to date;

III **Gross amount of client loans and advances:** 'Gross amount of client loans and advances' minus 'Other amounts due from customers';

IV **Net interest margin (NIM):** 'Net interest income' minus 'Dividend income' divided by average interest-earning assets (IEA) year to date (IEA comprise 'Amounts due from banks', 'Current balances with central banks', 'Net loans and advances to customers', 'Financial assets at fair value through profit or loss' [debt securities only], 'Financial assets available for sale' [debt securities only], and 'Investments held to maturity' [debt securities only]);

V **Net loans to deposits:** ('Net loans and advances to customers' less 'reverse repo operations with clients') divided by the quantity (total 'Amounts due to customers' less 'repo operations with clients');

VI **Cost to income ratio:** 'Operating costs' divided by 'Net banking income';

VII **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;

VIII **Adjusted return on average equity (adjusted ROAE):** annualised 'Net profit attributable to equity holders' divided by the quantity average group 'Shareholders' equity' minus 'Minority equity' minus 'Cash flow hedging' minus 'Available-for-sale portfolio revaluation reserve', year to date;

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

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

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

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

(Source: Profit and Loss Statement)		FY 2016	FY 2017
Net interest income (excl. 'Income from dividends')		**21,065**	**20,804**
(Source: Balance Sheet)	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2017**
'Amounts due from banks' + 'Cash and current balances with central banks' (amounts due from central banks only)*	164,778	155,016	250,966
'Loans and advances to customers', net	532,617	580,198	598,102
'Financial assets at fair value through profit or loss' (debt securities only)*	7,872	9,606	1,633
'Financial assets available for sale' (debt securities only)*	41,189	39,239	29,471
'Investments held to maturity' (debt securities only)	67,083	65,462	59,915
Interest-bearing assets	**813,540**	**849,520**	**940,089**
Average interest-bearing assets, year to date		**831,530**	**894,804**
NIM year to date, annualised		**2.5%**	**2.3%**

Note: * These indicators are not individually provided in the report on financial results but they are presented as part of the respective aggregate items.