



# Komerční banka Group

Financial results as of 31 March 2018

ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS, CONSOLIDATED, UNAUDITED



PRAGUE, 4 MAY 2018



# DISCLAIMER

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This document contains a number of forward-looking statements relating to the targets and strategies of the Komerční banka Group. These statements are based on a series of assumptions, both general and specific. As a result, there is a risk that these projections will not be met. Readers are therefore advised not to rely on these figures more than is justified as the Group's future results are liable to be affected by a number of factors and may therefore differ from current estimates.

Readers are advised to take into account factors of uncertainty and risk when basing their investment decisions on information provided in this document.

Results and ratios in this presentation are as of 31 March 2018, unless stated otherwise.

Komerční banka, a.s., public limited company with registered office: Prague 1, Na Příkopě 33/ 969; identification number: 45 31 70 54; registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, file 1360

# AGENDA

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**MACROECONOMIC  
ENVIRONMENT**

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**HIGHLIGHTS OF  
KB's PERFORMANCE**

# ECONOMY RUNNING AT FULL STEAM BUT INFLATION REMAINS MUTED

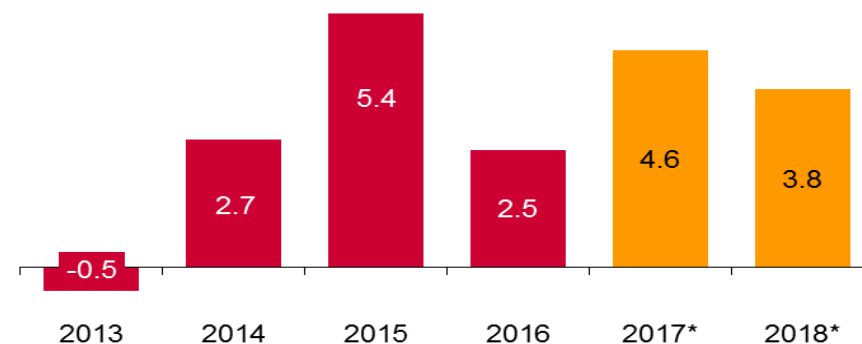
- GDP in 4Q17 up 0.5% QoQ, +5.2% YoY. Growth was driven by all demand-side components except net exports. Private consumption and investments were the main growth drivers, contributing 2 p.p each. On the supply side, the value added in industry increased 7.5% while private services grew 6.2%.
- February building construction rose by 11.6% YoY while civil engineering dropped 1.0% adding to risk that potential for infrastructure investments co-financed by EU may not be fully tapped
- CPI inflation pushed down by appreciating CZK (by 5.9% YoY v EUR), moderating food prices, weaker core inflation and regulated prices. March 1.7% YoY CPI below 2% CNB target
- Unemployment (2.4% in February)<sup>1</sup>, remains the main bottleneck for the economy. Nominal wages up 7% in 2017, similar pace expected this year<sup>2</sup>
- CNB's 2W repo increased on 1 February 2018 by 0.25% to 0.75%. Slow inflation may delay further hikes<sup>2</sup>
- Market rates: 3M PRIBOR rose by 14 bps to 0.90%<sup>3</sup>, long-term 10Y IRS stagnated around 1.8%

Notes: Source of indicators Czech Statistical Office, CNB, unless stated otherwise

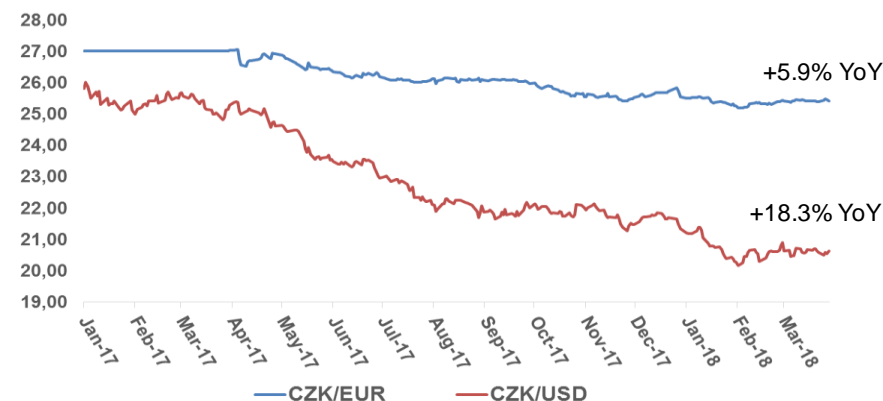
1) seasonally adjusted, according to Eurostat

2) Source: KB Economic Research forecast 3) As of 31 March 2018

## Real GDP outlook (YoY, %)



## Development of CZK Exchange rate



Source: CNB

# KB IN FIRST QUARTER 2018: ACQUIRING CLIENTS, GROWING LOANS, DEPOSITS, MUTUAL FUNDS, PENSION ASSETS, UPDATING STRATEGY

(Year on year change)

Komerční banka and KB Group increasing the number of clients.  
Number of Mobilní banka users rose by 142,000 to 475,000

**Number of bank clients  
up by 13,200 to 1,666,000**

Volume of standard client deposits rose by 4.3%, some volumes already switch to term accounts.  
Bank deposits from individuals grew by a swift 9.4%. Non-bank assets under management +5.7%

**Client deposits +4.3%  
Clients' AUM +5.7%**

Housing loans, consumer financing and lending to small business grew at 6% pace  
Corporate lending influenced by stronger currency and market over-liquidity

**Loans to clients  
up by 2.8%**

Recurring revenues declined due to a high base of gains from financial operations in 1H 2017  
Net interest income up 2.6%

**Recurring revenues  
down by 3.2%**

Recurring operating costs driven by personnel expenses and depreciation reflecting investments  
Savings in general administrative expenses

**Recurring OPEX  
rose by 1.3%**

Still low cost of risk and excellent portfolio quality thanks to supportive environment  
Limited impact from full application of IFRS 9

**Net release of provisions  
of CZK 0.1 billion**

Recurring net profit decreased due to lower income from financial operations  
Reported net profit (CZK 3.0 bil.) dropped by 26.5% due to 2017 sale of HQ building

**Recurring net profit lower  
by 8.4% to CZK 2.9 billion**

KB updated its strategic directions in order to develop the real bank for real situations,  
become lifetime partner of the customers and deliver long-term sustainable profitability,



**KB Change 2020**

All data as of 31 March 2018, year on year comparisons

**KB CHANGE 2020**

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**STRATEGIC UPDATE**

# KEY CHALLENGES UNDERLYING THE NEED TO CHANGE

## COMPETITION

### EROSION OF MARGINS

- Margins on the Czech market recorded a sharp decline over the past 6 years and approached Western European levels
- The decline is expected to continue, albeit at slower pace, as the Czech market remain attractive for established players as well as for newcomers
- Further pressure on margins possible from regulatory initiatives, such as PSD 2 or limits on price for cross-border payments within SEPA
- The cost of risk has reached bottom and it will not be able to offset the effect of lower margins

## DIGITAL

### CHANGING CLIENT PREFERENCES

- Czech customers are keen to approach financial services through digital channels. The share of clients preferring digital or hybrid channels is already higher than in neighbouring countries (except Poland)
- Digital channels are expected to account for 30-40% of sales origination on the Czech market by 2020. The shares will differ for different products, from est. 20% in housing financing, to est. 50% in consumer loans
- The optimal balance between relationship-driven provisioning of complex services (with human touch) and fast and convenient sales through digital technologies has not settled
- Major competitors are mobilising their development capacities and undergoing transformations for the era of digital banking

## EFFICIENCY

### ORGANISATION

- Potential for further organisational simplification, clearer allocation of responsibilities and increase in management span of control
- Potential to increase competitiveness by shorter time-to-market and optimised key customer processes
- Need to deepen integration of distribution channels, improve flexibility of IT systems and leverage on potential of data analytics



# STRATEGIC VISION OF KOMERČNÍ BANKA

## Mission

"Who is KB?"

The real bank for real situations

## Vision

"What does it mean for us?"

We stand by ambitious affluent and high potential individuals and their families, small businesses and corporations, support them throughout their lifetime journeys and diverse business ventures to succeed in the dynamic world. We provide first-class advisory, tailor-made solutions and leading industry innovations through our passionate people and convenient digital channels.



We are a **life-time partner** with **human touch** for our customers – affluent and high potential individuals, small businesses and corporations. We provide them with **effortless** service, tailor-made solutions and first-class advice.



We provide a **sense of purpose** and **room for growth** to our employees. We **trust** our people and nurture **accountability** and cooperation by putting **culture and conduct** at the very heart of business practices.



We engage in **dialogue** with our shareholders and bring **long-term sustainable profitability**. We act responsibly towards the **society**.

## SEGMENT STRATEGIC DIRECTIONS – INDIVIDUAL CLIENTS

### Segment strategic directions

- Best-in-class advisory and lifetime solutions via dedicated relationship managers and pooled specialists supported by advanced data analytics
- Seamless digital experience and connected key customer journeys
- Simple and effective service for mass market clients through digital tools and self service zones

### Ambitions by 2020

- Leadership position in customer satisfaction mainly on higher-end of the market
- Increase number of active clients with primary relationship
- Increase share of digital sales origination to 35%
- Shorten time-to-contract on range of key products
- Grow volume of mortgages, assets under management and revenues

### Steps to be taken

- Implement proactive appointment-based advisory and sales approach in branches
- Simplify and end-to-end digitise customer journeys, switch simple services to digital and self-service
- Optimise the branch number and structure, including conversions to cashless branches
- Improve efficiency of pricing
- Leverage open banking and 3rd party products to enrich KB service offer

## SEGMENT STRATEGIC DIRECTIONS – SMALL AND MEDIUM-SIZED ENTREPRISES

### Segment strategic directions

- Standing by the business clients of all sizes throughout their whole lifespan
- Best-in-class advisory and expertise via dedicated relationship managers and in specialised business centres
- Comprehensive product offer leveraging on KB and SG Groups' global scope
- Simple and digital key processes
- Pursue sector market opportunities – e.g. energy savings, industry 4.0, EU subsidies, agriculture

### Ambitions by 2020

- Leadership position in customer satisfaction, growing net promoter score
- Increase number of clients with primary relationship
- Shorten time-to-contract on key products
- Grow financing capacity and volumes
- Develop ecosystem of value added services for better customer experience and retention

### Steps to be taken

- Faster and simple lending process based on automated credit scoring (for eligible exposures)
- Overall simplification and digitisation of end-to-end lending journey
- Improve efficiency of pricing
- Develop Investment banking (FX, IR hedging) and structured finance offer
- Nurture value-added partnerships with 3rd parties for enhancing customer value based on APIs and aggregation
- Create efficient capacity to support clients' M&A activities

# SEGMENT STRATEGIC DIRECTIONS – CORPORATE & INVESTMENT BANKING

## Segment strategic directions

- Provide the broadest product portfolio backed-up by Société Générale strength, expertise and international coverage
- Best-in-class expertise and advisory via advisory teams with deep client knowledge
- Provide tailor-made and industry-specific solutions as well as ecosystem of value added services
- Simple and digital key customer journeys for client convenience

## Ambitions by 2020

- Confirm leadership in NPS among key peers
- Maintain number of clients with >30% share of wallet
- Participate fully on the growth of the lending market
- Grow volume of value-added services and revenues

## Steps to be taken

- Faster and simple lending process based on automated credit scoring (for eligible exposures)
- Overall simplification and digitisation of end-to-end lending journey
- Improve efficiency of pricing
- Pro-active identification of options improving clients's experience and value for money
- Develop value-added partnerships for enhancing customer value based on APIs and aggregation

# ORGANISATIONAL OPTIMISATION

## Implementation of agile@scale organisational model

Change and improvement activities to be organised in cross-functional teams according to client needs or journeys

Improving delegation, accountability and room for growth



30% of HQ employees

## Delaying and optimisation of span of control

Fostering leadership, delegation and information flow in the organization

Reduction in number of managers and organisational layers

Increasing median management span of control

Addressing workplace fragmentation / proximity

## New KPI and motivational scheme

## Advanced data analytics and reporting

### Retail network operating model

Reduction in number of branches by 10-15%

Resize the branches

Convert 80 branches to cashless

Simplify network management structure

Serve mass clients via advisors and digital & self-service channels

## FINANCIAL ASSESSMENT

### Key financial benefits of the KB Change 2020 plan

- Revenue increase, mainly driven by higher volume of loans and assets under management,
- OPEX savings from improved efficiency and branch network downsizing,
- CAPEX savings from improved processes and allocation efficiency

The programme is designed to generate a **recurring financial benefit** resulting in a faster growth of revenues and gross operating income, with a first net positive contribution from 2019.

KB will **enhance investments** in 2018-2019 mainly focused on improving capacity of digital sales and servicing and aimed at revenue generation and other goals of the KB Change 2020 programme.

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

# BUSINESS PERFORMANCE

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## SELECTED DEALS OF THE FIRST QUARTER OF 2018

### REAL ESTATE



**CONTERA Investment III. s.r.o.**

Real Estate Financing

**CZK 425,000,000**

Complex bank services provider

**2018**

### MANUFACTURING



**TESCAN ORSAY HOLDING, a.s.**

Acquisition Financing

**EUR 12,000,000**

Complex bank services provider

**2018**

### TRANSPORTATION



**Dopravní podnik města Děčína, a.s.**

Investment Financing

**CZK 144,800,000**

Complex bank services provider

**2018**

### TELECOMMUNICATIONS



**PPF ARENA 1 B.V.**

Syndicated Credit Facility

**EUR 3,025,000,000**

Mandated Lead Arranger, Underwriter,  
& Security Agent, Lender

**2018**

### REAL ESTATE



**CPI Property Group S.A.**

Club Credit Facility

**EUR 150,000,000**

Lender

**2018**

### REAL ESTATE



**Passerinvest BBC 2, s.r.o.**

Syndicated Facility

**EUR 175,000,000**

Lender

**2018**

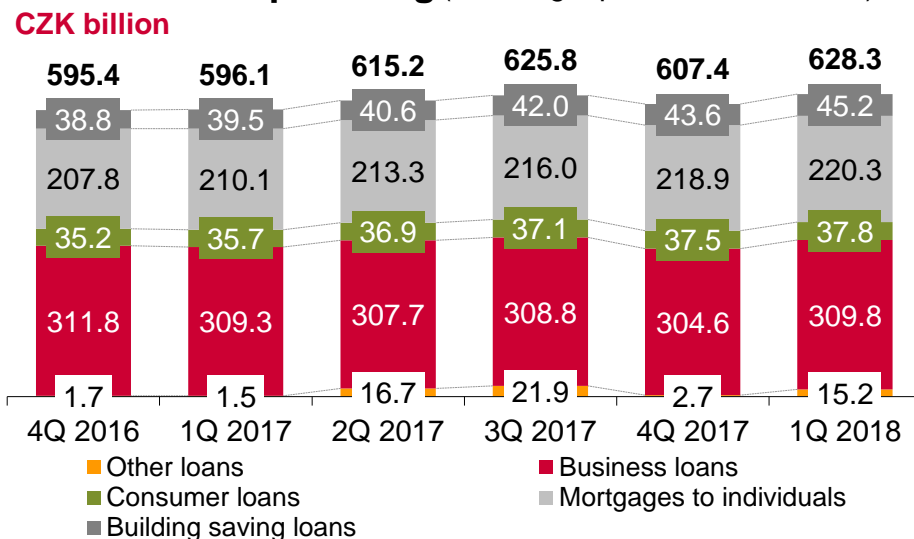


## GROWTH IN OVER-LIQUID MARKET

- Gross loans up by 2.8% YoY, +1.1% QoQ to CZK 612.7 billion (excluding repo operations but including Debt securities issued by KB's corporate clients). Including repo, lending rose +5.4% YoY, +3.5% QoQ to CZK 628.3 billion
- Group housing loans +6.4% YoY, of which
  - Mortgages +4.8% YoY to CZK 220.3 billion
  - Modrá pyramida's lending +14.6% to CZK 45.2 billion
- Consumer loans (KB + ESSOX Group) up by 6.0% YoY to CZK 37.8 billion
- Business loans +0.2% YoY, influenced by market over-liquidity, appreciation of CZK\*, more securitisation, and intense competition
  - Small businesses (KB) +5.8% to CZK 34.4 bil.
  - Corporations (incl. Factoring KB) down -0.7%\* to CZK 249.4 billion
  - SGEF (leasing) +1.9% to CZK 26.0 billion

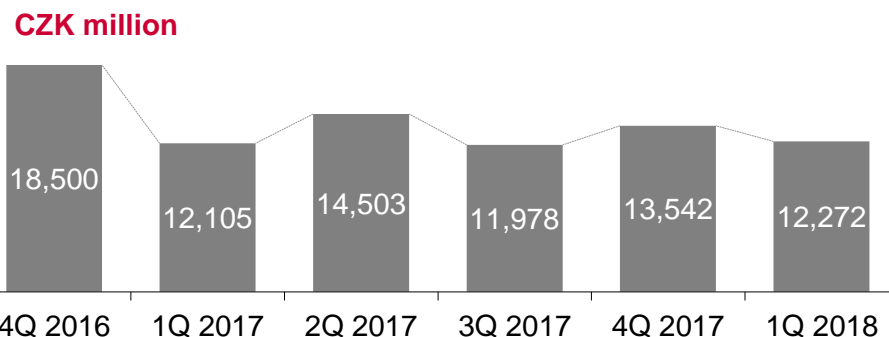
\* CZK appreciated vs EUR by 5.9% YoY, bringing lower CZK value of loans in EUR which represent a third of the business loan portfolio

### Group lending (including repo, incl. client bonds)



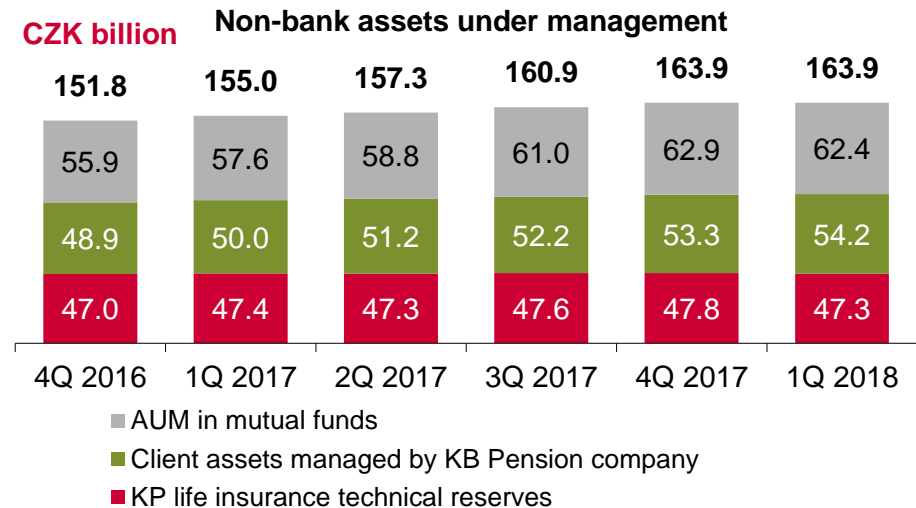
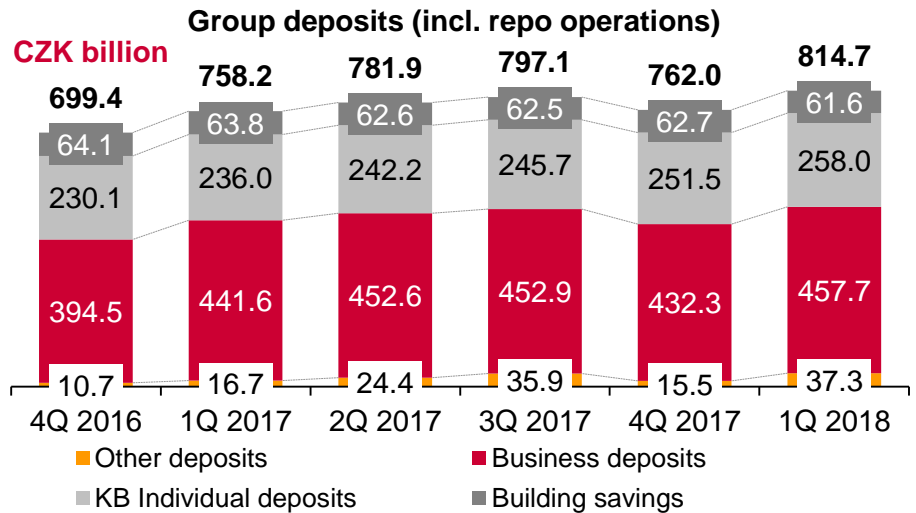
### Sales volume of housing loans

(KB mortgages + MPSS loans)



## DEPOSIT GROWTH FASTER IN RETAIL

- Standard Group deposits (excluding repo) up +4.3% YoY to CZK 790.7 billion. Seasonally +4.6% QoQ after 4Q 2017 was affected by cost of the Resolution Fund
- Total amounts due to clients +7.5% YoY, +6.9% QoQ
- KB (bank) deposits from individuals +9.4% YoY to CZK 258.0 billion
- MPSS building savings -3.5% YoY to CZK 61.6 billion, influenced by repricing of old contracts
- Deposits from business clients +3.6% YoY to CZK 457.7 billion
- Current accounts +2.1% to CZK 559.6 billion, term and savings accounts +10.3% to CZK 224.5 billion
- Clients' pension assets +8.4% to CZK 54.2 billion
- KP life insurance technical reserves slightly declined by 0.2% YoY to CZK 47.3 billion
- Assets in mutual funds (sold by KB+MPSS) increased by 8.3% YoY to CZK 62.4 billion



# FINANCIAL PERFORMANCE

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## CORRECTION IN NET PROFIT LINKED TO NORMALISATION OF FINANCIAL OPERATIONS GAINS AND SMALLER CONTRIBUTION FROM ONE-OFFS

### Profit and Loss Statement

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

\* Within update of its reporting methodology, mainly implementation of the new IFRS 9 reporting standard, KB reclassified as from 1 January 2018 certain items of the Income Statement and the Statement of Financial Position. For improved information value, the data for 2017 above are based on a pro-forma retrospective restatement of the respective accounting lines of the Income Statement from 2017 and adjusted for reclassification of early prepayment fees from NFC to NII.

#### Note for recurring figures:

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

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

## BALANCE SHEET STRUCTURE INFLUENCED BY IFRS 9 APPLICATION

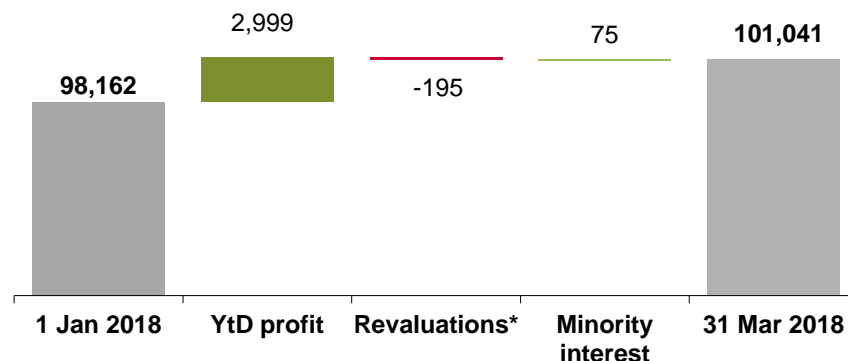
<b>Balance Sheet</b>	<b>31 Mar 2017</b>	<b>31 Dec 2017</b>	<b>1 Jan * 2018</b>	<b>31 Mar 2018</b>	<b>Ytd</b>
(CZK million, unaudited)	<b>According to IAS 39</b>	<b>According to IAS 39</b>	<b>According to IFRS 9</b>	<b>According to IFRS 9</b>	
<b>Assets</b>	<b>1,035,880</b>	<b>1,004,039</b>	<b>1,001,652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

\* Values from the Statement of Financial Position as of 1 January 2018 after first time application of IFRS 9, which changed accounting methodology for measurement and classification of financial assets, among other changes

## EQUITY DRIVEN BY EARNINGS

- Total equity increased year to date by 2.9% to CZK 101.0 billion due to accumulation of retained earnings
- Sensitivity of equity account (or Other comprehensive income) to changes in interest rates has been reduced after KB redesignated in November 2017 the hedging relationship of interest rate swaps from the “cash flow hedging” to the “fair value hedging” portfolio
- Total regulatory capital reached CZK 79.9 billion (+9.8% YoY), of which Core Tier 1 capital stood at CZK 77.3 billion (+6.3% YoY)

### Contributions to equity in FY 2017



\* Remeasurement of securities, cash flow hedges, FX positions and pension benefits

### Equity

(CZK million)	31/3/2018
Share capital & reserve funds	92,941
Current year attributable net profit	2,999
Others	443
Cash flow hedge	27
Revaluation of equity securities	92
Revaluation of debt securities	750
Minority equity	3,787
<b>Total equity</b>	<b>101,041</b>

## STRONG CAPITAL & LIQUIDITY

### PROFITABILITY INDICATORS INFLUENCED IN FIRST QUARTER BY IFRIC 21

	Reported			Recurring	
	31/03/2017	31/12/2017	31/03/2018	31/03/2017	31/03/2018
(year-to-date, IFRS9)					
Capital adequacy	15.7%	18.6%	18.3%		
Tier 1 ratio = Core Tier 1 ratio	15.7%	18.0%	17.7%		
Risk weighted assets for credit risk (CZK billion)	392.3	352.9	363.7		
Net interest margin*, annualised	n.a.*	n.a.*	2.2%	2.3%**	2.2%
Loan (net) / deposit ratio (excl. repo with clients)	n.a.*	78.3%	75.6%	76.7%**	75.6%
Cost / income ratio	54.4%	46.7%	53.6%	51.3%	53.6%
Return on average equity (ROAE), annualised	n.a.*	n.a.*	12.5%	12.6%**	12.2%
Return on average regulatory capital	22.6%	19.8%	15.1%	17.8%	14.7%
Return on average assets (ROAA), annualised	n.a.*	n.a.*	1.1%	1.3%**	1.1%
Earnings per share (CZK), annualised	86	79	64	67	62
Average number of employees during the period	8,459	8,492	8,498		

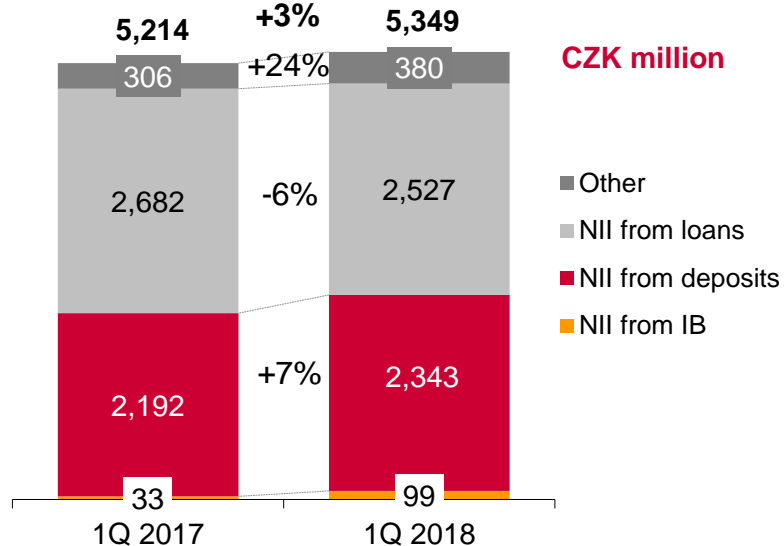
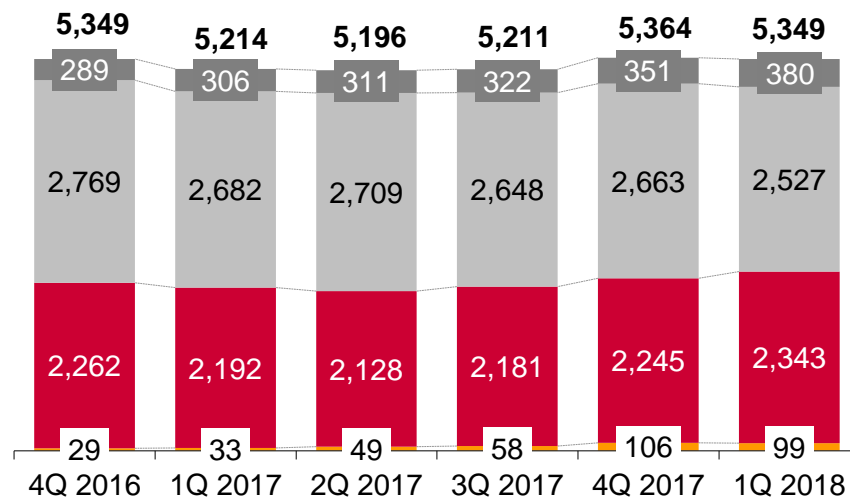
Net interest margin = Net interest income / Average interest earning assets

\* not available under IFRS 9 reporting standard. Overview of ratios in accordance with the IAS 39 standard is provided in the appendix.

\*\* based on methodology according to IAS 39

## BENEFIT OF INCREASING INTEREST RATES PARTLY OFFSET BY LOAN MARGIN PRESSURE

- Net interest income in 1Q 2018 +2.6% YoY. NII in 1Q 2018 was down -0.3% QoQ
- NII from loans decreased reflecting narrowed spreads mainly in retail lending. Average market rates on new mortgages and consumer loans began to grow in 1Q 2018\*.
- Higher interbank rates supported yields from reinvestment of deposits and capital
- NII from deposits also reflecting growth of deposit volumes
- Net interest margin reached 2.2%



CZK million

■ Other  
 ■ NII from loans  
 ■ NII from deposits  
 ■ NII from IB

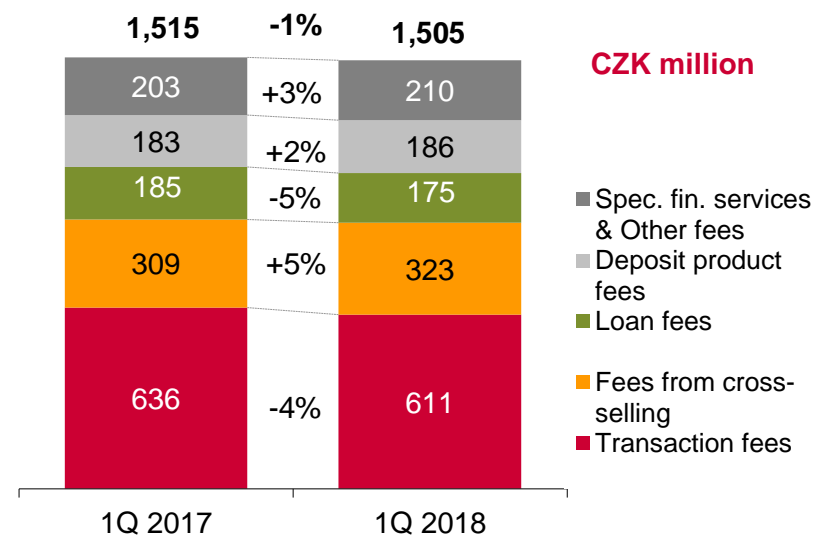
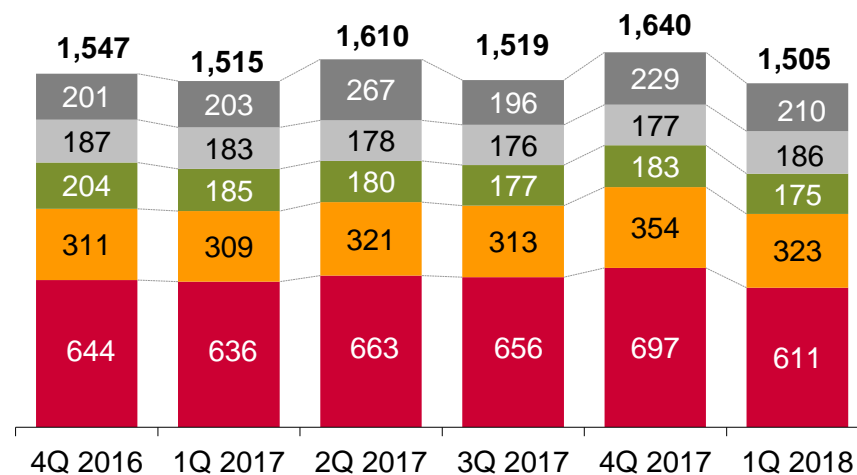
\* Source: ARAD statistics of the Czech National Bank

Adjusted for reclassification of early prepayment fees from NFC to NII and for separation of dividend income from NII



## SEASONALLY LOWER FEE INCOME IN FIRST QUARTER

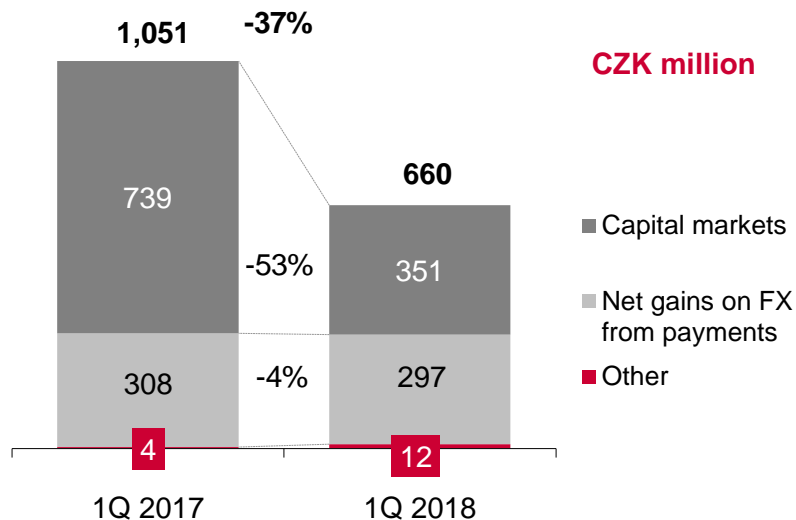
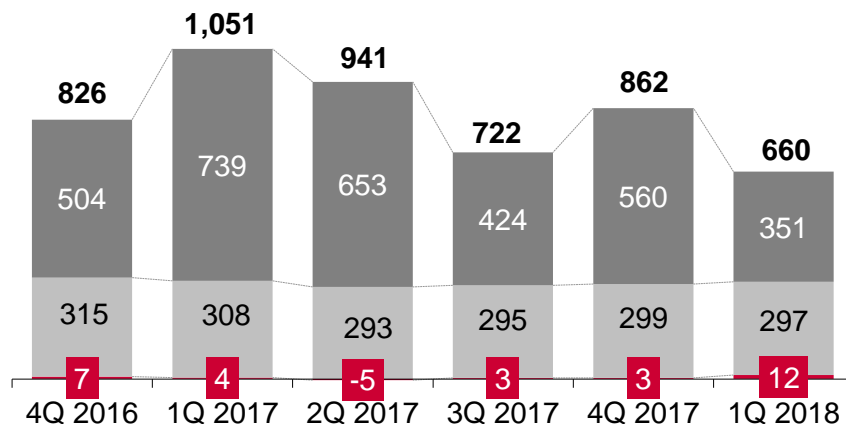
- NFC in 1Q 2018 down by 0.7% YoY. Seasonally lower by -8.2% v. 4Q 2017
- Deposit product fees increased as the number of active accounts went up
- Transaction fees were lower in spite of increase in overall number of transactions, most notably in card and foreign payments. In the new account packages introduced in summer 2017, more transactions are bundled in the regular monthly fees.
- Loan fees influenced by decreasing maintenance fees from housing loans in KB and Modrá pyramida and lower fees from certain loans to business clients
- Fees from cross-selling supported mainly by the volume growth in mutual funds
- Specialised financial services and other fees – lower fees from trade finance, slight increase in custody, depository fees



Adjusted for reclassification of early prepayment fees from NFC to NII

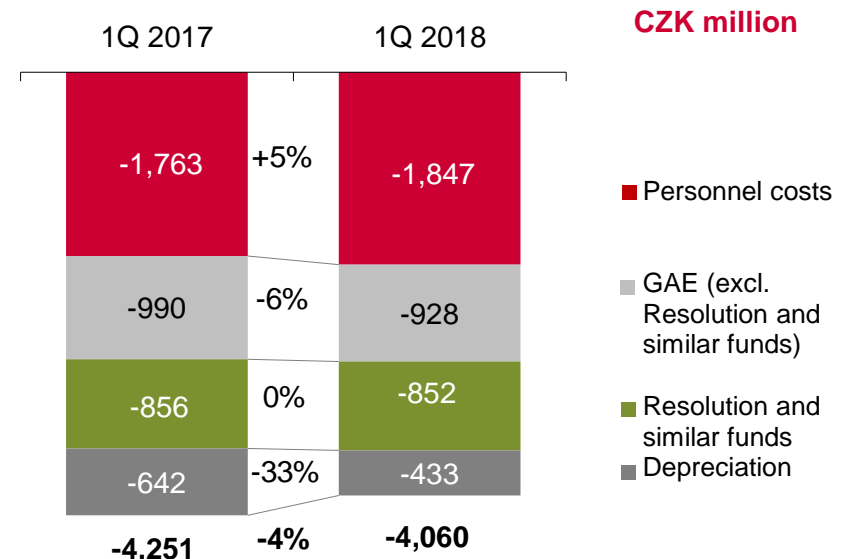
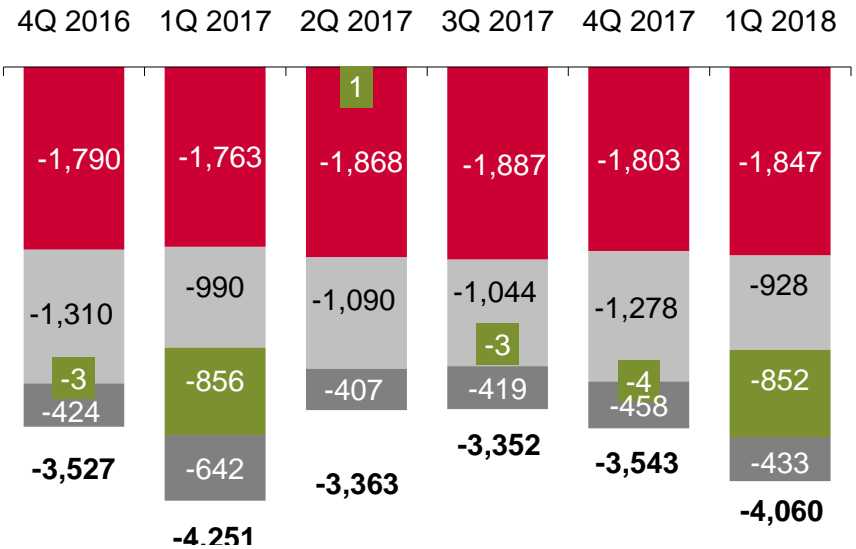
## FINANCIAL GAINS LOWER COMPARED TO EXTRAORDINARY 2017

- NPFO in 1Q 2018 down by 37.2% YoY and lower by -23.4% QoQ.
- YoY decrease in NPFO expected as 2017 was boosted by significant client activity around end of CNB's currency commitment
- Result of the quarter affected by relatively fewer large transactions
- Increase in interest rates reflected in shifting a part of financial operations gains to interest income
- Gains on FX from payments lower mainly due to smaller volume of transactions



## RECURRING COSTS UP LESS THAN THE INFLATION

- Recurring OPEX for 1Q 2018 grew by +1.3% YoY<sup>1</sup>. Reported OPEX in 1Q 2018 decreased by -4.5% YoY.
- OPEX in 1Q 2018 up +14.6% QoQ influenced by estimated full-year cost of Resolution and Deposit insurance funds booked in Q1 according to IFRIC 21, release of employee share ownership reserve in 4Q 2007 and usual seasonality
- Personnel expenses up 4.8% YoY, influenced by higher average remuneration. Average number of employees increased by a slight 0.5%
- YoY decrease in administrative expenses in 1Q 2017 partly reflecting different timing of certain campaigns and activities during the year
- D&A excluding the 1Q 2017 impairment up mainly due to new and upgraded software equipment



Note 1) excluding 1Q 2017 impairment of KB's headquarters building, booked in D&A line (lower by CZK 242 mil.) Further CZK 1,052 million gain in 1Q 2017 from sale of a HQ building recognised in Net profit from other assets.

**ASSET QUALITY**



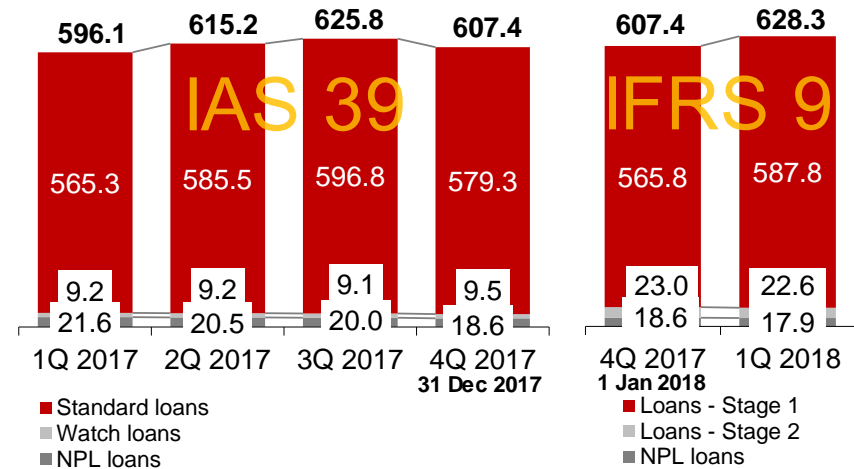
**COST OF RISK**

# SOUND ASSET QUALITY

- Loan exposure up 5.4% YoY, up 3.5% QoQ
- IFRS9 provisioning standard implementation
  - Limited financial impact (one-off increase of stock of provisions by 6%)
  - Stage 2 new classification methodology
- NPL exposure ratio down to 2.8% (vs. 3.6% in 1Q 2017) driven by low default rates, successful recovery, write-offs and portfolio sales
- NPL provision coverage ratio flat in the last years fluctuating around 63%

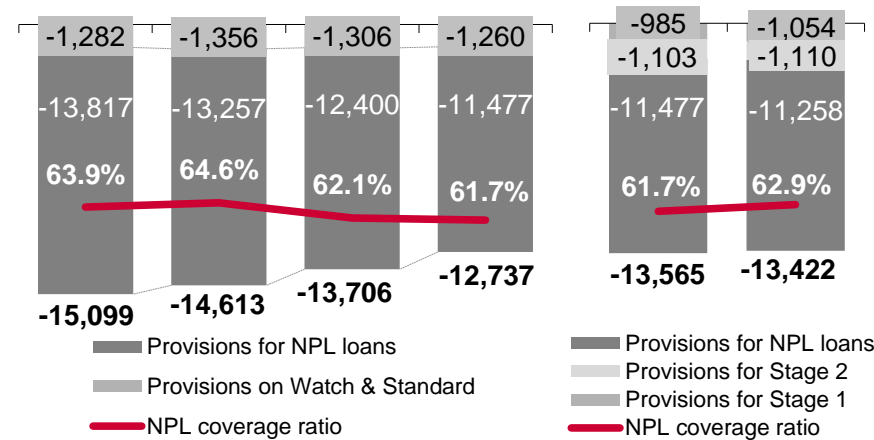
## Gross lending

CZK billion



CZK million

## Specific provisions

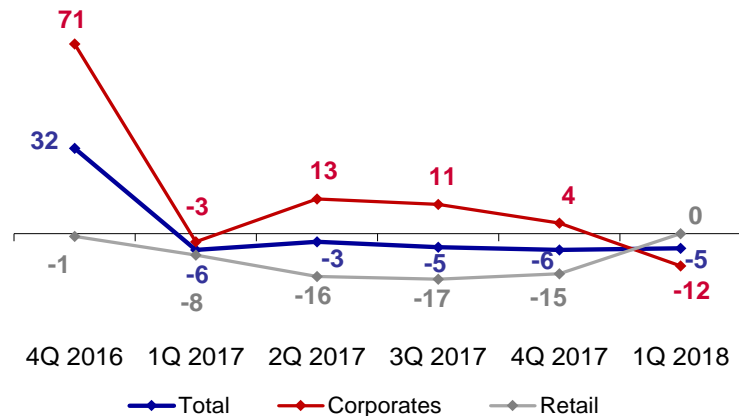


Note: NPL (non-performing loans) exposure denotes defaulted exposure (i.e. Stage 3 exposure) in line with CRR

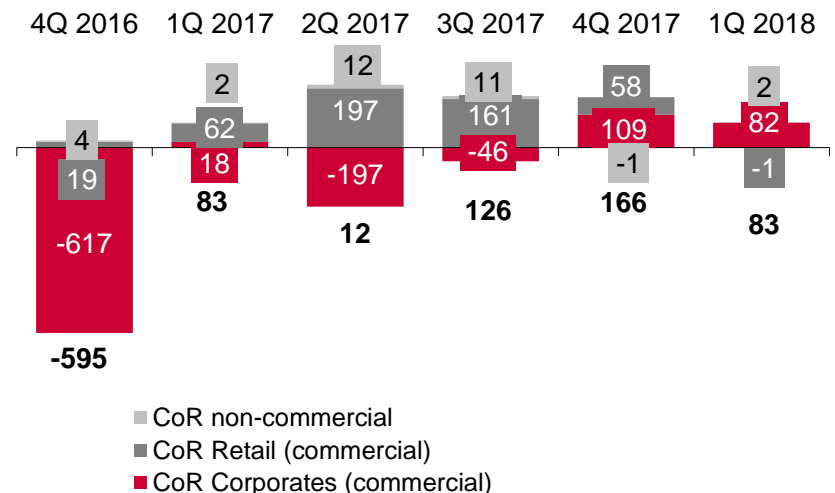
## COST OF RISK AT EXCEPTIONALLY LOW LEVEL

- Net release of CoR in 1Q 2018 at CZK 83 million (vs. net release of CoR in 1Q 2017 at CZK 83 million)
- Cost of Risk on Corporates at -12 bps in 1Q 2018 (vs. -3 bps in 1Q 2017) driven by low number of new defaults without any single big exposure and good recoveries
- Cost of Risk on Retail remains low at 0 bps in 1Q 2018 (vs. -8 bps in 1Q 2017) in the continued favourable economic environment (low unemployment, increasing wages), driven by a low number of new defaults, supported by sale activities

**Total Cost of Risk (Year-to-date, in basis points)**



**Total Cost of Risk development (CZK million)**



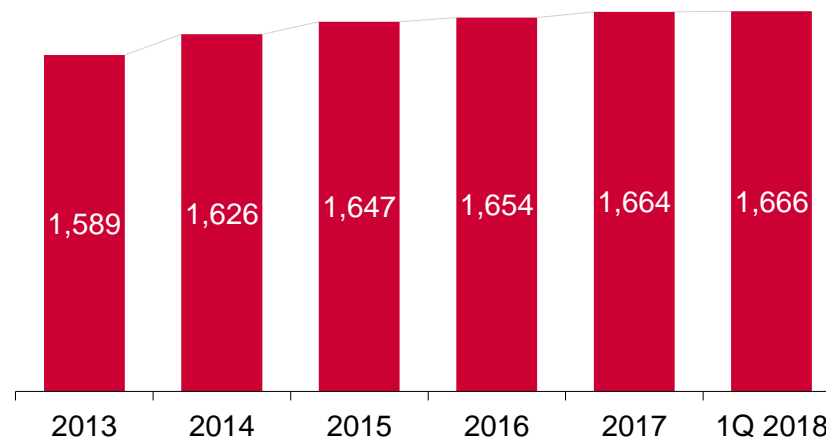
# APPENDIX



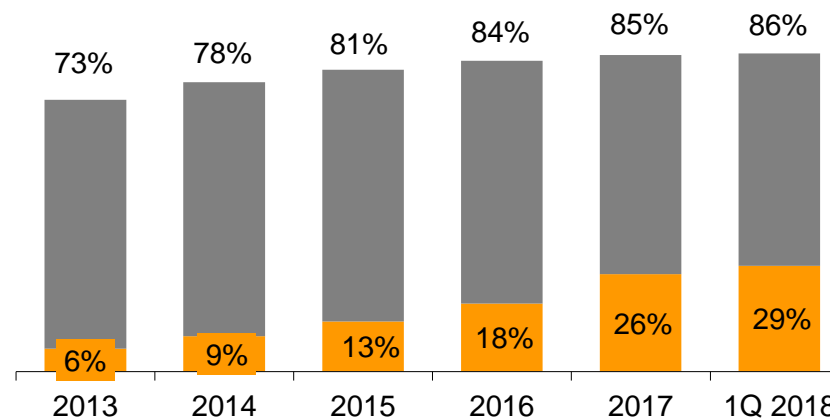
## NUMBER OF CLIENTS AND DISTRIBUTION NETWORK

- KB Group's 2.4 million clients(+0.4%), of which
  - KB bank 1,666,000 clients (1%)
  - MPSS 486,000 clients (0%)
  - KBPS 532,000 clients (0%)
  - ESSOX (Group) 215,000 active clients (+1%)
  
- Network
  - 381 branches for retail clients, 10 corporate divisions and 4 divisions for large corporate clients in CZ, one in Slovakia
  - 760 ATMs (of which 252 deposit-taking)
  - MPSS: 212 points of sale; approx. 1,000 sales agents
  - SGEF: 7 branches in CZ, 2 in Slovakia
  
- Direct Channels
  - 1,430,000 clients (i.e. 86% of KB client base) using direct banking channels
  - Two call centres, internet and mobile banking

Number of bank clients (thousands, CZ)



Share of bank clients using direct channels



■ KB Mobile banking clients



## QUARTERLY RESULTS INFLUENCED BY SEASONALITY

### Profit and Loss Statement

(CZK million, unaudited)	1Q 2017	4Q 2017	1Q 2018	Change YoY	Change QoQ
Net interest income and similar income	5,214	5,364	5,349	2.6%	-0.3%
Net fee & commission income	1,515	1,640	1,505	-0.7%	-8.2%
Net profit of financial operations	1,051	862	660	-37.2%	-23.4%
Dividend and other income	42	67	58	38.1%	-13.4%
<b>Net banking income</b>	<b>7,821</b>	<b>7,934</b>	<b>7,571</b>	<b>-3.2%</b>	<b>-4.6%</b>
Personnel expenses	-1,763	-1,803	-1,847	4.8%	2.4%
General admin. expenses (excl. regulatory funds)	-990	-1,278	-928	-6.3%	-27.4%
Resolution and similar funds	-856	-4	-852	-0.5%	>100%
Depreciation, amortisation & impairment of op. assets	-642	-458	-433	-32.6%	-5.5%
<b>Total operating expenses</b>	<b>-4,251</b>	<b>-3,543</b>	<b>-4,060</b>	<b>-4.5%</b>	<b>14.6%</b>
<b>Gross operating income</b>	<b>3,570</b>	<b>4,390</b>	<b>3,512</b>	<b>-1.6%</b>	<b>-20.0%</b>
Cost of risk	83	166	83	0.0%	-50.0%
<b>Net operating income</b>	<b>3,653</b>	<b>4,557</b>	<b>3,594</b>	<b>-1.6%</b>	<b>-21.1%</b>
Income from share of associated companies	55	51	62	12.7%	21.6%
Profit/(loss) attributable to exclusion of companies from	0	-7	82	n.a.	+/-
Net profits on other assets	1,092	7	14	-98.7%	100.0%
<b>Profit before income taxes</b>	<b>4,800</b>	<b>4,607</b>	<b>3,752</b>	<b>-21.8%</b>	<b>-18.6%</b>
Income taxes	-615	-820	-678	10.2%	-17.3%
<b>Net profit</b>	<b>4,185</b>	<b>3,787</b>	<b>3,074</b>	<b>-26.5%</b>	<b>-18.8%</b>
Profit attributable to the Non-controlling owners	104	82	75	-27.9%	-8.5%
<b>Profit attributable to the Group's equity holders</b>	<b>4,081</b>	<b>3,705</b>	<b>2,999</b>	<b>-26.5%</b>	<b>-19.1%</b>

#### Note for recurring figures:

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

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

## COMPARATIVE INDICATORS UNDER IAS 39 AND IFRS 9

(year-to-date, IFRS9)	Reported					Recurring		
	31/03/2017		31/12/2017		31/03/2018	31/03/2017		31/03/2018
	IAS 39	IFRS 9	IAS 39	IFRS 9	IFRS 9	IAS 39	IFRS 9	IFRS 9
Capital adequacy	15.7%	15.7%	18.6%	18.6%	18.3%			
Tier 1 ratio = Core Tier 1 ratio	15.7%	15.7%	18.0%	18.0%	17.7%			
Risk weighted assets for credit risk (CZK billion)	392.3	392.3	352.9	352.9	363.7			
Net interest margin*, annualised	2.3%	n.a.	2.3%	n.a.	2.2%	2.3%	n.a.	2.2%
Loan (net) / deposit ratio (excl. repo with clients)	76.7%	n.a.	78.9%	78.3%	75.6%	76.7%	n.a.	75.6%
Cost / income ratio	40.4%	54.4%	43.1%	46.7%	53.6%	50.9%	51.3%	53.6%
Return on average equity (ROAE), annualised	16.0%	n.a.	15.1%	n.a.	12.5%	12.6%	n.a.	12.2%
Return on average regulatory capital	22.6%	22.6%	19.8%	19.8%	15.1%	17.8%	17.8%	14.7%
Return on average assets (ROAA), annualised	1.7%	n.a.	1.5%	n.a.	1.1%	1.3%	n.a.	1.1%
Earnings per share (CZK), annualised	86	86	79	79	64	67	67	62
Average number of employees during the period	8,459	8,459	8,492	8,492	8,498			

Net interest margin = Net interest income / Average interest earning assets

## BUSINESS PERFORMANCE OF SUBSIDIARIES 1/2

	1Q 2017	1Q 2018	YoY
<b>Modrá pyramida</b> (100%), #2 building savings & loans company			
Volume of new loans (CZK million)	3,358	3,589	7%
Volume of total loans (gross, CZK million)	39,453	45,230	15%
Volume of deposits (CZK million)	63,793	61,555	-4%
Number of clients	487,387	486,448	0%
Average number of FTEs	331	333	1%
Number of points of sale	215	212	-1%
<b>KB Penzijní společnost</b> (100%), a manager of pension funds			
Number of new contracts	8,271	10,366	25%
Number of clients	533,930	532,189	0%
Assets under management (CZK million)	50,018	54,233	8%
of which in Transformed fund	47,304	50,000	6%
Average number of FTEs	46	47	2%
<b>ESSOX</b> (50.93%), #2 non-bank consumer lender and car financing company			
Volume of total loans (gross, CZK million)	14,785	15,957	8%
Number of active clients	211,936	214,568	1%
Average number of FTEs	396	403	2%

## BUSINESS PERFORMANCE OF SUBSIDIARIES 2/2

	1Q 2017	1Q 2018	YoY
<b>Factoring KB (100%), #1 on the Czech factoring market</b>			
Factoring turnover (CZK million)	9,598	11,681	22%
Volume of total financing (gross, CZK million)	7,241	7,865	9%
Average number of FTEs	45	44	-2%
<b>Komerční pojišťovna (49%), a universal insurance company</b>			
Volume of technical reserves (CZK million)	47,408	47,313	0%
Premium written (CZK million)	2,149	1,295	-40%
of which in life insurance	1,947	1,082	-44%
of which in non-life insurance	201	213	6%
Average number of FTEs	186	197	6%
<b>SGEF Czech Republic (50.1%), a provider of asset-backed financing in Czech Rep. and Slovakia</b>			
Volume of new financing (CZK million)	2,222	2,504	13%
Volume of total financing (gross, CZK million)	25,469	25,960	2%
Average number of FTEs	126	126	0%

# MACROECONOMIC ENVIRONMENT – CZECH REPUBLIC

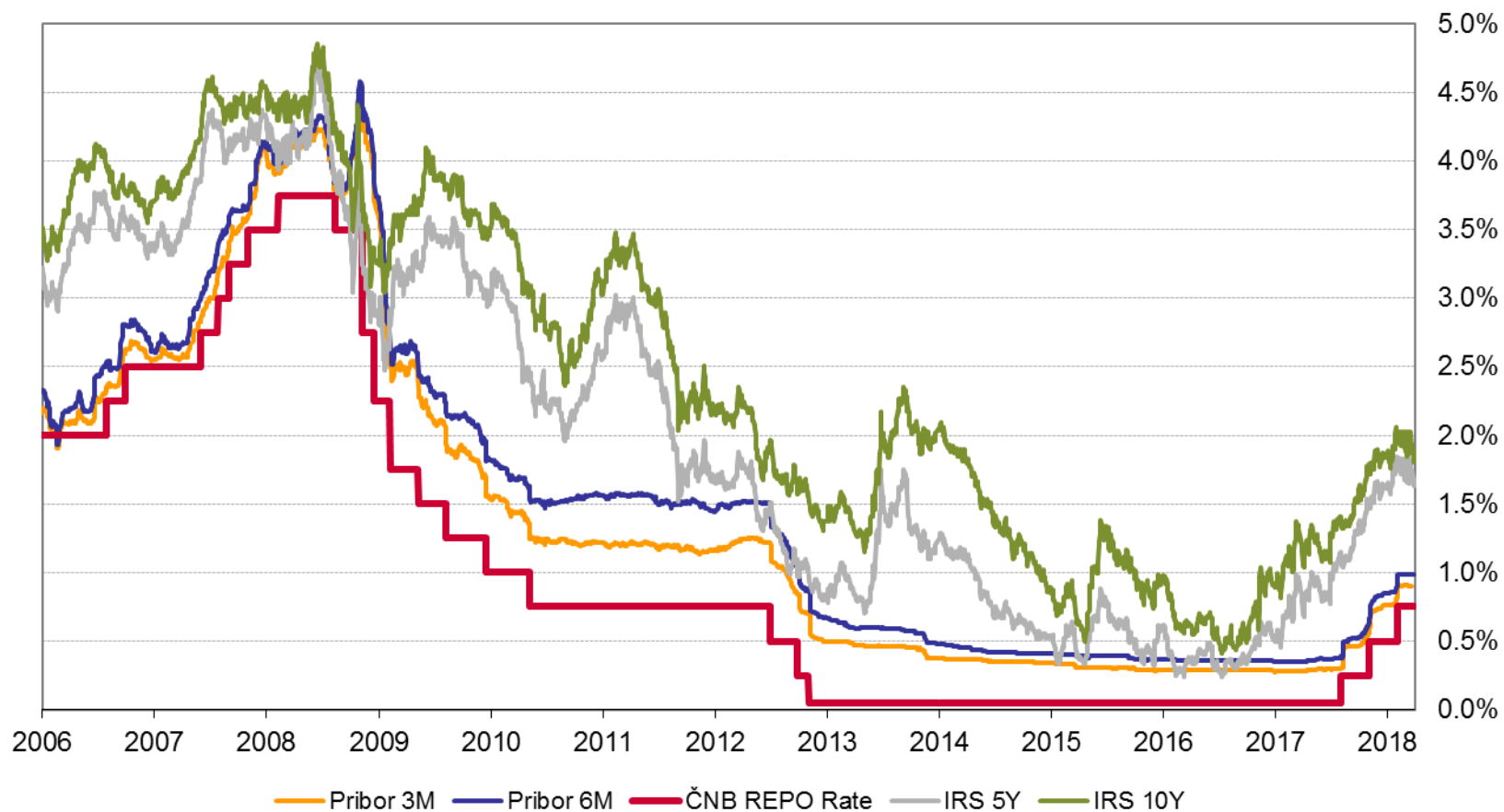
<b>Macroeconomic Indicators</b>	<b>2015</b>	<b>2016</b>	<b>2017*</b>	<b>2018*</b>	<b>2019*</b>
Real GDP (% , average)	5.4	2.5	4.6	3.8	2.5
Inflation (% , average)	0.3	0.7	2.5	2.1	2.1
Household consumption (% , average)	3.8	3.6	4.2	3.9	2.9
Unemployment (% , av., MLSA meth.)	6.4	5.4	4.1	3.5	4.8
M2 (% , average)	7.9	8.6	9.6	6.8	4.8
3M PRIBOR (% , average)	0.3	0.3	0.4	1.3	1.3
<b>Potential of the market **</b>	<b>2015</b>	<b>2016</b>	<b>2017*</b>	<b>2018*</b>	<b>2019*</b>
Loans / GDP (year-end)	60.5	61.8	61.4	61.2	64.7
Real estate loans / GDP (year-end)	21.1	22.1	22.7	22.0	23.5
Deposits / GDP (year-end)	76.6	79.0	82.6	83.5	79.7
Household loans / GDP (year-end)	26.9	27.9	28.4	27.8	29.7

\* *KB estimate*

\*\* *Banking sector, year end*

# INTEREST RATES EVOLUTION

(for the period 1 January 2006 – 29 March 2018)

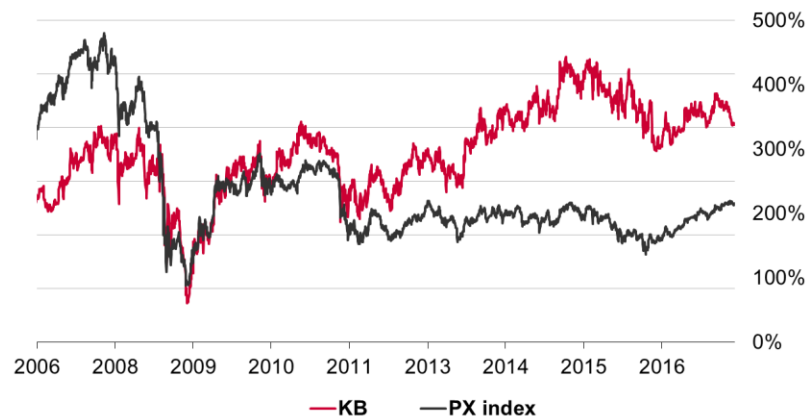


## KB #1 LISTED CZECH BANK

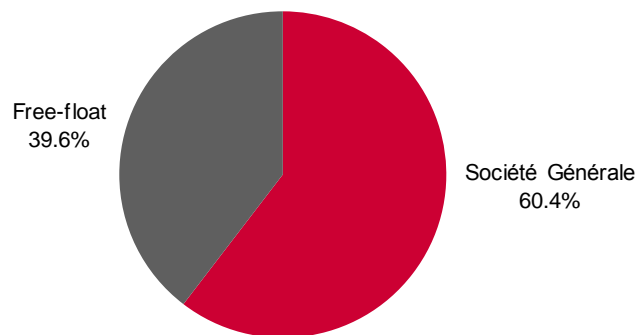
### As of 31 March 2018

- The number of shareholders comprised 47,959 corporate entities and private individuals.
- Of the Bank's total share capital of CZK 19,004,926,000 divided into 190,049,260 shares with a nominal value of CZK 100 each, Société Générale S.A. held 60.35%.
- KB held 1,193,360 own shares in treasury, representing 0.63% stake on registered capital

### Development of KB share price and PX index (1 January 2006 – 29 March 2018)



### Shareholder structure





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