Komerční banka, a.s.

RESULTS

Q1 2020

Regulatory information

Komerční banka, a.s.

In tough environment, Komerční banka shows operational resilience and strong financial base

Fulfilling responsibilities to clients, employees, and society

- **Throughout the emergency, Komerční banka is maintaining the full range of services to clients, with around 230 open branches and 800 ATMs, as well as via digital banking channels.**

- **The Bank rapidly procured hundreds of thousands of respirators, face masks, and gloves; hundreds of litres of disinfectants; plus glass partitions to protect the clients and employees. It purchased hundreds of additional notebook computers and reinforced the capacity of data lines to facilitate working from home.**

- **KB Group continues to provide new loans to its clients. On 13 March, KB introduced a voluntary repayment holiday offer to clients. It implemented the legally mandated payment moratorium when it took effect. KB is helping clients to apply for guarantees under CMZRB programmes and stands ready to lend within the Covid III state guarantee programme.**

- **Implementation of the KB Change transformation programme is ongoing, and the Bank is elaborating its strategic plan for the future. The crisis accelerated the shift to digital banking and reduction in the branch network and highlighted the need for streamlined, effective operations.**

- **KB Group companies and KB's Jistota Foundation donated financial and material assistance to senior homes and children's homes and partnered in benefit cultural events raising funds for front-line workers facing covid-19 risk. The Group has meanwhile continued its support of projects addressing long-term social issues.**

- **The total volume of KB Group's lending to customers expanded by 4.9% year on year. The overall volume of standard client deposits within KB Group was up by 8.3%, attesting to the trust clients have in KB.**

- **The number of clients with KB Mobile Banking leapt by 180,000 year on year to 836,000, representing 50% of all KB 1,663,000 customers. The new KB Klíč (KB Key) authentication application for accessing banking services was being used by 568,000 clients.**

- **KB reported an (1.4%) decline in revenues and 5.2% increase in operating expenditures. Net creation of credit risk provisions reached CZK 0.2 billion before full impact of the Covid-19 crisis. Net profit attributable to shareholders decreased by (16.3%) to CZK 2.7 billion .**

- **Indicators of KB Group's capital adequacy and liquidity significantly exceed the applicable regulatory requirements.**

- **After the Board of Directors proposed in March to retain the full 2019 profit in accordance with Czech National Bank instructions, the Board postponed also any decision on 2020 dividends at least until October 2020. The final decision on dividends will be made by the Annual General Meeting, which has been postponed due to the emergency measures.**

Prague, 6 May 2020 – Komerční banka reported today its unaudited consolidated results for the first quarter of 2020.

Total revenues decreased by (1.4%) to CZK 7.8 billion. Net interest income was down by (0.8%), at CZK 5.8 billion, despite increase in the volume of loans and deposits, due to lower spreads on retail lending and reinvestment yields from deposits. Net fee and commission income diminished by (5.3%) to CZK 1.4 billion due to lower income from transactions. That reflected impacts from new regulation of fees for cross-border payments and decreased transaction activity in March, even as other fee categories were stable or even improved year over year. Net profit on financial operations increased by 3.2% to CZK 0.6 billion, boosted by higher demand from clients for hedging of financial risks in the volatile environment.

Operating expenses were up by 5.2%, at CZK 4.4 billion. This growth was driven mainly by increased contribution to the Resolution and Deposit insurance funds and by emergency purchases. The average number of employees increased by 0.1% to 8,173.

The net creation of provisions for the first quarter of 2020 totalled CZK 0.2 billion. Nevertheless, the provisioning has not yet fully absorbed the full impact of economic hardship ensuing from the coronavirus pandemic.

The reported attributable net profit was down (16.3%), at CZK 2.7 billion.

Lending to clients increased by 4.9% to CZK 668.2 billion.[1)] Within this total, financing of housing from KB and Modrá pyramida expanded by 4.9% and consumer lending by KB and ESSOX grew by 1.2%. Lending to businesses and other clients was up by 5.2%, influenced also by increase in the Czech crown value of loans provided in euro.

Deposits from clients climbed by 8.3% year on year to CZK 894.9 billion.[2)] The volume of KB Group clients' assets in mutual funds, pension savings, and life insurance rose by 4.0% to CZK 179.8 billion.

The capital adequacy ratio reached a strong 20.8%, and Core Tier 1 capital stood at 20.2%. The liquidity coverage ratio was at 241%, significantly above the regulatory minimum of 100%.

"Komerční banka has been able to switch expeditiously into a protected mode whereby all services are available to clients, the core branch network is operating, and the vast majority of people are working from home. This attests to the professionalism, commitment, and, indeed, the agile approach of people within Komerční banka group. We have put this resilience and relentlessness to work by helping the customers to overcome the tough challenges posed in recent weeks. As in previous and any future crises, Komerční banka stands ready and stands by its clients," remarked Jan Juchelka, KB's Chairman of the Board of Directors and Chief Executive Officer.

"There will be lessons learned from the Covid-19 outbreak and its consequences. The transformational steps we have taken in the past two years have been completely validated. We are going to further accelerate our mission to build a future-proof financial services group that delivers value to clients, shareholders, employees, and the whole of society in a safe and effective way," Mr Juchelka added.

The Bank had 53,943 shareholders as of 31 March 2020 (up by 6,225 year on year), of which 48,439 were private individuals from the Czech Republic 48,439 (greater by 6,047 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 registered capital in treasury.

Response to the emergency state

The KB Group companies maintained operations throughout the state of emergency announced by the government from 12 March in response to the public health hazard caused by the coronavirus pandemic. KB has followed its business continuity plan as updated for the specifics of the current pandemic situation, and it has rapidly taken measures to protect its employees and clients. Most branches have remained open. As of 31 March 2020, KB had 224 branches open and 108 branches were temporarily closed. KB has maintained the full scope of the services offer to clients, including financing. The one temporary exception was the selling of gold, due to logistical difficulties after the closure of borders.

The colleagues within the branch network and in certain operational functions have been working from their standard workplaces or from activated backup workplaces in a rotational mode, thereby limiting the risk of mutual infection. More than 5,000 colleagues began working from home. To enable this, the Bank has purchased 750 additional notebook computers and activated a virtual desktop infrastructure (VDI). The Bank has also expanded the capacity of its VPN (virtual private network) solutions and data lines. Thereby, it has smoothly absorbed the increased number of concurrent users. To mitigate the increased level of cyber security risk during the emergency period, KB has reinforced several security measures, including to implement two-factor authentication for employees (employing KB Key), enhance data leakage prevention capabilities, and heighten Security Operating Centre detection capabilities

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, lending rose by 4.8% year over year to CZK 671.1 billion.

2) Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 7.8% to CZK 923.7 billion.

and capacities. KB has implemented a strict validation process and vigilant monitoring for all necessary changes in order to maintain strong oversight of the internal control system.

The Bank has procured around 200,000 respirators, as well as additional face masks, gloves and protective glasses. The contact points have been equipped with more than 1,100 glass partitions, and hundreds of litres of disinfectants have been provided across the branch network and headquarters.

KB Group stands by its clients. From 13 March, KB began offering voluntary instalment payment holidays to individual and small business clients. Negotiations with affected corporate clients began upon spotting any relevant issue. The subsidiaries, and in particular ESSOX and Modrá pyramida, launched similar offers on 13 or 16 March. The Group companies began preparing to implement a legally mandated payment moratorium even before that law had been finalised. As of 30 April, KB has registered 14,200 requests for payment holidays from individual clients, 5,900 from small businesses, and 300 from corporate clients. ESSOX had recorded 6,000 requests and Modrá pyramida 5,100 applications.

KB has been a active via the Czech Banking Association in setting up the guarantee programmes of the state's CMZRB guarantee bank for businesses impacted by the crisis. The Bank stands ready to participate fully in financing clients through the Covid III guarantee programme once signed into law.

Corporate social responsibility

In addition to supporting its clients, which is of course Komerční banka's reason for being, KB Group has contributed to various activities addressing the current situation as well as some longer-term issues.

KB Jistota Foundation has provided financial gifts to 20 homes for seniors and children to supplement their capacity for resisting infection. The Bank also has provided senior homes with 30,000 face masks acquired through its emergency purchases. KB was the general partner of the 'Together with one voice' joint online benefit concert that featured leading Czech musical performers and raised funds to buy protective equipment for people on the front lines in the fight against coronavirus. Moreover, the Bank joined the 'We cook for the indispensable' initiative organised by Czech chefs to distribute meals for deployed members of rescue forces and police.

Activities in accordance with KB's long-term philanthropic strategy continued even during the first quarter. KB Jistota Foundation awarded year-long support to six providers of early and preschool care for children with specific needs. The Foundation also supported six other projects providing prevention, diagnosis, and therapy in cases of violence against and abuse of children. In order to identify the challenges of digital education, KB facilitated a representative survey of 6,500 students of Czech secondary schools conducted by the Institute of Economic Education.

Broader social benefits will ensue also from a new initiative prepared within the KB Smart Solutions platform. KB and the Group's SGEF leasing company, in partnership with energy company ČEZ ESCO, have launched a new product that can contribute to limiting climate change. This innovative new product – solar energy as a service – allows industrial companies to begin generating savings on their energy bills by making the roofs of their buildings available for photovoltaic panel installations. Furthermore, KB has allocated CZK 10 billion for funding of projects with sustainable positive impact, mainly in energy transition, at preferential terms.

Market environment (in first quarter 2020)[1)]

Because the first quarter of 2020 was influenced by the pandemic only in its final month,[2)] it is presumed that growth of the Czech economy during 2020's first quarter was again driven mainly by household and public consumption. The economy was constrained at the beginning of the year especially by the tight labour market, even though the economy had further slowed in comparison to 2019. The unemployment rate remained at the lowest level seen anywhere within the EU (standing at 2.0% in March, according to the Eurostat methodology after seasonal adjustment).[3)] More recent data from the Czech labour ministry had not yet shown significant increase in the unemployment rate.[4)] Wage inflation was measured at 6.7% in the fourth quarter. Declining but still above average capacity utilisation was keeping productivity at healthy levels and supporting private sector investments. That the current pandemic lockdown hit the Czech economy while it was benefiting from this cushion creates a good starting point for the future economic recovery.

Among other factors in play, higher wage costs pushed the dynamics of industrial producer prices to an average 1.4% in 2020's first quarter. Pressure from the primary price categories flowed through to consumer price inflation, which accelerated throughout the first quarter. In the first two months it peaked around the levels of 3.6–3.7% year on year, well above the upper bound of the Czech National Bank's inflation target tolerance. Meanwhile, the Czech crown's exchange rate appreciated at the beginning of the first quarter to near CZK 25 per euro, thus reaching its strongest level since abolishment of the currency floor in April 2017. This in combination with expectations for only slow return of inflation to within the target tolerance band prompted the CNB's board to raise rates in early February by 25 bps to 2.25%.

The economic landscape changed completely, however, with outbreak of the covid-19 epidemic in the Czech Republic, the ensuing lockdown of the country, and similar developments in other EU countries that include major trading partners. At an extraordinary monetary policy meeting on 16 March, the Czech National Bank lowered its main policy rate by 75 bps to 1.5% and a further cut (by 50 bps to 1%) came at its regular meeting on 26 March. Upon the covid-19 outbreak, the Czech crown's exchange rate abruptly depreciated to CZK 27.81 per euro. The currency's value recovered only slightly towards the end of March to CZK 27.33 per euro. Therefore, the Czech crown was 7.5% weaker against the euro in comparison to the end of 2019 (when it had stood at CZK 25.41/EUR) and almost 10% against the USD (which rate was CZK 24.94/USD at the end of March versus CZK 22.62/USD at the end of 2019). The crown was also down by 5.9% year over year vis-à-vis the euro (compared to CZK 25.80/EUR at the end of March 2019) and by 8.6% against the dollar (versus CZK 22.97/USD as of 31 March 2019).

At the beginning of the first quarter, three-month PRIBOR had been hovering around 2.17%. After the February hike it had risen to around 2.39%. Following the precipitous development in March, however, it decreased to the 1% level (115 bps lower year to date). The 10-year interest rate swap moved to 0.75% (97 bps lower year to date). The longer-term swap rates even were below money market rates. Yields on 10-year Czech government bonds declined by 26 bps from the beginning of the year to the level of 1.37%.

Growth in prices of residential real estate was slowing in year-over-year terms during 2019's fourth quarter. Real estate prices have reached levels scarcely acceptable to many potential buyers, and especially in view of the demand-limiting prudential policy measures and slowing wage dynamics in the economy. Prices paid in the fourth quarter for previously owned flats were up 9.4% year on year, but prices obtained for new flats (in Prague only) were higher by 7.8% from the year earlier.[5)]

Total bank lending for the overall market (excluding repo operations) grew by 6.7% year on year in the first quarter.[6)] Lending growth was faster in retail banking, with mortgage growth continuing apace and consumer lending supported by still-high levels of consumer confidence and rising incomes before the Covid-19 disease's outbreak. Growth in lending to businesses and corporations had been slowing until February, but in March, borrowing accelerated. The lending to private business thus grew by 5.2% year on year in March. Public sector borrowing had held at a strong level.

The volume of client deposits in Czech banks had expanded by 6.7% year over year as of February.[7)] Deposits from individuals had grown by 6.9% while the rise in deposits from private non-financial corporations had been a bit more modest (6.6%). Similarly, as the loan market even the deposit market accelerated its growth in March. Deposit market grew by 10.9% year on year (4.1% month on month) with business adding faster than the retail. Among the business sector the public sector was the most buoyant.

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

[2)] The first three covid-19 cases were identified in the Czech Republic on 1 March 2020. The first anti-epidemic measures were imposed on 4 March (e.g. prohibiting flights to northern Italy and Korea). On 10 March, schools of all types were closed. A state of emergency was declared on 12 March. From 14 March, restaurants and non-essential stores (e.g. excluding groceries and pharmacies) were closed. As of 16 March, with some exceptions, the Czech Republic's borders were closed, essentially putting the country in lockdown.

[3)] Source: https://ec.europa.eu/eurostat/documents/2995521/10294732/3-30042020-CP-EN.pdf/05df809c-7eb8-10c7-efcf-35325c84f56e. Data up to March 2020.

[4)] https://www.mpsv.cz/web/cz/mesicni. Data as available up to March 2020.

[5)] Source: https://www.czso.cz/csu/czso/ceny-nemovitosti. Publication code 014007-19, released 16 March 2020

[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.

Selected new client services

During the first quarter, KB enhanced its product offer with convenient new options.

KB’s mobile banking newly offers an option to sign contractual documents with the Bank directly within the application. The products offer in Mobilní banka was extended to include a permanent travel insurance policy. Mojebanka internet banking introduced the Merlin wallet insurance linked to payment cards. Clients now can also increase their credit limits on credit cards via internet banking.

In co-operation with the European Investment Bank, KB offered financing with a subsidised interest rate to small and medium-sized companies through the Europremium programme. It has total lending capacity of CZK 3 billion under that programme.

KB has been developing its digital identification services. Approval of a legislative change in February allowed banks to authenticate clients remotely not only for using their banks’ own services and those of other commercial services provided by contractual third parties, but also for accessing government services and signing legal documents. Komerční banka, together with Česká spořitelna, a.s, and Československá obchodní banka, a. s., announced its intention to create a joint venture for providing electronic identification and authentication service to private companies and public institutions in the Czech Republic. All banks and branches of foreign banks registered in the Czech Republic will be able to participate in the services of the joint venture as identification providers on equal and transparent terms. Establishment of the joint venture is pending upon approval by the European Commission as an authority for protecting economic competition.

Developments in the client portfolio and distribution networks

	31 Mar 2019	31 Mar 2020	Change YoY
KB Group's clients	2,379,000	2,354,000	(25,000)
Komerční banka	1,662,000	1,663,000	1,000
– individual clients	1,405,000	1,407,000	2,000
– internet banking clients	1,396,000	1,431,000	35,000
– mobile banking clients	656,000	836,000	180,000
Modrá pyramida	491,000	488,000	(3,000)
KB Penzijní společnost	532,000	530,000	(2,000)
ESSOX (Group)	211,000	195,000	(16,000)
KB Retail branches*	345	332	(13)
KB Business centres	10	10	0
KB Corporate divisions	5	5	0
Modrá pyramida points of sale	201	202	1
SGEF branches	9	9	0
ESSOX Group points of sale	946	883	(63)
ATMs	779	800	21
of which deposit-taking	336	395	59
of which contacless	0	253	253
Number of active debit cards	1,393,000	1,403,000	10,000
Number of active credit cards	177,000	181,000	4,000
Number of cards virtualized into payment apps	87,000	204,000	117,000
KB key authentication users	153,000	568,000	415,000

* As of 31 March, 224 branches were open, and remaining branches were temporarily closed. The management has decided to accelerate optimisation of the branch network, the bank plans to operate 241 branches as of August 2020.

Comments on business and financial results

The financial data published below are from unaudited consolidated results compiled under IFRS (International Financial Reporting Standards). The data are as of 31 March 2020, ocassionally added with comments on development during the emergency state until April 2020.

Loans to customers
Total **gross volume of lending to clients** rose by 4.9% year on year to CZK 668.2 billion.[1)]

In lending to individuals, the overall volume of housing loans grew by 4.9% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 3.6% to CZK 232.0 billion. Modrá pyramida's loan portfolio grew by a strong 10.6% to CZK 57.6 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up 1.2%, at CZK 39.1 billion. During the state of emergency, sales of consumer loans at KB declined by approximately 40% in comparison with the week before the lockdown, and new production of mortgages was lower by up to 20%.

The total volume of **loans to businesses** and other lending provided by KB Group climbed by 5.2% year on year to CZK 339.6 billion. Lending to small businesses grew by 4.4% to CZK 37.0 billion. The overall CZK volume of credit granted by KB to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia[2)] increased by 5.1% year on year to CZK 272.7 billion. At CZK 29.8 billion, the total credit and leasing amounts outstanding at SGEF were 7.8% greater year over year.

Depreciation of Czech crown in March increased the CZK value of loans to businesses denominated in euro. The effect of 5.9% EUR/CZK rate weakening against euro year on year on the total gross volume of lending reached 1.0%, the effect on total loans to businesses was 2.0%.

Amounts due to customers and assets under management
The **volume of standard client deposits** within KB Group rose by 8.3% year on year to CZK 894.9 billion.[3)] The contribution from increased Czech crown value of deposits denominated in euro reached 0.6 percentage points of the total deposit base. Growth of deposits remained steady during the emergency.

Deposits at Komerční banka from individual clients grew by 5.6% from the year earlier to CZK 293.4 billion. The deposit book at Modrá pyramida decreased by (1.2%) to CZK 60.8 billion. Total deposits from businesses and other corporations climbed by 10.9% to CZK 528.0 billion.

Client assets managed by KB Penzijní společnost were 7.1% greater, at CZK 63.0 billion. Technical reserves in life insurance at Komerční pojišťovna were up by 0.6% year on year, at CZK 47.8 billion. The volumes in mutual funds held by KB Group clients grew by 3.5% to CZK 69.0 billion. Sales of mutual funds dropped significantly during the emergency.

The Group's liquidity as measured by the ratio of net loans[4)] to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 73.6%. The Group's liquidity coverage ratio stood at 241%, well above the regulatory limit of 100%.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement
Komerční banka's **revenues (net operating income)** for the first quarter of 2020 deteriorated by (1.4%) year on year to reach CZK 7,841 million. This decline was driven by net fees and commissions, which were impacted by the new caps on fees for payments within the Single European Payments Area (SEPA). Net interest income diminished slightly due to a drop in interest rates, and net gains from financial operations improved because of clients' increased demand for hedging of financial risks.

Net interest and similar income were down by (0.8%), at CZK 5,845 million. Although loan and deposit volumes were growing year over year, the March cut in interest rates negatively impacted the yields from loans, as well as from reinvestments of deposits and the Bank's own funds. The net interest margin for the first quarter of 2020, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.2%. That compares to 2.3%a year earlier.

Net fee and commission income diminished by (5.3%) to CZK 1,353 million. The drop was related to transaction fees, hit by the new regulation of charges for euro-denominated payments within SEPA, and by a lower number of transactions in March. The maintenance

[1)] 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 4.8% to CZK 671.1 billion.

[2)] Inclusive of factor finance outstanding at Factoring KB and merchant and car dealers' financing from ESSOX Group.

[3)] Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' increased by 7.8% to CZK 923.7 billion.

[4)] Gross volume of loans reduced by the volume of provisions for loan losses.

fee income was stable, as was the number of clients. KB recorded higher income from specialised financial services, mainly due to high issuance of debt instruments by clients, improved demand for bank guarantees, and better income from private banking services. Fees from cross-selling were up due to income from mutual funds and life insurance. Income from loan services were up year over year.

Net profit from financial operations improved by 3.2% to CZK 589 million. Clients' demand for hedging of financial risks increased with the uncertainty and volatility of interest and exchange rates. On the other hand, the value of certain derivative positions has decreased due to a need to recognise higher credit value adjustments to account for counterparty credit risk. Net gains on FX payment transactions were lower year on year, reflecting a decrease in the number and volume of these transactions.

Dividend and other income declined by (15.4%) to CZK 55 million. This line primarily comprises revenues from property rental and ancillary services.

Operating expenses were up by 5.2%, at CZK 4,406 million. Personnel expenses rose by 1.8% to CZK 1,940 million, as the average number of employees increased by 0.1% to 8,173.[1)] General administrative expenses (not including contributions to the regulatory funds) were up by 6.1%, at CZK 892 million, mainly as a result of higher cost for IT support, including costs of switching to homeworking from March. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 942 million, up 11.3% year on year. The CNB adjusted the target volume of the Resolution Fund in 2024 and increased the aggregate annual contribution from Czech banks by 9.2% year on year. Depreciation and amortisation grew by 5.9% to CZK 631 million, driven mainly by new and upgraded software and IT equipment.

The sum of profit before allowances for loan losses, provisions for other risk, profit on subsidiaries, and income tax **(gross operating income)** was down by (8.8%), at CZK 3,435 million.

Cost of risk reached CZK 154 million (net creation of provisions) in comparison with a negative CZK (176) million (net release of provisions) in the first quarter of 2019. The Group successfully closed some legacy recovery cases, and the risk costs in retail segments followed gradual normalisation after extraordinary low levels of previous quarters. KB also created provisions for certain exposures impacted by the covid-19 emergency, but it also expects that additional provisions will need to be made in the following quarters as macroeconomic impacts of the crisis become clearer. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during the first quarter of 2020 came to 9 basis points. That compares with (11) basis points for the same period a year ago.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was up 25.8% year on year, at CZK 78 million, due to a relatively low base of financial income at KP in the first quarter of 2019.

Net profits on other assets reached CZK 15 million, which amount was linked to sales of buildings in the held-for-sale portfolio. In the previous year, this result had been 0.

Income tax was lower by (14.7%), at CZK 646 million.

KB Group's consolidated **net profit** for the first quarter of 2020 reached CZK 2,728 million, which was down by (16.0%) in comparison with a year ago. Of this total, CZK 70 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (down by (4.1%) year on year).

Reported **net profit attributable to the Group's equity holders** totalled CZK 2,658 million, which is (16.3%) less year on year. **Other comprehensive income,** which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK (1,149) million. **Consolidated comprehensive income** for the first quarter of 2020 totalled CZK 1,579 million, of which CZK 79 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 2020 with the values from the statement of financial position as of 31 December 2019.

<u>Assets</u>
As of 31 March 2020, KB Group's total assets had risen by 15.1% year to date to CZK 1,240.1 billion.

Cash and current balances with central banks were down up 65.9%, at CZK 29.4 billion. Financial assets at fair value through profit or loss (trading securities and derivatives) increased by 76.6% to CZK 41.3 billion. The fair value of hedging financial derivatives grew by 103.6% to CZK 20.4 billion.

[1)] Recalculated to a full-time equivalent number.

Year to date, there was a 3.6% rise in financial assets at fair value through other comprehensive income totalling CZK 37.5 billion. This consisted mainly of public debt securities.

Financial assets at amortised cost grew by 12.5% to CZK 1,083.6 billion. The largest portion of this consisted of (net) loans and advances to customers, which went up by 2.2% to CZK 661.4 billion. A 97.9% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.1% 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 9.8 billion. Loans and advances to banks increased by 40.2% to CZK 342.9 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 10.7% and reached CZK 79.2 billion at the end of the first quarter.

Revaluation differences on portfolio hedge items totalled CZK 0.3 billion. Current and deferred tax assets stood at CZK 0.2 billion. Other assets and accrued accounts, which include receivables from securities trading and settlement balances, increased overall by 9.1% to CZK 5.6 billion. Assets held for sale diminished by (19.9%) to CZK 0.1 billion.

Investments in subsidiaries and associates increased by 6.5%to CZK 1.3 billion.

The net book value of tangible assets declined by (1.4%) to CZK 10.4 billion. Intangible assets grew by 2.5% to reach CZK 6.2 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 16.6% higher in comparison to the end of 2019 and stood at CZK 1,129.9 billion.

Financial liabilities at amortised costs went up by 13.8% to CZK 1,048.8 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 12.4% to CZK 923.7 billion. This total included CZK 28.8 billion of liabilities from repo operations with clients and CZK 11.8 billion of other payables to customers. Amounts due to banks increased in the first quarter of 2020 by 26.0% to CZK 117.9 billion.

The volume of outstanding securities issued was up 14.8%, at CZK 4.2 billion.

Revaluation differences on portfolios hedge items expanded to CZK 13.3 billion. Current and deferred tax liabilities decreased by (23.7%) to CZK 0.9 billion. Other liabilities and accruals, which include payables from securities trading and settlement balances, increased by 38.1% to CZK 16.5 billion.

The provisions balance was 5.7% higher, at CZK 1.4 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 2.7 billion, was up 7.5% year to date. Because that debt is issued in euro, the change reflects the depreciation of the Czech crown over the same period.

Equity
Total equity grew year to date by 1.5% to CZK 110.2 billion. The value of non-controlling interests reached CZK 3.2 billion. As of 31 March 2020, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

Regulatory capital and requirements
Total **regulatory capital** for the capital adequacy calculation came to CZK 94.7 billion as of 31 March 2020, up 9.3% year to date. **Capital adequacy** stood at 20.8%. The Core Tier 1 capital amounted to CZK 91.9 billion (9.4% higher year to date), and the Core Tier 1 ratio stood at 20.2%. Tier 2 capital totalled CZK 2.7 billion, which was 0.6% of risk-weighted assets.

Komerční banka is required to maintain the total SREP (Supervisory Review and Evaluation Process) capital ratio at the minimum level of 10.2% with effect from 1 January 2020. This total SREP capital ratio, known as TSCR, consists of the following:

1. A minimum capital requirement according to Article 92 (1) of the EU regulation on prudential requirements for credit institutions and investment firms (i.e. maintaining a Tier 1 core capital ratio of 4.5%, a Tier 1 capital ratio of 6%, and a capital ratio of 8%), and

2. An additional requirement of 2.2% established in Pillar 2 above the aforementioned requirements. This additional requirement must be covered fully by Tier 1 capital, and at least 75% of this requirement must be covered by Core Tier 1 capital.

Moreover, credit institutions in the Czech Republic are simultaneously subject to the combined capital requirements, which are in addition to the TSCR requirement.

As of 31 March 2020, KB was required to maintain a combined capital buffer comprising, in the case of Komerční banka, the capital conservation buffer at 2.5% the countercyclical buffer set for exposures in particular countries (in the Czech Republic at 1.75% from 1 January 2020, decreased to 1.00% with effect from 1 April 2020), and the systemic risk buffer at 3.00%.

Thus, Komerční banka's overall capital requirements as of 31 March 2020 reached approximately 17.4% in relation to the consolidated volume of risk-weighted assets. The minimum Core Tier 1 capital level was approximately 13.4% and the minimum Tier 1 capital ratio requirement stood at approximately 15.4%. As from 1 April 2020, the overall capital requirements decreased to approximately 16.7%, the minimum Core Tier 1 capital level to about 12.6%, and the minimum Tier 1 capital ratio to approximately 14.6%.

The Bank received information from the CNB on the minimum requirements for own funds and eligible liabilities (MREL), according to which it shall comply with individual MREL on a sub-consolidated basis at the level of 8.58% of total liabilities and own funds (19.2% of Total Risk Exposure Amount). This should be met with subordinated instruments and shall be reached by 31 December 2023. From that date, the requirement shall be met at all times.

KB Group's Liquidity Coverage Ratio reached 214% as of 31 March 2020 and is thus significantly above the regulatory minimum of 100%.

With effect from 1 April 2020, the CNB has relaxed its recommendation for the assessment of new mortgages. The limit on the LTV ratio (loan size relative to the value of the pledged property) has been increased to 90% (from 80%). The change to the LTV ratio does not apply to "investment" mortgages. The limit on the DSTI ratio (total debt service relative to net disposable monthly income) has been increased to 50% (from 45%). The limit on the DTI ratio (debt relative to net income) has been eliminated.

Changes in corporate governance (in first quarter 2020)

On 18 March 2020, the Supervisory Board elected with effect from 4 June 2020 a new member of the Board of Directors, Ms Jitka Haubová. Ms Haubová has extensive experience working in the banking sector. She has worked for Komerční banka, a.s. since 2006, overseeing products related to large domestic and international transactions, and she currently holds the position of Executive Director for Corporate Banking. Ms Jitka Haubová will replace Mr Vladimír Jeřábek, whose term ends on 3 June 2020.

The Annual General Meeting, which originally had been called on 26 March 2020 for 29 April 2020, was called off on 20 April 2020 due to emergency measures taken by the government of the Czech Republic, including restrictions on freedom of movement and prohibition of gatherings of several people. A new date for the General Meeting will be announced in due course

Expected development and main risks to that development in 2020

Komerční banka presented its initial outlook for KB's business and financial results in 2020 along with its announcement of the full year 2019 results on 6 February 2020. On 23 March 2020, KB advised investors not to rely on that outlook due to the significant negative economic consequences of the measures being adopted to contain spread of the covid-19 disease.

The text below describes management's updated expectations for KB's performance in 2020. It is founded on baseline assumptions about the public health and economic development in the Czech Republic. Given the high level of uncertainty surrounding the pandemic situation in addition to the usual risks related to projecting future business results, investors should apply caution and judgement before making their investment decisions while considering these forward-looking estimates and targets.

In its baseline macroeconomic expectations valid as of today, Komerční banka expects the Czech economy will record a full-year GDP decline of 6.5% in 2020 and notes that risks are more to the downside. The economy should begin from May to emerge from hibernation caused by the emergency measures. Companies as well self-employed workers will take stock of the economic damage caused by the lockdown and will try to return to functioning normally, which will not always be easy. Demand will not recover immediately, and especially not from abroad. GDP for this year will be driven downwards by foreign trade, investments, and, to a certain extent, household consumption. In comparison to the GDP decline in 1Q and 2Q, there should be a relatively slow recovery in 3Q. Because this economic crisis was not caused by a classic boom and bust cycle, a rather strong recovery should be expected afterwards. Given the government's expansionary policies and assuming recovery in the euro zone, we expect a rapid rebound from 4Q 2020. Rising household consumption should continue to be the main driver of that growth, while government consumption, fixed investments, and net exports should contribute positively albeit marginally. The main reason for the deceleration is weakening industrial output. The slower growth is set to gradually feed through to other sectors, but that impact should be fairly limited. The outlook is nevertheless still quite uncertain due to the global environment and to stringent regulation in the automotive sector.

Inflation is expected to rise above 4% year on year in the near term due to the increase in excise taxes, higher energy prices, and the significantly weaker Czech crown. On the other hand, the sharp drop in the oil price has potential to translate into lower prices for other goods and services in future. Most importantly, the drop in household demand, which began in March but should become more pronounced in 2Q, should push down consumer inflation. Inflation is thus expected to fall below the CNB's target over a one-year horizon. Exchange rate trends pose a significant risk to this forecast.

The Czech National Bank cut interest rates twice in March, by 125 bps in total, and it will continue to do so if the Czech economic outlook worsens further. The projection of KB's interest income shown below assumes decrease in CNB's repo rate by an additional 50 bps in May, to 0.5%. Cutting interest rates could induce further depreciation of the Czech crown and trigger the CNB to intervene on the foreign exchange market.

The development in the remainder of 2020 will be influenced by regulatory changes adopted before the pandemic as well as in response to it. The year's fee income will absorb the full impact from the cap on fees charged for cross-border payments within the Single European Payments Area effective from 15 December 2019. KB will continue its preparations for meeting the new minimum requirements for own funds and eligible liabilities (MREL). The CNB has decreased the countercyclical capital buffer requirement with effect from April 2020 to 1.00%, but that capital is temporarily locked in the Bank as it is compliant with CNB's recommendation from 16 March not to pay dividends or conduct buybacks until the consequences of the covid-19 outbreak fade away. Lending for housing purposes may benefit from a certain relief due to relaxation of limits for assessing new mortgages with effect from April.

The banking market will reflect the levels of confidence among consumers and businesses. Its development will be determined, too, by the parameters of the guarantee programmes launched by the state, which may enable bank financing of such sectors or social activities that could – due to consequences of the covid-19 containment measures – scarcely be financed only by private money if applying standard risk management and credit assessment rules. It is thus assumed that the loan market should continue to grow at a low-single-digit pace, comparable to the pace of growth in bank client deposits.

Komerční banka has implemented the organisational changes and optimisations envisaged until 2020 in its KB Change programme that had been announced in May 2018. In 2020, KB is preparing a strategic plan for the subsequent period. It will set out important steps for the Bank, including further digitalisation of processes, transformation of IT infrastructure, and identification of new revenue opportunities.

In this context, KB management expects that the Group's loan portfolio will record a slightly positive growth rate in 2020. Lending to small businesses may even aim for mid-single-digit growth if the economy gets onto a recovery path and the SME segment receives some assistance in the form of state guarantees. Growth in total deposit balances will probably slow to nearly a halt. Cautiousness will probably prompt consumers and firms to save larger parts of their incomes, but an important part of clients will have seen their cash reserves depleted during the downturn.

KB Group's total net operating income for 2020 should record a high-single-digit decline in comparison with 2019. Net interest income will be pressed down by the lower interest rate environment and slower growth in business volumes. A drop in net fees and commissions will reflect a combination of decreased economic activity and the impact from implementing the cap on fees for euro-denominated payments within the Single European Payment Area. The net profit from financial operations may remain similar as in the previous year, as it is to a large part driven by the volume of financial hedging provided to corporate clients. New volumes in financing deals, often linked with hedging, will not grow, but the increased volatility and uncertainty may generate additional demand for hedging of financial risks.

Operating expenditures will remain under tight control, stable year on year. The Bank has agreed with the trade unions to 3.6% growth in average remuneration for 2020. At the same time, KB is continuing its optimisation, simplification, and digitalisation. The first quarter saw an increase in the mandatory contributions to regulatory funds and also higher costs in relation to facilitating working from home and reinforcing hygienic protections. Through the remainder of the year, the Bank will record certain savings in expenditures related to travel, office supplies, and operations of the branch network. KB's management has decided to accelerate optimization of the branch network. The bank expects to operate 241 branches as of August 2020.

Cost of risk will increase above the normalised rate of 30 to 40 basis points, as a result of the impact of the economic downturn on clients' repayment capacity. The transmission of the Covid-19 crisis on KB's risk profile will be delayed thanks to support measures of the Czech government and loan repayment moratiorium. The impact on provisions will be spread to 2020 and 2021, but the cost of risk is expected to be contained in the range of 70 basis points.

Among the key risks to the expectations described above is a potential scenario of a worsening pandemic situation in the Czech Republic that is connected with prolonged lockdown of the economy and sharper economic downturn. A scenario involving significant disruption of foreign trade caused either by the direct measures to contain the disease or due to its indirect consequences would hurt the open Czech economy significantly. The recovery of the car industry may be hampered if producers do not succeed in meeting the prescribed emission limits. The Czech banking sector would suffer if interest yields on Czech crown-denominated financial assets would decrease markedly further.

The management expects that KB's operations in 2020 will remain profitable.

ANNEX: Consolidated results as of 31 March 2020 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement	Reported 1Q 2019	Reported 1Q 2020	Change YoY
(CZK million, unaudited)			
Net interest income and similar income	5,892	5,845	(0.8%)
Net fee & commission income	1,428	1,353	(5.3%)
Net profit of financial operations	571	589	3.2%
Dividend and other income	65	55	(15.4%)
Net banking income	**7,956**	**7,841**	**(1.4%)**
Personnel expenses	(1,905)	(1,940)	1.8%
General admin. expenses (excl. regulatory funds)	(841)	(892)	6.1%
Resolution and similar funds	(846)	(942)	11.3%
Depreciation, amortisation and impairment of operating assets	(596)	(631)	5.9%
Total operating expenses	**(4,188)**	**(4,406)**	**5.2%**
Gross operating income	**3,768**	**3,435**	**(8.8%)**
Cost of risk	176	(154)	+/-
Net operating income	**3,944**	**3,281**	**(16.8%)**
Income from share of associated companies	62	78	25.8%
Profit/(loss) attributable to exclusion of companies from consolidation	0	0	n.a.
Impairment losses on goodwill	0	0	n.a.
Net profits on other assets	0	15	n.a.
Profit before income taxes	**4,007**	**3,374**	**(15.8%)**
Income taxes	(757)	(646)	(14.7%)
Net profit	**3,249**	**2,728**	**(16.0%)**
Profit attributable to the Non-controlling owners	73	70	(4.1%)
Profit attributable to the Group's equity holders	**3,176**	**2,658**	**(16.3%)**

Statement of financial position	31 Dec 2019	31 Mar 2020	Ytd
(CZK million, unaudited)			
Assets	**1,077,334**	**1,240,106**	**15.1%**
Cash and current balances with central bank	17,744	29,445	65.9%
Loans and advances to banks	244,561	342,931	40.2%
Loans and advances to customers (net)	647,258	661,387	2.2%
Securities and trading derivatives	131,184	158,048	20.5%
Other assets	36,587	48,294	32.0%
Liabilities and shareholders' equity	**1,077,334**	**1,240,106**	**15.1%**
Amounts due to banks	93,581	117,905	26.0%
Amounts due to customers	821,506	923,663	12.4%
Securities issued	3,621	4,156	14.8%
Subordinated debt	2,546	2,738	7.5%
Other liabilities	47,445	81,415	71.6%
Total equity	108,635	110,229	1.5%

Key ratios and indicators	31 Mar 2019	31 Mar 2020	Change year on year
Capital adequacy (CNB)	18.9%	20.8%	▲
Tier 1 ratio (CNB)	18.4%	20.2%	▲
Total risk-weighted assets (CZK billion)	445.5	455.6	2.3%
Risk-weighted assets for credit risk (CZK billion)	369.2	376.6	2.0%
Net interest margin (NII / average interest-bearing assets)[III]	2.3%	2.2%	▼
Loans (net) / deposits ratio[IV]	75.7%	73.6%	▼
Cost / income ratio[V]	52.6%	56.2%	▲
Return on average equity (ROAE)[VI]	12.5%	10.0%	▼
Return on average Tier 1 capital[VII]	15.6%	12.1%	▼
Return on average assets (ROAA)[VIII]	1.2%	0.9%	▼
Earnings per share (CZK)[IX]	67	56	(16.3%)
Average number of employees during the period	8,167	8,173	0.1%

Business performance in retail segment – overview	31-Mar-20	Change year on year
CZK bil.		
Mortgages to individuals – volume of loans outstanding	232.0	3.6%
Building savings loans (MPSS) – volume of loans outstanding	57.6	10.6%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	39.1	1.2%
Small business loans – volume of loans outstanding	37.0	4.4%
Insurance premiums written (KP)	2.1	3.4%

Financial calendar:

3 August 2020 – 1H and 2Q results
5 November 2020 – 9M and 3Q results

Definitions of the performance indicators mentioned herein:

I. **Housing loans:** mortgages to individuals provided by KB + loans to clients provided by Modrá pyramida;

II. **Cost of risk in relative terms:** annualised 'Allowances for loan losses' divided by the average of 'Gross amount of client loans and advances', year to date;

III. **Net interest margin (NIM)**: 'Net interest income' divided by average interest-earning assets (IEA) year to date (IEA comprise 'Cash and current balances with central banks' [Current balances with central banks only], 'Loans and advances to banks', 'Loans and advances to customers', 'Financial assets at fair value through profit or loss' [debt securities only], 'Financial assets at fair value through profit or loss – non SPPI' [debt securities only], 'Financial assets at fair value through other comprehensive income' [debt securities only], and 'Debt securities');

IV. **Net loans to deposits:** ('Net loans and advances to customers' inclusive of debt securities held by KB and issued by the Bank's clients less 'reverse repo operations with clients') divided by the quantity ('Amounts due to customers' less 'repo operations with clients');

V. **Cost to income ratio:** 'Operating costs' divided by 'Net operating income';

VI. **Return on average equity (ROAE):** annualised 'Net profit attributable to equity holders' divided by the quantity average group 'Shareholders' equity' less 'Minority equity', year to date;

VII. **Return on average Tier 1 capital**: annualised 'Net profit attributable to equity holders' divided by average group 'Tier 1 capital', year to date;

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

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

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

(source: Profit and Loss Statement)	1Q 2020	1Q 2019
Net interest income income, year-to-date	**5,845**	**5,892**
Of which:		
Loans and advances at amortised cost	6,199	5,795
Debt securities at amortised cost	418	475
Other debt securities	164	122
Financial liabilities at amortised cost	(1,103)	(858)
Hedging financial derivatives – income	4,817	3,971
Hedging financial derivatives – expense	(4,649)	(3,613)

(source: Balance Sheet)	31-Mar-20	31-Dec-19	31-Mar-19	31-Dec-18
Cash and current balances with central banks/ Current balances with central banks	19,597	7,737	10,276	16,347
Loans and advances to banks	342,931	244,561	319,000	256,268
Loans and advances to customers	661,388	647,259	628,571	624,954
Financial assets at fair value through profit of loss/ Debt securities	5,858	4,112	4,496	3,248
Financial asset at fair value through other comprehensive income (FV OCI)/ Debt securities	36,986	35,682	27,968	24,909
Debt securities	79,239	71,581	78,200	69,881
Interest-bearing assets (end of period)	**1,145,999**	**1,010,931**	**1,068,510**	**995,608**
Average interest-bearing assets, year-to-date	**1,078,465**		**1,032,059**	
NIM year-to-date, annualised	**2.17%**		**2.28%**	