Revival in lending, strong inflow of deposits

Full year 2013 net profit at CZK 12.5 billion

Prague, 12 February 2014 – Komerční banka reported today consolidated net profit attributable to shareholders of CZK 12.5 billion for the year 2013, down 10.2% year on year. KB Group recorded strong growth in business volumes: the volume of loans to clients increased by 4.8% to CZK 491.5 billion and client deposits[1] rose by 9.1% to CZK 624.6 billion. Adjusted for one-off items, the percentage decline in net profit was 5.6% year on year.

KB Group's consolidated revenues were down by 5.4% to CZK 30.9 billion. The decrease was affected by several one-off items, and it was mainly caused by very low market interest rates which limit returns from reinvested liquidity and due to reduced prices for certain banking services. Meanwhile, operating expenditures diminished by 2.5% to CZK 13.1 billion, driven mainly by savings in general administrative expenses. Reflecting the good quality of the Bank's asset portfolio, the cost of risk declined by 7.1% to CZK 1.7 billion.

As of the end of 2013, the Group's Core Tier 1 capital adequacy ratio stood at a strong 15.8%, and the ratio of net loans to deposits (excluding client assets in pension funds) was 77.0%.

In view of the result achieved in 2013 and while considering also the Czech National Bank's capital requirements for systemically important financial institutions and the potential growth opportunities in the recovering Czech economy, Komerční banka's Board of Directors has decided to propose to the Supervisory Board a **dividend payment** of CZK 8,742 million. That comes to CZK 230 per share and represents a payout ratio at 69.8% of KB Group's attributable net profit. The corresponding gross dividend yield based on 2013's closing share price is 5.2%.

Highlights of the fourth quarter

- Positive response of clients to upgraded MojeOdměny rewards programme: improving sales of Group products and increasing number of active clients
- Overall lending activity accelerated in the last quarter, driven mainly by mortgages, loans to large corporations and modestly reviving consumer loans.
- Strong inflow of deposits across client segments, reflecting KB's strong relationships with its clients and continuing growth in non-bank assets under management (life insurance, mutual funds, pension funds)

Comment of the CEO

"We went through an adjustment of the revenue base during 2013 as we faced quite significant challenges presented by low market interest rates, a subdued economy and intense competition across all segments. Through advancing our client franchise, rigorous cost control and disciplined management of risks, KB achieved a solid result even in this difficult environment.

Recently, we have observed multiple positive signals indicating recovery in the Czech economy. Moreover, the measures taken by the Czech National Bank will help exporters to reinforce their positions on foreign markets during 2014. That has positive implications even for the unemployment rate and real wages. In that light, I look upon the economic prospects for 2014 with

[1] Excluding repo operations with clients

modest optimism. We are not relying solely upon an improving economy, however, but are working hard on constantly improving the competitiveness of our offer to all client segments. We will continue to bring innovative and advantageous products and services to our clients so that our relationships with them will remain mutually beneficial and strong."

Albert Le Dirac'h, Chairman of the Board of Directors and Chief Executive Officer

Comments on business and financial results

The published financial data are from unaudited consolidated results under IFRS (International Financial Reporting Standards).

BUSINESS PERFORMANCE OF KB GROUP

Thanks to stronger foreign demand, the Czech Republic exited the long recession. Despite the economic recovery, upward price pressures were not apparent and inflation remained under the Czech National Bank's target rate. That led the central bank on 7 November 2013 to launch a currency intervention with the goal of weakening the Czech crown (CZK) exchange rate to above 27 CZK per EUR. Consumers' reaction to that depreciation probably contributed to the strong growth in retail sales at the end of the year. The new CZK rate also increased the value of foreign currency denominated loans and deposits within the Czech banking system, adding approximately one-half of one percentage point to the reported overall year over year growth rates. The intervention is expected to diminish the risk of deflation in 2014 while improving the competitiveness of Czech manufacturing. The Czech National Bank also maintained its policy-setting two-week repo rate at the record-low level of 0.05%. The yields on long-term (10-year) Czech government bonds remained relatively stable during the last quarter, below 2.5%.

The banking market observed a slight acceleration in the volume growth of lending during the fourth quarter, even after adjusting for the effects of the intervention. The improvement was better visible in the corporate segment and was influenced also by increased acquisition activity of local investors on the Czech market.

Developments in client portfolio and distribution networks

As of the end of 2013, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,589,000 clients (-0.8% year on year), of which 1,337,000 were individuals. The remaining 252,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 574,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 564,000. ESSOX's services were being used by 284,000 active clients.

Komerční banka's clients had at their disposal 399 banking branches (including one branch for corporate clients in Slovakia), 729 ATMs, plus full-featured direct banking channels supported by two call centres. The number of clients using at least one direct banking channel (such as internet or telephone banking) reached 1,165,000 by the end of 2013 and corresponds to 73.3% of all clients. Customers held 1,562,000 active payment cards, of which 199,000 were credit cards. The number of active credit cards issued by ESSOX came to 136,000, and consumer financing from ESSOX was available through its network of 2,600 merchants. Modrá pyramida's customers had at their disposal 208 points of sale and 1,109 advisors. SG Equipment Finance (SGEF) was providing its leasing services via nine branches (two of which are in Slovakia), as well as through KB's network.

Loans to customers

The total **gross volume of loans** provided by KB Group expanded year on year by 4.8% to CZK 491.5 billion. That growth was driven mainly by mortgages and loans to large corporations. Certain improvement in consumer lending was seen also in the later parts of the year.[2]

In the segment of **loans to individuals**, the portfolio of mortgages to individuals rose by a strong

[2] There was a slight contribution to the CZK growth rates of loans and deposits (mainly in corporate segments) from revaluation of foreign currency denominated instruments, reflecting weaker CZK following CNB intervention in November.

9.7% year on year to CZK 146.2 billion, but this was partly offset by lower demand for building savings loans as the volume of Modrá pyramida's loan portfolio dropped by 11.6% to CZK 43.6 billion. The demand for consumer lending began cautiously to improve at mid-year. In a year-on-year comparison, the volume of consumer loans (from KB and ESSOX) grew by 3.8% to CZK 28.5 billion.

The total volume of **loans** provided by KB Group **to businesses** expanded by 4.9% to CZK 268.3 billion. The overall volume of credit granted by KB to (medium-sized and large) corporate clients in the Czech Republic and Slovakia and including factor finance outstanding at Factoring KB rose by 5.7% to CZK 218.4 billion. The demand of corporations for financing of exports and acquisitions was particularly strong. Lending to small businesses diminished by 2.0% to CZK 28.3 billion. Total credit and leasing amounts outstanding at SGEF were up 6.7% year over year, at CZK 21.6 billion.

Amounts due to customers and assets under management

The total **volume of deposits**[3] on KB Group's balance sheet rose by 9.1% year on year to CZK 624.6 billion. Deposits from businesses climbed by 13.3% to CZK 349.1 billion. This category was influenced by several large short-term placements that clients deposited close to the end of the year. Deposits at KB from individual clients rose by 3.5% to CZK 161.8 billion, and the deposit book at Modrá pyramida added 0.7% year on year to reach CZK 72.3 billion. Client assets in the transformed fund managed by KB Penzijní společnost grew by 12.1% to CZK 35.8 billion. These client assets continued to be consolidated into the KB Group accounts.

Total technical reserves in life insurance at Komerční pojišťovna expanded by 22.0% to CZK 34.8 billion. The volumes in mutual funds held by KB clients (managed by IKS KB and Amundi) increased by 7.5% to CZK 31.3 billion.

Selected achievements and initiatives

In the last quarter of 2013, KB Group improved further its offer to clients and pursued several commercial and operational efficiency initiatives.

- The rewards within the MojeOdměny loyalty programme were made more accessible to individual and small business clients. As a result, the numbers of active clients in both segments were up, as were sales of financial products.
- On its www.kb.cz website and in its internet banking, MojeBanka, KB launched financial planning applications for individuals – KB MojePlány (KB MyPlans) – and for small businesses – KB podnikatelské finance (KB Business Finance). The tools propose optimal mixes of financial products for achieving future financial goals while taking into account the client's current and expected situation, savings and liabilities.
- KB brought a new layout to its branches. The Prague 5 - Anděl branch was the first to introduce the redesign.

Komerční banka and the State Housing Development Fund (Státní fond rozvoje bydlení) signed an agreement on the Jessica Programme. KB has thus become the Municipal Development Fund Manager, and it will provide low-interest loans for the repair and modernisation of residential buildings using the European resources obtained by the Fund.

Komerční pojišťovna was named The Life Insurance Company of the Year in the Czech Republic by the magazine World Finance.

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[3] Excluding repo operations with clients. Total amounts due from clients expanded by 12.1% year on year to CZK 649.2 billion.

SG Equipment Finance Czech Republic moved in November to the new building in Prague – Stodůlky. Funds raised from the sale of furniture used at the previous headquarters were donated to purchase equipment for the Kamenec Senior Home.

Also in the area of corporate social responsibility, KB Jistota Foundation launched its programme Srdeční záležitost aneb Pomůžeme vám pomáhat (Matters of the Heart, or We'll Help You to Help) and called upon KB Group employees to nominate volunteer projects that benefit senior citizens, children and adults with disabilities and/or social disadvantages. The programme met with great interest. Employees of the whole Group recommended 40 projects, of which the Foundation chose eight for its support.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement

Total **net banking income** decreased in 2013 by 5.4% year over year to CZK 30,894 million. The decline was partially caused by one-off items, such as income in 2012 from the sale of KB's stake in Bohemian–Moravian Guarantee and Development Bank (CMZRB). Revenues adjusted for this and other extraordinary items were down 3.2% from the year earlier. Net banking income was lower in spite of the growth in loan and deposit volumes. That was due to persisting very low market interest rates, which limit yields from reinvestment of liquidity, generally subdued economic activity in the Czech Republic and reduced prices for certain banking services.

Net interest income, which constitutes more than two-thirds of KB's revenues, was down by 3,5% to CZK 21,207 million despite the growing loan and deposit volumes. Deposit spreads were under pressure from diminished yields on reinvested deposits, resulting from the significant decline in market interest rates which appeared towards the end of 2012, and from intense competition. Reflecting the extremely competitive market and higher share of loans with relatively lower spread in the portfolio, total lending spread also narrowed slightly. In 2012 and 2013, KB sold its remaining government bonds from southern Europe, and that, too, had a negative effect on the interest margin.

The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, was, in addition to the aforementioned factors, also affected by placements of short-term deposits by clients from the public and financial sectors. Those deposits inflated the formula's denominator. The margin thus declined to 2.8% in 2013 from 3.1% a year earlier.

Net income from fees and commissions rose by 1.5% to CZK 7,077 million. KB expanded its MojeOdměny client rewards programme, which effectively drove down fee income from deposit products and transactions. On the other hand, the Group reported lower commission expense for acquisition of pension fund clients in comparison with the previous year. Income from life insurance and mutual funds increased, driven by growth in the volume of client savings in these products. Despite a rise in the number of transactions executed by clients, the income from transactions decreased due to diminishing average prices and clients' continuing switch to lower-cost means of making payments. Fees from loan syndications recorded a significant rise year over year, confirming KB's success on this vibrant but very competitive segment of the market.

Net gains from financial operations were affected by several one-off items in both comparable periods. These included in 2012 income from the sale of KB's stake in CMZRB, gains from adjustments in the portfolio of Penzijní fond KB, and sale of the remaining Greek and Portuguese government bonds. In 2013, these were mainly negative valuation adjustments of certain derivatives reflecting implementation of the IFRS 13 accounting standard and refinements of valuation methods for derivatives according to their cost of funding. The reported result declined by 30.8% to CZK 2,490 million. Influenced by CNB measures, low volatility of exchange rates and interest rates is limiting clients' demand for financial hedging. Net gains from FX payments reflected lower average spreads.

Total **operating expenditures** were pared back by 2.5% to CZK 13,148 million. Within this category, personnel costs came down by 0.8% to CZK 6,728 million as the average number of employees was lower by 1.7%, at 8,612. General administrative expenses decreased by 6.5% to CZK 4,666 million. The main savings were achieved in real estate expenses (following the move of certain operating functions into the new building at Prague – Stodůlky), telecommunications and marketing costs. On the other hand, rolling out of contactless payment cards and related infrastructure required greater spending in this area. The category depreciation, impairment and disposal of fixed assets was up by 2.8% to CZK 1,754 million, as higher amortisation of software applications was only partially offset by lower depreciation of buildings and IT hardware.

Gross operating income for the year declined by 7.5% to CZK 17,746 million.

In accordance with the good quality of KB's assets portfolio, the **cost of risk** diminished by 7.1% to CZK 1,739 million. The risk profile developed positively in both retail and corporate segments. Stated in relative terms, the cost of risk in 2013 was 37 basis points while in the previous year it had been 41 basis points.

Income from shares in associated undertakings rose by 71.9% to CZK 208 million affected by release of technical provisions in Komerční pojišťovna. The proportion of profit attributable to clients of the transformed pension fund came to CZK 484 million.

Income taxes increased by 4.3% to CZK 2,825 million.

KB Group's consolidated net profit for 2013 slipped by 9.3% to CZK 12,906 million. Of this amount, CZK 378 million was profit attributable to holders of minority stakes in KB's subsidiaries (+36.0%). **Profit attributable to the Bank's shareholders** amounted to CZK 12,528 million, which is 10.2% less than in 2012. **Adjusted for one-off effects,** attributable net profit decreased by 5.6%.

Statement of financial position

KB Group's **total assets** as of 31 December 2013 had grown by 9.8% year on year to CZK 864.0 billion.

Amounts due from banks jumped by 96.1% to CZK 125.7 billion. The largest component of this item consisted of placements with central banks as part of reverse repo operations.

Financial assets at fair value through profit or loss declined by 28.0% to CZK 37.1 billion. That portfolio comprises the Group's proprietary trading positions.

Total net loans and advances grew from the end of the previous year by 4.8% to CZK 473.1 billion. The gross amount of client loans and advances was higher by 4.8%, at CZK 491.5 billion. The share of standard loans within that total climbed to 92.5% (CZK 454.4 billion) while the proportion of watch loans was 1.9% (CZK 9.6 billion). Loans under special review (substandard, doubtful and loss) comprised 5.6% of the portfolio, with volume of CZK 27.5 billion. The volume of provisions created for loans reached CZK 18.5 billion, which was 4.4% more than at the end of 2012.

The portfolio of securities available for sale diminished by 0.4% to CZK 141.2 billion. From the CZK 141.2 billion total volume of debt securities in this portfolio, Czech government bonds comprised CZK 98.2 billion and foreign government bonds CZK 17.4 billion. The volume of securities in the held-to-maturity portfolio increased by 26.4% to CZK 4.2 billion. This portfolio consists entirely of bonds.

The net book value of tangible fixed assets slipped by 1.5% to CZK 7.9 billion, while that of intangible fixed assets was lower by 3.6%, at CZK 3.8 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida and SGEF, remained unchanged at CZK 3.8 billion.

Total liabilities were 11.8% greater in comparison to the end of 2012, reaching CZK 767.4 billion. Amounts due to customers grew by 12.1% to CZK 649.2 billion. The volume outstanding of issued securities expanded by 14.2% to CZK 22.4 billion. The Group's **liquidity**, as measured by the ratio of net loans to deposits, was 77.0% (72.9% if including client assets in the transformed pension fund).

Shareholders' equity dropped year over year by 4.0% to CZK 96.5 billion. The generation of net profit added to the equity. On the other hand, KB paid out a dividend of CZK 8.7 billion in May, and the book value of the available-for-sale portfolio and cash flow hedges (both of which represent primarily reinvestment of client deposits) decreased due to slightly higher interest rates in comparison with the end of 2012. As of 31 December 2013, KB held in treasury 238,672 of its own shares, constituting 0.63% of the registered capital.

Consolidated regulatory capital for the capital adequacy calculation stood at CZK 59.1 billion as of the end of 2013. KB Group's regulatory capital was composed solely of Core Tier 1 equity. The **capital adequacy**, as well as the Core Tier 1 capital ratio under Basel II standards, stood at a high level of 15.8%. Regulatory capital was higher in 2013 thanks to the undistributed profit allocated to the Group's capital in April 2013. KB Group's risk-weighted assets (RWA) increased year over year due to growth of the credit portfolio, but average risk weight declined thanks to an improvement in the risk parameters for an important part of the clients, a larger share of exposures bearing relatively low risk weights (such as mortgages), divestment of relatively more risky sovereign exposures from southern Europe, and continuous refinement of risk management models and parameters.

With effect from 2014, Czech banks are subject to capital requirements according to the EU regulations implementing **Basel III** regulatory framework. The estimated level of requirement of the Czech National Bank for capital adequacy of KB will thus stand at around 13.9% of risk weighted assets, composed of 8% minimum capital level, 2.5% systemic risk buffer and 2.5% conservation buffer. ČNB is currently not imposing requirement for a counter-cyclical buffer. In addition, KB estimates that the requirement for a capital buffer established according to Pillar II of the regulatory framework will reach a level close to 0.9%. In KB's current understanding of the new regulatory framework, pro-forma application of Basel III to the Group's balance sheet as of 31 December 2013 would lead to a decrease of capital adequacy by approximately 0.6%, in comparison with Basel II rules. KB's estimated Basel III capital, liquidity and leverage ratios imply adequate room for developing business activities and maintaining fair remuneration of shareholders.

Return on average equity for 2013 came to 13.1% while return on average assets was 1.5%. Excluding one-off items, adjusted return on average equity was 13.2% and adjusted return on average assets was 1.5%.

Post balance sheet events

In January 2014, KB Group started reviewing the accounting recognition of certain debt securities held in the portfolio of Financial assets available for sale (AFS) which the Group intends to hold until their maturity. The Group concluded that all regulatory and accounting requirements, as well as internal limits, are satisfied for recognition of the debt securities in the nominal value of CZK 31,005 million in the portfolio of Financial assets held to maturity (HTM) and decided to reclassify the respective securities to HTM from AFS as of 3 February 2014. The securities were reclassified at fair value at the date of transfer. The corresponding AFS revaluation reserve in the shareholders' equity of CZK 3,549 million has been retained in other comprehensive income and included in the carrying value of the held-to-maturity securities. Such amounts are amortized over the remaining life of the security.

CORPORATE GOVERNANCE

At KB's Extraordinary General Meeting, held on 28 January 2014, the shareholders decided to amend the Bank's Articles of Association in order to implement the requirements of the recodified civil and corporations law in the Czech Republic, effective from 1 January 2014.

KB

Regulatory information

ANNEX: Consolidated results as of 31 December 2013 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	**FY 2013**	**FY 2012**	**Change year on year**
Net interest income	21,207	21,969	-3.5%
Net fees and commissions	7,077	6,971	1.5%
Net gains from financial operations	2,490	3,598	-30.8%
Other income	121	126	-4.0%
Net banking income	**30,894**	**32,664**	**-5.4%**
Personnel expenses	-6,728	-6,785	-0.8%
General administrative expenses	-4,666	-4,993	-6.5%
Depreciation, impairment and disposal of fixed assets	-1,754	-1,707	2.8%
Operating costs	**-13,148**	**-13,485**	**-2.5%**
Gross operating income	**17,746**	**19,179**	**-7.5%**
Cost of risk	-1,739	-1,871	-7.1%
Net operating income	**16,007**	**17,309**	**-7.5%**
Profit on subsidiaries and associates	208	121	71.9%
Share in profit of pension scheme beneficiaries	-484	-489	-1.0%
Profit before income taxes	**15,731**	**16,940**	**-7.1%**
Income taxes	-2,825	-2,708	4.3%
Net profit	**12,906**	**14,232**	**-9.3%**
Minority profit/(loss)	378	278	36.0%
Net profit attributable to the Bank's shareholders	**12,528**	**13,954**	**-10.2%**

Balance Sheet (CZK million, unaudited)	**31 Dec 2013**	**31 Dec 2012**	**Change year to date**
Assets	**863,980**	**786,836**	**9.8%**
Cash and balances with central bank	44,405	28,057	**58.3%**
Amounts due from banks	125,735	64,111	**96.1%**
Loans and advances to customers (net)	473,090	451,547	**4.8%**
Securities	182,533	196,706	**-7.2%**
Other assets	38,218	46,415	**-17.7%**
Liabilities and shareholders' equity	**863,980**	**786,836**	**9.8%**
Amounts due to banks	49,680	38,901	**27.7%**
Amounts due to customers	649,158	579,067	**12.1%**
Securities issued	22,417	19,624	**14.2%**
Other liabilities	46,187	48,705	**-5.2%**
Shareholders' equity	96,538	100,538	**-4.0%**

KB

Regulatory information

Key ratios and indicators	31 Dec 2013	31 Dec 2012	Change year on year
Capital adequacy (CNB, Basel II)	15.8%	14.7%	▲
Tier 1 ratio (CNB, Basel II)	15.8%	14.7%	▲
Total capital requirement (CZK billion)	29.9	29.3	2.1%
Capital requirement for credit risk (CZK billion)	25.3	24.7	2.3%
Net interest margin (NII/average interest-bearing assets)	2.8%	3.1%	▼
Loans (net) / deposits ratio	72.9%	78.0%	▼
Loans (net) / deposits ratio excluding client assets in transformed fund	77.0%	82.5%	▼
Cost / income ratio	42.6%	41.3%	▲
Return on average equity (ROAE)	13.1%	15.8%	▼
Adjusted return on average equity (adjusted ROAE)*	16.2%	19.6%	▼
Return on average assets (ROAA)	1.5%	1.8%	▼
Earnings per share (CZK)	332	369	-10.2%
Average number of employees during the period	8,612	8,758	-1.7%
Number of branches (KB standalone in the Czech Republic)	398	399	-1
Number of ATMs	729	702	+27
Number of clients (KB standalone)	1,589,000	1,601,000	-0.8 %

* Computed as net profit attributable to equity holders divided by average Group shareholders' equity less minority equity, cash flow hedging and revaluation of available-for-sale securities.

Business performance in retail segment – overview	31 Dec 2013	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 146.2 billion	10%
– number of loans outstanding	123,000	12%
Building savings loans (MPSS) – volume of loans outstanding	CZK 43.6 billion	-12%
– number of loans outstanding	109,000	-12%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 28.5 billion	4%
Small business loans – volume of loans outstanding	CZK 28.3 billion	-2%
Total active credit cards – number	199,000	-4%
– of which to individuals	154,000	-4%
Total active debit cards – number	1,362,000	-3%
Insurance premiums written (KP)	CZK 8.4 billion	36%

Financial calendar for 2014:

7 May 2014: Publication of 1Q 2014 results

1 August 2014: Publication of 1H 2014 and 2Q 2014 results

6 November 2014: Publication of 9M 2014 and 3Q 2014 results