KB reports continued growth in number of clients, net profit increased by 4.0% year on year

- **Net profit increased by 4.0% year on year to CZK 6.6 billion**
- **Number of KB clients grew by 1.7%, rising by 28,000**
- **Volume of Group's loans to clients expanded by 5.6% to CZK 519.4 billion**
- **Client deposits in KB Group rose by 7.5% year on year to CZK 646.1 billion**
- **Total clients' assets in mutual funds, pension savings and life insurance grew by 14.5%**
- **Consolidated assets increased by 6.2% on a like-for-like basis to CZK 890.6 billion**
- **KB Group's Core Tier 1 capital adequacy ratio stood at a strong 16.5%**

Prague, 5 August 2015 – Announcing its consolidated results as of 30 June 2015, Komerční banka reported strong volume growth for loans, deposits and clients' assets under management. The number of customers has continued to rise.

The net profit attributable to shareholders rose by 4.0% year on year to CZK 6.6 billion. Underpinned by growing business volumes, consolidated revenues increased by 0.7%[1]. Underlying operating expenditures were stable year on year (+0.3%), the reported growth reached 6.8% due to a new obligation to the Bank Resolution Fund. Cost of risk diminished by 84.9%, reflecting the sound quality of the assets portfolio.

"The economic backdrop in the Czech Republic is currently favourable for developing the banking business, and Komerční banka is fully participating in this growth. The improvements in products and banking channels' functionalities have been appreciated by our clients and led to reinforcing KB's market position," remarked Albert Le Dirac'h, Chairman of the Board of Directors and Chief Executive Officer of Komerční banka. *"Growth in KB's portfolio of mortgages and consumer loans outpaced that of the market as a whole for these products. Despite intense competition, KB grew the number of its customers across all client segments."*

Financial indicators also confirmed KB Group's solid financial soundness. The Group's Common Equity Tier 1 capital adequacy ratio stood at a strong 16.5% under Basel III standards, and liquidity measured as the ratio of net loans to deposits stood at an excellent 76.6%.*"I regard the financial results as very good for a period when interest rates reached new all-time lows and when we booked the cost of a new regulatory burden. We nevertheless are aware of additional headwinds from regulation ahead of us,"* Mr Le Dirac'h added.

As of 30 June 2015, KB had 42,834 shareholders, of which 37,666 were private individuals from the Czech Republic.

[1] Adjusted for the accounting impact of deconsolidating the Transformed Fund of KB Penzijní společnost. Reported revenues decreased by 1.0% year-over-year.

Comments on business and financial results

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

BUSINESS PERFORMANCE OF KB GROUP

Market environment

The underlying performance of the Czech economy was strong in the second quarter of 2015, even though the reported quarterly growth will be negatively affected by the changes in excise taxes on tobacco. Household consumption, fixed capital investments, government expenditures and even exports were likely all increasing. Industry continued to be the main contributor to the economic expansion, but the fastest growth was recorded in the construction sector, driven by mounting investments in the country's infrastructure and housing building. The economic recovery was reflected in creation of new jobs, as the unemployment rate decreased to 6.2% in June. Nevertheless, growth in real wages has so far been limited. The improved demand in the economy and tightening labour market represented pro-inflationary factors and the year-over-year CPI rose to 0.8% in June. The Czech National Bank nonetheless reaffirmed its decision to keep monetary policy interest rates unchanged at technical zero and to hold Czech crown's exchange rate close to or weaker than 27 crowns per euro. Interest rates on the Czech market moved in close step with euro rates. Yields on the 10-year Czech government bond touched bottom for the first half in the middle of April, sinking below 0.4%. Subsequent recovery brought the yield back above 1% at the end of the quarter, but the increase in short-term rates was less pronounced and the CZK yield curve as a whole remains at an extremely low level.

The pace of growth in the loan market picked up modestly. In the segment of individual clients, it was driven by a robust rise in loans for housing, boosted by better affordability of homes in the environment of low interest rates even as residential property prices had begun to climb moderately in 2014 after several years of stagnation. On the other hand, the volume of unsecured consumer loans was more or less flat, although new lending increased. Meanwhile, total deposits in the system increased modestly. Growth in deposit balances of households and private businesses was still rapid, but this was largely offset by a reduction of liquidity reserves that public sector entities keep in banks.

Developments in the client portfolio and distribution networks

At the close of June 2015, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,637,000 clients (+1.7% year on year), of which 1,382,000 were individuals. The remaining 256,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 537,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 550,000. ESSOX's services were being used by 253,000 active clients.

Komerční banka's clients had at their disposal 399 banking branches (including one branch for corporate clients in Slovakia), 762 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 1,310,000 by the end of June 2015 and corresponds to 80.0% of all clients. Customers held 1,597,000 active payment cards, of which 199,000 were credit cards. The number of active credit cards issued by ESSOX came to 122,000. Modrá pyramida's customers had at their disposal 215 points of sale and approximately 1,000 advisors. SG Equipment Finance (SGEF) was providing its leasing services via nine branches (two of which are in Slovakia), as well as through KB's network.

Loans to customers

The total **gross volume of loans** provided by KB Group increased by 5.6% year on year to reach CZK 519.4 billion. Mortgages and loans to corporations in the Czech Republic remained the most important drivers of the year-on-year growth of the overall portfolio, joined more recently by consumer loans and lending to small businesses.

Loans to individuals: KB Group's total housing loans comprise mortgages provided by KB and loans from Modrá pyramida. The total volume of housing loans grew by 7.8% year on year, enabling KB Group to expand its share in this market segment. The portfolio of mortgages to individuals rose by 12.4% from the year earlier to CZK 170.0 billion. In the low-rate environment, clients still preferred mortgages over building savings loans, but the decline in the volume of Modrá pyramida's loan portfolio slowed to 9.4%, bringing that portfolio to CZK 37.0 billion. Simplified granting procedures helped to accelerate the Bank's consumer lending. The overall volume of consumer loans provided by Komerční banka and ESSOX was up by 3.6% to CZK 29.8 billion.

The total volume of **loans** provided by KB Group **to businesses** rose by 4.2% to CZK 277.8 billion. Inclusive of factor finance outstanding at Factoring KB, the overall volume of credit granted by KB to medium-sized and large corporate clients in the Czech Republic and Slovakia advanced by 4.0% to CZK 225.2 billion. The underlying growth of lending to corporations was even slightly faster, as KB reclassified in the second quarter an exposure from client loans to 'Amounts due to banks', following a client's merger. KB's lending to small businesses picked up in the second quarter, and in a year-over-year comparison it was higher by 3.4%, at CZK 29.1 billion. Total credit and leasing amounts outstanding at SGEF expanded by 7.5% year over year to CZK 23.4 billion.

Amounts due to customers and assets under management

The overall **volume of deposits** in KB Group rose by 7.5% year on year to CZK 646.1 billion, excluding the impact of a deconsolidation of clients' assets in the Transformed Fund of KB Penzijní společnost as of 1 January 2015 and volatile repo operations with clients[2]. Deposits at KB from individual clients grew by a strong 10.6% year over year to CZK 185.6 billion. The deposit book of Modrá pyramida diminished by 2.8% to CZK 70.1 billion. Total deposits from businesses and other corporations climbed by 8.0% to CZK 384.3 billion.

Client assets managed by KB Penzijní společnost grew by 11.7% to CZK 43.0 billion. Technical reserves in life insurance at Komerční pojišťovna expanded by 6.8% to CZK 43.5 billion. The volumes in mutual funds held by KB clients (and managed by IKS KB and Amundi) grew by 26.7% to CZK 42.9 billion.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement

As of 1 January 2015, the Transformed Fund managed by KB Penzijní společnost, which gathers funds for supplementary pension insurance with government contribution, was deconsolidated from the consolidating group of Komerční banka. The fund is still administrated by KB Penzijní společnost, a fully owned subsidiary of Komerční banka whose own consolidation has not changed and continues to be carried out on a line-by-line basis according to IFRS 10.

The deconsolidation affects year-on-year comparison of net banking income. The comments provided below on an "adjusted" basis exclude the contribution of the Transformed Fund to consolidated revenues in 2014, as well as a corresponding elimination from the income statement

[2] The reported volume of amounts due to customers remained almost flat (−0.2% year over year) at CZK 655.2 billion.

of the line ‘Share of profit of pension scheme beneficiaries’. The adjusted comparison is thus based on the same consolidation scope for both 2014 and 2015. There was no impact from the deconsolidation on reported operating expenses, cost of risk and net profit of KB Group.

Total **net banking income** adjusted for deconsolidation of the Transformed Fund increased by a slight 0.7% to CZK 15,007 million. KB Group was able to maintain stable revenues thanks to higher volumes of client business, mainly in relation to loans, deposits and other assets under management. This was in spite of the overall lower margins. Reported (unadjusted) net banking income was down by 1.0%.

Adjusted **net interest income** moved up by a slight 0.1% to CZK 10,223 million, thanks to dynamic growth in loan and deposit volumes which was offsetting the effect of diminishing yields from reinvesting deposits. Net interest income generated from reinvestment of deposits thus declined, while net interest income from loans picked up almost in line with growth in the lending portfolio. The net interest margin (NIM), computed as the ratio of net interest income to interest-earning assets, reached 2.48% in the first half of 2015. That compares to 2.67% adjusted NIM one year earlier. The unadjusted net interest income declined by 3.7%.

Net income from fees and commissions (adjusted) declined by 2.1% to CZK 3,486 million. The majority of KB’s clients had already switched to new MojeOdměny account bundles providing rewards for their activity, which led to a drop in fee income from deposit products, despite increasing client numbers. Fees from transactions were positively influenced by gains in overall transaction activity, most particularly in the number of payment card transactions. However, KB is including more and more transactions within its account packages, and clients also prefer lower-priced direct banking channels; transaction fee income thus declined slightly year over year. Fees from loans were down, even if lending expanded, as the portfolio comprised an increasing share of loans which are not charged administration fees. Fees from cross-selling were up, boosted by dynamic growth in the volumes of client savings in life insurance policies, pension funds and mutual funds. Solid activity in the areas of private banking, loan syndications and other services for corporations also contributed positively.

Net gains from financial operations grew by 15.8% to CZK 1,247 million. The improved activity in the economy was reflected positively in the number of financing deals and related demand of corporate clients for hedging financial as well as commodity price risks. The Bank successfully concluded several structured transactions during the first half. On the contrary, business with institutional clients suffered from sluggish activity on the bond market. Net gains from FX payments continued to reflect a narrowing of average spreads and cost optimisation by clients on conversions. The impact of the deconsolidation on this revenue line was immaterial.

Reported **operating expenditures** were up by 6.8% to CZK to CZK 6,754 million. The increase was mainly caused by creation of a CZK 409 million provision for the estimated amount of the Group’s 2015 contribution to the Bank Resolution Fund, which will be established in accordance with the EU’s Bank Recovery and Resolution Directive. The growth excluding this factor was a modest 0.3%. Personnel expenses rose by 1.2% to CZK 3,374 million while the average number of employees diminished by 1.4% to 8,422. General administrative expenses excluding the Resolution Fund provision, at CZK 2,093 million, decreased by 0.5% in comparison with the first half of 2014. The Group reinforced its marketing activities and IT support, and the main savings were achieved in the cost areas of real estate and telecommunications. The category ‘Depreciation, impairment and disposal of fixed assets’ declined by 1.0% to CZK 879 million, and this decrease was mainly due to the completed amortisation of certain software applications.

Gross operating income for the first half reached CZK 8,253 million, down by 3.8% on a basis adjusted for deconsolidation of the Transformed Fund. The unadjusted figure was lower by 6.5%.

The **cost of risk** dropped by 84.9% to CZK 118 million, which means 5 basis points in relative terms as measured over the average volume of the lending portfolio. Clients’ repayment discipline was very good both in retail and corporate segments, influenced also by the favourable macroeconomic conditions. The Group was able to release provisions for certain non-standard exposures, thanks to successful recovery and improvement in the financial situations of some clients or due to reduction in these exposures.

Income from shares in associated undertakings, which comprise KB's stake in Komerční pojišťovna, declined by a slight 1.1% to CZK 94 million.

Following deconsolidation of the Transformed Fund, the line 'Share of profit of pension scheme beneficiaries' ceased to be reported in the consolidated income statement. The amount was CZK 248 million a year ago. This change effectively offsets the decrease in net banking income also stemming from the deconsolidation.

Income taxes increased by 5.5% to CZK 1,376 million.

At CZK 6,853 million, KB Group's consolidated net profit for the first half of 2015 was higher by 4.0% in comparison with the same period in the prior year. Of this amount, CZK 214 million was profit attributable to holders of minority stakes in KB's subsidiaries (+4.4% year on year). **Net attributable profit** totalled CZK 6,639 million, which is 4.0% more than in the first half of 2014.

Statement of financial position

The comparison period for the balance sheet under IFRS is the end of the previous year. Therefore, unless otherwise indicated, the following text provides a comparison with the close of 2014.

As a result of the aforementioned deconsolidation of the Transformed Fund, the pro forma consolidated balance sheet as of 31 December 2014 contracts by CZK 41.4 billion. Smaller on the asset side are in particular the items 'Available-for-sale financial assets' (by CZK 35.4 billion), and 'Held-to-maturity investments' (by CZK 7.1 billion). On the other side of the balance sheet, the volume decreases mainly on the lines 'Amounts due to customers' (by CZK 40.2 billion), and 'Shareholders' equity' (by CZK 1.5 billion).

As of 30 June 2015, KB Group's **total assets** had declined by 6.6% for the year to date to CZK 890.6 billion. Adjusted for the deconsolidation, the total assets were smaller by 2.3%.

Amounts due from banks grew by 1.3% to CZK 60.5 billion. The largest component of this item consisted of term placements with other banks.

Financial assets at fair value through profit or loss decreased by 8.9% to CZK 38.2 billion. That portfolio comprises the Group's proprietary trading positions.

Total net loans and advances added 1.5% in comparison with the end of the previous year to reach CZK 502.2 billion. The gross amount of client loans and advances grew by 120% to CZK 519.4 billion. The share of standard loans within that total climbed to 93.2% (CZK 483.9 billion) while the proportion of loans rated watch was 1.7% (CZK 9.1 billion). Loans under special review (substandard, doubtful and loss) comprised 5.1% of the portfolio, with volume of CZK 26.4 billion. The volume of provisions created for loans reached CZK 17.8 billion, which was 5.5% less than at the end of 2014.

The portfolio of financial assets available for sale (AFS) shrank by 43.9% to CZK 43.5 billion. The growth adjusted for the effect of the deconsolidation reached 3.4%. The volume of securities in the held-to-maturity (HTM) portfolio was down by 12.4% to CZK 67.0 billion. The decrease adjusted for the effect of the deconsolidation was 3.5%.

Of the CZK 43.5 billion total volume of debt securities in the AFS portfolio, Czech government bonds comprised CZK 20.3 billion and foreign government bonds CZK 5.9 billion. Of the HTM portfolio's CZK 67.0 billion in debt securities, Czech government bonds constituted CZK 56.8 billion and foreign government bonds CZK 10.2 billion.

The net book value of tangible fixed assets dropped by 2.1% to CZK 7.5 billion, while that of intangible fixed assets diminished by 2.9% to CZK 3.7 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF and ESSOX, remained unchanged at CZK 3.8 billion.

Total liabilities were 6.1% smaller in comparison to the end of 2014 and reached CZK 792.4 billion. Amounts due to customers declined by 6.6% to CZK 655.2 billion, and when adjusted for the effect of the deconsolidation the reduction was by 1.0%. The volume outstanding of issued securities grew by 3.2% to CZK 23.3 billion. The Group's **liquidity** as measured by the ratio of net loans to deposits was 76.6%.

Shareholders' equity dropped for the year to date by 10.3% to CZK 98.2 billion, as the generation of net profit was more than offset by the dividends payment (KB paid out CZK 11.8 billion in May). Revaluation gains on cash flow hedges decreased due to higher market interest rates in comparison with the end of 2014. The revaluation of the AFS portfolio (which represents primarily reinvestment of client deposits) declined as a result of deconsolidating the Transformed Fund, a pick-up in interest rates, and amortisation of the revaluation difference on securities reclassified from the AFS to HTM portfolio in 2014. As of 30 June 2015, 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 65.5 billion as of 30 June 2015. 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 III standards) stood at 16.5%. From 1 January 2015, there has been in accordance with applicable regulations included into the regulatory capital base a contribution from a part of the revaluation reserve recognised within the equity account. This item, which pertains to disposable bonds in the AFS portfolio, amounted to CZK 1.7 billion. It contributed 42 basis points to the capital adequacy ratio.

As measured by the Liquidity Coverage Ratio, the level of KB's liquidity throughout the first half safely met requirements established by the Basel III framework.

KB

Regulatory information

ANNEX: Consolidated results as of 30 June 2015 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	**1H 2014 Reported**	**1H 2014 Pro forma**	**1H 2015**	**Change y-o-y**	**Change y-o-y Like-for-like**
Net interest income	10,614	10,210	10,223	-3.7%	0.1%
Net fees and commissions	3,402	3,561	3,486	2.5%	-2.1%
Net gains from financial operations	1,077	1,076	1,247	15.8%	15.9%
Other income	62	58	51	-17.7%	-12.1%
Net banking income	**15,154**	**14,905**	**15,007**	**-1.0%**	**0.7%**
Personnel expenses	-3,334	-3,334	-3,374	1.2%	1.2%
General administrative expenses	-2,103	-2,103	-2,502	19.0%	19.0%
Depreciation, impairment and disposal of assets	-888	-888	-879	-1.0%	-1.0%
Operating costs	**-6,325**	**-6,325**	**-6,754**	**6.8%**	**6.8%**
Gross operating income	**8,829**	**8,580**	**8,253**	**-6.5%**	**-3.8%**
Cost of risk	-780	-780	-118	-84.9%	-84.9%
Net operating income	**8,048**	**7,800**	**8,135**	**1.1%**	**4.3%**
Profit on subsidiaries and associates	95	95	94	-1.1%	-1.1%
Share in profit of pension scheme beneficiaries	-248	0	0	n.a.	n.a.
Profit before income taxes	**7,895**	**7,895**	**8,229**	**4.2%**	**4.2%**
Income taxes	-1,304	-1,304	-1,376	5.5%	5.5%
Net profit	**6,591**	**6,591**	**6,853**	**4.0%**	**4.0%**
Minority profit/(loss)	205	205	214	4.4%	4.4%
Net profit attributable to the Bank's shareholders	**6,386**	**6,386**	**6,639**	**4.0%**	**4.0%**

Balance Sheet (CZK million, unaudited)	**31 Dec 2014 Reported**	**31 Dec 2014 Pro forma**	**30 Jun 2015**	**Change y-t-d**	**Change y-t-d Like-for-like**
Assets	**953,261**	**911,829**	**890,638**	**-6.6%**	**-2.3%**
Cash and balances with central bank	152,903	152,904	136,098	-11.0%	-11.0%
Amounts due from banks	59,699	59,279	60,461	1.3%	2.0%
Loans and advances to customers (net)	494,706	494,706	502,218	1.5%	1.5%
Securities	195,927	154,583	148,701	-24.1%	-3.8%
Other assets	50,026	50,357	43,160	-13.7%	-14.3%
Liabilities and shareholders' equity	**953,261**	**911,829**	**890,638**	**-6.6%**	**-2.3%**
Amounts due to banks	61,361	61,360	54,014	-12.0%	-12.0%
Amounts due to customers	701,867	661,703	655,222	-6.6%	-1.0%
Securities issued	22,584	22,584	23,296	3.2%	3.2%
Other liabilities	57,956	58,176	59,864	3.3%	2.9%
Shareholders' equity	109,494	108,006	98,242	-10.3%	-9.0%

Regulatory information

Key ratios and indicators	30 Jun 2014	30 Jun 2015	Change year on year
Capital adequacy (CNB)	16.7%	16.5%	▼
Tier 1 ratio (CNB)	16.7%	16.5%	▼
Total risk-weighted assets (CZK billion)	381.7	397.7	4.2%
Risk-weighted assets for credit risk (CZK billion)	318.6	332.3	4.3%
Net interest margin (NII/average interest-bearing assets)	2.7%	2.5%	▼
Loans (net) / deposits ratio	76.4%	76.6%	▲
Cost / income ratio	42.4%	45.0%	▲
Return on average equity (ROAE)	13.5%	13.3%	▼
Adjusted return on average equity (adjusted ROAE)*	16.3%	16.4%	▲
Return on average assets (ROAA)	1.5%	1.5%	▼
Earnings per share (CZK)	338	352	4.0%
Average number of employees during the period	8,545	8,422	-1.4%
Number of branches (KB standalone in the Czech Republic)	399	398	-1
Number of ATMs	734	762	+28
Number of clients (KB standalone)	1,609,000	1,637,000	1.7%

* 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	30 Jun 2015	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 170.0 billion	12.4%
Building savings loans (MPSS) – volume of loans outstanding	CZK 37.0 billion	-9.4%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 29.8 billion	3.6%
Small business loans – volume of loans outstanding	CZK 29.1 billion	3.4%
Total active credit cards – number	199,000	-0.6%
– of which to individuals	157,000	0.0%
Total active debit cards – number	1,398,000	2.1%
Insurance premiums written (KP)	CZK 3.8 billion	-45.4%

Financial calendar for 2015 and 2016:

5 November 2015: Publication of 9M 2015 and 3Q 2015 results

11 February 2016: Publication of full-year 2015 results

4 May 2016: Publication of 3M 2016 results

3 August 2016: Publication of 6M 2016 and 2Q 2016 results

3 November 2016: Publication of 9M 2016 and 3Q 2016 results