



Regulatory information

Number of Komerční banka's clients up by 22,000 due to successful MojeOdměny rewards programme

Net profit at CZK 6.4 billion for first half of 2014

Prague, 1 August 2014 – Komerční banka reported today consolidated net profit attributable to shareholders of CZK 6.4 billion for the first six months of 2014, up 1.2% year on year. The number of the Bank's clients rose by 22,000 to 1,609,000, while the KB Group as a whole was serving 2.5 million clients. The volume of client deposits¹ grew by 8.0% to CZK 638.6 billion, and loans to clients expanded by 3.5% to CZK 491.8 billion.

"I am pleased that clients appreciate our offer of reliable and convenient services designed to serve their needs and best interests over the long term. As measured by the growing number of clients and assets under management, as well as by an increasing volume of retail lending, the half-year results are excellent. Nevertheless, and despite the good state of the domestic economy, the financial environment in the first half of the year was more difficult than we had expected. This was due most of all to a further decline in interest rates and delayed recovery in corporates' demand for loans. All in all, KB Group's position has continued to strengthen, and we stand ready and able to help clients to fulfil their financial goals," said Albert Le Dirac'h, KB's Chairman of the Board of Directors and Chief Executive Officer.

Highlights of the second quarter

- The number of KB's clients has been rising. The Bank was serving 1,609,000 clients in the first half of the year, up by 22,000 year over year. This gain was primarily driven by clients' positive acceptance of the enhanced MojeOdměny (MyRewards) rewards programme.
- KB was successful in the market for lending to individuals. The volume of mortgages to individuals surpassed the level of CZK 150 billion as it rose by 10.1% year on year to CZK 151.2 billion. The volume of consumer financing provided through KB and ESSOX grew by 4.4% to CZK 28.7 billion, thereby outperforming the growth of the market as a whole.
- Clients of KB are benefiting from advantageous funding programmes for various target groups prepared in co-operation with international institutions. Most recently, companies employing young people at the beginnings of their careers may obtain access to lower-cost funding on the back of KB's agreement with the European Investment Bank (EuroPremium Young Programme). This will complement the range of KB's existing such offers directed to innovative companies, municipalities, housing co-operatives, exporters or small and medium enterprises.

KB Group's consolidated revenues diminished by a slight 2.3% to CZK 15.2 billion. Within that category, and despite volume growth in lending and deposits, net interest income increased by just 0.3%. Interest income suffered from the gradual decline in market interest rates. Fees and commissions income dropped by 3.5% as a growing number of clients took advantage of the MojeOdměny loyalty programme. The environment where the CZK exchange rate and short-term interest rates were locked was not favourable for generating gains from financial operations, and these decreased year on year by 18.8%.

KB achieved further savings in operating expenditures, which came down by 1.3% to CZK 6.3 billion. The cost of risk fell by 19.1% to CZK 0.8 billion as favourable conditions in corporate segment allowed for reducing the volume of provisions created.

As of 30 June 2014, the Group's Core Tier 1 capital adequacy ratio according to Basel III

¹ Excluding repo operations with clients



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standards stood at a strong 16.7%, and the ratio of net loans to deposits (excluding client assets in pension funds) was 76.3%.

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 Czech economy in the first half of the year continued its gradual recovery, which began to manifest itself in increased creation of new jobs as well as in higher investments into production capacities. Demand for Czech production grew both domestically and abroad. Inflation remained extremely low and the Czech crown's exchange rate was stable, limited as it was by the central bank's intervention regime. Lending to individuals in the banking system accelerated slightly, but the pace of growth in corporate lending was slower at the end of June compared with the end of 2013. Corporations were financing their increased investments mostly from cash reserves created in prior periods and in some cases on the bond market. Thus, the expected acceleration in lending did not yet occur. Household deposits at banks further strengthened, as did the volumes of savings and investments in mutual and pension funds and life insurance. The growth of deposit volumes in the corporate segment within the banking system was especially seen from financial institutions and the public sector. Meanwhile the volume of deposits from private non-financial corporations remained stable.

Developments in the client portfolio and distribution networks

As of the end of June 2014, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,609,000 clients (+1.4% year on year), of which 1,357,000 were individuals. The remaining 253,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 569,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 559,000. ESSOX's services were being used by 281,000 active clients.

Komerční banka's clients had at their disposal 400 banking branches (including one branch for corporate clients in Slovakia), 734 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 1,223,000 by the end of June 2014 and corresponds to 76.0% of all clients. Customers held 1,570,000 active payment cards, of which 200,000 were credit cards. The number of active credit cards issued by ESSOX came to 132,000, and consumer financing from ESSOX was available through its network of 2,800 merchants. Modrá pyramida's customers had at their disposal 212 points of sale and 1,044 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 3.5% to CZK 491,8 billion. Mortgages added most to the portfolio's growth while consumer lending also grew. Corporate lending activities expanded mainly in Slovakia.²

² There was a slight contribution to the CZK growth rates for loans and deposits (mainly in corporate segments) from revaluation of instruments denominated in foreign currencies. This reflects the weaker CZK following CNB intervention in November 2013.



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In the segment of **loans to individuals**, the portfolio of mortgages to individuals rose by 10.1% year on year to CZK 151.2 billion as clients preferred mortgages over building savings loans in the environment of low interest rates. The volume of Modrá pyramida's loan portfolio thus dropped by 13.0% to CZK 40.8 billion. The Group was successful in developing consumer lending, and the volume provided by KB and ESSOX grew by 4.4% to CZK 28.7 billion.

The total volume of **loans** provided by KB Group to **businesses** rose by 3.1% to CZK 266.5 billion. The overall volume of credit granted by KB to (medium-sized and large) corporate clients rose by 3.3% to CZK 216.5 billion, inclusive of factor finance outstanding at Factoring KB. Within this total, lending in Slovakia grew at the fastest pace. Lending to small businesses declined by 1.3% to CZK 28.2 billion. Total credit and leasing amounts outstanding at SGEF rose by 6.9% year over year to CZK 21.8 billion.

Amounts due to customers and assets under management

The total **volume of deposits**³ on KB Group's balance sheet rose by 8.0% year on year to CZK 638.6 billion. Deposits from businesses climbed by 9.7% to CZK 355.1 billion. This category was influenced by the inflow of large volume placements from public and financial institutions, although there was slowing in this category during the second quarter. Deposits at KB from individual clients rose by 6.6% to CZK 167.8 billion, and the deposit book of Modrá pyramida added 0.9% year on year to reach CZK 72.1 billion. Client assets in the Transformed fund managed by KB Penzijní společnost (which are consolidated in the KB Group accounts) grew by 11.6% to CZK 38.0 billion.

Total technical reserves in life insurance at Komerční pojišťovna expanded by 30.1% to CZK 40.7 billion. The volumes in mutual funds held by KB clients (and managed by IKS KB and Amundi) increased by 14.4% to CZK 34.2 billion.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement

Total **net banking income** decreased in the first half of the year by 2.3% to CZK 15,154 million. Among the main reasons for the decline were very low market interest rates, which even continued to move lower through the year's first half. The trend of decreasing prices for basic banking services continued. Also contributing to lower banking income were the growing use of on-line banking and popularity of client rewards, as well as subdued activity on the financial markets caused by the central bank's anchoring the exchange rate and interest rates. Contributing positively, however, were the increasing volumes of deposits and other assets under management and the growing volume of the lending portfolio especially in the retail segment.

Net interest income was up by 0.3% to CZK 10,614 million and was underpinned by growing volumes of loans and deposits. The low interest rates prevailing on the market continued to push in the negative direction through the first half-year, however, thus limiting yields on reinvested deposits. The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, therefore decreased to 2.6% in the first half of 2014 from 2.9% one year earlier.

Net income from fees and commissions declined by 3.5% to CZK 3,402 million. KB expanded its MojeOdměny client rewards programme, and that effectively drove down fee income from deposit products. The impact on income from transactions was compensated by an increased number of payments. Since the beginning of 2013, the Bank also has been offering consumer

³ Excluding repo operations with clients. Total amounts due from clients expanded by 8.2% year on year to CZK 656.5 billion.



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loans and mortgages without administration fees for those products. On the other hand, KB saw increased activity and thus better fee income from trade finance, loan syndications, and transactions with payment cards. Growth in the volume of client savings in life insurance policies and mutual funds boosted income from cross-selling.

Net gains from financial operations dropped by 18.8% to CZK 1,077 million. Influenced by CNB measures, low volatility of exchange rates and interest rates limited clients' demand for financial hedging and the potential to generate profits from trading. Furthermore, the prior year comparative base had been slightly increased from the sale of Italian government bonds. Net gains from FX payments reflected narrower average spreads.

Total **operating expenditures** declined by 1.3% to CZK 6,325 million. Personnel expenses were higher by a slight 0.6%, at CZK 3,334 million. The average number of employees diminished by 0.9% to 8,545. General administrative expenses declined by 5.6% to CZK 2,103 million. The main savings were achieved in real estate costs and telecommunications. The category "Depreciation, impairment and disposal of fixed assets" was up by 2.5% to CZK 888 million, and this increase was mainly driven by new software applications.

Gross operating income for the first six months declined by 3.0% to CZK 8,829 million.

Cost of risk further declined by 19.1% to CZK 780 million, reaching 32 basis points in relative terms as measured over the average volume of the portfolio. Risk costs remained solid in retail and the environment in corporate segment was favourable.

Income from shares in associated undertakings rose by 28.4% to CZK 95 million thanks to an increase in profit at Komerční pojišťovna which mirrors its business successes. The proportion of profit attributable to clients of the Transformed fund of KB Penzijní společnost came to CZK 248 million, down by 4.2% as low interest rates limited yields from the fund's portfolio.

Income taxes decreased by 10.5% to CZK 1,304 million.

At CZK 6,591 million, KB Group's consolidated net profit for the first half of 2014 was higher by 1.5% in comparison with the same period of 2013. Of this amount, CZK 205 million was profit attributable to holders of minority stakes in KB's subsidiaries (+12.0%). **Profit attributable to the Bank's shareholders** totalled CZK 6,386 million, which is 1.2% more than in the first half of the previous year.

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 2013.

As of 30 June 2014, KB Group's **total assets** had increased by 1.6% for the year to date to CZK 877.6 billion.

Amounts due from banks dropped by 10.3% to CZK 112.8 billion. The largest component of this item consisted of placements with central banks in relation to reverse repo operations.

Financial assets at fair value through profit or loss grew by 5.8% to CZK 39.3 billion. That portfolio comprises the Group's proprietary trading positions.

At CZK 472.9 billion, total net loans and advances remained at a virtually flat level in comparison to the end of 2013. The gross amount of client loans and advances was up by a marginal 0.1%, at CZK 491.8 billion. The share of standard loans within that total climbed to 92.5% (CZK 454.7 billion) while the proportion of loans rated watch was 2.0% (CZK 9.9 billion). Loans under special review (substandard, doubtful and loss) comprised 5.5% of the portfolio, with volume of CZK 27.2 billion. The volume of provisions created for loans reached CZK 19.1 billion, which was 2.9% more than at the end of 2013.



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The portfolio of financial assets available for sale (AFS) shrank by 45.4% to CZK 77.2 billion. Meanwhile, the volume of securities in the held-to-maturity (HTM) portfolio increased by CZK 69.2 billion to CZK 73.4 billion. These effects were mainly due to reclassification from the AFS to HTM portfolio of certain debt securities in the nominal value of CZK 56.6 billion that the Group intends to hold until their maturity. The change was carried out in the first quarter of 2014. The reclassification was intended to limit volatility of regulatory capital in accordance with the Basel III regulatory framework while respecting all the rules of international account standards. The securities were reclassified at fair value. The corresponding AFS revaluation reserve in the shareholders' equity of CZK 5.0 billion has been retained in other comprehensive income and included into the carrying value of securities held to maturity. Such amounts are amortised over the remaining maturities of these securities.

Of the CZK 77.2 billion total volume of debt securities in the AFS portfolio, Czech government bonds comprised CZK 42.1 billion and foreign government bonds CZK 8.6 billion. Of the CZK 73.4 billion total volume of debt securities in the HTM portfolio, Czech government bonds comprised CZK 65.7 billion and foreign government bonds CZK 7.7 billion.

The net book value of tangible fixed assets slipped by 3.0% to CZK 7.6 billion, while that of intangible fixed assets declined by 3.3% to CZK 3.6 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF and ESSOX, remained unchanged at CZK 3.8 billion.

Total liabilities were 1.3% higher in comparison to the end of 2013 and reached CZK 777.3 billion. Amounts due to customers grew by 1.1% to CZK 656.5 billion. The volume outstanding of issued securities decreased by 4.4% to CZK 21.4 billion. The Group's **liquidity**, as measured by the ratio of net loans to deposits, was 76.3% (72.0% if including client assets in the transformed pension fund).

Shareholders' equity rose for the year to date by 3.9% to CZK 100.3 billion. KB paid out CZK 8.7 billion in dividends, which was more than offset by the generation of net profit and increase in revaluation gains on the AFS portfolio and cash flow hedges (both of which represent primarily reinvestment of client deposits) due to a decrease in market yields compared with the end of 2013. As of 30 June 2014, KB held in treasury 238,672 of its own shares, constituting 0.63% of the registered capital.

With effect from 2014, Czech banks are subject to capital requirements according to EU regulations implementing the **Basel III** regulatory framework. Consolidated regulatory capital for the capital adequacy calculation stood at CZK 63.8 billion as of 30 June 2014. This amount includes the current year's profit, which is adjusted with a provision for the dividend. That is in accordance with applicable regulations, and the provision is set at the 69.8% level of the dividend payout ratio from last year's profit. 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 a high 16.7%.

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

Corporate governance

The General Meeting held on 30 April 2014 approved (as presented) the Board of Directors' report on the Bank's business activity and state of its assets for the year 2013. Furthermore, the General Meeting approved the annual financial statements and the consolidated financial statements for 2013 and distribution of net profit of 2013, including a dividend payment of CZK 8.7 billion, which amounted to CZK 230 per share. In connection with the re-codification of company law, the General Meeting approved the contracts of service between Komerční banka and members of the Supervisory Board and the contracts of service between Komerční banka and members of the Audit Committee. Shareholders decided again about the conditions for acquisition into treasury of the Bank's shares.



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ANNEX: Consolidated results as of 30 June 2014 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	1H 2013	1H 2014	Change year on year
Net interest income	10,587	10,614	0.3%
Net fees and commissions	3,526	3,402	-3.5%
Net gains from financial operations	1,326	1,077	-18.8%
Other income	71	62	-12.7%
Net banking income	15,509	15,154	-2.3%
Personnel expenses	-3,315	-3,334	0.6%
General administrative expenses	-2,228	-2,103	-5.6%
Depreciation, impairment and disposal of fixed assets	-866	-888	2.5%
Operating costs	-6,409	-6,325	-1.3%
Gross operating income	9,099	8,829	-3.0%
Cost of risk	-964	-780	-19.1%
Net operating income	8,135	8,048	-1.1%
Profit on subsidiaries and associates	74	95	28.4%
Share in profit of pension scheme beneficiaries	-259	-248	-4.2%
Profit before income taxes	7,950	7,895	-0.7%
Income taxes	-1,457	-1,304	-10.5%
Net profit	6,493	6,591	1.5%
Minority profit/(loss)	183	205	12.0%
Net profit attributable to the Bank's shareholders	6,310	6,386	1.2%

Balance Sheet (CZK million, unaudited)	31 Dec 2013	30 June 2014	Change year to date
Assets	863,980	877,593	1.6%
Cash and balances with central bank	44,405	56,121	26.4%
Amounts due from banks	125,735	112,823	-10.3%
Loans and advances to customers (net)	473,090	472,929	0.0%
Securities	182,533	189,889	4.0%
Other assets	38,218	45,831	19.9%
Liabilities and shareholders' equity	863,980	877,593	1.6%
Amounts due to banks	49,680	43,262	-12.9%
Amounts due to customers	649,158	656,518	1.1%
Securities issued	22,417	21,435	-4.4%
Other liabilities	46,187	56,040	21.3%
Shareholders' equity	96,538	100,338	3.9%



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Key ratios and indicators	30 June 2013	30 June 2014	Change year on year
Capital adequacy (CNB)*	16.2%	16.7%	n.a.
Tier 1 ratio (CNB)*	16.2%	16.7%	n.a.
Total risk-weighted assets (CZK billion)*	365.5	381.7	n.a.
Risk-weighted assets for credit risk (CZK billion)*	308.0	318.6	n.a.
Net interest margin (NII/average interest-bearing assets)	2.9%	2.6%	▼
Loans (net) / deposits ratio	75.4%	72.0%	▼
Loans (net) / deposits ratio excluding client assets in Transformed fund	79.8%	76.3%	▼
Cost / income ratio	41.3%	41.7%	▲
Return on average equity (ROAE)	13.6%	13.4%	▼
Adjusted return on average equity (adjusted ROAE)**	17.0%	16.3%	▼
Return on average assets (ROAA)	1.6%	1.5%	▼
Earnings per share (CZK)	334	338	1.2%
Average number of employees during the period	8,624	8,545	-0.9%
Number of branches (KB standalone in the Czech Republic)	398	399	+1
Number of ATMs	713	734	+21
Number of clients (KB standalone)	1,587,000	1,609,000	1.4%

* According to Basel II methodology in 2013, Basel III since 2014.

** 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 June 2014	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 151.2 billion	10.1%
– number of loans outstanding	129,000	12.0%
Building savings loans (MPSS) – volume of loans outstanding	CZK 40.8 billion	-13.0%
– number of loans outstanding	102,000	-11.6%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 28.7 billion	4.4%
Small business loans – volume of loans outstanding	CZK 28.2 billion	-1.3%
Total active credit cards – number	200,000	-2.1%
– of which to individuals	157,000	-0.7%
Total active debit cards – number	1,369,000	-0.5%
Insurance premiums written (KP)	CZK 7.0 billion	58.2%

Financial calendar for 2014:

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