



# Regulatory information

## Strong contribution to Czech economic growth via increased lending and investments

- The volume of loans to clients expanded by 11.1% to CZK 593.4 billion. KB increased its share in all major market segments. Loans to individuals as well as to businesses rose by 11%.
- KB's mortgage lending surpassed the CZK 200 billion mark, growing by 12.3% to CZK 201.1 billion.
- Client assets in mutual funds, pension savings and life insurance grew by 9.9% to CZK 148.6 billion.
- Deposits from clients within KB Group rose by 7.7% to CZK 708.6 billion.
- Reported net profit climbed to CZK 10.6 billion as a result of extraordinary gains and while recurring gross operating income before cost of risk remained stable. Net profit adjusted for non-recurring items was down due to higher cost of risk vis-à-vis the very low level in the previous year.
- After a period of elevated dividend payout addressing KB's overcapitalisation, the Board of Directors intends to propose a 2016 dividend at the level of 61% of recurring net profit (or 55% of net income including extraordinary gains for the year). The dividend decision is subject to vote of the Shareholders' Meeting.
- The proforma Core Tier 1 capital adequacy ratio assuming the newly approved dividend policy increased to a strong 15.9%.

Prague, 3 November 2016 – Komerční banka today reported consolidated results for the first nine months of 2016. The volume of loans provided by KB Group to clients expanded by 11.1% to CZK 593.4 billion. Of this total, CZK 4.7 billion was from newly added portfolios of PSA Finance Czech Republic and PSA Finance Slovakia, acquired in July. The volume of deposits grew by 7.7% to CZK 708.6 billion, and volume of non-bank assets under management<sup>1</sup> improved by 9.9% to CZK 148.6 billion. The number of clients served by the Bank rose by 8,200 to 1,650,000.

Total revenues were up by 3.7% to 24.0 billion. This figure was influenced by an extraordinary gain from payment received for KB's stake in VISA Europe Ltd. booked in the second quarter. When excluding this item, revenues were down by 0.4%<sup>2</sup>. Operating expenditures<sup>3</sup> grew by a slight 0.7% to CZK 10.5 billion. The cost of risk climbed to CZK 1.2 billion from the very low figure of the previous year's first nine months (CZK 0.4 billion). The Group also booked a one-off gain of CZK 0.7 billion from selling an 80% interest in its subsidiary Cataps, within creation of KB SmartPay alliance for electronic payments with Worldline. The reported net profit attributable to shareholders thus increased by 7.7% to CZK 10.6 billion. Recurring gross operating income (before provisions for risk

<sup>1</sup> Client assets in pension funds, mutual funds, technical reserves in life insurance

<sup>2</sup> On a like-for-like basis adjusted for reclassification of contributions to the Deposit Insurance Fund from 'Net interest income' to 'Operating expenses' and contributions to the Investor Compensation Fund (supported by securities brokers) from 'Net fees and commissions' to 'Operating expenses'

<sup>3</sup> Adjusted for change in methodology between 2015 and 2016 for accounting recognition of contributions to the Deposit Insurance and Resolution funds. The full disclosure is provided on page 5.



# Regulatory information

expenses) adjusted for one-off gains and accounting changes was almost stable (-1.3%) Recurring net profit declined by 8.9%.

*“We have been reinforcing our business position very much in line with the ambitions we set out for this year by growing market share in lending, by introducing innovative and useful financial tools and services, and by focusing on the long-term satisfaction of our clients. Financially, although the bottom line got a boost from non-recurring gains, we continue to feel the pressure of low interest rates and tightening regulation. Meanwhile, increasing productivity and focused efforts to optimise the Group’s structure are additional means for preserving the profitability,”* stated Albert Le Dirac’h, KB’s Chairman of the Board of Directors and Chief Executive Officer.

Komerční banka has maintained strong liquidity. The ratio of net loans to deposits stood at 81.6%.

The Bank had 48,748 shareholders (+5,758 year on year), of which 43,367 were private individuals from the Czech Republic (+5,568 year on year).

Following a period of increased dividend payout to release Komerční banka’s surplus capital, and with a view to the expected result for the full year 2016, which is being lifted by extraordinary gains from KB’s share in VISA Europe Ltd. and of an 80% stake in the subsidiary Cataps, s.r.o., and while considering KB’s capital position in the context of current and upcoming regulatory capital requirements, the outlook for growth in risk-weighted assets, as well as the aim to ensure appropriate remuneration of shareholders for their investments, Komerční banka’s Board of Directors announces its intention to propose to the Supervisory Board a dividend payment for 2016 at the level of 55% of KB Group’s attributable consolidated net profit. This level is consistent with a payout ratio of approximately 61% of recurring net profit after adjusting for the aforementioned extraordinary items. The payout ratio may be changed without notice. Distribution of Komerční banka’s earnings is subject to a vote of KB’s General Meeting, which will take place after audited financial statements for 2016 will be prepared.

## **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 growth of the Czech economy during 2016 has been driven by strong domestic consumption and foreign demand. In particular, household consumption has benefitted from a lower unemployment rate and rising disposable incomes. In contrast, fixed investments and construction have fallen significantly below their levels in the previous year. Public-sector investments diminished due to reduced availability of co-financing from EU sources and a lack of projects ready for implementation. Private-sector investments were more stable, although they were also constrained by shortage of skilled workers and uncertainty about what effects on competitiveness of local production will follow the expected end of the currency interventions weakening the Czech crown.

Overall industrial production is rising at a solid pace despite some volatility in monthly indicators due to shifts in factory holidays. The expansion is driven especially by the automotive sector, which is producing record output this year, and by manufacturing of electronics. The performance across the rest of industry is more subdued, however, influenced by several shutdowns of refineries and power plants, as well as a difficult situation in some sectors, such as coal mining and energy-linked heavy machinery.

Retail sales recorded rapid growth, with even double-digit growth when including sales of new cars. This was influenced by the drop in unemployment to the lowest level since 2009 and a gain in average



# Regulatory information

nominal wages almost 4%. Meanwhile, consumer price inflation came in at 0.5% year over year as of September.

In this environment, the Czech National Bank left its monetary policy unchanged and affirmed that it expected to scrap the currency floor in mid-2017. Market interest rates were distorted by the accommodative monetary policy of central banks and expectations within financial markets that the Czech crown will appreciate after CNB exits the intervention regime. The large cross currency basis spreads between EUR and CZK offered positive yields from Czech bonds for investors operating in euro, even if the nominal yields of Czech government bonds were negative for maturities up to 5 or 6 years. The inflow of new money speculating on future appreciation of the Czech crown accelerated, especially after the summer. At the end of September, the 10-year Czech government bond's yield to maturity was just above 0.2% and the fixed "leg" of interest rate swaps was around 0.5%.

The lending market held to its steady pace of growth at around 6–7% throughout the three quarters. Borrowing by individuals was a tick more dynamic, driven by housing loans, which category comprises mortgages, the recent demand for which has been quite strong, and the rather more subdued lending by building societies. Consumer lending, too, began picking up during the period after a long phase of stagnation. Borrowing by private businesses was a bit slower, reflecting relatively strong cash generation from operations as well as the drop in investment and construction activity in the economy which is linked to year-over-year decrease in drawing of EU funds. The volume of credits outstanding to entities from the public sector declined markedly.

Deposits in the banking sector were growing at around 5%. Individuals and private businesses were increasing their balances even faster, at approximately an 8% rate, and this was partly offset by smaller deposits from public sector entities as they were legally mandated to transfer certain volumes to the central bank.

## Developments in the client portfolio and distribution networks

At the close of September 2016, KB Group was serving 2.4 million clients on a consolidated basis. Standalone KB recorded 1,650,000 clients (+0.5% year on year), of which 1,394,000 were individuals. The remaining 256,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 495,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 536,000. ESSOX's services were being used by 206,000 active clients, and services of PSA Finance in the Czech Republic and Slovakia by more than 16,000 clients.

Komerční banka's clients had at their disposal 396 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 1,374,000 by the end of September 2016 and corresponds to 83.3% of all clients. Customers held 1,608,000 active payment cards, of which 196,000 were credit cards. The number of active credit cards issued by ESSOX came to 114,000. Modrá pyramida's customers had at their disposal 215 points of sale and approximately 1000 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.

## Investments into business development and main innovations in the third quarter

In accordance with the Bank's ambition to advance its multichannel distribution model, KB has increased its investments into business development projects covering such areas as cyber security, multichannel operational customer relationship management, cash handling (with expansion of deposit-taking ATMs), and refurbishment of branches.

The continuous enrichment of the products and services offer included during the third quarter the launch of a new generation of the Mobilní banka mobile banking application. The new application features more tools, more information about the clients' products both within the Bank itself as well as at KB's subsidiaries, and a more intuitive navigation. Furthermore, KB introduced a payment card



# Regulatory information

within a mobile phone – the MojeMobilní karta – for contactless payments using Host Card Emulation technology.

## Loans to customers

KB is contributing strongly to the Czech economy's growth as it increases its lending. The total gross volume of loans provided by KB Group expanded by 11.1% year on year to CZK 593.4 billion. The growth was recorded across all categories. The volume of the portfolios newly acquired from PSA Finance stood at CZK 4.7 billion as of 30 September 2016.

In lending to individuals, the overall volume of housing loans<sup>1</sup> grew by 10.8% year on year. Within this total, the portfolio of mortgages to individuals expanded by 12.3% from the year earlier to CZK 201.1 billion. Modrá pyramida reported growth of its portfolio by 3.7% to CZK 38.1 billion. The volume of KB Group's consumer lending was up by 17.0% to CZK 34.9 billion. Excluding the addition of retail parts of the portfolios of PSA Finance in the Czech Republic and Slovakia, the growth of consumer lending reached 9.2%.

The total volume of **loans** provided by KB Group **to businesses** climbed by 10.9% to CZK 317.6 billion. The overall volume of credit granted by KB to medium-sized and large corporate clients in the Czech Republic and Slovakia (inclusive of factor finance outstanding at Factoring KB and business lending by PSA Finance) advanced by 12.0% to CZK 260.1 billion. Lending to small businesses expanded by 5.9% to CZK 32.4 billion. Total credit and leasing amounts outstanding at SGEF were higher by 6.6% year over year at CZK 25.2 billion.

## Amounts due to customers and assets under management

While excluding volatile repo operations with clients<sup>4</sup>, the overall **volume of deposits** within KB Group rose by 10.5% year on year to CZK 708.6 billion. Deposits at Komerční banka from individual clients grew by 13.8% year on year to CZK 215.8 billion. The deposit book at Modrá pyramida diminished by 7.5% to CZK 64.1 billion. Total deposits from businesses and other corporations climbed by 12.0% to CZK 422.8 billion.

Client assets managed by KB Penzijní společnost were higher by 10.1%, at CZK 48.4 billion. Technical reserves in life insurance at Komerční pojišťovna expanded by 4.9% to CZK 46.2 billion. The volumes in mutual funds held by KB Group clients grew by 14.5% to CZK 53.9 billion.

## FINANCIAL PERFORMANCE OF KB GROUP

### Income statement

As from 1 January 2016, Komerční banka reclassified certain items in the income statement and statement of financial position in accordance with IFRS to better reflect the substance of those items and recommendations of the European Banking Authority.

Specifically, the contribution to the Deposit Insurance Fund has been reclassified from 'Net interest income' to 'General administrative expenses' and the contribution to the Investor Compensation Fund (supported by securities brokers) has been reclassified from 'Net fees and commissions' to 'General administrative expenses'. In addition, the balances of depository bills of exchange have been reclassified from 'Amounts due to customers' to 'Securities issued'.

The comments provided above and below are on a like-for-like basis. Results as of 30 September 2016 and the comparable period (nine months of 2015) are presented in accordance with the reporting methodology applied from 2016.

<sup>4</sup> The total volume of 'Amounts due to customers' was up by 7.7% to CZK 708.6 billion.



## Regulatory information

Komerční banka's reported revenues (**net banking income**) for the first nine months of 2016 were up by 3.7% to CZK 23,981 million. This growth was markedly influenced by a gain booked in the second quarter from payment received for KB's share in VISA Europe Ltd. The net banking income excluding this one-off gain reached CZK 23,022 million, down 0.4% year over year.

**Net interest income** was down by 1.5% to CZK 15,769 million. The growth in the volumes of loans and deposits influenced the result positively. There was also a small contribution from the PSA Finance businesses, consolidated since 1 July 2016. However, the market interest rates were much lower this year than in last year's first three quarters. That pressed down yields from reinvestment of deposits. Interest spreads on lending products decreased slightly due to competitive pressure, and this effect was more pronounced in consumer lending. The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, narrowed to 2.5% in the nine months of 2016 from 2.6% one year earlier.

**Net fees and commissions** were down by 2.3% to CZK 5,084 million. Fees from transactions improved, driven by increase in electronic, card, as well as foreign traffic. Fee income from deposit products was smaller as KB paid out more rewards within the MojeOdměny (MyRewards) loyalty programme. Fees for loan services were down as a result of previously cancelling retail loan administration fees and lower fees for mortgages. Fees from cross-selling rose while the volume of assets under management continued to grow. Fees from specialised financial services declined slightly, affected by diminished demand for bank guarantees due to weaker construction activity and smaller numbers of public tenders and reduced use of trade finance instruments linked to a drop in corporate clients' trading with some countries. On the other hand, fees from some services grouped in this category, such as custody, depository and syndication, were growing.

**Net gains from financial operations** improved by 11.8% even excluding the contribution from the VISA Europe transaction. The result was underpinned by strong demand from corporate clients for hedging of currency and interest rate risks. The hedging opportunities were becoming gradually more limited on the EUR/CZK currency pair, however, as the overwhelming majority of market participants expected appreciation of the Czech crown once the CNB exits from the intervention regime. Deals for hedging interest rate risks were often linked to the financing that was provided. The fees and commissions from FX transactions were boosted by increasing foreign transactions turnover. In the second quarter, KB recognised in the income statement the CZK 959 million value (before taxation) of consideration it obtained for its stake in VISA Europe, coming in the forms of cash, deferred cash and securities. Including this one-off gain, reported net profit from financial operations for nine months of 2016 climbed by 64.1% to CZK 3,012 million.

**Operating expenditures**, adjusted for the effects of different accrual methodologies in 2016 and 2015 for costs of the Deposit Insurance and Resolution funds, were almost stable at CZK 10,516 million (+0.7%). Within this total, personnel expenses were higher by 2.9%, at CZK 5,239 million. The average number of employees rose by 0.7% to 8,473, partly due to the acquisitions. General administrative expenses (excluding the regulatory funds) were down by 1.5% to CZK 3,063 million. Savings were achieved across all main areas except for marketing. The cost of contributions to the Deposit Insurance Fund and Resolution Fund totalled CZK 867 million, which in accordance with the IFRIC 21 guideline is the total charge to these funds for the year 2016. The total charge for 2015 amounted to CZK 901 million. As of 30 September 2015, however, KB had had in its accounts the provision created in this line in the second quarter for the estimated amount of the Group's 2015 contribution to the new Bank Resolution Fund, which was subsequently released in the fourth quarter because the respective law came into force only from 1 January 2016. The charge as of 30 September 2015 had been thus reported at CZK 1,091 million. The category 'Depreciation, impairment and disposal of fixed assets' was stable at 1,338 million (+0.2%). The operating expenditures declined by 1.1% in comparison with the amount which had been reported for the first nine months of 2015 including the subsequently released provision for the Resolution Fund.

Reported **gross operating income** for the first nine months of 2016 was higher by 7.8%, at CZK



## Regulatory information

13,465 million. If the gain from the VISA Europe transaction were excluded and adjusted for differences in accounting treatment of costs of regulatory funds, the gross operating income would have declined by 1.3%.

The **cost of risk** increased to CZK 1,225 million from the very low result as of 30 September 2015 (CZK 442 million). This translates into 30 basis points in relative terms<sup>II</sup> as measured over the average volume of the lending portfolio. Provisioning in retail segments remained marginal, reflecting the very good repayment discipline of clients and successful recovery performance. The cost of risk in corporate segments was influenced by creation of provisions on a few isolated cases.

Income from shares in associated undertakings (essentially Komerční pojišťovna) was up by 8.8% to CZK 136 million. Profit attributable to exclusion of companies from consolidation (related to the sale of 80% in Cataps) reached CZK 728 million.

Income taxes increased by 9.5% to CZK 2,170 million.

At CZK 10,935 million, KB Group's consolidated net profit for the first three quarters of 2016 was higher by 7.3% in comparison with the same period in the prior year. Of this amount, CZK 294 million was profit attributable to holders of minority stakes in KB's subsidiaries (-4.5% versus the year earlier).

**Profit attributable to the Bank's shareholders** totalled CZK 10,641 million, which is 7.7% more than in the nine months of 2015.

**The attributable net profit on a fully comparable basis** (i.e. not including the net gain from the VISA Europe transaction, gain from KB's sale of 80% participation in Cataps, and adjusted for differences in accounting treatment of costs of regulatory funds) declined by 8.9% year on year.

### Statement of financial position

The comparison period for the balance sheet under IFRS is the end of the previous year. Therefore, unless indicated otherwise, the following text provides a comparison with the close of 2015.

As of 1 January 2016, Komerční banka reclassified depository bills of exchange from 'Amounts due to customers' to 'Securities issued'. The figures have been reclassified retrospectively. As a result of the reclassification, the item 'Amounts due to customers' as of 31 December 2015 contracts by CZK 10.1 billion and the item 'Securities issued' expands by the same amount.

As of 30 September 2016, KB Group's **total assets** had grown by 8.0% for the year to date to CZK 962.8 billion. Excluding the amount for PSA Finance CZ and SK, the Group's total assets would have grown by 7.4% to CZK 957.9 billion.

Cash and current balances with central banks grew by 14.7% to CZK 147.2 billion. The main component of this item comprises the volume of obligatory minimum reserves at central banks.

Amounts due from banks went up by 9.2% to CZK 52.2 billion.

Financial assets measured at fair value through profit or loss increased by 12.5% to CZK 32.8 billion.

Total net loans and advances picked up by 8.6% in comparison with the end of the previous year to reach CZK 578.3 billion (or by + 7.7% to CZK 573.6 billion excluding PSA Finance CZ and SK). The gross amount of client loans and advances<sup>III</sup> rose by 8.2% to CZK 593.4 billion (+7.4% to CZK 588.6 billion excluding PSA Finance CZ and SK). The share of standard loans within that total climbed to 94.9% (CZK 563.2 billion) while the proportion of loans rated watch was 1.2% (CZK 7.1 billion). Loans under special review (substandard, doubtful and loss) comprised 3.9% of the portfolio, with volume of CZK 23.0 billion. The volume of provisions created for loans reached CZK 15.6 billion. That was 1.5% less than at the close of 2015.

The portfolio of securities available for sale (AFS) shrank by 4.4% to CZK 40.0 billion. Within this



## Regulatory information

portfolio, debt securities comprised CZK 39.8 billion. These included CZK 20.3 billion in Czech government bonds and foreign government bonds of CZK 8.2 billion. The volume of securities in the held-to-maturity (HTM) portfolio diminished by 4.3% to CZK 64.2 billion. Within this portfolio, Czech government bonds constituted CZK 53.5 billion and foreign government bonds CZK 10.8 billion.

The net book value of tangible fixed assets dropped by 5.7% to CZK 6.5 billion and that of intangible fixed assets declined by 4.7% to reach 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 9.1% higher in comparison to the close of 2015 and reached CZK 856.5 billion. Amounts due to customers rose by 8.0% to CZK 708.6 billion. Because of the decrease in depository bills of exchange, the volume outstanding of issued securities fell by 29.7% to CZK 15.0 billion. The Group's **liquidity** as measured by the ratio of net loans to deposits was 81.6%.

**Shareholders' equity** increased year to date by a slight 0.1% to CZK 106.3 billion, as the comprehensive income of the period broadly matched the volume of dividends paid (KB paid out CZK 11.7 billion in May). Revaluation gains on cash flow hedges were higher due to lower long-term interest rates in comparison with the end of 2015. The revaluation of the AFS portfolio (which represents primarily reinvestment of client deposits) declined as a result of recognising the payment received for KB's stake in VISA Europe Ltd. within 'Net gains from financial operations' and amortisation of the revaluation differences on securities reclassified from the AFS to HTM portfolio in 2014. As of 30 September 2016, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

**Consolidated regulatory capital** for the capital adequacy calculation stood at CZK 66.5 billion. As of 30 September 2016, in accordance with the applicable technical standard of the European Banking Authority<sup>5</sup>, KB has deducted the share of profit equal to last year's dividend pay-out (92.4%) also from current year's interim profit as a so called "foreseeable dividend" adjustment.

Once KB's Board of Directors has formally taken a decision regarding the amount of dividends to be distributed (at 55% of reported consolidated attributable net profit for the year 2016), this amount shall be deducted from the corresponding interim or year-end profits. Assuming that the above announced decision on dividend policy was taken on or before 30 September, the **consolidated regulatory capital** would amount to CZK 70.5 billion and the corresponding **total capital adequacy (as well as the Core Tier 1 capital ratio** under Basel III standards) would reach 15.9%. The capital adequacy as at 30 September based on historical pay-out deduction stood at 15.0%. The regulatory capital base includes a contribution from a part of the revaluation reserve related to the AFS securities portfolio recognised within the equity account.

As measured by the Liquidity Coverage Ratio, KB's liquidity throughout the first three quarters of 2016 safely met requirements established by the applicable regulations.

### Changes in the Group structure

ESSOX s.r.o., a 50.93%-owned subsidiary of Komerční banka, concluded on 1 July a transaction acquiring 100% ownership in PSA FINANCE ČESKÁ REPUBLIKA s.r.o. ("PSA Finance CZ"). On 14 July, it likewise acquired 100% in PSA FINANCE SLOVAKIA, s.r.o. ("PSA Finance SK"). The sellers in both cases were members of Banque PSA Finance, based in Paris. Both acquired companies provide financing to customers and dealers of Peugeot, Citroën and DS cars in the Czech Republic and Slovakia. PSA Finance CZ and PSA Finance SK have been consolidated in Komerční banka Group accounts from July 2016.

<sup>5</sup> COMMISSION DELEGATED REGULATION (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions



## Regulatory information

On 30 September 2016, Komerční banka concluded the sale of 80% stake in its subsidiary Cataps, s.r.o. (“Cataps”) to Worldline SA/NV. Before the sale, Cataps had assumed Komerční banka’s activities in credit and debit card payment processing services (merchant acquiring). These activities represented approximately 1% of KB’s consolidated revenues. The price of the transaction was set at CZK 727 million.



# Regulatory information

**ANNEX:** Consolidated results as of 30 September 2016 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	Reported			On a comparable basis		
	9M 2015	9M 2016	Change y-o-y	9M 2015	9M 2016	Change y-o-y
Net interest income	16,003	15,769	-1.5%	16,003	15,769	-1.5%
Net fees and commissions	5,204	5,084	-2.3%	5,204	5,084	-2.3%
Net gains from financial operations	1,836	3,012	64.1%	1,836	2,053	11.8%
Other income	75	116	54.7%	75	116	54.7%
<b>Net banking income</b>	<b>23,118</b>	<b>23,981</b>	<b>3.7%</b>	<b>23,118</b>	<b>23,022</b>	<b>-0.4%</b>
Personnel expenses	-5,093	-5,239	2.9%	-5,093	-5,239	2.9%
General administrative expenses (excl. Resolution and similar funds)	-3,109	-3,063	-1.5%	-3,109	-3,063	-1.5%
Resolution and similar funds	-1,091	-877	-19.6%	-910	-877	-3.6%
Depreciation, impairment and disposal of assets	-1,335	-1,338	0.2%	-1,335	-1,338	0.2%
<b>Operating costs</b>	<b>-10,629</b>	<b>-10,516</b>	<b>-1.1%</b>	<b>-10,447</b>	<b>-10,516</b>	<b>0.7%</b>
<b>Gross operating income</b>	<b>12,489</b>	<b>13,465</b>	<b>7.8%</b>	<b>12,671</b>	<b>12,506</b>	<b>-1.3%</b>
Cost of risk	-442	-1,225	>100%	-442	-1,225	>100%
<b>Net operating income</b>	<b>12,047</b>	<b>12,240</b>	<b>1.6%</b>	<b>12,229</b>	<b>11,281</b>	<b>-7.8%</b>
Profit on subsidiaries and associates	125	864	>100%	125	136	8.8%
<b>Profit before income taxes</b>	<b>12,172</b>	<b>13,105</b>	<b>7.7%</b>	<b>12,354</b>	<b>11,417</b>	<b>-7.6%</b>
Income taxes	-1,981	-2,170	9.5%	-2,015	-1,988	-1.4%
<b>Net profit</b>	<b>10,192</b>	<b>10,935</b>	<b>7.3%</b>	<b>10,339</b>	<b>9,429</b>	<b>-8.8%</b>
Minority profit/(loss)	308	294	-4.5%	308	294	-4.5%
<b>Net profit attributable to the Bank's shareholders</b>	<b>9,884</b>	<b>10,641</b>	<b>7.7%</b>	<b>10,031</b>	<b>9,135</b>	<b>-8.9%</b>

## Note for reported figures:

9M 2015: On the same consolidation basis. Since 1 January 2016, Deposit Insurance Fund charge and contribution to Investor Compensation Fund (of Securities Brokers) have been reclassified from NII and NFC, respectively, to GAE.

## Note for comparable basis:

9M 2015: Resolution and similar funds (Resolution and Deposit Insurance Funds) at the final amount for FY 2015.

9M 2016: Adjusted for sale of Cataps (CZK 728 mil.) and reimbursement for KB's stake in VISA Europe Ltd. (CZK 959 mil. in NPFO and CZK -182 mil. taxes)

<b>Statement of financial position</b> (CZK million, unaudited)	<b>31 Dec 2015*</b>	<b>30 Sep 2016</b>	<b>Change year on year</b>
<b>Assets</b>	<b>891,555</b>	<b>962,791</b>	<b>8.0%</b>
Cash and balances with central banks	128,336	147,234	14.7%
Amounts due from banks	47,799	52,173	9.2%
Loans and advances to customers (net)	532,617	578,272	8.6%
Securities	138,144	137,080	-0.8%
Other assets	44,658	48,031	7.6%
<b>Liabilities and shareholders' equity</b>	<b>891,555</b>	<b>962,791</b>	<b>8.0%</b>
Amounts due to banks	56,230	71,450	27.1%
Amounts due to customers	656,286	708,592	8.0%
Securities issued	21,403	15,044	-29.7%
Other liabilities	51,408	61,407	19.5%
Shareholders' equity	106,229	106,298	0.1%
<i>Of which:</i>			
<i>Cash flow hedging</i>	12,653	15,144	19.7%
<i>Available-for-sale portfolio revaluation reserve</i>	4,960	3,597	-27.5%
<i>Minority equity</i>	3,816	3,739	-2.0%

\* Note: Adjusted for reclassification of Depository bills of exchange from 'Amounts due to customers' to 'Securities issued'.

<b>Key ratios and indicators</b>	<b>30 Sep 2015</b>	<b>30 Sep 2016</b>	<b>Change year on year</b>
Capital adequacy (CNB)	16.4%	15.0%	▼
Capital adequacy (pro forma assuming 2016 dividend policy) <sup>IV</sup>	n.a.	15.9%	
Tier 1 ratio (CNB)	16.4%	15.0%	▼
Total risk-weighted assets (CZK billion)	403.2	443.0	▲
Risk-weighted assets for credit risk (CZK billion)	337.4	377.9	▲
Net interest margin (NII/average interest-bearing assets) <sup>V</sup>	2.6%	2.5%	▼
Loans (net) / deposits ratio <sup>VI</sup>	78.7%	81.6%	▲
Cost / income ratio <sup>VII</sup>	46.0%	43.9%	▼
Return on average equity (ROAE) <sup>VIII</sup>	12.8%	13.8%	▲
Adjusted return on average equity (adjusted ROAE) <sup>IX</sup>	15.9%	16.8%	▲
Return on average regulatory capital <sup>X</sup>	20.4%	21.3%	▲
Return on average assets (ROAA) <sup>XI</sup>	1.4%	1.5%	▲
Earnings per share (CZK) <sup>XII</sup>	70	75	7.7%
Average number of employees during the period	8,416	8,473	0.7%
Number of branches (KB standalone in the Czech Republic)	396	395	-1
Number of ATMs	766	762	-4
Number of clients (KB standalone)	1,642,000	1,650,000	0.5%



## Regulatory information

Business performance in retail segment – overview	30 Sep 2016	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 201.1 billion	12.3%
Building savings loans (MPSS) – volume of loans outstanding	CZK 38.1 billion	+3.7%
Consumer loans (KB + ESSOX+PSA Finance) – volume of loans outstanding	CZK 34.9 billion	17.0%
Small business loans – volume of loans outstanding	CZK 32.4 billion	5.9%
Total active credit cards – number	196,000	-3.3%
– of which to individuals	155,000	-3.4%
Total active debit cards – number	1,412,000	-0.5%
Insurance premiums written (KP)	CZK 4.8 billion	-9.5%

### **Financial calendar for 2017:**

- 9 February 2017: Publication of full-year 2016 results
- 4 May 2017: Publication of 3M 2017 results
- 2 August 2017: Publication of 6M 2017 and 2Q 2017 results
- 3 November 2017: Publication of 9M 2017 and 3Q 2017 results
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# Regulatory information

## 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 term:** annualised 'Allowances for loan losses' divided by the average of 'Gross amount of client loans and advances', year to date;
- III **Gross amount of client loans and advances:** 'Gross amount of client loans and advances' minus 'Other amounts due from customers';
- IV **Capital adequacy (pro forma):** Ratio assuming "expected dividend" deduction ('unusable profit') from regulatory capital in accordance with the dividend policy approved by the Board of Directors and announced in this regulatory information;
- V **Net interest margin (NIM):** 'Net interest income' minus 'Dividend income' divided by average interest-earning assets (IEA) year to date (IEA comprise 'Amounts due from banks', 'Current balances with central banks', 'Net loans and advances to customers', 'Financial assets at fair value through profit or loss' (debt securities only), 'Financial assets available for sale' [debt securities only], 'Investments held to maturity' [debt securities only]). Data for 2015 are reported in accordance with the 2016 reporting methodology (i.e. cost of Deposit Insurance Fund is not included in the category 'Net interest income');
- VI **Net loans to deposits:** 'Net loans and advances to customers' divided by total 'Amounts due to customers'. Data for 2015 are reported in accordance with the 2016 reporting methodology (i.e. depository bills of exchange are not included in the category 'Amounts due to customers');
- VII **Cost to income ratio:** 'Operating costs' divided by 'Net banking income'. Data for 2015 are reported in accordance with the 2016 reporting methodology (i.e. the cost of Deposit Insurance Fund and of Investor Compensation Fund are included in 'General administrative expenses');
- VIII **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;
- IX **Adjusted return on average equity (adjusted ROAE):** annualised 'Net profit attributable to equity holders' divided by the quantity average group 'Shareholders' equity' minus 'Minority equity' minus 'Cash flow hedging' minus 'Available-for-sale portfolio revaluation reserve', year to date;
- X **Return on average regulatory capital:** annualised 'Net profit attributable to equity holders' divided by the quantity average group 'Regulatory capital', year to date;
- XI **Return on average assets (ROAA):** annualised 'Net profit attributable to equity holders' divided by average 'Total assets', year to date;
- XII **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. The value of Earnings per share for 9M 2015 was adjusted for the effect of a 1-to-5 split of KB's shares implemented on 25 April 2016. The previously reported value of Earnings per share (before the split) for the first nine months of 2015 was CZK 349.



## Regulatory information

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

	9M 2015 Proforma	9M 2016
<i>(Source: Profit and Loss Statement)</i>		
<b>Net interest income (excl. Income from dividends)</b>	<b>16,001</b>	<b>15,767</b>
<i>(Source: Balance Sheet)</i>	<b>30 Sep 2015 Proforma</b>	<b>30 Sep 2016</b>
Amounts due from banks + Amounts due from central banks	193,202	191,799
Loans and advances to customers, net	517,666	578,272
Financial assets at fair value through profit or loss (debt securities only)	12,326	10,563
Financial assets available for sale (debt securities only)	44,260	39,840
Investments held to maturity (debt securities only)	66,420	64,219
<b>Interest-bearing assets</b>	<b>833,874</b>	<b>884,693</b>
<b>Average interest-bearing assets, year to date</b>	<b>831,924</b>	<b>849,116</b>
<b>NIM year to date, annualised</b>	<b>2.6 %</b>	<b>2.5 %</b>