Despite a challenging global environment, Komerční banka maintained its result in 2014

Prague, 12 February 2015 – Komerční banka reported today consolidated, unaudited results for the year 2014. The volume of loans to clients for the first time exceeded one-half trillion crowns, expanding by 4% to CZK 513.4 billion. KB Group continued to grow its client assets under management, as the volume of client deposits[1] increased by 8% to CZK 676.1 billion, investments in mutual funds by 21%, pension savings by 13%, and life insurance technical reserves by 23%. The net profit attributable to shareholders came to CZK 13.0 billion, representing a gain of 4% year on year.

In view of the result achieved in 2014 and while considering KB's capital-generating capacity and the needs for financing growth of risk-weighted assets, as well as the Czech National Bank's increased capital requirements, Komerční banka's Board of Directors has decided to propose to the Supervisory Board a dividend payment of CZK 11,783 million. That would come to CZK 310 per share and put the payout ratio at 91% of KB Group's attributable net profit. The corresponding gross dividend yield based on 2014's closing share price is 6.5%.

Albert Le Dirac'h, Chairman of the Board of Directors and Chief Executive Officer of Komerční banka, commented on the results: *"We achieved an excellent commercial performance in 2014, and these confirm our ability to provide our clients with advantageous, modern and value-added financial services. This business success helped us to protect our profitability in the challenging context of extremely low interest rates, cautious demand for loans and mounting regulatory burdens. For diverse reasons, including the new higher regulatory requirements and margin erosion, structural profitability of the banking sector has been in fact decreasing through the past five years. Even a huge increase in the balance sheet was not sufficient to maintain the level of the gross banking income.*

As 2015 begins, the Czech economy is fortunately on a positive track, and this will support us in achieving the business targets set for this year. At the same time, we also see that interest rates have sunk to levels previously almost unthinkable, and we are mindful of pending regulatory initiatives which will make the banking business still more costly. We will continue to bring mutually beneficial solutions into long-term partnerships with our clients, and we are building upon our strengths to further reinforce our market position. Our multi-channel set-up and dedicated professional teams enable Komerční banka to develop very good relationships with the clients and provide them with quality advisory to meet their financial needs."

Highlights of the fourth quarter

- Lending grew at a solid pace. KB expanded its market share in mortgages and consumer lending, and, driven by several large transactions, accelerated growth of its lending to businesses.
- KB launched several important innovations. A new eTrading application supports corporate clients in executing foreign currency conversions, transacting with deposits, and hedging currency risks. The security of payments on the internet was significantly enhanced with introduction of 3D Secure technology.
- Growth in the number of private clients continued, mainly boosted by clients' positive acceptance of MojeOdměny rewards programme, and so did the value of their financial wealth entrusted to KB Group. Deposits from individuals expanded by 10%, pension savings by 13%,

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[1] Excluding repo operations with clients.

investments in mutual funds by 21%, and technical reserves in life insurance by 23%.

KB Group's consolidated revenues diminished by a slight 0.7% to CZK 30.7 billion. Within this, net interest income rose by 1.0% due to the growth in deposits and loans. That was despite continuing decline in market interest rates. Fees and commissions income dropped by 4.6% to CZK 6.8 billion due to favourable pricing for clients – and particularly for those who were most active. Gains from financial operations decreased by 4.2% year over year. That is a relatively good result in the monetary policy context that has limited foreign exchange and interest rate volatility.

Komerční banka found additional savings in operating expenditures, which came down by 0.9% to CZK 13.0 billion. Thanks to the good quality of the loan portfolio in both the retail and corporate segments, the cost of risk fell by 25.5% to CZK 1.3 billion.

As of 31 December 2014, KB Group reported total capital adequacy of 16.4%. Because KB's capital consists solely of the highest-quality Core Tier 1 capital, the Core Tier 1 capital adequacy ratio stood at the same level. The ratio of net loans to deposits (excluding client assets in pension funds) was 74.7%.

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

Driven by improving household consumption, higher fixed capital investments and rising government expenditures, the Czech economy recorded a solid recovery during 2014. While on the negative side exports to Russia declined considerably, the Czech industrial sector nevertheless coped well with the drop in the Russian market, and that country's share in total Czech exports diminished to a low 2.8% in November. The growth of the economy is expected to continue in 2015, mainly upon solid domestic demand, as the economy will be supported by expansionary monetary and fiscal policy and the fall in oil prices. Despite healthy demand, inflation trended lower. It was driven down by decreasing import prices for the likes of food and oil. The Czech crown's exchange rate against the euro remained relatively stable throughout the year, and the central bank was not expected to tighten its monetary policy in the near term. In such conditions, interbank interest rates as well as yields from Czech government bonds developed in tight correlation with euro rates and those for German bunds. In particular, the benchmark 10-year Czech government bond yield dropped below 0.5% at the end of 2014 from around 2.5% just one year earlier.

The pace of growth in the lending market remained steady over the year. At the close of 2014, the total loan volume was larger by just shy of 5% in comparison with December 2013. The growth in lending to individuals continued to be driven by loans for housing, as the market volume of consumer loans even declined slightly. In year over year comparison, the reported 2014 growth in lending was faster than that of total deposits. When adjusted for decreasing deposits from the central government and non-bank financial institutions, however, deposits from both businesses and individuals were rising faster than were their borrowings, in spite of accelerated business lending growth in the last quarter.

Developments in the client portfolio and distribution networks

At the close of December 2014, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,626,000 clients (+2.3% year on year), of which 1,371,000 were individuals. The remaining 255,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 554,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 555,000. ESSOX's services were being used by 274,000 active clients.

Komerční banka's clients had at their disposal 399 banking branches (including one branch for corporate clients in Slovakia), 754 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 1,269,000 by the end of December 2014 and corresponds to 78.1% of all clients. Customers held 1,532,000 active payment cards, of which 191,000 were credit cards. The number of active credit cards issued by ESSOX came to 127,000. Modrá pyramida's customers had at their disposal 215 points of sale and 1,059 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 by 4.5% year on year to CZK 513.4 billion. Mortgages and lending to corporations in the Czech Republic added most to the portfolio's growth.

Loans to individuals: The total volume of housing loans grew by 4.4% year on year. In the environment of low interest rates, clients preferred mortgages over building savings loans. Thus, the portfolio of mortgages to individuals rose by 9.3% year on year to CZK 159.8 billion. On the other hand, the volume of Modrá pyramida's loan portfolio dropped by 12.1% to CZK 38.3 billion. The volume of consumer lending provided by KB and ESSOX was up by 1.7% to CZK 29.0 billion.

The total volume of **loans** provided by KB Group **to businesses** climbed by 5.0% to CZK 281.8 billion. The overall volume of credit granted by KB to medium-sized and large corporate clients in the Czech Republic and Slovakia advanced by 5.7% to CZK 230.9 billion, inclusive of factor finance outstanding at Factoring KB. Lending to small businesses declined by 1.2% to CZK 28.0 billion. Total credit and leasing amounts outstanding at SGEF were higher by 6.0% year over year at CZK 22.9 billion.

Amounts due to customers and assets under management

The overall **volume of deposits**[2] on KB Group's balance sheet expanded by 8.2% year on year to CZK 676.1 billion. Deposits at KB from individual clients rose by 10.3% to CZK 178.4 billion, and the deposit book of Modrá pyramida added 0.2% year on year to reach CZK 72.4 billion. Client assets managed by KB Penzijní společnost grew by 12.7% to CZK 40.6 billion, of which those in the Transformed Fund (which were consolidated into the KB Group accounts) rose by 10.8% to CZK 39.6 billion. Deposits from businesses climbed by 8.6% to CZK 379.1 billion. Increase was recorded across all sectors and size categories of corporations.

Total technical reserves in life insurance at Komerční pojišťovna expanded by 22.6% to CZK 42.6 billion. The volumes in mutual funds held by KB clients (and managed by IKS KB and Amundi) grew by 21.2% to CZK 37.7 billion.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement

Compared year to year, total **net banking income** remained almost stable in 2014. It declined by 0.7% to CZK 30,677 million. Net interest income moved up slightly, as the Group was able to offset the negative impact from low market interest rates by implementing a long-term hedging policy and growing loan and deposit volumes. On the other hand, the main negative contribution came from net fees and commissions, as clients increasingly were using lower-priced, mainly on-line, banking tools and taking advantage of the KB MojeOdměny (MyRewards) programme. Gains from financial operations declined as well, because activity in hedging and trading on financial markets was limited by the central bank's anchoring the exchange rate and interest rates.

Net interest income edged up by just 1.0% to CZK 21,423 million, despite the strong growth in loan and deposit volumes. This mainly reflects diminishing yields from reinvesting deposits, as market interest rates were sliding throughout the year. KB's long-term interest rate hedging policy helped significantly to mitigate the negative short-term impact of this trend. The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, decreased to 2.6% in 2014 from 2.8% one year earlier.

Net income from fees and commissions dropped by 4.6% to CZK 6,752 million. KB expanded its MojeOdměny client rewards programme, and that effectively drove down fee income from deposit products and transactions. The overall number of transactions was meanwhile on the rise, especially due to the use of payment cards and on-line banking. Since the beginning of 2013, the Bank also has been offering consumer loans and mortgages without administration fees. The effect of that change persisted into 2014 as maturing loans were replaced. On the plus side, growth in

[2] Excluding repo operations with clients. Total amounts due from clients expanded by 8.1% year on year to CZK 701.9 billion.

the volumes of client savings in life insurance policies and mutual funds boosted income from cross-selling and KB saw increased activity (and thus better fee income) from loan syndications, bank guarantees and documentary payments.

Net gains from financial operations declined by 4.2% to CZK 2,385 million. The environment remained challenging throughout 2014, inasmuch as the Czech crown market was marked by low volatility with the CNB taking measures to anchor the foreign exchange and interest rates. Clients' demand for short-term financing and related hedging was nevertheless solid in the final quarter, and that helped to sustain the result. The comparison base was lower due to negative impact from implementation of the IFRS 13 standard in the last quarter of 2013. Net gains from FX payments reflected narrower average spreads and cost optimisation by clients on conversions.

Total **operating expenditures** were reduced by 0.9% to CZK 13,034 million. Within this total, personnel expenses were almost unchanged, as they rose by just 0.4% to CZK 6,754 million. The average number of employees diminished by 1.0% to 8,525. General administrative expenses were down by 3.8% to CZK 4,489 million. The main savings were achieved in real estate costs and telecommunications. The category 'Depreciation, impairment and disposal of fixed assets' grew by 2.1% to CZK 1,791 million, and this increase was driven mainly by amortisation of software applications.

Gross operating income for the year was 0.6% lower, at CZK 17,643 million.

The **cost of risk** dropped by 25.5% to CZK 1,296 million, or 26 basis points in relative terms as measured over the average volume of the lending portfolio. Net creation of provisions remained at very low levels in both retail and corporate segments thanks to the stable and good quality of the loans portfolio. The Bank was able to reduce its allowances for several classified exposures due to their favourable development.

Income from shares in associated undertakings (effectively only from Komerční pojišťovna) declined by 7.8% to CZK 191 million. Although Komerční pojišťovna's underlying profitability improved, the previous year's result at that associate had been boosted by an extraordinary release of provisions which had elevated the base of comparison. The proportion of profit attributable to clients in the Transformed Fund of KB Penzijní společnost came to CZK 508 million, up 5.0% year over year.

Income taxes decreased by 5.5% to CZK 2,669 million. The decrease is due to extraordinary tax costs recognised in 2013 related to restructuring of the portfolio of foreign bonds.

At CZK 13,361 million, KB Group's consolidated net profit for 2014 was higher by 3.5% in comparison with the prior year. Of this amount, CZK 376 million was profit attributable to holders of minority stakes in KB's subsidiaries (-0.5% YoY). **Profit attributable to the Bank's shareholders** totalled CZK 12,985 million, which is 3.6% more than in 2013.

Statement of financial position

As of 31 December 2014, KB Group's **total assets** had grown by 10.3% year on year to CZK 953.3 billion.

Amounts due from banks dropped by 52.5% to CZK 59.7 billion. The largest component of this item consisted of placements with central banks in relation to reverse repo operations, which plummeted by 77.0%.

Financial assets at fair value through profit or loss added 13.0% to reach CZK 42.0 billion. That portfolio comprises the Group's proprietary trading positions.

Total net loans and advances grew from the end of the previous year by 4.6% to CZK 494.7 billion. The gross amount of client loans and advances was up by 4.5%, at CZK 513.4 billion. The share of standard loans within that total climbed to 92.9% (CZK 477.0 billion) while the proportion of loans rated watch was 1.9% (CZK 9.7 billion). Loans under special review (substandard, doubtful and loss) comprised 5.2% of the portfolio, with volume of CZK 26.8 billion. The volume of provisions created for loans reached CZK 18.8 billion, which was 1.7% more than at the end of 2013.

The portfolio of financial assets available for sale (AFS) shrank by 45.2% to CZK 77.4 billion. Meanwhile, the volume of securities in the held-to-maturity (HTM) portfolio increased by CZK 72.3 billion to CZK 76.5 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 and which the Group intends to hold until their maturity. The change was carried out in the first quarter of 2014. This reclassification was intended to limit volatility of regulatory capital in accordance with the Basel III regulatory framework while respecting all the rules of international accounting 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 those securities.

Of the CZK 77.4 billion total volume of debt securities in the AFS portfolio, Czech government bonds comprised CZK 39.9 billion and foreign government bonds CZK 9.1 billion. Of the HTM portfolio's CZK 76.5 billion in debt securities, Czech government bonds constituted CZK 66.2 billion and foreign government bonds CZK 10.3 billion.

The net book value of tangible fixed assets dropped by 2.6% to CZK 7.7 billion, while that of intangible fixed assets declined by 0.4% to CZK 3.8 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF and ESSOX, remained unchanged at CZK 3.8 billion.

Total liabilities were 10.0% higher in comparison to the end of 2013 and reached CZK 843.8 billion. Amounts due to customers rose by 8.1% to CZK 701.9 billion. The volume outstanding of issued securities grew by 0.7% to CZK 22.6 billion. The Group's **liquidity** as measured by the ratio of net loans to deposits was 74.7% (70.5% if including client assets in the transformed pension fund).

Shareholders' equity expanded year over year by 13.3% to CZK 109.4 billion. KB paid out CZK 8.7 billion in dividends during May, and that was more than offset by the generation of net profit and revaluation gains on the AFS portfolio and cash flow hedges (both of which represent primarily reinvestment of client deposits). The revaluation gains were due to decreased market yields in comparison with the end of 2013. As of 31 December 2014, 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 63.1 billion as of 31 December 2014. This amount includes that part of the current year's profit expected to be retained in accordance with the Board of Directors' proposal to pay out dividends equal to 90.7% of attributable net profit. Given the current state of affairs, the Board of Directors intends to propose increased distribution in the range of 80-100% of attributable net income also in 2015 and 2016. 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 16.4%.

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

Post balance sheet date event – Change in the scope of consolidation

As of 1 January 2015, the Transformed Fund (TF) managed by KB Penzijní společnost, which gathers the funds of supplementary pension insurance with government contribution, was deconsolidated from the consolidating group of Komerční banka. The fund continues to be 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 of TF follows approval of a pertinent change in the Statute of TF by CNB with effective date 1 January 2015. That change limits the discretion of KB Penzijní společnost for investments in variable income instruments (such as equity, real estate etc.) Therefore, the probability of triggering the generic legal guarantee of KB with regard to potential negative annual yield of TF has been reduced. The three elements of control, which must be met according to IFRS 10 in order to consolidate an entity in the parent's financial statements, were not proven from that date.

As a result of the deconsolidation, the pro forma consolidated balance sheet as of 31 December 2014 contracts by CZK 41.4 billion. Smaller in particular are the items 'Amounts due to customers' (by CZK 40.1 billion), 'Available-for-sale financial assets' (by CZK 35.4 billion) and 'Held-to-maturity investments' (by CZK 7.1 billion). Pro forma 2014 'Net profit for the period' is not changed, and only portions of the items 'Net interest income and similar income' (change of CZK 0.8 billion) and 'Net fees and commission income' (change of CZK 0.3 billion) are netted with the item 'Share of profit of pension scheme beneficiaries' (change of CZK 0.5 billion).

Regulatory information

ANNEX: Consolidated results as of 31 December 2014 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	**2013**	**2014**	**Change year on year**
Net interest income	21,207	21,423	1.0%
Net fees and commissions	7,077	6,752	-4.6%
Net gains from financial operations	2,490	2,385	-4.2%
Other income	121	116	-4.1%
Net banking income	**30,894**	**30,677**	**-0.7%**
Personnel expenses	-6,728	-6,754	0.4%
General administrative expenses	-4,666	-4,489	-3.8%
Depreciation, impairment and disposal of fixed assets	-1,754	-1,791	2.1%
Operating costs	**-13,148**	**-13,034**	**-0.9%**
Gross operating income	**17,746**	**17,643**	**-0.6%**
Cost of risk	-1,739	-1,296	-25.5%
Net operating income	**16,007**	**16,347**	**2.1%**
Profit on subsidiaries and associates	208	191	-8.2%
Share in profit of pension scheme beneficiaries	-484	-508	5.0%
Profit before income taxes	**15,731**	**16,031**	**1.9%**
Income taxes	-2,825	-2,669	-5.5%
Net profit	**12,906**	**13,361**	**3.5%**
Minority profit/(loss)	378	376	-0.5%
Net profit attributable to the Bank's shareholders	**12,528**	**12,985**	**3.6%**

Balance Sheet (CZK million, unaudited)	**31 Dec 2013**	**31 Dec 2014**	**Change year on year**
Assets	**863,980**	**953,261**	**10.3%**
Cash and balances with central bank	44,405	152,903	244.3%
Amounts due from banks	125,735	59,699	-52.5%
Loans and advances to customers (net)	473,090	494,706	4.6%
Securities	182,533	195,927	7.3%
Other assets	38,218	50,026	30.9%
Liabilities and shareholders' equity	**863,980**	**953,261**	**10.3%**
Amounts due to banks	49,680	61,361	23.5%
Amounts due to customers	649,158	701,867	8.1%
Securities issued	22,417	22,584	0.7%
Other liabilities	46,187	57,956	25.5%
Shareholders' equity	96,538	109,494	13.4%

KB

Regulatory information

Key ratios and indicators	31 Dec 2013	31 Dec 2014	Change year on year
Capital adequacy (CNB)*	15.8%	16.4%	n.a.*
Tier 1 ratio (CNB)*	15.8%	16.4%	n.a.*
Total risk-weighted assets (CZK billion)*	373.8	384.2	n.a.*
Risk-weighted assets for credit risk (CZK billion)*	315.8	319.2	n.a.*
Net interest margin (NII/average interest-bearing assets)	2.8%	2.6%	▼
Loans (net) / deposits ratio	72.9%	70.5%	▼
Loans (net) / deposits ratio excluding client assets in Transformed Fund	77.1%	74.7%	▼
Cost / income ratio	42.6%	42.5%	▼
Return on average equity (ROAE)	13.1%	13.0%	▼
Adjusted return on average equity (adjusted ROAE)**	16.2%	15.9%	▼
Return on average assets (ROAA)	1.5%	1.4%	▼
Earnings per share (CZK)	332	344	3.6%
Average number of employees during the period	8,612	8,525	-1.0%
Number of branches (KB standalone in the Czech Republic)	398	398	0
Number of ATMs	729	754	+25
Number of clients (KB standalone)	1,589,000	1,626,000	2.3%

* 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	31 Dec 2014	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 159.8 billion	9.3%
Building savings loans (MPSS) – volume of loans outstanding	CZK 38.3 billion	-12.1%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 29.0 billion	1.7%
Small business loans – volume of loans outstanding	CZK 28.0 billion	-1.2%
Total active credit cards – number	191,000	-4.4%
– of which to individuals	148,000	-4.2%
Total active debit cards – number	1,342,000	-1.5%
Insurance premiums written (KP)	CZK 10.2 billion	22.0%

Financial calendar for 2015:

6 May 2015: Publication of 1Q 2015 results

5 August 2015: Publication of 1H 2015 and 2Q 2015 results

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