



# Regulatory information

## **KB in 2016: Strong contribution to the Czech and Slovak economies, boosting efficiency and preparing for the future**

- Total lending to clients expanded by 8.6% year over year to CZK 595.4 billion. KB Group grew its lending in the individuals as well as businesses segments faster than did the broader market, thus supporting growth of the Czech economy.
- During 2016, KB substantially reinforced its position on the retail market. Market share<sup>1</sup> in deposits from individuals increased when the volume of deposits from individual clients grew by 16.5% year on year to CZK 230.1 billion. The number of the Bank's clients increased by more than 7,000 to 1,654,000. Komerční banka Group as a whole now serves 2.4 million clients.
- Assets of KB Group's clients in mutual funds, pension savings and life insurance grew by a strong 8.4% to CZK 151.8 billion. Total client deposits rose by 6.6% to CZK 699.4 billion.
- Net profit adjusted for non-recurring items<sup>1</sup> was down by 7.0% on stable revenues and operating expenses but higher cost of risk vis-à-vis the previous year's very low level. Reported net profit including extraordinary gains from sale of certain equity participations climbed to CZK 13.7 billion.
- KB's Board of Directors proposes a dividend payment of CZK 7,602 million, or CZK 40 per share. That would put the payout ratio at 55.5% and the gross dividend yield based on 2016's closing share price at 4.5%. The final decision on dividend payment is subject to a vote of the Annual General Meeting.
- For 2017, in order to maintain KB's strong capital position, management intends to propose a dividend payout of 60% of the recurring net profit to be achieved in 2017. In addition, KB intends in coming years gradually to reinforce KB's capital by Tier 2 capital components.

Prague, 9 February 2017 – Komerční banka today reported its consolidated results for the full year 2016. Total revenues were up by 2.3% to CZK 31.8 billion. This figure was influenced by an extraordinary gain from payment received in 2016 for KB's stake in VISA Europe Ltd. When excluding this item, revenues were down by 0.8%. Operating expenditures declined by 2.3% to CZK 14.0 billion, but after adjusting for a revaluation of the buildings portfolio in 2015 they were stable (+0.7%). The cost of risk climbed to CZK 1.8 billion from the low level of the previous year (CZK 1.1 billion). The Group also booked a one-off gain of CZK 0.7 billion related to selling an interest in its subsidiary Cataps as part of creating with Worldline the KB SmartPay alliance for card acquiring and electronic payments. The reported net profit attributable to shareholders thus increased by 7.3% to CZK 13.7 billion. Recurring gross operating income (before provisions for risk expenses) was down by 2.0%. Recurring net profit<sup>1</sup> declined by 7.0%.

Gross loans to clients expanded by 8.6% to CZK 595.4 billion. Total deposits rose by 6.6% to CZK 699.4 billion. Capital adequacy reached 16.2%. KB's regulatory capital base was comprised solely of Core Tier 1 instruments. Liquidity measured by the ratio of net loans to deposits was at a strong

<sup>1</sup> Non-recurring items excluded in 2015: Revaluation of buildings held for sale (impact net of tax CZK -399 million). In 2016: gain from reimbursement for KB's stake in VISA Europe Ltd. (impact net of tax CZK 777 million), gain related to sale of Cataps (impact net of tax CZK 728 mil.).



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83.0%.

*"I am proud that we have significantly strengthened our contribution to the Czech economy by expanding our loans and deposits across all client segments as well as through the various direct investments we have undertaken, and particularly in the IT and real estate areas. It is our mission to be a reliable and long-term partner for our clients, supporting them in their activities and their projects. This is also our core value. I am pleased, too, that we achieved significant progress in many projects adapting KB Group for the future while boosting productivity and the efficiency of operations,"* remarked Albert Le Dirac'h, KB's Chairman of the Board of Directors and Chief Executive Officer. *"In 2017, we will pursue further simplification and agility in our activities so that KB remains successful in a banking industry that is evolving with landmark regulatory changes and rapidly advancing technology. The core of KB's banking model remains intact, and it is always to serve clients in long-term, mutually beneficial relationships."*

The Bank had 46,801 shareholders (+1,683 year on year), of which 41,579 were private individuals from the Czech Republic (+1,738 year on year).

In view of KB's 2016 result and capital position, and in accordance with its previously announced intention regarding the share of 2016's net profit to be paid out in dividends, Komerční banka's Board of Directors has decided to propose to the Supervisory Board a dividend payment of CZK 7,602 million. That would come to CZK 40 per share and put the payout ratio at 55.5% of KB Group's attributable consolidated net profit. The corresponding gross dividend yield based on 2016's closing share price is 4.5%. The distribution of the year's earnings, including the decision on dividend payment, is subject to a vote of the Annual General Meeting.

KB management strives to maintain the Bank's capital structure so that it is both safe and efficient while of course being fully in compliance with applicable regulatory requirements. For 2017, in order to maintain KB's strong capital position, KB management intends to propose distribution as dividends of 60% of recurring attributable consolidated net profit to be achieved in the year 2017.

In addition, upon assessment of their characteristics and costs, KB intends in coming years gradually to reinforce KB's capital by Tier 2 capital components. The prudential requirements established for KB by the European Central Bank (ECB) and Czech National Bank (CNB) applicable from 2017 allow the Bank to cover as much as two percentage points of the minimum own funds requirement using Tier 2 instruments.

The decision on actual Tier 2 reinforcement will reflect the required level and schedule for gradually building up the management capital buffer, as well as the prevailing market conditions, and it will be subject to receiving the corresponding regulatory approvals.



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## Comments on business and financial results

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

The comments on results are based on reporting methodology applied in 2016. The results for the comparable period (2015) have been restated.<sup>2</sup>

## **BUSINESS PERFORMANCE OF KB GROUP**

### **Market environment**

Throughout 2016, the growth of the Czech economy was supported by strong domestic consumption and solid foreign demand. In contrast, fixed investments and construction fell significantly below their levels of the previous year, mainly due to a slump in public investments into infrastructure and administrative obstacles to new construction.

Unemployment declined to the lowest rate since 2009, and average wages grew by more than 4%. This also led to rapid growth in retail sales, which even accelerated towards the end of the year. In such conditions, and given also recovery of energy prices on global markets, consumer price inflation picked up to 2% year on year in December.

In this environment, the CNB left its monetary policy unchanged and affirmed that it expected to scrap the currency floor in mid-2017. In addition to the effects of the CNB's and ECB's accommodative monetary policies, market interest rates in the Czech currency were influenced by inflow of liquidity driven by a presumption that the Czech crown would appreciate once the CNB lifts the exchange rate floor vis-à-vis the euro. Short-term Czech government bond yields sank into deeply negative territory and then remained below zero for maturities as long as 6 years. Still, longer-term yields reflected a pick-up in inflation and a changed outlook for global financial markets following the result of presidential elections in the United States. At the end of December, the 10-year Czech government bond's yield to maturity thus rose to approach 0.4% and the fixed "leg" of interest rate swaps was around 0.9%.

The lending market held to its steady pace of growth at around 6–7% throughout the year. Borrowing by individuals was a bit 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, and especially so in the second half of the year, after a long phase of stagnation. Borrowing by private businesses was a bit slower. This reflected relatively strong cash generation from operations and the drop in investment and construction activity which was linked to a year-over-year decrease in drawing EU funds. The volume of credits outstanding to public sector entities declined markedly.

Deposits in the banking sector grew at around a 7% rate. Individuals were increasing their balances at an even faster rate of 8–9%. This was partially offset, however, by smaller deposits from public sector entities, which were legally mandated to transfer certain volumes to the central bank.

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<sup>2</sup> 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'.



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## Developments in the client portfolio and distribution networks

At the close of December 2016, KB Group was serving 2.4 million clients on a consolidated basis. Standalone KB recorded 1,654,000 clients (+0.4% year on year), of which 1,398,000 were individuals. The remaining 256,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 491,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 534,000. ESSOX's services were being used by 201,000 active clients, and PSA Finance was providing its services to almost 17,000 clients in the Czech Republic and Slovakia.

Komerční banka's clients had at their disposal 392 banking branches (including one branch for corporate clients in Slovakia), 768 ATMs (of which 195 were deposit 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 1,387,000 by the end of December 2016 and corresponds to 83.8% of all clients, while mobile banking alone was used by more than 302,000 clients of KB. Customers held 1,595,000 active payment cards, of which 194,000 were credit cards. The number of active credit cards issued by ESSOX came to 113,000. Modrá pyramida's customers had at their disposal 216 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.

## Selected business achievements in the fourth quarter

Komerční banka takes proactive steps to ensure clients' safety on-line, and in December KB became the first bank in the Czech Republic to offer its clients active protection when using applications for mobile banking. Designed for both smartphones and tablets, the security protection IBM Trusteer Mobile has become a standard part of the Mobilní banka application.

KB is helping its clients in the hospitality sector to meet the new regulatory requirement to report sales on-line to the fiscal authorities. The solution prepared within the KB SmartPay alliance simply and remotely upgrades card readers that merchants already use for accepting payments.

With 195 machines, KB's network of deposit-accepting ATMs is the largest in the Czech Republic.

Komerční banka won the title Bank of the Year 2016 in the 15th annual competition, the results of which were announced in November. KB placed second in the categories Most Trustworthy Bank and Online Bank of the Year.

## Loans to customers

Across all major client segments<sup>3</sup>, growth in lending provided by KB Group to its clients outpaced that of the market as a whole in 2016. The total gross volume of loans provided by KB Group expanded by 8.6% year on year to CZK 595.4 billion.

In lending to individuals, the overall volume of housing loans<sup>II</sup> grew by 11.0% year on year. Within this total, the portfolio of mortgages to individuals expanded by 12.2% from the year earlier to CZK 207.8 billion. Modrá pyramida reported growth of its portfolio by 5.0% to CZK 38.8 billion. The volume of KB Group's consumer lending was up by 15.3% to CZK 35.2 billion. Excluding the addition of retail parts of the portfolios of PSA Finance in the Czech Republic and Slovakia acquired in 2016, the growth of consumer lending reached 8.4%.

The total volume of **loans** provided by KB Group to **businesses** climbed by 6.6% to CZK 311.8 billion. The overall volume of credit granted by KB to medium-sized and large corporate clients in

<sup>3</sup> Definitions of the individual client groups stated in this report are provided in KB's Annual Report.



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the Czech Republic and Slovakia (inclusive of factor finance outstanding at Factoring KB and business lending by PSA Finance) advanced by 6.9% to CZK 253.6 billion. Lending to small businesses grew by 4.8% to CZK 32.4 billion. At CZK 25.8 billion, the total credit and leasing amounts outstanding at SGEF were higher by 5.6% year over year.

## 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 7.4% year on year to CZK 694.2 billion. Deposits at Komerční banka from individual clients grew by 16.5% from the year earlier to CZK 230.1 billion. The deposit book at Modrá pyramida diminished by 6.5% to CZK 64.1 billion. Total deposits from businesses and other corporations climbed by 5.2% to CZK 394.5 billion.

Client assets managed by KB Penzijní společnost were higher by 8.4%, at CZK 48.9 billion. Technical reserves in life insurance at Komerční pojišťovna expanded by 4.9% to CZK 47.0 billion. The volumes in mutual funds held by KB Group clients grew by 11.7% to CZK 55.9 billion.

## FINANCIAL PERFORMANCE OF KB GROUP

### Income statement

Komerční banka's reported revenues (**net banking income**) for 2016 were up by 2.3% to CZK 31,751 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 30,792 million, down 0.8% year over year.

**Net interest income** was down by 1.4% to CZK 21,068 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. Market interest rates were even lower than in the previous year through most of 2016. Because that weighed upon yields from reinvestment of deposits, net interest income from deposits declined even though the volume of deposits expanded. Net interest income from loans increased due to growth in the volume of financing even as interest spreads on lending products narrowed slightly due to competitive pressure. 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 2016 from 2.6% one year earlier.

**Net fees and commissions** were down by 4.1% to CZK 6,683 million. The number of electronic, card as well as foreign transactions increased, but the reported transaction fee income declined due to a gap in revenues which can be attributed to Cataps, KB's provider of merchant acquiring services, a majority stake of which was sold at the end of the third quarter. Fee income from deposit products was smaller as KB paid out more rewards within the MojeOdměny (MyRewards) loyalty programme and the number of accounts at Modrá pyramida diminished somewhat. Fees for loan services were down as a result of higher commissions paid for mortgages and for consumer loans from ESSOX and also due to previously cancelling retail loan administration fees. 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, 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 into this category, such as for custody, depository and syndication, did record growth.

<sup>4</sup> The total volume of 'Amounts due to customers' was up by 6.6% to CZK 699.4 billion.



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**Net gains from financial operations** rose by 47.0% to CZK 3,837 million. Even excluding the contribution from the VISA Europe transaction, the result was higher by 10.3%. Income was underpinned by demand from corporate clients for hedging of currency and interest rate risks. This was driven by a presumption that the floor under the Czech crown's exchange rate with the euro is nearing its end, by heightened volatility in prices of financial derivatives, as well as by the growing volume of financing provided to clients which have opted to hedge the risk of future interest rate fluctuations. The fees and commissions from FX transactions were boosted by increasing foreign transactions turnover.

**Operating expenditures** decreased by 2.3% to CZK 14,026 million. The drop is due to revaluation of buildings recognised on the line 'Depreciation, impairment and disposal of assets' in 2015 with a negative impact of CZK 418 million. Excluding this one-off item, operating costs were almost stable (+0.7%) Within this total, personnel expenses were higher by 3.5%, at CZK 7,029 million. The average number of employees rose by 0.4% to 8,458, partly due to the acquisitions. General administrative expenses (excluding the regulatory funds) were down by 0.7% to CZK 4,374 million. Savings were achieved across all main areas except for marketing and information technologies. The cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund and Investor Compensation Fund of securities brokers) decreased by 3.6% to CZK 880 million. The category 'Depreciation, impairment and disposal of fixed assets' was down by 22.2% to CZK 1,743 million. Excluding the aforementioned revaluation of buildings, the line item was smaller by 4.3% mainly due to completed amortisation of certain software.

Reported **gross operating income** for 2016 was higher by 6.2%, at CZK 17,725 million. Were non-recurring items<sup>1</sup> to be excluded, the gross operating income would have declined by 2.0%.

The **cost of risk** increased by 69.1% to CZK 1,818 million from 2015's low figure. This translates into 32 basis points in relative terms<sup>11</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 for a few isolated cases.

Income from shares in associated undertakings (essentially Komerční pojišťovna) was up by 32.7% to CZK 203 million. Profit attributable to exclusion of companies from consolidation (related to the sale of a stake in Cataps in the third quarter) reached CZK 727 million. In the fourth quarter of 2016, KB concluded acquisition accounting for PSA Finance CZ and SK, with a small difference between the net value of assets of the acquired companies and the purchase price.

**Income taxes** rose by 6.1% to CZK 2,799 million.

At CZK 14,074 million, KB Group's consolidated net profit for the year 2016 was higher by 7.2% in comparison with the prior year. Of this amount, CZK 386 million was profit attributable to holders of minority stakes in KB's subsidiaries (+3.2% versus the year earlier).

**Profit attributable to the Bank's shareholders** totalled CZK 13,688 million, which is 7.3% more than in 2015.

**The attributable net profit excluding the non-recurring items** (i.e. not including the negative net effect of impairment of the real estate assets in 2015, net gain from the VISA Europe transaction, and gain from KB's sale of 80% participation in Cataps in 2016) declined by 7.0% year on year.

### Statement of financial position

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 31 December 2016, KB Group's **total assets** had grown by 3.5% year on year to CZK 922.7 billion. Excluding the value of the acquired assets of PSA Finance CZ and SK, the Group's total



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assets would have grown by 2.9% to CZK 917.8 billion.

Cash and current balances with central banks dropped by 12.5% to CZK 112.2 billion. The main component of this item comprises the volume of obligatory minimum reserves at central banks.

Amounts due from banks added 8.3% to reach CZK 51.8 billion.

Financial assets measured at fair value through profit or loss went up by 1.8% to CZK 29.7 billion.

Total net loans and advances picked up by 8.9% year on year to reach CZK 580.2 billion (or by +8.1% to CZK 575.5 billion when excluding PSA Finance CZ and SK). The gross amount of client loans and advances<sup>IV</sup> rose by 8.6% to CZK 595.4 billion (+7.7% to CZK 590.6 billion excluding PSA Finance CZ and SK). The share of standard loans within that total climbed to 94.7% (CZK 563.6 billion) while the proportion of loans rated watch was 1.6% (CZK 9.3 billion). Loans under special review (substandard, doubtful and loss) comprised 3.8% of the portfolio, with volume of CZK 22.4 billion. The volume of provisions created for loans reached CZK 15.6 billion. That was 1.6% less than in the prior year.

The portfolio of securities available for sale (AFS) diminished by 5.8% to CZK 39.4 billion. Within this portfolio, debt securities comprised CZK 39.2 billion. These included CZK 20.2 billion in Czech government bonds and foreign government bonds of CZK 7.9 billion. The volume of securities in the held-to-maturity (HTM) portfolio shrank by 2.4% to CZK 65.5 billion. Within this portfolio, Czech government bonds constituted CZK 54.3 billion and foreign government bonds CZK 11.2 billion.

The net book value of tangible fixed assets declined by 2.6% to CZK 6.7 billion, while that of intangible fixed assets added 0.5% to reach CZK 3.9 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF and ESSOX, remained unchanged at CZK 3.8 billion.

**Total liabilities** were 4.1% higher in comparison with the prior year and reached CZK 817.3 billion. Amounts due to customers rose by 6.6% to CZK 699.4 billion. Because of the decrease in depository bills of exchange, the volume outstanding of issued securities fell by 37.3% to CZK 13.4 billion. The Group's **liquidity** as measured by the ratio of net loans to deposits was 83.0% (compared to 81.2% as of 31 December 2015).

**Shareholders' equity** decreased year over year by 0.8% to CZK 105.4 billion. The generation of net profit was offset by payment of the annual dividend (KB paid out CZK 11.7 billion in May). Revaluation gains on cash flow hedges were lower due to increase of market interest rates at the end of 2016. 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 31 December 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 71.7 billion as of 31 December 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 16.2%. As from 1 January 2017, the regulator increased the minimum required level of total capital by 90 basis points to 15.4%. Within the increase, +0.5% is the newly increased systemic risk buffer, +0.5% is the newly established countercyclical buffer, and -0.1% is the decreased capital requirement within Pillar II.

As measured by the Liquidity Coverage Ratio, KB's liquidity throughout the year safely met requirements established by the applicable regulations.



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## **Changes in the Group structure (in the fourth quarter)**

KB concluded in the fourth quarter acquisition accounting for the acquisitions by ESSOX s.r.o., of PSA FINANCE ČESKÁ REPUBLIKA s.r.o. ("PSA Finance CZ") and PSA FINANCE SLOVAKIA, s.r.o. ("PSA Finance SK"). ESSOX s.r.o., a 50.93%-owned subsidiary of Komerční banka, concluded on 1 July a transaction acquiring 100% ownership in PSA Finance CZ". On 14 July, it likewise acquired 100% in 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 into Komerční banka Group accounts from July 2016.

## **Changes in corporate governance (in the fourth quarter)**

With effect from 30 November 2016, Mr Aurélien Viry resigned from the Board of Directors of Komerční banka in order to pursue other assignments within Société Générale Group. Consequently, as of 31 December 2016, KB's Board of Directors had five members.



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**ANNEX:** Consolidated results as of 31 December 2016 under International Financial Reporting Standards (IFRS)

Profit and loss statement (CZK million, unaudited)	Reported			On a comparable basis		
	FY 2015	FY 2016	Change y-o-y	FY 2015	FY 2016	Change y-o-y
Net interest income	21,357	21,068	-1.4%	21,357	21,068	-1.4%
Net fees and commissions	6,968	6,683	-4.1%	6,968	6,683	-4.1%
Net gains from financial operations	2,610	3,837	47.0%	2,610	2,878	10.3%
Other income	109	163	49.5%	109	163	49.5%
<b>Net banking income</b>	<b>31,044</b>	<b>31,751</b>	<b>2.3%</b>	<b>31,044</b>	<b>30,792</b>	<b>-0.8%</b>
Personnel expenses	-6,793	-7,029	3.5%	-6,793	-7,029	3.5%
General administrative expenses (excl. Resolution and similar funds)	-4,406	-4,374	-0.7%	-4,406	-4,374	-0.7%
Resolution and similar funds	-913	-880	-3.6%	-913	-880	-3.6%
Depreciation, impairment and disposal of assets	-2,240	-1,743	-22.2%	-1,822	-1,743	-4.3%
<b>Operating costs</b>	<b>-14,352</b>	<b>-14,026</b>	<b>-2.3%</b>	<b>-13,934</b>	<b>-14,026</b>	<b>0.7%</b>
<b>Gross operating income</b>	<b>16,692</b>	<b>17,725</b>	<b>6.2%</b>	<b>17,110</b>	<b>16,766</b>	<b>-2.0%</b>
Cost of risk	-1,075	-1,818	69.1%	-1,075	-1,818	69.1%
<b>Net operating income</b>	<b>15,617</b>	<b>15,907</b>	<b>1.9%</b>	<b>16,035</b>	<b>14,948</b>	<b>-6.8%</b>
Profit on subsidiaries and associates	153	967	>100%	153	239	56.2%
<b>Profit before income taxes</b>	<b>15,770</b>	<b>16,873</b>	<b>7.0%</b>	<b>16,188</b>	<b>15,187</b>	<b>-6.2%</b>
Income taxes	-2,638	-2,799	6.1%	-2,717	-2,617	-3.7%
<b>Net profit</b>	<b>13,132</b>	<b>14,074</b>	<b>7.2%</b>	<b>13,471</b>	<b>12,570</b>	<b>-6.7%</b>
Minority profit/(loss)	374	386	3.2%	374	386	3.2%
<b>Net profit attributable to the Bank's shareholders</b>	<b>12,758</b>	<b>13,688</b>	<b>7.3%</b>	<b>13,097</b>	<b>12,184</b>	<b>-7.0%</b>

## Note for reported figures:

FY 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:

FY 2015: Revaluation of buildings held for sale (CZK -418 mil. in Depreciation, impairment and disposal of assets and CZK 79 mil. taxes)

FY 2016: Adjusted for sale of Cataps (CZK 728 mil. in Profit on subsidiaries and associates), reimbursement for KB's stake in VISA Europe Ltd. (CZK 959 mil. in NPFO and CZK -182 mil. taxes).



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<b>Statement of financial position</b> (CZK million, unaudited)	<b>31 Dec 2015*</b>	<b>31 Dec 2016</b>	<b>Change year on year</b>
<b>Assets</b>	<b>891,555</b>	<b>922,737</b>	<b>3.5%</b>
Cash and balances with central banks	128,336	112,241	-12.5%
Amounts due from banks	47,799	51,771	8.3%
Loans and advances to customers (net)	532,617	580,198	8.9%
Securities	138,144	134,591	-2.6%
Other assets	44,658	43,935	-1.6%
<b>Liabilities and shareholders' equity</b>	<b>891,555</b>	<b>922,737</b>	<b>3.5%</b>
Amounts due to banks	56,230	54,124	-3.7%
Amounts due to customers	656,286	699,377	6.6%
Securities issued	21,403	13,423	-37.3%
Other liabilities	51,408	50,412	-1.9%
Shareholders' equity	106,229	105,400	-0.8%
<i>Of which:</i>			
<i>Cash flow hedging</i>	12,653	11,379	-10.1%
<i>Available-for-sale portfolio revaluation reserve</i>	4,960	3,424	-31.0%
<i>Minority equity</i>	3,816	3,831	0.4%

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

<b>Key ratios and indicators</b>	<b>31 Dec 2015</b>	<b>31 Dec 2016</b>	<b>Change year on year</b>
Capital adequacy (CNB)	16.3%	16.2%	▼
Tier 1 ratio (CNB)	16.3%	16.2%	▼
Total risk-weighted assets (CZK billion)	407.6	442.9	▲
Risk-weighted assets for credit risk (CZK billion)	342.0	376.9	▲
Net interest margin (NII/average interest-bearing assets) <sup>v</sup>	2.6%	2.5%	▼
Loans (net) / deposits ratio <sup>vi</sup>	81.2%	83.0%	▲
Cost / income ratio <sup>vii</sup>	46.2%	44.2%	▼
Return on average equity (ROAE) <sup>viii</sup>	12.3%	13.4%	▲
Adjusted return on average equity (adjusted ROAE) <sup>ix</sup>	15.1%	16.0%	▲
Return on average regulatory capital <sup>x</sup>	19.7%	19.8%	▲
Return on average assets (ROAA) <sup>xi</sup>	1.4%	1.5%	▲
Earnings per share (CZK) <sup>xii</sup>	68	72	7.3%
Average number of employees during the period	8,421	8,458	0.4%
Number of branches (KB standalone in the Czech Republic)	396	391	-5
Number of ATMs	772	768	-4
Number of clients (KB standalone)	1,647,000	1,654,000	0.4%



## Regulatory information

<b>Business performance in retail segment – overview</b>	<b>31 Dec 2016</b>	<b>Change year on year</b>
Mortgages to individuals – volume of loans outstanding	CZK 207.8 billion	12.2%
Building savings loans (MPSS) – volume of loans outstanding	CZK 38.8 billion	+5.0%
Consumer loans (KB + ESSOX+PSA Finance) – volume of loans outstanding	CZK 35.2 billion	15.3%
Small business loans – volume of loans outstanding	CZK 32.4 billion	4.8%
Total active credit cards – number	194,000	-3.5%
– of which to individuals	154,000	-3.3%
Total active debit cards – number	1,401,000	-1.1%
Insurance premiums written (KP)	CZK 6.7 billion	+1.3%

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

- 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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## Definitions of the performance indicators mentioned herein:

- I **Market shares:** calculation of market shares based on CNB statistics (ARAD);
- II **Housing loans:** mortgages to individuals provided by KB + loans to clients provided by Modrá pyramida;
- III **Cost of risk in relative terms:** annualised 'Allowances for loan losses' divided by the average of 'Gross amount of client loans and advances', year to date;
- IV **Gross amount of client loans and advances:** 'Gross amount of client loans and advances' minus 'Other amounts due from customers';
- 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 FY 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 full year of 2015 was CZK 338.

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

	FY 2015 Proforma	FY 2016
<i>(Source: Profit and Loss Statement)</i>		
<b>Net interest income (excl. Income from dividends)</b>	<b>21,355</b>	<b>21,065</b>
<i>(Source: Balance Sheet)</i>	<b>31 Dec 2015 Proforma</b>	<b>31 Dec 2016</b>
Amounts due from banks + Amounts due from central banks	164,779	155,016
Loans and advances to customers, net	532,617	580,198
Financial assets at fair value through profit or loss (debt securities only)	7,872	9,606
Financial assets available for sale (debt securities only)	41,189	39,239
Investments held to maturity (debt securities only)	67,083	65,462
<b>Interest-bearing assets</b>	<b>813,540</b>	<b>849,520</b>
<b>Average interest-bearing assets, year to date</b>	<b>821,757</b>	<b>831,530</b>
<b>NIM year to date, annualised</b>	<b>2.6%</b>	<b>2.5%</b>