KB reports dynamic growth in lending across segments, continued rise in number of clients

Net profit increased by 2.4% year on year

- **KB continued improving its service offer covering all needs of clients in lending as well as management of assets**
- **Number of KB clients grew by 1.3%, rising by 21,000**
- **Volume of Group's loans to clients expanded by 8.0% to CZK 534.0 billion**
- **Client deposits in KB Group rose by 4.6% year on year to CZK 653.0 billion**
- **Total client assets in mutual funds, pension savings and life insurance grew by 12.4%**
- **Consolidated assets increased by 4.2% on a like-for-like basis to CZK 911.3 billion**
- **KB Group's Core Tier 1 capital adequacy ratio stood at a strong 16.4%**
- **Net profit increased by 2.4% year on year to CZK 9.9 billion**

Prague, 5 November 2015 – In its consolidated results as of 30 September 2015, Komerční banka reported dynamic growth in retail and corporate lending and continued increase in the number of bank's customers.

The net profit attributable to shareholders rose by 2.4% year on year to CZK 9.9 billion. Consolidated revenues were almost stable (-0.3%)[1], as growing business volumes were offset by an overall drop in margins. Although underlying operating expenditures were in fact slightly reduced (by 0.4%), the reported figure is higher by 3.8% due to the estimated cost of the new obligatory payment to the Bank Resolution Fund. Cost of risk diminished by 59.3%, reflecting the sound quality of the Group's assets portfolio.

"KB's business results are consistent with our strategic objectives. We continue to attract new clients while reinforcing relationships with existing ones. KB contributes to economic growth by accelerated lending across segments. The volume of loans for housing needs and lending to corporations are growing nicely and we have even observed a pick-up in demand for loans among consumers and small businesses, which had previously been quite subdued. This improvement in business helps us offset the financial challenges stemming from the increasing cost of regulation and lower margins," remarked Albert Le Dirac'h, Chairman of the Board of Directors and Chief Executive Officer of Komerční banka.

Financial indicators also confirmed KB Group's solid financial soundness. The Group's Common Equity Tier 1 capital adequacy ratio stood at a strong 16.4%, and liquidity measured as the ratio of net loans to deposits was at an excellent 77.3%.

As of 30 September 2015, KB had 42,990 shareholders, of which 37,799 were private individuals from the Czech Republic.

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[1] Adjusted for the accounting impact of deconsolidating the Transformed Fund of KB Penzijní společnost. Reported revenues decreased by 1.9% year over year.

Comments on business and financial results

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

BUSINESS PERFORMANCE OF KB GROUP

Market environment

The Czech economy continued performing strongly in the third quarter of 2015, even though the overall growth dynamics decelerated somewhat during the summer holiday season. The unemployment rate declined to its lowest level since the start of the financial crisis and the utilisation of capacities in the industrial sector exceeded the long-term averages. This has not yet translated into faster growth of consumer prices because rather disinflationary global factors – such as declining prices for fuels and commodities – prevailed.

Inflation thus remained below the level forecast by the Czech National Bank, and the monetary authority therefore did not change its guidance on monetary policy. It also reaffirmed its decision to hold the Czech crown's exchange rate close to or weaker than CZK 27 per euro. Market interest rates, too, were largely determined by global trends, and they declined further in the third quarter after recovering slightly during the second quarter.

With all segments benefitting from the healthy economic backdrop and low interest costs, the growth of lending by banks was gradually picking up speed among individual customers as well as among private businesses and clients from the public sector. Unsecured consumer lending remained a notable exception, influenced by clients' still rather cautious attitude following the financial crisis. The pace of deposit growth was boosted by healthy operational profitability among businesses, recovery in balances of public sector entities, and the central bank's expansionary monetary policy.

Developments in the client portfolio and distribution networks

At the close of September 2015, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,642,000 clients (+1.3% year on year), of which 1,386,000 were individuals. The remaining 256,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 525,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 547,000. ESSOX's services were being used by 234,000 active clients.

Komerční banka's clients had at their disposal 396 banking branches (including one branch for corporate clients in Slovakia), 766 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 1,326,000 by the end of September 2015 and corresponds to 80.8% of all clients. Customers held 1,622,000 active payment cards, of which 202,000 were credit cards. The number of active credit cards issued by ESSOX came to 119,000. Modrá pyramida's customers had at their disposal 217 points of sale and approximately 1,000 advisors. SG Equipment Finance (SGEF) was providing its leasing services via eight 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 8.0% year on year to reach CZK 534.0 billion. Lending increased across all main categories except for loans provided by the building society, which moderated their decrease.

Loans to individuals: KB Group's total housing loans comprise mortgages provided by KB and loans from Modrá pyramida. The total volume of housing loans grew by 9.2% year on year. Within the portfolio of housing loans, the outstanding volume of mortgages to individuals rose by 13.4% from the year earlier to CZK 176.1 billion. The volume of Modrá pyramida's loans was again down, by 7.1%, due to expanded sales of KB mortgages by representatives of Modrá pyramida and due to clients' general preference for mortgages in the low-rate environment. However, the pace of the decline of the portfolio slowed significantly in recent months and new production of loans accelerated. The overall volume of consumer loans provided by Komerční banka and ESSOX was up by 4.0% to CZK 30.1 billion. The growth was underpinned by clients' positive response to simplification of granting procedures within the Bank.

The total volume of **loans** provided by KB Group **to businesses** was up by 7.8% to CZK 287.2 billion. Inclusive of factor finance outstanding at Factoring KB, the overall volume of credit granted by KB to medium-sized and large corporate clients in the Czech Republic and Slovakia advanced by 7.9% to CZK 233.5 billion. The fast pace was affected by KB's active presence in the areas of structured and real estate financing. KB's lending to small businesses was higher by 6.5%, at CZK 30.1 billion. Total credit and leasing amounts outstanding at SGEF expanded by 8.5% year over year to CZK 23.6 billion.

Amounts due to customers and assets under management

The overall **volume of deposits** in KB Group rose by 4.6% year on year to CZK 653.0 billion, excluding the impact of a deconsolidation of clients' assets in the Transformed Fund of KB Penzijní společnost as of 1 January 2015 and volatile repo operations with clients[2]. Deposits at KB from individual clients grew by a strong 9.6% year on year to CZK 189.6 billion. The deposit book of Modrá pyramida diminished by 3.4% to CZK 69.3 billion. Total deposits from businesses and other corporations climbed by 4.0% to CZK 389.0 billion.

Client assets managed by KB Penzijní společnost grew by 11.3% to CZK 44.0 billion. Technical reserves in life insurance at Komerční pojišťovna expanded by 5.6% to CZK 44.1 billion. The volumes in mutual funds held by KB clients (and managed by IKS KB and Amundi) grew by 21.4% to CZK 43.3 billion.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement

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

The deconsolidation affects year-on-year comparison of net banking income. The comments provided below on an "adjusted" basis exclude the contribution of the Transformed Fund to consolidated revenues in 2014, as well as a corresponding elimination from the income statement of the line 'Share of profit of pension scheme beneficiaries'. The adjusted comparison is thus based on the same consolidation scope for both 2014 and 2015. There was no impact from the deconsolidation on reported operating expenses, cost of risk and net profit of KB Group.

Total **net banking income** for the first nine months of 2015, adjusted for deconsolidation of the Transformed Fund, remained almost flat at CZK 22,436 million (−0.3% year over year). In spite of increasing client business volumes in relation to loans, deposits and other assets under management, net interest income and net fees and commissions diminished slightly due to overall lower margins. This decline was partly compensated by improvement in net profit from financial operations which was driven mainly by clients' stronger demand for hedging of financial risks. Reported (unadjusted) net banking income was down by 1.9%.

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[2] The reported volume of 'Amounts due to customers' was down by 1.4% to CZK 669.3 billion.

Adjusted **net interest income** slipped by a slight 0.4% to CZK 15,331 million. The net interest income from loans rose almost in line with the growth in the volume of lending, but net interest income from reinvestment of deposits declined due to very low interest rates prevailing on the market. The net interest margin (NIM), computed as the ratio of net interest income to interest-earning assets, reached 2.46% in the first nine months of 2015. That compares to 2.62% adjusted NIM one year earlier. The unadjusted net interest income declined by 4.2%.

Net income from fees and commissions (adjusted) declined by 1.9% to CZK 5,194 million. The drop was mainly caused by lower fee income from deposit products due to clients' switch to MojeOdměny account bundles providing rewards for their activity. The declining trend eased considerably in the third quarter, however, as the vast majority of clients had already adopted the new packages. Fees from transactions were positively influenced by gains in overall transaction activity, most particularly in the number of payment card transactions. KB is including more and more transactions within its account packages, however, and clients also prefer lower-priced direct banking channels. Transaction fee income thus declined slightly year over year. Fees from loans were down, even though lending expanded, as the portfolio comprised an increasing share of loans which are not charged administration fees and the Bank paid out higher commissions reflecting strong sales of mortgages. Fees from cross-selling were up, benefitting from growth in the volumes of client savings in mutual funds, life insurance policies, as well as pension funds. Solid activity in the areas of structured financing, private banking and other services for corporations also contributed positively.

Net gains from financial operations grew by 6.6% to CZK 1,836 million. The result was positively influenced by solid demand from corporate clients for financing and the related hedging of interest rate and currency risks. The Bank successfully concluded several structured transactions and bond issuances during the period. Net gains from FX payments continued to reflect a narrowing of average spreads and cost optimisation by clients on conversions. The impact of the deconsolidation on this revenue line was immaterial.

Total **operating expenditures** were up by 3.8% to CZK 9,947 million. The growth was solely due to a provision of CZK 409 million created in the second quarter for the estimated amount of the Group's 2015 contribution to the Bank Resolution Fund, which should be established in the Czech Republic this year in accordance with the EU's Bank Recovery and Resolution Directive.[3] The costs excluding this factor actually declined slightly, by 0.4%. Personnel expenses were also almost unchanged, rising by 0.5% to CZK 5,093 million while the average number of employees diminished by 1.4% to 8,416. General administrative expenses excluding the Resolution Fund provision, at CZK 3,110 million, decreased by 2.1% in comparison with the first three quarters of 2014. Savings were achieved across all main areas except for IT support. The category 'Depreciation, impairment and disposal of fixed assets' was essentially flat (0.1%) at CZK 1,335 million.

Gross operating income for the first three quarters reached CZK 12,489 million, down by 3.3% on a basis adjusted for deconsolidation of the Transformed Fund. The unadjusted figure was lower by 6.0%.

The **cost of risk** dropped by 59.3% to CZK 442 million, which means 11 basis points in relative terms as measured over the average volume of the lending portfolio. Clients' repayment discipline was very good both in retail and corporate segments, influenced also by the favourable macroeconomic conditions. The Group released provisions for certain non-standard exposures, thanks to successful recovery and improvement in the financial situations of some clients or due to reduction in these exposures. KB also upgraded its risk models, which led to a one-off adjustment in the third quarter in the level of provisions within the retail segment.

Income from shares in associated undertakings, which comprise KB's stake in Komerční pojišťovna, declined by 12.6% to CZK 125 million.

[3] The legislative proces has not been completed as of time of publication of this Information.

Following deconsolidation of the Transformed Fund, the line ‘Share of profit of pension scheme beneficiaries’ ceased to be reported in the consolidated income statement. The amount had been CZK 362 million a year ago. This change effectively offsets the decrease in net banking income also stemming from the deconsolidation.

Income taxes decreased by 2.0% to CZK 1,981 million.

KB Group’s consolidated net profit for the first three quarters of 2015 reached CZK 10,192 million, higher by 2.4% in comparison with the same period in the prior year. Of this amount, CZK 308 million was profit attributable to holders of minority stakes in KB’s subsidiaries (+4.4% year on year). **Net attributable profit** totalled CZK 9,884 million, which is 2.4% more than in the first nine months of 2014.

Statement of financial position

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

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

As of 30 September 2015, KB Group’s **total assets** amounted to CZK 911.3 billion. Adjusting for the effect of the deconsolidation, this was by 0.1% less than the volume as of 31 December 2014. Including the impact of the deconsolidation, the total assets were smaller by 4.4%.

Cash and current balances with central banks were down by 7.5% to CZK 141.5 billion. The main component of this item comprises the volume of obligatory minimum reserves in central banks.

Amounts due from banks declined by 1.7% to CZK 58.7 billion.

Financial assets measured at fair value through profit or loss decreased by 15.7% to CZK 35.4 billion.

Total net loans and advances added 4.6% in comparison with the end of the previous year to reach CZK 517.7 billion. The gross amount of client loans and advances grew by 4.0% to CZK 534.0 billion. The share of standard loans within that total climbed to 93.7% (CZK 500.4 billion) while the proportion of loans rated watch was 1.8% (CZK 9.4 billion). Loans under special review (substandard, doubtful and loss) comprised 4.5% of the portfolio, with volume of CZK 24.2 billion. The volume of provisions created for loans reached CZK 16.6 billion, which was 11.8% less than at the end of 2014. This drop was due to writing off certain old and fully provisioned exposures from the balance sheet.

The portfolio of financial assets available for sale (AFS), adjusted for deconsolidation of the Transformed Fund, grew by 5.3% to CZK 44.3 billion. The unadjusted volume shrank by 42.8%. The adjusted volume of securities in the held-to-maturity (HTM) portfolio was down by 4.4% to CZK 66.4 billion. The decrease unadjusted for the effect of the deconsolidation was 13.2%.

Of the CZK 44.3 billion total volume of debt securities in the AFS portfolio, Czech government bonds comprised CZK 20.9 billion and foreign government bonds CZK 6.1 billion. Of the HTM portfolio’s CZK 66.4 billion in debt securities, Czech government bonds constituted CZK 56.0 billion and foreign government bonds CZK 10.4 billion.

The net book value of tangible fixed assets dropped by 1.9% to CZK 7.5 billion, while that of intangible fixed assets diminished by 4.3% to CZK 3.6 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF and ESSOX, remained unchanged at CZK 3.8 billion.

Regulatory information

Total liabilities were 4.3% smaller in comparison to the end of 2014 and reached CZK 807.3 billion. Adjusted amounts due to customers were higher by 1.1%, at CZK 669.3 billion. When unadjusted for the effect of the deconsolidation, that volume dropped by 4.6%. The volume outstanding of issued securities grew by 2.2% to CZK 23.1 billion. The Group's **liquidity** as measured by the ratio of net loans to deposits was 77.3%.

Shareholders' equity decreased for the year to date by 5.0% to CZK 104.0 billion. The generation of net profit for the nine months was offset by payment of the annual dividend (KB paid out CZK 11.8 billion in May). Revaluation gains on cash flow hedges were down due to slightly higher market interest rates in comparison with the end of 2014. The revaluation of the AFS portfolio (which represents primarily reinvestment of client deposits) declined as a result of deconsolidating the Transformed Fund and amortisation of the revaluation difference on securities reclassified from the AFS to HTM portfolio in 2014. As of 30 September 2015, KB held in treasury 238,672 of its own shares constituting 0.63% of the registered capital.

Consolidated regulatory capital for the capital adequacy calculation stood at CZK 66.0 billion as of 30 September 2015. KB Group's regulatory capital was composed solely of Core Tier 1 equity. The **capital adequacy** (as well as the Core Tier 1 capital ratio under Basel III standards) stood at 16.4%. From 1 January 2015, and in accordance with applicable regulations, the regulatory capital base has included a contribution from a part of the revaluation reserve recognised within the equity account. This item, which pertains to disposable bonds in the AFS portfolio, amounted to CZK 1.9 billion. It contributed 48 basis points to the capital adequacy ratio.

As measured by the Liquidity Coverage Ratio, the level of KB's liquidity throughout the first three quarters of 2015 safely met requirements established by the Basel III framework.

Regulatory information

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

Profit and Loss Statement (CZK million, unaudited)	**9M 2014 Reported**	**9M 2014 Pro forma**	**9M 2015**	**Change y-o-y**	**Change y-o-y Like-for-like**
Net interest income	16,009	15,395	15,331	-4.2%	-0.4%
Net fees and commissions	5,049	5,294	5,194	2.9%	-1.9%
Net gains from financial operations	1,722	1,723	1,836	6.6%	6.6%
Other income	86	81	75	-12.8%	-7.4%
Net banking income	**22,866**	**22,493**	**22,436**	**-1.9%**	**-0.3%**
Personnel expenses	-5,067	-5,067	-5,093	0.5%	0.5%
General administrative expenses	-3,178	-3,179	-3,519	10.7%	10.7%
Depreciation, impairment and disposal of assets	-1,334	-1,334	-1,335	0.1%	0.1%
Operating costs	**-9,580**	**-9,580**	**-9,947**	**3.8%**	**3.8%**
Gross operating income	**13,287**	**12,913**	**12,489**	**-6.0%**	**-3.3%**
Cost of risk	-1,085	-1,085	-442	-59.3%	-59.3%
Net operating income	**12,202**	**11,828**	**12,047**	**-1.3%**	**1.9%**
Profit on subsidiaries and associates	143	143	125	-12.6%	-12.6%
Share in profit of pension scheme beneficiaries	-362	0	0	n.a.	n.a.
Profit before income taxes	**11,982**	**11,971**	**12,172**	**1.6%**	**1.7%**
Income taxes	-2,034	-2,022	-1,981	-2.6%	-2.0%
Net profit	**9,949**	**9,949**	**10,192**	**2.4%**	**2.4%**
Minority profit/(loss)	295	295	308	4.4%	4.4%
Net profit attributable to the Bank's shareholders	**9,654**	**9,654**	**9,884**	**2.4%**	**2.4%**

Balance Sheet (CZK million, unaudited)	**31 Dec 2014 Reported**	**31 Dec 2014 Pro forma**	**30 Sep 2015**	**Change y-t-d**	**Change y-t-d Like-for-like**
Assets	**953,261**	**911,829**	**911,302**	**-4.4%**	**-0.1%**
Cash and balances with central bank	152,903	152,904	141,487	-7.5%	-7.5%
Amounts due from banks	59,699	59,279	58,676	-1.7%	-1.0%
Loans and advances to customers (net)	494,706	494,706	517,666	4.6%	4.6%
Securities	195,927	154,583	146,068	-25.4%	-5.5%
Other assets	50,026	50,357	47,405	-5.2%	-5.9%
Liabilities and shareholders' equity	**953,261**	**911,829**	**911,302**	**-4.4%**	**-0.1%**
Amounts due to banks	61,361	61,360	53,314	-13.1%	-13.1%
Amounts due to customers	701,867	661,703	669,261	-4.6%	1.1%
Securities issued	22,584	22,584	23,079	2.2%	2.2%
Other liabilities	57,956	58,176	61,656	6.4%	6.0%
Shareholders' equity	109,494	108,006	103,994	-5.0%	-3.7%

KB

Regulatory information

Key ratios and indicators	30 Sep 2014	30 Sep 2015	Change year on year
Capital adequacy (CNB)	17.1%	16.4%	▼
Tier 1 ratio (CNB)	17.1%	16.4%	▼
Total risk-weighted assets (CZK billion)	380.8	403.2	5.9%
Risk-weighted assets for credit risk (CZK billion)	315.8	337.4	6.9%
Net interest margin (NII/average interest-bearing assets)*	2.6%	2.5%	▼
Loans (net) / deposits ratio*	74.3%	77.3%	▲
Cost / income ratio*	42.6%	44.3%	▲
Return on average equity (ROAE)*	13.4%	12.8%	▼
Adjusted return on average equity (adjusted ROAE)*,**	16.1%	15.9%	▼
Return on average assets (ROAA)*	1.5%	1.4%	▼
Earnings per share (CZK)	341	349	2.4%
Average number of employees during the period	8,533	8,416	-1.4%
Number of branches (KB standalone in the Czech Republic)	399	396	-3
Number of ATMs	746	766	+20
Number of clients (KB standalone)	1,621,000	1,642,000	1.3%

* Adjusted for deconsolidation of the Transformed Fund

** Computed as net profit attributable to equity holders divided by average Group shareholders' equity less minority equity, cash flow hedging and revaluation of available-for-sale securities.

Business performance in retail segment – overview	30 Sep 2015	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 176.1 billion	13.4%
Building savings loans (MPSS) – volume of loans outstanding	CZK 36.7 billion	-7.1%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 30.1 billion	4.0%
Small business loans – volume of loans outstanding	CZK 30.1 billion	6.5%
Total active credit cards – number	202,000	1.2%
– of which to individuals	160,000	2.2%
Total active debit cards – number	1,420,000	2.8%
Insurance premiums written (KP)	CZK 5.3 billion	-38.9%

Financial calendar for 2015 and 2016:

11 February 2016: Publication of full-year 2015 results

4 May 2016: Publication of 3M 2016 results

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

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