



Regulatory information

In 2015, Komerční banka accelerated growth in lending

Net profit almost stable despite pressure on margins

- Number of Komerční banka's clients increased by more than 21,000 to 1,647,000
- As KB gained market share in lending to individuals and entrepreneurs, volume of Group's loans to clients expanded by 6.8% to CZK 548.2 billion
- Total client assets in mutual funds, pension savings and life insurance grew by 12.4%
- Client deposits in KB Group rose by 3.3% to CZK 656.7 billion
- Group's Core Tier 1 capital adequacy ratio stood at a strong 16.3%
- Net profit decreased by 1.5% year on year to CZK 12.8 billion

Prague, 11 February 2016 – In its consolidated results for the year 2015, Komerční banka reported faster growth in the loan portfolio, higher volume of assets under management, and continuing gain in the number of the Bank's customers.

Consolidated revenues remained at the same level year on year (-0.1%)¹, as growing business volumes were offset by an overall drop in margins. Recurring operating expenditures decreased by 0.3%. Total operating expenditures increased by 2.9%, due to a one-off impact from revaluation of part of the real estate portfolio. Reflecting the sound quality of KB Group's assets portfolio, the cost of risk dropped by 17.1%. Net profit attributable to shareholders diminished by 1.5% year on year to CZK 12.8 billion.

In view of the 2015 result and while considering KB's capital position, regulatory developments, outlook for growth of risk-weighted assets and its previously announced intention to propose increased distribution in dividends of 80-100% of attributable net profit for the years 2014-2016, 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 92.4% of KB Group's attributable consolidated net profit. The corresponding gross dividend yield based on 2015's closing share price is 6.3%.

The Board of Directors intends to maintain the increased dividend distribution of 80-100% of attributable net profit also for the result of 2016, subject to change of external factors. The distribution policy for the subsequent periods will be reset in 2017.

Albert Le Dirac'h, Chairman of the Board of Directors and Chief Executive Officer of Komerční banka, commented on the results: *"We have met our targets for 2015 in an environment where solid growth in the general economy has been countered by extremely low interest rates and intense competition. At the same time, through a number of projects and initiatives, we have advanced our capacities to provide reliable, safe and competitive financial services distributed via digital channels. Despite this transformation, our mission remains confirmed: to develop long-term mutually beneficial relationships with clients within a multichannel universal banking model."*

¹ Adjusted for the accounting impact of deconsolidating the Transformed Fund of KB Penzijní společnost. Reported revenues decreased by 1.8% year over year.



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KB Group's financial soundness is well illustrated by the main indicators as of 31 December 2015. Its Common Equity Tier 1 capital adequacy ratio stood at a strong 16.3%, and liquidity measured as the ratio of net loans to deposits was at an excellent 79.9%.

As of 31 December 2015, KB had 45,118 shareholders (+1,824 year on year), of which 39,841 were private individuals from the Czech Republic (+1,681 year on year).



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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).

BUSINESS PERFORMANCE OF KB GROUP

Market environment

The Czech Republic's economic performance in 2015 was exceptionally strong, driven by solid domestic demand and further boosted by such one-off factors as increased tapping of EU structural funds and diminishing fuel prices. The solid profitability of businesses and low unemployment helped boost levels of economic confidence, which in turn manifested themselves in high investment spending and consumption. Although this situation had already begun pushing up core inflation (inflation adjusted for changes in prices of food, fuels, regulated prices and effects of indirect taxes), the headline consumer price inflation remained very low due to decreased prices for oil and other commodities and a Czech crown that was moderately stronger year on year. Interbank interest rates oscillated somewhat through the year in correlation with euro-denominated rates, but they closed the year at a similarly very low level as at the start of 2015.

Fuelled by the healthy economic backdrop and low interest costs, the overall growth in lending by banks was faster than in the previous year. Exceptions to this trend occurred in unsecured consumer lending and lending to entrepreneurs. These clients continued to demonstrate the same rather cautious attitude which has followed the financial crisis. Loans from building societies, meanwhile, gave up further market share to bank mortgages. The pace of deposit growth was boosted by rising household disposable income and healthy operational profitability among businesses. Some building of positions in the Czech currency by non-residents was also apparent during the year, and this affected the sector's overall asset base.

Developments in the client portfolio and distribution networks

At the close of December 2015, KB Group was serving 2.4 million clients on a consolidated basis. Standalone KB recorded 1,647,000 clients (+1.3% year on year), of which 1,391,000 were individuals. The remaining 256,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 519,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 545,000. ESSOX's services were being used by 219,000 active clients.

Komerční banka's clients had at their disposal 397 banking branches (including one branch for corporate clients in Slovakia), 772 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 1,340,000 by the end of December 2015 and corresponds to 81.4% of all clients. Customers held 1,618,000 active payment cards, of which 201,000 were credit cards. The number of active credit cards issued by ESSOX came to 118,000. Modrá pyramida's customers had at their disposal 215 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 6.8% year on year to CZK 548.2 billion. Lending increased across all main categories except for loans provided by the building society, although Modrá pyramida did expand its portfolio in the fourth quarter.

Among loans to individuals, the overall volume of housing loans grew by 10.6% % year on year. Within this total, the portfolio of mortgages to individuals rose by 13.9% from the year earlier to CZK 185.0 billion. The volume of Modrá pyramida's loan portfolio dropped by 3.4% to CZK 37.0 billion



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but the building society observed improving trend of sales of its loan production. The volume of consumer lending provided by KB and ESSOX was up by 6.7% to CZK 30.6 billion, notably outperforming the flattish market.

The total volume of **loans** provided by KB Group to **businesses** climbed by 4.8% to CZK 292.6 billion. The overall volume of credit granted by KB to medium-sized and large corporate clients in the Czech Republic and Slovakia, and inclusive of factor finance outstanding at Factoring KB, advanced by 4.1% to CZK 237.2 billion. Lending to small businesses expanded by 8.7% to CZK 30.9 billion. Total credit and leasing amounts outstanding at SGEF were higher by 6.7% year over year at CZK 24.5 billion.

Amounts due to customers and assets under management

The overall **volume of deposits** within KB Group rose by 3.3% year on year to CZK 656.7 billion. Those figures exclude the impacts of deconsolidating clients' assets in the Transformed Fund of KB Penzijní společnost as of 1 January 2015 and volatile repo operations with clients². Deposits at KB from individual clients grew by 10.7% year on year to CZK 197.4 billion. The deposit book at Modrá pyramida diminished by 5.3% to CZK 68.5 billion. Total deposits from businesses and other corporations climbed by 1.6% to CZK 385.0 billion.

Client assets managed by KB Penzijní společnost were higher by 11.3% at CZK 45.1 billion. Technical reserves in life insurance at Komerční pojišťovna expanded by 5.1% to CZK 44.8 billion. The volumes in mutual funds held by KB clients (and managed by IKS KB and Amundi) grew by 21.9% to CZK 46.0 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 the Bank 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 Transformed Fund's contribution to consolidated revenues in 2014 and reflect a corresponding elimination from the income statement of the line 'Share of profit of pension scheme beneficiaries'. The adjusted comparison is thus based upon the same consolidation scope for both 2014 and 2015. There was no impact from the deconsolidation on reported operating expenses, cost of risk and the net profit of KB Group.

Komerční banka's total revenues (**net banking income**) remained stable in 2015 (-0.1%). Net interest income declined slightly, as the negative impact of low market interest rates on reinvestment yield from deposits more than offset the effect of growing loan and deposit volumes. Net fees and commissions decreased as a result of clients' switching to new advantageous account packages featuring the MojeOdměny (MyRewards) programme as well as to lower-priced on-line banking tools. Net profit from financial operations rose thanks to improved demand from corporate clients for hedging of financial risks. Reported (unadjusted) net banking income was down by 1.8%.

Net interest income slipped by 0.7% to CZK 20,456 million, despite strong growth especially in the

² The total volume of 'Amounts due to customers', adjusted for effect of deconsolidation of the Transformed Fund, was up by 0.7% to CZK 666.4 billion.



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volume of loans. This mainly reflects diminishing yields from reinvesting deposits, as market interest rates remained at very low levels throughout 2015. The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, decreased to 2.5% in 2015 from 2.6% one year earlier. The unadjusted net interest income declined by 4.5%.

Net income from fees and commissions declined by 1.8% to CZK 6,956 million. Even though the number of transactions executed for clients expanded notably, the income from transaction fees was down due to inclusion of more transactions within the account packages and clients' rising preference for lower-priced direct banking channels. The number of KB's clients increased, too, but fees from deposit products were pushed down by the transition – now almost complete – to account bundles providing rewards for activity. Fees from loans were down, even though lending expanded, as the portfolio comprised a mounting share of loans for which no administration fees are charged and the Bank paid out higher commissions reflecting strong sales of housing loans. On the positive side, 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. The unadjusted fees and commissions rose by 3.0%.

Net gains from financial operations were higher by 9.7% at CZK 2,610 million. Customers' hedging activity for interest rate and currency risks picked up thanks to growth in financing and the fact that KB was able to offer option strategies effective in the current market environment. Successful roll-out of the new eTrading application for business clients contributed as well to growth in the volume and number of spot and derivative transactions. 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.

Recurring operating expenditures decreased by 0.3% to CZK 13,021 million. The total reported operating costs increased by 2.9% to CZK 13,439 million, impacted by revaluation of the real estate portfolio. Within this total, personnel expenses rose by a slight 0.1%³ to CZK 6,793 million. The average number of employees diminished by 1.2% to 8,421. General administrative expenses were down by 1.8% to CZK 4,406 million. Savings were achieved across all main areas except for IT support. 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 was released in the fourth quarter, because the respective law has come into force only from 1 January 2016. The category 'Depreciation, impairment and disposal of fixed assets' grew by 25.1% to CZK 2,240 million. During the last quarter of 2015, KB reviewed the portfolio of buildings it owns with the aim to optimise the ratio of owned and rented premises. The Bank identified several buildings which have been reclassified into the accounting category Held for Sale and their valuations have been adjusted in line with their newly intended use (sale). The net book value of the buildings thereby decreased by CZK 418 million, which amount has been recognised on the line 'Depreciation, impairment and disposal of assets'. The impairment has no cash impact.

Gross operating income for the year was 2.4% lower, at CZK 16,692 million.

The **cost of risk** dropped by 17.1% to CZK 1,075 million, or 21 basis points in relative terms as measured over the average volume of the lending portfolio. The low level of net provisions creation for the year reflected the stable and good quality of the loans portfolio, as well as successful recovery performance. Cost of risk in the second half of 2015 was higher due to impacts from calibrating provisioning models in the retail and corporate segments and creating provisions for a few specific

³ Since 1 January 2015, KB Group has introduced accounting for SG deferred share plan. Comparative information has been restated to reflect the presentation of the current period. The impact of recognition of Deferred share plan in the income statement was an increase in the line Personnel expenses by CZK 31 million for the year 2014. The volume of capital funds on the balance sheet increased by CZK 31 million. These two impacts were mutually compensated with no impact to Total equity.



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cases in the corporate segment.

Income from shares in associated undertakings (effectively only from Komerční pojišťovna) declined by 19.9% to CZK 153 million. That was due to the effect of lower interest rates on the yield from assets and a decline year over year in premiums written.

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 508 million a year ago. This change effectively offsets the decrease in net banking income also stemming from the deconsolidation.

Income taxes decreased by 1.2% to CZK 2,638 million.

At CZK 13,132 million, KB Group's consolidated net profit for 2015 was lower by 1.5% in comparison with the prior year. Of this amount, CZK 374 million was profit attributable to holders of minority stakes in KB's subsidiaries (-0.5% versus the year earlier). **Profit attributable to the Bank's shareholders** totalled CZK 12,758 million, which is 1.5% less than in 2014.

Statement of financial position

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 31 December 2015, KB Group's **total assets** amounted to CZK 891.6 billion. Adjusting for the effect of the deconsolidation, this was 2.2% less than the volume as of 31 December 2014. If the previously consolidated assets are included, the drop comes to 6.5%.

Cash and current balances with central banks were down by 16.1% to CZK 128.3 billion. The main component of this item comprises the volume of obligatory minimum reserves in central banks.

Amounts due from banks declined by 19.9% to CZK 47.8 billion. The end-of-year balance was affected by the announced decision of the Bank to reflect the cost of the Resolution Fund charge in pricing of large-ticket deposits. The year-end balances influence the Resolution Fund charge imposed by the regulator.

Financial assets measured at fair value through profit or loss decreased by 30.4% to CZK 29.2 billion.

Total net loans and advances grew by 7.7% in comparison with the end of the previous year to reach CZK 532.6 billion. The gross amount of client loans and advances rose by 6.8% to CZK 548.2 billion. The share of standard loans within that total climbed to 94.2% (CZK 516.3 billion) while the proportion of loans rated watch was 1.6% (CZK 8.7 billion). Loans under special review (substandard, doubtful and loss) comprised 4.2% of the portfolio, with volume of CZK 23.2 billion. The volume of provisions created for loans reached CZK 15.8 billion. That was 16.0% less than at the end of 2014. This drop was affected by writing-off from the balance sheet of certain old and fully provisioned exposures.

The portfolio of financial assets available for sale (AFS), as adjusted for deconsolidation of the Transformed Fund, declined by 0.4% to CZK 41.9 billion. The unadjusted volume shrank by 45.9%. The adjusted volume of securities in the held-to-maturity (HTM) portfolio was down by 3.4% to CZK 67.1 billion. The decrease unadjusted for the effect of the deconsolidation was 12.3%.

Of the CZK 41.9 billion in the AFS portfolio, debt securities comprised CZK 41.2 billion, including CZK 20.4 billion in Czech government bonds and foreign government bonds of CZK 7.9 billion. Of the HTM portfolio's CZK 67.1 billion in debt securities, Czech government bonds constituted CZK



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56.2 billion and foreign government bonds CZK 10.9 billion.

The net book value of tangible fixed assets dropped by 10.7% to CZK 6.8 billion, while that of intangible fixed assets added 2.9% 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.

As of 8 December 2015, KB reduced the capital of its subsidiary Protos, uzavřený investiční fond, a.s. (Protos) by CZK 5,000 million. The decrease was made through a distribution of the premium fund of Protos. As a result of the transaction, KB's share in Protos decreased from 89.64% to 83.65%. The remaining participation in Protos is by Factoring KB, a.s., which is itself fully owned by KB.

Total liabilities were 6.9% smaller in comparison to the close of 2014 and reached CZK 785.3 billion. Adjusted amounts due to customers were higher by 0.7% at CZK 666.4 billion. When unadjusted for the effect of the deconsolidation, that volume dropped by 5.1%. The volume outstanding of issued securities plummeted by 50.0% to CZK 11.3 billion, as the maturing bonds were not replaced by new issues. The Group's **liquidity** as measured by the ratio of net loans to deposits was 79.9%.

Shareholders' equity decreased year over year by 3.0% to CZK 106.2 billion. The generation of net profit was offset by payment of the annual dividend (KB had 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. That was mitigated in part by positive revaluation of equity instruments. As of 31 December 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 66.6 billion as of 31 December 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 16.3%. As from 1 January 2016, the regulator increased the minimum required level of total capital by 10 basis points to 14.5%. The regulatory capital base includes a contribution from a part of the revaluation reserve recognised within the equity account.

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

CORPORATE ACTIONS

At its meeting on 11 January 2015, the Board of Directors decided to terminate Komerční banka's Global Depository Receipts programme in order to increase the Bank's operating efficiency. The Board also resolved to propose to the General Meeting a split of KB's shares in the ratio 5 to 1 improve the title's liquidity on stock markets.



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ANNEX: Consolidated results as of 31 December 2015 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	FY 2014 Reported	FY 2014 Pro forma	FY 2015	Change y-o-y	Change y-o-y Like-for- like
Net interest income	21,423	20,595	20,456	-4.5%	-0.7%
Net fees and commissions	6,752	7,085	6,956	3.0%	-1.8%
Net gains from financial operations	2,385	2,380	2,610	9.4%	9.7%
Other income	116	109	109	-6.0%	0.0%
Net banking income	30,677	30,169	30,131	-1.8%	-0.1%
Personnel expenses	-6,784	-6,785	-6,793	0.1%	0.1%
General administrative expenses	-4,489	-4,489	-4,406	-1.8%	-1.8%
Depreciation, impairment and disposal of assets	-1,791	-1,791	-2,240	25.1%	25.1%
Operating costs	-13,065	-13,065	-13,439	2.9%	2.9%
Gross operating income	17,612	17,104	16,692	-5.2%	-2.4%
Cost of risk	-1,296	-1,296	-1,075	-17.1%	-17.1%
Net operating income	16,316	15,808	15,617	-4.3%	-1.2%
Profit on subsidiaries and associates	191	191	153	-19.9%	-19.9%
Share in profit of pension scheme beneficiaries	-508	0	0	n.a.	n.a.
Profit before income taxes	15,999	15,999	15,770	-1.4%	-1.4%
Income taxes	-2,669	-2,669	-2,638	-1.2%	-1.2%
Net profit	13,330	13,330	13,132	-1.5%	-1.5%
Minority profit/(loss)	376	376	374	-0.5%	-0.5%
Net profit attributable to the Bank's shareholders	12,954	12,954	12,758	-1.5%	-1.5%

Balance Sheet (CZK million, unaudited)	31 Dec 2014 Reported	31 Dec 2014 Pro forma	31 Dec 2015	Change y-t-d	Change y-o-y Like-for- like
Assets	953,261	911,829	891,555	-6.5%	-2.2%
Cash and balances with central bank	152,903	152,903	128,336	-16.1%	-16.1%
Amounts due from banks	59,699	59,279	47,799	-19.9%	-19.4%
Loans and advances to customers (net)	494,706	494,706	532,617	7.7%	7.7%
Securities	195,927	154,583	138,144	-29.5%	-10.6%
Other assets	50,026	50,357	44,658	-10.7%	-11.3%
Liabilities and shareholders' equity	953,261	911,829	891,555	-6.5%	-2.2%
Amounts due to banks	61,360	61,360	56,230	-8.4%	-8.4%
Amounts due to customers	701,867	661,703	666,407	-5.1%	0.7%
Securities issued	22,584	22,584	11,283	-50.0%	-50.0%
Other liabilities	57,956	58,176	51,408	-11.3%	-11.6%
Shareholders' equity	109,494	108,006	106,228	-3.0%	-1.6%



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Key ratios and indicators	31 Dec 2014	31 Dec 2015	Change year on year
Capital adequacy (CNB)	16.4%	16.3%	▼
Tier 1 ratio (CNB)	16.4%	16.3%	▼
Total risk-weighted assets (CZK billion)	384.2	407.6	6.1%
Risk-weighted assets for credit risk (CZK billion)	319.2	342.0	7.1%
Net interest margin (NII/average interest-bearing assets)*	2.6%	2.5%	▼
Loans (net) / deposits ratio*	74.7%	79.9%	▲
Cost / income ratio*	43.3%	44.6%	▲
Return on average equity (ROAE)*	13.1%	12.3%	▼
Adjusted return on average equity (adjusted ROAE)*,**	15.9%	15.1%	▼
Return on average assets (ROAA)*	1.5%	1.4%	▼
Earnings per share (CZK)	343	338	-1.5%
Average number of employees during the period	8,525	8,421	-1.2%
Number of branches (KB standalone in the Czech Republic)	398	396	-2
Number of ATMs	754	772	18
Number of clients (KB standalone)	1,626,000	1,647,000	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	31 Dec 2015	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 185.0 billion	13.9%
Building savings loans (MPSS) – volume of loans outstanding	CZK 37.0 billion	-3.4%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 30.6 billion	6.7%
Small business loans – volume of loans outstanding	CZK 31,6 billion	11.3%
Total active credit cards – number	201,000	5.5%
– of which to individuals	159,000	7.5%
Total active debit cards – number	1,417,000	5.6%
Insurance premiums written (KP)	CZK 6.6 billion	-35.5%

Financial calendar for 2016:

- 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