More benefits to clients, growth in lending and deposits

Net profit at CZK 9.8 billion for first nine months of 2013

Prague, 7 November 2013 – As of the end of 2013's third quarter, Komerční banka reported increase in the volume of loans to clients by 2.9% year on year to CZK 475.7 billion. Client deposits[1] rose by 4.8% to CZK 592.0 billion over the same period. Consolidated net profit attributable to shareholders diminished by 12.5% to CZK 9.6 billion. Adjusted for one-off items, the percentage decline in net profit was 7.7% year on year.

In spite of growing business volumes, KB Group's consolidated revenues were down by 5.8% to CZK 23.3 billion, affected by several one-off items booked in the previous year. The 3.8% decrease in recurring revenues was mainly caused by very low market interest rates which limit returns from reinvested liquidity and lower prices for certain banking services.

Meanwhile, KB achieved further savings in operating expenditures, which decreased by 1.7% to CZK 9.7 billion. In accordance with the stable and good quality of the Bank's asset portfolio, the cost of risk remained almost flat (declining by a slight 0.1% to CZK 1.3 billion).

Even in light of the Czech National Bank's heightened requirements for systemically important financial institutions[2], Komerční banka maintains solid capital and liquidity positions. The Group's Core Tier 1 capital adequacy ratio ended the third quarter at a strong 16.7%, and the ratio of net loans to deposits (excluding client assets in pension funds) was 79.6%.

Highlights of the third quarter

- Mortgage portfolio growth reached 8.4% year on year, while unsecured consumer lending increased notably in the third quarter at both KB and ESSOX.
- Growth in asset volumes in mutual funds by 13.8%, in life insurance reserves by 19.5%, and in pension assets by 10.0%, underpinned by KB's strategic aim to offer clients appropriate long-term solutions for their savings even in the present environment of low interest rates.
- KB's capacity to continue financing Czech consumers and businesses and to pursue its current policy of paying out a fair and prudent share of its net income to shareholders remains adequate with regard to the new capital requirements announced by the Czech National Bank[2]

Comment of the CEO

"While the Czech economy has entered a recovery phase, this has not yet translated into accelerated growth in loan volume. On the other hand, indicators of household and business confidence have been improving and we achieved excellent results in certain loan products, such as in mortgages and export financing. There already have been signs that corporations are preparing new investments and that consumers' appetite to borrow is rising. KB will continue its focus on providing effective financing solutions which will help clients to achieve their plans and targets. That, in turn, will support economic growth and the creation of new jobs."

Albert Le Dirac'h, Chairman of the Board of Directors and Chief Executive Officer

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[1] Excluding repo operations with clients

[2] The information on capital buffers required by the CNB is available on KB's website (http://www.kb.cz/en/about-the-bank/press-room/information-duty/releases/capital-buffers-announcement-1730.shtml)

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

Even though macroeconomic indicators were signalling that growth recovery had already begun in the Czech Republic, no notable acceleration in the growth of the lending volumes was visible on the banking market during the third quarter. In fact, the pace of growth in lending to non-financial corporations and to individuals remained stable on the Czech banking market, while loans provided on the market to entrepreneurs slightly declined. Growth in deposits from individuals in Czech banks slowed slightly, influenced also by increasing popularity of non-bank savings products. Businesses in general were still adding to their deposit reserves at banks.

The Czech National Bank maintained its policy-setting two-week repo rate at the record-low level of 0.05% and discussed the possibility for interventions to weaken the Czech crown as its next potential monetary policy tool. There were certain indications, such as announced cuts in the prices of electricity, that consumer price inflation may drop below zero at the beginning of 2014 and thus markedly below the CNB's 2% target. That would discourage the central bank from contemplating any increase in the basic interest rate. On the other hand, the longer end of the CZK yield curve rose slightly over the most of the quarter, driven by international developments as well as hopeful signs from the domestic economy.

Developments in client portfolio and distribution networks

As of the end of September 2013, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,580,000 clients (-1.5% year on year), of which 1,328,000 were individuals. The remaining 252,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 575,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 563,000. ESSOX's services were being used by 274,000 active clients.

Komerční banka's clients had at their disposal 399 banking branches (including one in Bratislava), 715 ATMs, and 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 1,141,000 by the end of September 2013 and corresponds to 72.2% of all clients. Customers held 1,573,000 active payment cards, of which 203,000 were credit cards. The number of active credit cards issued by ESSOX came to 138,000, and consumer financing from ESSOX was available through its network of 2,800 merchants. Modrá pyramida's customers had at their disposal 205 points of sale and 984 advisors. SG Equipment Finance (SGEF) was providing its leasing services through 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 year on year by 2.9% to CZK 475.7 billion. Lending to individuals grew, as did that to corporate clients. Lending to small businesses diminished somewhat.

In the segment of **loans to individuals**, the portfolio of mortgages to individuals rose by 8.4% year on year to CZK 141.5 billion. The overall growth in loans for housing was slower. Inasmuch as the popularity of mortgages was partly offset by lower demand for building savings loans, the volume in Modrá pyramida's loan portfolio dropped by 9.4% to CZK 45.2 billion. In step with the partial recovery in consumer confidence, the demand for consumer lending began to improve. In a year-over-year comparison, the volume of consumer loans (from KB and ESSOX) grew by 2.2% to CZK 28.0 billion.

The total volume of **loans** provided by KB Group **to businesses** expanded by 2.5% to CZK 256.1

billion. The overall volume of credit granted by KB to (medium-sized and large) corporate clients in the Czech Republic and Slovakia rose by 2.4% to CZK 203.3 billion, with particularly strong growth in export financing. Lending to small businesses diminished by 0.8% to CZK 28.5 billion. Factor finance outstanding at Factoring KB increased by a strong 41.7% to CZK 4.0 billion. Total credit and leasing amounts outstanding at SGEF were up 2.1% year over year, at CZK 20.3 billion.

Amounts due to customers and assets under management

The total **volume of deposits**[3] on KB Group's balance sheet rose by 4.8% year on year to CZK 592.0 billion. Deposits from businesses climbed by 8.6% to CZK 324.2 billion. Deposits at KB from individual clients slipped by 2.0% to CZK 157.3 billion, influenced by a transfer of some clients' savings to such non-banking products as mutual funds and life insurance. The deposit book at Modrá pyramida gained 0.6% year on year to reach CZK 71.3 billion. Client assets in the transformed fund managed by KB Penzijní společnost grew by 10.0% to CZK 34.9 billion. These client assets continued to be consolidated into the KB Group accounts.

Total technical reserves in life insurance at Komerční pojišťovna expanded by 19.5% to CZK 33.0 billion. The volumes in mutual funds held by KB clients (managed by IKS KB and Amundi) increased by 13.8% to CZK 30.5 billion.

Selected business achievements and initiatives

KB Group was extending its programme of rewards to clients MojeOdměny throughout the year. Furthermore, in the third quarter, it unveiled several product innovations and improvements:

- The EKO Loan is a facility designed for financing of projects focused on energy savings and renewable energy sources in residential housing. The product facilitates clients' access to subsidies newly available under the Czech government's New Green for Savings programme.
- Through its EuroMuni programme, KB offers financing at reduced rates for municipalities' development projects. This is made possible by KB's co-operation with the Council of Europe Development Bank.
- Komerční pojišťovna introduced a new risk life insurance policy, MojeJistota, with the broadest risk coverage on the market, including loss of income, injuries, death, and even provision of medical assistance services.

KB and the Chamber of Trade and Industry for the Confederation of Independent States signed a co-operation agreement for 2014. The aim of this collaboration is to promote Czech companies' trade with CIS countries, and it will facilitate KB clients' utilisation of the CIS Chamber's extensive experience and contacts.

The Group made a good showing in a contest organised by the daily newspaper Hospodářské noviny. Komerční pojišťovna ranked first in the category The Most Client Friendly Life Insurance Company of 2013 and second in that for The Best Life Insurance Company of 2013. Komerční banka placed second in the category The Best Bank of 2013.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement

Total **net banking income** through the first three quarters of 2013 decreased by 5.8% year over year to CZK 23,282 million. In spite of the gains in loan and deposit volumes, several one-off items

[3] Excluding repo operations with clients. Total amounts due from clients expanded by 7.2% year on year to CZK 609.3 billion

booked in the previous year contributed to the decline. These included income from the year-earlier sale of KB's stake in Czech–Moravian Guarantee and Development Bank (CMZRB) and gains from adjustments in the bond portfolio of Penzijní fond KB prior to its transformation. Decline in revenues adjusted for extraordinary items reached 3.8%. This was attributable to persisting very low market interest rates which limit yield from reinvestment of liquidity, only slow recovery in the economic activity in the Czech Republic, lower prices for certain banking services, and extension of benefits awarded to clients within the successful MojeOdměny (MyRewards) loyalty programme.

Net interest income was down by 3.9% to CZK 15,879 million, despite the growing loan and deposit volumes. Deposit spreads were under pressure from decreased yields on reinvested deposits, resulting from the significant decline in market interest rates which appeared towards the end of 2012. Reflecting the extremely competitive market, spreads on lending moved in a narrow range. Interest income was affected, too, by the divestment of government bonds from southern Europe in 2012 and 2013. The net interest margin, measured as a percentage of interest-earning assets, declined to 2.9% through the first nine months of 2013 from 3.2% a year earlier.

Net income from fees and commissions rose by 1.6% to CZK 5,315 million. KB expanded its MojeOdměny client rewards programme, which effectively drove down fee income from deposit products and transactions. The Group also reported lower commissions for acquisition of pension fund clients in comparison with the previous year. Income from life insurance and mutual funds increased, driven by growth in the volume of client savings. Despite a rise in the number of transactions executed by clients, the income from transactions decreased due to diminishing average prices and clients' continuing switch to lower-cost means of making payments. Revenues from KB's debt capital market activities rose as the Bank successfully arranged several acquisition and syndicated financings.

Net gains from financial operations declined by 30.8% to CZK 1,986 million, affected by several one-off items from the previous year (mainly income from sale of KB's stake in CMZRB, gains from adjustments in the portfolio of Penzijní fond KB, and sale of the remaining Greek and Portuguese government bonds). Improved client demand for exchange-rate hedging solutions reflected higher CZK volatility. Demand for interest-rate hedging was subdued in the low-rate environment and as the market was characterised by only limited volumes of long-term financing transactions. Net gains from FX payments reflected lower average spreads.

Total **operating expenditures** were reduced by 1.7% to CZK 9,675 million. Within this category, personnel costs came down by 0.6% to CZK 5,034 million as the average number of employees was lower by 1.8% at 8,618. General administrative expenses decreased by 4.0% to CZK 3,356 million. The main savings were achieved in costs of mailing services (relating to the switch to electronic account statements), marketing and telecommunications. Real estate expenses were favourably influenced by the moving of certain operating functions into the new building at Prague-Stodůlky. On the other hand, rolling out of contactless payment cards and related infrastructure required increased spending in this area. The category depreciation, impairment and disposal of fixed assets was up by a slight 0.2%, as higher amortisation of software applications was partially offset by lower depreciation of buildings and IT hardware and the Group also recorded a small gain from sale of buildings.

Gross operating income for the first nine months of 2013 declined by 8.5%, to CZK 13,607 million.

Consistent with the stability and good quality of the assets portfolio, the **cost of risk** remained almost flat, easing by a slight 0.1% to CZK 1,344 million. The risk profile developed in a modestly favourable manner in both retail and corporate segments. Stated in relative terms, the cost of risk during the first nine months came to 38 basis points in comparison with 40 basis points for the same period of the previous year.

Income from shares in associated undertakings rose by 7.8% to CZK 97 million. The proportion of profit attributable to clients of the transformed pension fund came to CZK 372 million.

Income taxes increased by 4.4% to CZK 2,167 million.

KB Group's consolidated net profit for the nine months to September 2013 slipped by 11.6% to CZK 9,822 million. Of this amount, CZK 264 million was profit attributable to holders of minority stakes in KB's subsidiaries (+35.4%). **Profit attributable to the Bank's shareholders** amounted to CZK 9,558 million, which is 12.5% less than in the first three quarters of 2012. **Adjusted for one-off effects,** attributable net profit decreased by 7.7%.

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 2012.

KB Group's **total assets** as of 30 September 2013 had increased by 2.2% year to date to CZK 804.1 billion.

Amounts due from banks grew by 23.8% to CZK 79.4 billion. The largest component of this item consisted of loans to central banks as part of reverse repo operations.

Financial assets at fair value through profit or loss decreased by 26.1% to CZK 38.1 billion. That portfolio comprises the Group's proprietary trading positions.

Total net loans and advances grew from the end of previous year by 1.3% to CZK 457.3 billion. The gross amount of client loans and advances was higher by 1.4%, at CZK 475.7 billion. The share of standard loans within that total climbed to 92.2% (CZK 438.7 billion) while the proportion of watch loans was 2.0% (CZK 9.6 billion). Loans under special review (substandard, doubtful and loss) comprised 5.8% of the portfolio, with volume of CZK 27.4 billion. The volume of provisions created for loans reached CZK 18.4 billion, which was 4.0% more than at the end of 2012.

The portfolio of securities available for sale diminished by 2.8% to CZK 137.9 billion. From the CZK 137.9 billion total volume of debt securities in this portfolio, Czech government bonds comprised CZK 96.4 billion and foreign government bonds CZK 16.9 billion. The volume of securities in the held-to-maturity portfolio decreased by 1.6% to CZK 3.3 billion. This portfolio consists entirely of bonds.

The net book value of tangible fixed assets slipped by 2.3% to CZK 7.8 billion, while that of intangible fixed assets was lower by 4.1%, at CZK 3.8 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida and SGEF, remained unchanged at CZK 3.8 billion.

Total liabilities were 3.5% greater in comparison to the end of 2012, reaching CZK 710.3 billion. Amounts due to customers grew by 5.2% to CZK 609.3 billion. The volume outstanding of issued securities expanded by 19.8% to CZK 23.5 billion. The Group's **liquidity**, as measured by the ratio of net loans to deposits, was 79.6% (75.1% if including client assets in the transformed fund).

Shareholders' equity came down year to date by 6.7% to CZK 93.8 billion. The generation of net profit added to the equity. On the other hand, in May, KB paid out a dividend of CZK 8.7 billion, and the book value of the available-for-sale portfolio and cash flow hedges (both of which represent primarily reinvestment of client deposits) decreased due to slightly higher interest rates in comparison with the end of 2012. As of 30 September 2013, KB held in treasury 238,672 of its own shares, constituting 0.63% of the registered capital.

Comprised solely of Core Tier 1 capital, regulatory capital for the capital adequacy calculation stood at CZK 59.4 billion as of the end of September 2013. KB Group's **capital adequacy**, as well as the Core Tier 1 capital ratio under Basel II standards, stood at a high level of 16.7%. The year over year rise in the ratio was driven by increase in the volume of retained earnings, and lower capital requirements due to bigger share of exposures with relatively low risk weights (such as mortgages), divestment of relatively more risky sovereign exposures from Southern Europe and continuous refinement of risk management models and parameters.

Regulatory information

Return on average equity for the first three quarters of 2013 came to 13.5% while return on average assets was 1.6%. Excluding one-off items, adjusted return on average equity was 13.2% and adjusted return on average assets was 1.6%.

KB

Regulatory information

ANNEX: Consolidated results as of 30 September 2013 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	**9M 2013**	**9M 2012**	**Change year on year**
Net interest income	15,879	16,517	-3.9%
Net fees and commissions	5,315	5,229	1.6%
Net gains from financial operations	1,986	2,870	-30.8%
Other income	101	96	5.2%
Net banking income	**23,282**	**24,712**	**-5.8%**
Personnel expenses	-5,034	-5,064	-0.6%
General administrative expenses	-3,356	-3,496	-4.0%
Depreciation, impairment and disposal of fixed assets	-1,285	-1,282	0.2%
Operating costs	**-9,675**	**-9,842**	**-1.7%**
Gross operating income	**13,607**	**14,871**	**-8.5%**
Cost of risk	-1,344	-1,345	-0.1%
Net operating income	**12,263**	**13,526**	**-9.3%**
Profit on subsidiaries and associates	97	90	7.8%
Share in profit of pension scheme beneficiaries	-372	-427	-12.9%
Profit before income taxes	**11,989**	**13,189**	**-9.1%**
Income taxes	-2,167	-2,075	4.4%
Net profit	**9,822**	**11,114**	**-11.6%**
Minority profit/(loss)	264	195	35.4%
Net profit attributable to the Bank’s shareholders	**9,558**	**10,919**	**-12.5%**

Balance Sheet (CZK million, unaudited)	**30 Sep 2013**	**31 Dec 2012**	**Change year to date**
Assets	**804,125**	**786,836**	**2.2%**
Cash and balances with central bank	50,280	28,057	79.2%
Amounts due from banks	79,369	64,111	23.8%
Loans and advances to customers (net)	457,301	451,547	1.3%
Securities	179,238	196,706	-8.9%
Other assets	37,937	46,415	-18.3%
Liabilities and shareholders’ equity	**804,125**	**786,836**	**2.2%**
Amounts due to banks	31,285	38,901	-19.6%
Amounts due to customers	609,284	579,067	5.2%
Securities issued	23,502	19,624	19.8%
Other liabilities	46,226	48,705	-5.1%
Shareholders’ equity	93,829	100,538	-6.7%

KB

Regulatory information

Key ratios and indicators	30 Sep 2013	30 Sep 2012	Change year on year
Capital adequacy (CNB, Basel II)	16.7%	14.5%	▲
Tier 1 ratio (CNB, Basel II)	16.7%	14.5%	▲
Total capital requirement (CZK billion)	28.4	29.6	-4.1%
Capital requirement for credit risk (CZK billion)	23.9	25.0	-4.4%
Net interest margin (NII/average interest-bearing assets)	2.9%	3.2%	▼
Loans (net) / deposits ratio	75.1%	78.4%	▼
Loans (net) / deposits ratio excluding client assets in transformed fund	79.6%	82.9%	▼
Cost / income ratio	41.6%	39.8%	▲
Return on average equity (ROAE)	13.5%	17.0%	▼
Adjusted return on average equity (adjusted ROAE)*	16.8%	20.9%	▼
Return on average assets (ROAA)	1.6%	1.9%	▼
Earnings per share (CZK)	337	385	-12.5%
Average number of employees during the period	8,618	8,776	-1.8%
Number of branches (KB standalone in the Czech Republic)	398	399	-1
Number of ATMs	715	702	+13
Number of clients (KB standalone)	1,580,000	1,605,000	-1.5%

* Computed as net profit attributable to equity holders divided by average Group shareholders' equity w/o minority equity, cash flow hedging and revaluation of AFS securities.

Business performance in retail segment – overview	30 Sep 2013	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 141.5 billion	8%
– number of loans outstanding	119,000	10%
Building savings loans (MPSS) – volume of loans outstanding	CZK 45.2 billion	-9%
– number of loans outstanding	112,000	-13%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 28.0 billion	2%
Small business loans – volume of loans outstanding	CZK 28.5 billion	-1%
Total active credit cards – number	203,000	-3%
– of which to individuals	156,000	-2%
Total active debit cards – number	1,371,000	-4%
Insurance premiums written (KP)	CZK 6.4 billion	32%

Financial calendar for 2014:

12 February 2014: Publication of FY 2013 and 4Q 2013 results

7 May 2014: Publication of 1Q 2014 results

1 August 2014: Publication of 1H 2014 and 2Q 2014 results

6 November 2014: Publication of 9M 2014 and 3Q 2014 results