KB’s operating income maintained stable thanks to increase in the volume of client business

- **Volume of Group’s loans to clients expanded by 5.9% to CZK 513.7 billion**
- **Consolidated assets grew by 9.4% year on year on a like-for-like basis, to CZK 912.2 billion**
- **Volume of banking deposits rose by 7.8% year on year to CZK 650.0 billion**
- **KB Group’s Core Tier 1 capital adequacy ratio stood at a strong 16.7%**
- **Clients’ investments in mutual funds grew by 33.4%, pension savings by 12.1%, and life insurance technical reserves by 15.6%**

Prague, 6 May 2015 – In its consolidated results as of 31 March 2015, Komerční banka reported dynamic year over year growth in volume of lending and client funds under management. The number of customers increased as well.

The net profit attributable to shareholders came to CZK 3.5 billion, representing a gain of 12.2% year on year. Consolidated revenues rose by 0.8% (adjusted for the accounting impact of deconsolidating the Transformed Fund of KB Penzijní společnost), operating expenditures were higher by 0.3%, and cost of risk diminished by 79.0%. As of 31 March 2015, KB had 42,461 shareholders, of which 37,322 were private individuals from the Czech Republic.

“Brisk growth of commercial activities with our clients provides us with a solid footing to face the challenges from seemingly ever-decreasing interest rates and tightening regulatory requirements. KB’s lending in retail segments showed a positive trend, underpinned by the growing economy and improved levels of economic confidence,” remarked Albert Le Dirac’h, Chairman of the Board of Directors and Chief Executive Officer of Komerční banka. *“We see robust growth in mortgage lending as well as slight acceleration in consumer lending and loans to small businesses.”*

As measured by financial and regulatory indicators, KB’s financial soundness remained more than solid. The Group’s Core Tier 1 capital adequacy ratio stood at a strong 16.7% under Basel III standards, and KB also reported an excellent ratio of net loans to deposits at 75.1%.*“The excellent result of the first quarter was nevertheless influenced by some positive developments which may not fully repeat in the coming quarters, mainly in the areas of risk costs and investment banking activities,”* Mr Le Dirac’h explained.

In line with its strategy to reinforce leadership on the Czech market through its multichannel approach to banking services, KB provided its clients with a state-of-the-art tool developed by IBM to secure their devices against malware infections and phishing attacks. *“We continue our work to make sure that KB successfully develops in the new environment characterised by changing client expectations, evolving distribution models for banking services, concerns about cybercrime, a challenging competitive landscape, as well as tightening regulatory constraints,”* Mr Le Dirac’h said in closing.

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 to perform solidly in the first quarter of 2015. On the demand side of the economy, household consumption, fixed capital investments, government expenditures and exports were all increasing. On the supply side, the output of industrial and construction sectors expanded, positively impacting also on the number of newly created jobs. Despite the expanding economy, inflation hovered just above zero, and the Czech National Bank indicated no imminent change in its accommodative monetary policy. The Czech crown slightly appreciated in its exchange rate against the euro. The development of interest rates on the Czech market was also influenced by the European Central Bank’s announced programme of quantitative easing. The yields on Czech government bonds thus continued to decline, and prices of shorter-term bonds surged to levels implying negative yields from holding them to maturity.

The rate of growth on the loan market remained quite unchanged, stuck in a pace measured in mid-single digits both in retail and business lending. Meanwhile, unsecured consumer lending by banks and also lending to entrepreneurs still displayed a slightly declining trend. After a pick-up in the final quarter of 2014, which was influenced by several large deals, borrowing by non-financial corporations settled back closer to the previous trend rate. Households and private businesses were still increasing their deposit balances, which effect was partially offset in a year over year comparison by declining deposits from public sector entities.

Developments in the client portfolio and distribution networks

At the close of March 2015, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,630,000 clients (+1.8% year on year), of which 1,374,000 were individuals. The remaining 256,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 548,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 553,000. ESSOX’s services were being used by 267,000 active clients.

Komerční banka’s clients had at their disposal 399 banking branches (including one branch for corporate clients in Slovakia), 759 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 1,289,000 by the end of March 2015 and corresponds to 79.1% of all clients. Customers held 1,585,000 active payment cards, of which 200,000 were credit cards. The number of active credit cards issued by ESSOX came to 123,000. 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 nine branches (two of which are in Slovakia), as well as through KB’s network.

Loans to customers

The total **gross volume of loans** provided by KB Group expanded by 5.9% year on year to CZK 513.7 billion. Expansion of loans to corporations in the Czech Republic and of mortgages added most to the portfolio’s growth.

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 5.9% year on year. The portfolio of mortgages to individuals rose by 10.7% from the year earlier to CZK 163.7 billion, boosted by better affordability of homes in the environment of low interest rates. On the other hand, in the low-rate environment clients preferred mortgages over building savings loans and the volume of Modrá pyramida's loan portfolio declined by 11.0% to CZK 37.5 billion. The overall volume of consumer lending provided by Komerční banka and ESSOX was up by 1.0% to CZK 29.0 billion, when the business was growing mainly in the bank.

The total volume of **loans** provided by KB Group **to businesses** rose by 6.7% to CZK 278.9 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 7.4% to CZK 227.8 billion. KB's lending to small businesses was up by a slight 0.8% to CZK 28.3 billion. Total credit and leasing amounts outstanding at SGEF were higher by 7.7% year over year at CZK 22.8 billion.

Amounts due to customers and assets under management

The overall **volume of deposits** in KB Group expanded by 7.8% year on year to CZK 650.0 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[1]. Deposits at KB from individual clients accelerated their growth to 11.2% year over year and reached 181.1 billion. The deposit book of Modrá pyramida diminished by a slight 0.6% to CZK 72.1 billion. Total deposits from businesses and other corporations climbed by 7.9% to CZK 390.6 billion. The deposits from private businesses were rising while balances of public sector clients were moving lower.

Client assets managed by KB Penzijní společnost grew by 12.1% to CZK 42.1 billion. Technical reserves in life insurance at Komerční pojišťovna expanded by 15.6% to CZK 44.0 billion. The volumes in mutual funds held by KB clients (and managed by IKS KB and Amundi) grew by 33.4% to CZK 42.5 billion.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement

As of 1 January 2015, the Transformed Fund (TF) managed by KB Penzijní společnost, which gathers the funds of supplementary pension insurance with government contribution, was deconsolidated from the consolidating group of Komerční banka. The fund 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** adjusted for deconsolidation of TF increased by a slight 0.8% to CZK 7,507 million. KB Group compensated the overall lower margins by higher volumes of client business, mainly in relation to loans, deposits and other assets under management. Reported net banking income was down by 0.8%.

Adjusted **net interest income** edged up by 0.9% to CZK 5,126 million thanks to strong growth in loan and deposit volumes which more than offset the effect of diminishing yields from reinvesting deposits. Market interest rates were in fact sliding throughout the entire comparison period. KB's long-term interest rate hedging policy helped significantly to mitigate the negative short-term

[1] The reported volume of amounts due to customers remained almost flat (+0.1% year over year) at 659.5 billion.

impact of this trend. The net interest margin, computed as the ratio of net interest income to interest-earning assets, reached 2.48% in the first quarter of 2015. That compares to 2.65% (adjusted)[2] one year earlier. The reported net interest income declined by 2.9%.

Net income from fees and commissions (adjusted) dropped by 4.0% to CZK 1,699 million. The successful MojeOdměny (MyRewards) client loyalty programme helped to boost both the satisfaction and numbers of KB clients, but the provided rewards effectively drove down the clients' cost of managing their finances and thus the Bank's fee income. The drop in fees from deposit products was attributed to clients' gradual switch to the MůjÚčet (MyAccount) package, which rewards customers for their activity. The overall number of transactions increased, and this was most visible in relation to card payments. Income from transactions was nevertheless lower, as clients benefitted from bundling transactions into account packages and from using (lower-priced) on-line banking channels. The effect of offering consumer loans and mortgages without administration fees since the beginning of 2013 continued to weigh upon fee income from loans, as old loans were gradually disappearing from the portfolio. Even though activity in loan syndications and brokerage services remained solid, the income from this business was lower in comparison with the very strong first quarter of 2014. On the plus side, growth in the volumes of client savings in life insurance policies, pension funds and mutual funds boosted income from cross-selling. Reported net income from fees and commissions was up by 0.5%, as fees previously eliminated in consolidation have become recognised in consolidated accounts.

Net gains from financial operations grew by 15.6% to CZK 660 million. The first quarter saw increased demand among corporate clients for hedging financial as well as commodity price risks, reflecting higher volatility of certain benchmarks and several structured deals concluded during the period. Net gains from FX payments continued to reflect a narrowing of average spreads and cost optimisation by clients on conversions. Impact of the deconsolidation on this revenue line was immaterial.

Total **operating expenditures** were up by a slight 0.3% to CZK 3,132 million. Within this total, personnel expenses rose by 1.3% to CZK 1,677 million while the average number of employees diminished by 1.2% to 8,434. General administrative expenses were down by 0.9% to CZK 1,019 million. The Group's expenditures on marketing and telecommunications were slightly reduced while spending increased in the area of information technologies in relation to KB's priority goal of developing multichannel distribution capacities and capabilities. The category 'Depreciation, impairment and disposal of fixed assets' declined by 1.1% to CZK 436 million, and this decrease was mainly due to the final amortisation of certain software applications.

The expected new contribution to the Bank Resolution Fund was not recognised in the accounts of KB as of 31 March 2015, because the relevant EU acts have not been transposed to the Czech law and the amount of the levy for 2015 was not known and not possible to reliably estimate.

Gross operating income for the first quarter reached CZK 4,375 million, up 1.3% on an adjusted basis (the reported figure was down by 1.5%).

The **cost of risk** dropped by 79.0% to CZK 109 million, which means 8 basis points in relative terms as measured over the average volume of the lending portfolio. The result was influenced by the favourable macroeconomic development, clients' generally good repayment discipline and reduction in certain non-standard exposures due to successful recovery and improvement in the financial situations of some clients. Net creation of provisions remained at very low levels in both retail and corporate segments.

Income from shares in associated undertakings increased by 15.0% as a result of improved profitability at Komerční pojišťovna.

Following deconsolidation of TF, the line 'Share of profit of pension scheme beneficiaries' ceased to be reported in the consolidated income statement. The amount was CZK 121 million a year ago.

[2] Reported net interest margin in first quarter 2014 was 2.63%.

This change effectively offsets the decrease in net banking income also stemming from the deconsolidation.

Income taxes increased by 10.8% to CZK 738 million.

At CZK 3,575 million, KB Group's consolidated net profit for the first quarter of 2015 was higher by 12.6% in comparison with the same period in the prior year. Of this amount, CZK 119 million was profit attributable to holders of minority stakes in KB's subsidiaries (+25.3% year on year). **Profit attributable to the Bank's shareholders** totalled CZK 3,456 million, which is 12.2% more than in the first three 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 lower 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 March 2015, KB Group's **total assets** had declined by 4.3% for the year to date to CZK 912.2 billion. Adjusted for the deconsolidation, the total assets were stable year to date.

Amounts due from banks added 0.3% to reach CZK 59.8 billion. The largest component of this item consisted of placements with central banks in relation to reverse repo operations and term placements with other banks.

Financial assets at fair value through profit or loss rose by 18.7% to CZK 49.8 billion. That portfolio comprises the Group's proprietary trading positions.

Total net loans and advances were stable in comparison with the end of the previous year at CZK 495.3 billion. The gross amount of client loans and advances was stable at CZK 513.7 billion. The share of standard loans within that total climbed to 92.9% (CZK 477.0 billion) while the proportion of loans rated watch was 1.8% (CZK 9.4 billion). Loans under special review (substandard, doubtful and loss) comprised 5.3% of the portfolio, with volume of CZK 27.3 billion. The volume of provisions created for loans reached CZK 18.6 billion, which was 1.4% less than at the end of 2014.

The portfolio of financial assets available for sale (AFS) shrank by 42.4% to CZK 44.6 billion. The growth adjusted for the effect of the deconsolidation reached 6.2%.The volume of securities in the held-to-maturity (HTM) portfolio decreased by 8.5% to CZK 70.0 billion. The growth adjusted for the effect of the deconsolidation was 0.8%.

Of the CZK 44.6 billion total volume of debt securities in the AFS portfolio, Czech government bonds comprised CZK 21.0 billion and foreign government bonds CZK 6.4 billion. Of the HTM portfolio's CZK 70.0 billion in debt securities, Czech government bonds constituted CZK 59.6 billion and foreign government bonds CZK 10.4 billion.

The net book value of tangible fixed assets dropped by 1.4% to CZK 7.6 billion, while that of intangible fixed assets declined by 2.3% to CZK 3.7 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF and ESSOX, remained unchanged at CZK 3.8 billion.

Total liabilities were 5.3% smaller in comparison to the end of 2014 and reached CZK 799.2 billion. Amounts due to customers declined by 6.0% to CZK 659.5 billion, and when adjusted for the effect of the deconsolidation the reduction was by 0.3%. The volume outstanding of issued securities grew by 0.7% to CZK 22.7 billion. The Group's **liquidity** as measured by the ratio of net loans to deposits was 75.1%.

Shareholders' equity expanded year over year by 3.3% to CZK 113.0 billion. The generation of net profit and revaluation gains on cash flow hedges added to the equity. The revaluation gains were due to shrinking market yields in comparison with the end of 2014. The revaluation of the AFS portfolio (which represents primarily reinvestment of client deposits) decreased as a result of deconsolidating the TF. As of 31 March 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 65.5 billion as of 31 March 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 16.7%. As prescribed in the schedule for phase-in of certain rules of Basel III regulatory framework, KB began including as from 1 January in its regulatory capital base a part of the revaluation reserve recognised within the equity account, which pertains to disposable bonds in the AFS portfolio. As a result of this change, total capital increased by CZK 2 billion and total capital adequacy rose by 53 basis points. During the quarter, CNB informed Komerční banka on a new level of capital requirement set for KB (according to Pillar II) at 14.4% of the volume of risk weighted exposures, which represents an increase by 0.5 percentage point in comparison with the previous requirement.

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

CHANGES IN CORPORATE GOVERNANCE

In connection with his assuming a management position in the International Banking and Financial Services division of Société Générale Group, Mr Pavel Čejka resigned from the Board of Directors of Komerční banka as of 31 March 2015. The Supervisory Board subsequently elected Mr Libor Löfler as new member of the Board of Directors, effective from 1 April 2015.

KB

Regulatory information

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

Profit and Loss Statement (CZK million, unaudited)	1Q 2014	1Q 2014 Pro forma	1Q 2015	Change y-o-y	Change y-o-y Like-for-like
Net interest income	5,279	5,079	5,126	-2.9%	0.9%
Net fees and commissions	1,690	1,770	1,699	0.5%	-4.0%
Net gains from financial operations	571	571	660	15.6%	15.6%
Other income	26	24	22	-15.4%	-8.3%
Net banking income	**7,566**	**7,444**	**7,507**	**-0.8%**	**0.8%**
Personnel expenses	-1,655	-1,655	-1,677	1.3%	1.3%
General administrative expenses	-1,028	-1,028	-1,019	-0.9%	-0.9%
Depreciation, impairment and disposal of assets	-441	-441	-436	-1.1%	-1.1%
Operating costs	**-3,124**	**-3,124**	**-3,132**	**0.3%**	**0.3%**
Gross operating income	**4,441**	**4,320**	**4,375**	**-1.5%**	**1.3%**
Cost of risk	-518	-518	-109	-79.0%	-79.0%
Net operating income	**3,923**	**3,802**	**4,267**	**8.8%**	**12.2%**
Profit on subsidiaries and associates	40	40	46	15.0%	15.0%
Share in profit of pension scheme beneficiaries	-121	0	0	n.a.	n.a.
Profit before income taxes	**3,843**	**3,842**	**4,313**	**12.2%**	**12.3%**
Income taxes	-666	-666	-738	10.8%	10.8%
Net profit	**3,176**	**3,176**	**3,575**	**12.6%**	**12.6%**
Minority profit/(loss)	95	95	119	25.3%	25.3%
Net profit attributable to the Bank's shareholders	**3,081**	**3,081**	**3,456**	**12.2%**	**12.2%**

Balance Sheet (CZK million, unaudited)	31 Dec 2014	31 Dec 2014 Pro forma	31 Mar 2015	Change y-t-d	Change y-t-d Like-for-like
Assets	**953,261**	**911,829**	**912,188**	**-4.3%**	**0.0%**
Cash and balances with central bank	152,903	152,904	140,035	-8.4%	-8.4%
Amounts due from banks	59,699	59,279	59,849	0.3%	1.0%
Loans and advances to customers (net)	494,706	494,706	495,300	0.1%	0.1%
Securities	195,927	154,583	164,435	-16.1%	6.4%
Other assets	50,026	50,357	52,569	5.1%	4.4%
Liabilities and shareholders' equity	**953,261**	**911,829**	**912,188**	**-4.3%**	**0.0%**
Amounts due to banks	61,361	61,360	49,705	-19.0%	-19.0%
Amounts due to customers	701,867	661,703	659,467	-6.0%	-0.3%
Securities issued	22,584	22,584	22,741	0.7%	0.7%
Other liabilities	57,956	58,176	67,299	16.1%	15.7%
Shareholders' equity	109,494	108,006	112,977	3.2%	4.6%

Regulatory information

Key ratios and indicators	31 Mar 2014	31 Mar 2015	Change year on year
Capital adequacy (CNB)	16.2%	16.7%	▲
Tier 1 ratio (CNB)	16.2%	16.7%	▲
Total risk-weighted assets (CZK billion)	375.5	392.9	4.6%
Risk-weighted assets for credit risk (CZK billion)	314.6	325.4	3.4%
Net interest margin (NII/average interest-bearing assets)	2.6%	2.5%	▼
Loans (net) / deposits ratio	74.7%	75.1%	▲
Cost / income ratio	42.0%	41.7%	▼
Return on average equity (ROAE)	12.9%	12.9%	▼
Adjusted return on average equity (adjusted ROAE)*	15.2%	16.2%	▲
Return on average assets (ROAA)	1.5%	1.5%	▲
Earnings per share (CZK)	326	366	12.2%
Average number of employees during the period	8,537	8,434	-1.2%
Number of branches (KB standalone in the Czech Republic)	398	398	0
Number of ATMs	728	759	+31
Number of clients (KB standalone)	1,600,000	1,630,000	1.8%

* 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 Mar 2015	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 163.7 billion	10.7%
Building savings loans (MPSS) – volume of loans outstanding	CZK 37.5 billion	-11.0%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 29.0 billion	1.0%
Small business loans – volume of loans outstanding	CZK 28.3 billion	0.8%
Total active credit cards – number	200,000	1.4%
– of which to individuals	157,000	2.6%
Total active debit cards – number	1,385,000	1.8%
Insurance premiums written (KP)	CZK 2.5 billion	-34.2%

Financial calendar for 2015:

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

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