



# Regulatory information

## Increasing number of clients, strong sales of retail products

### Net profit at CZK 3.1 billion for the first quarter of 2014

Prague, 7 May 2014 – Komerční banka reported today consolidated net profit attributable to shareholders of CZK 3.1 billion for the first three months of 2014. KB recorded increase in the number of the Bank's clients by 8,700 as well as growth in the Group's business volumes. The volume of loans to clients expanded by 2.7% to CZK 484.9 billion and client deposits<sup>1</sup> grew by 8.4% to CZK 639.3 billion.

*"The improvements we made recently in our offer for individuals and small businesses clearly have been appreciated by these clients, and that explains the first quarter's excellent sales performance. On the other hand, the solid pace of recovery in the Czech economy has not yet translated into faster growth in business lending, as corporate clients have remained cautious about their investment plans.*

*We continue to focus on developing business and lending activities in all client segments while prudently managing our operating expenditures and capital. The Czech Republic has potential to accelerate its growth, and KB is maintaining its capacity to perform successfully within the Czech banking system",* said Albert Le Dirac'h, KB's Chairman of the Board of Directors and Chief Executive Officer.

#### Highlights of the first quarter

- The total number of clients grew by 8,700 year on year, with an accelerating trend as a result of improvements in KB's offer to individual and small business clients.
- Retail product sales increased significantly. The number of newly opened MůjÚčet (MyAccount) packages more than doubled year over year. Sales of Profi account packages for small businesses rose by 50%. The volume of newly granted mortgages expanded by 26%.
- Komerční banka began providing low-interest loans for the repair and modernisation of residential buildings with a support of EU resources obtained by the State Housing Development Fund (Státní fond rozvoje bydlení) under the Jessica Programme.
- KB became the first bank on the Czech market to extend technology supporting payments at vending machines using contactless payment cards. Electronic payments for snacks, parking or mobile phone top-ups will be easier and faster both for clients and operators.

KB Group's consolidated revenues remained almost stable slipping by 0.6% to CZK 7.6 billion. Net interest income increased marginally, as the Group offset low market interest rates with growth in the volumes of loans and deposits. On the other hand, fee income diminished due to the success of the MojeOdměny (MyRewards) client incentive programme.

Operating expenditures continued to be managed in a disciplined manner and grew by a mere 0.3% to CZK 3.1 billion. The cost of risk reached CZK 0.5 billion, up 10.2% from last year's low level.

As of 31 March 2014, the Group's Core Tier 1 capital adequacy ratio according to Basel III standards stood at a strong 16.2%, and the ratio of net loans to deposits (excluding client assets in pension funds) was 74.7%.

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<sup>1</sup> Excluding repo operations with clients



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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

Confidence indicators for businesses and consumers continued gradually to improve during the first quarter. The improvement in the economy was also evidenced by solid growth in retail sales, strong increase in new industrial orders, and the first signs that the seasonally adjusted unemployment rate is coming down. The recovery's influence on growth in the banking sector was limited, however. Lending to individuals accelerated slightly, as steady growth in housing loans was complemented by a slow recovery of consumer lending into positive territory. The pace of year-over-year growth in corporate lending nevertheless diminished, as even decline was seen from the volume of corporate loans achieved on the market in the strong fourth quarter of 2013.

### Developments in client portfolio and distribution networks

As of the end of March 2014, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,600,000 clients (+0.5% year on year), of which 1,347,000 were individuals. The remaining 253,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 577,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 560,000. ESSOX's services were being used by 286,000 active clients.

Komerční banka's clients had at their disposal 399 banking branches (including one branch for corporate clients in Slovakia), 728 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 1,196,000 by the end of March 2014 and corresponds to 74.7% of all clients. Customers held 1,558,000 active payment cards, of which 197,000 were credit cards. The number of active credit cards issued by ESSOX came to 133,000, and consumer financing from ESSOX was available through its network of 2,700 merchants. Modrá pyramida's customers had at their disposal 205 points of sale and 1,122 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 year on year by 2.7% to CZK 484.9 billion. Mortgages added most to the growth of the portfolio, while recovery in consumer lending was confirmed. Corporate lending activities expanded mainly in Slovakia.<sup>2</sup>

In the segment of **loans to individuals**, the portfolio of mortgages to individuals rose by a strong 10.0% year on year to CZK 147.8 billion, but this was partly offset by lower demand for building savings loans as the volume of Modrá pyramida's loan portfolio dropped by 12.7% to CZK 42.1 billion. Consumer lending extended its recovery that had begun in the past year as the volume provided by KB and ESSOX grew by 6.4% to CZK 28.8 billion.

<sup>2</sup> There was a slight contribution to the CZK growth rates for loans and deposits (mainly in corporate segments) from revaluation of instruments denominated in foreign currencies. This reflects the weaker CZK following CNB intervention in November 2013.



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The total volume of **loans** provided by KB Group to **businesses** rose by 1.1% to CZK 261.3 billion. Inclusive of factor finance outstanding at Factoring KB, the overall volume of credit granted by KB to (medium-sized and large) corporate clients rose by 1.1% to CZK 212.1 billion. Within this total, year-on-year growth of lending in Slovakia was particularly strong. Lending to small businesses diminished by 1.3% to CZK 28.1 billion. Total credit and leasing amounts outstanding at SGEF were up 4.0% year over year, at CZK 21.2 billion.

## Amounts due to customers and assets under management

The total **volume of deposits**<sup>3</sup> on KB Group's balance sheet rose by 8.4% year on year to CZK 639.3 billion. Deposits from businesses climbed by 11.4% to CZK 359.8 billion, affected by inflow of large volume placements from public and financial institutions. Deposits at KB from individual clients rose by 3.3% to CZK 162.9 billion, and the deposit book at Modrá pyramida added 1.1% year on year to reach CZK 72.5 billion. Client assets in the Transformed fund managed by KB Penzijní společnost grew by 11.8% to CZK 37.2 billion. These client assets continued to be consolidated into the KB Group accounts.

Total technical reserves in life insurance at Komerční pojišťovna expanded by 26.7% to CZK 38.0 billion. The volumes in mutual funds held by KB clients (and managed by IKS KB and Amundi) increased by 7.0% to CZK 32.0 billion.

## FINANCIAL PERFORMANCE OF KB GROUP

### Income statement

Total **net banking income** decreased in the first quarter by a slight 0.6% year on year to CZK 7,566 million. The result was influenced by persisting low market interest rates, competitive pressures on the prices of basic banking services, delayed pick-up in demand for loans from business clients, and limited room for trading profits in a situation where interest and currency rates conditions have largely been pre-determined by measures of the central bank. Meanwhile, developments in the volumes of deposits and other assets under management were encouraging, as was the trend in retail lending.

**Net interest income** was up by 0.4% to CZK 5,279 million and was underpinned by growing volumes of loans and deposits. The low interest rates prevailing on the market continued to push in the negative direction, thus limiting yields on reinvested deposits. The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, was also affected by placements of short-term deposits by clients from the public and financial sectors. Those deposits inflated the formula's denominator. The margin thus declined to 2.6% in the first quarter of 2014 from 2.9% a year earlier.

**Net income from fees and commissions** declined by 2.0% to CZK 1,690 million. KB expanded its MojeOdměny client rewards programme, which effectively drove down fee income from deposit products and transactions. Since the beginning of 2013, the Bank also has been offering consumer loans and mortgages without administration fees for those products. On the other hand, KB reported increased activity and thus better fee income from trade finance, loan syndications, and payment cards. Growth in the volume of client savings in life insurance policies and mutual funds boosted income from cross-selling.

**Net gains from financial operations** decreased by 4.4% to CZK 571 million. Influenced by CNB measures, low volatility of exchange rates and interest rates is limiting clients' demand for financial hedging. This effect was partly compensated by the solid result of proprietary trading operations and gradually rising demand for hedging of commodity prices. Net gains from FX payments

<sup>3</sup> Excluding repo operations with clients. Total amounts due from clients expanded by 10.0% year on year to CZK 658.9 billion.



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reflected narrower average spreads.

Total **operating expenditures** rose by a marginal 0.3% to CZK 3,124 million. Personnel expenses were higher by 1.3%, at CZK 1,655 million. The average number of employees diminished by 1.2% to 8,537. General administrative expenses declined by 1.5% to CZK 1,028 million, in spite of higher marketing expenditures. The main savings were achieved in real estate costs. The category depreciation, impairment and disposal of fixed assets was up by 0.7% to CZK 441 million, and this modest increase was mainly driven by new software applications.

**Gross operating income** for the first quarter declined by 1.3% to CZK 4,441 million.

**Cost of risk** remained at a low level, reaching 42 basis points as measured over the average volume of the portfolio. Net creation of provisions grew by 10.2% to CZK 518 million. The increase was driven by a few cases in the corporate segment while the cost of risk in retail came down slightly.

Income from shares in associated undertakings rose by 14.3% to CZK 40 million thanks to a solid result at Komerční pojišťovna. The proportion of profit attributable to clients of the Transformed fund of KB Penzijní společnost came to CZK 121 million, down by 9.0%.

Income taxes decreased by 5.5% to CZK 666 million.

At CZK 3,176 million, KB Group's consolidated net profit for the first three months of 2014 was lower by 1.5% in comparison with the same period of 2013. Of this amount, CZK 95 million was profit attributable to holders of minority stakes in KB's subsidiaries (+21.8%). **Profit attributable to the Bank's shareholders** totalled CZK 3,081 million, which is 2.1% less than in the first quarter of the previous year.

### 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 2013.

As of 31 March 2014, KB Group's **total assets** had grown by 0.6% for the year to date to CZK 869.6 billion.

Amounts due from banks declined by 5.4% to CZK 118.9 billion. The largest component of this item consisted of placements with central banks in relation to reverse repo operations.

Financial assets at fair value through profit or loss increased by 12.4% to CZK 41.7 billion. That portfolio comprises the Group's proprietary trading positions.

Total net loans and advances slipped by 1.5% to CZK 466.2 billion. The gross amount of client loans and advances was lower by 1.3%, at CZK 484.9 billion. The share of standard loans within that total climbed to 92.3% (CZK 447.6 billion) while the proportion of watch loans was 2.0% (CZK 9.7 billion). Loans under special review (substandard, doubtful and loss) comprised 5.7% of the portfolio, with volume of CZK 27.6 billion. The volume of provisions created for loans reached CZK 18.9 billion, which was 2.1% more than at the end of 2013.

In order to limit volatility of regulatory capital according to the Basel III regulatory framework, KB Group undertook to review the accounting recognition of certain debt securities held in the portfolio of financial assets available for sale (AFS) which the Group intends to hold until their maturity. As of 31 March 2014, the Group reclassified debt securities in the nominal value of CZK 56.6 billion within the portfolio of financial assets held to maturity from AFS. These securities were reclassified at fair value. The corresponding AFS revaluation reserve in the shareholders' equity of CZK 5.0 billion has been retained in other comprehensive income and included into the carrying value of securities held to maturity. Such amounts are amortised over the remaining maturities of the securities.



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The portfolio of AFS securities thus shrank by 46.7% to CZK 75.3 billion. From the CZK 75.3 billion total volume of debt securities in this portfolio, Czech government bonds comprised CZK 40.8 billion and foreign government bonds CZK 8.4 billion. The volume of securities in the held-to-maturity portfolio consequently increased to CZK 72.6 billion. From the CZK 72.6 billion total volume of debt securities in this portfolio, Czech government bonds comprised CZK 65.3 billion and foreign government bonds CZK 7.4 billion.

The net book value of tangible fixed assets slipped by 1.5% to CZK 7.8 billion, while that of intangible fixed assets was lower by 2.0%, at 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 flat in comparison to the end of 2013 at a level of CZK 767.6 billion. Amounts due to customers grew by 1.5% to CZK 658.9 billion. The volume outstanding of issued securities increased by 0.7% to CZK 22.6 billion. The Group's **liquidity**, as measured by the ratio of net loans to deposits, was 74.7% (70.7% if including client assets in the Transformed pension fund).

**Shareholders' equity** rose year to date by 5.7% to CZK 102.0 billion. The generation of net profit added to the equity. Furthermore, revaluation gains on the AFS portfolio and cash flow hedges (both of which represent primarily reinvestment of client deposits) expanded due to a decrease in market yields compared with the end of 2013. As of 31 March 2014, KB held in treasury 238,672 of its own shares, constituting 0.63% of the registered capital.

With effect from 2014, Czech banks are subject to capital requirements according to EU regulations implementing the **Basel III** regulatory framework. Consolidated regulatory capital for the capital adequacy calculation stood at CZK 61.0 billion as of 31 March 2013. Regulatory capital grew during the first quarter also due to the allocation of retained earnings from 2013. 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 a high level of 16.2%.

The level of KB's liquidity as newly measured by the Liquidity Coverage Ratio safely met requirements set by the Basel III framework throughout the quarter.



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**ANNEX:** Consolidated results as of 31 March 2014 under International Financial Reporting Standards (IFRS)

<b>Profit and Loss Statement</b> (CZK million, unaudited)	<b>1Q 2014</b>	<b>1Q 2013</b>	<b>Change year on year</b>
Net interest income	5,279	5,259	0.4%
Net fees and commissions	1,690	1,725	-2.0%
Net gains from financial operations	571	597	-4.4%
Other income	26	33	-21.2%
<b>Net banking income</b>	<b>7,566</b>	<b>7,614</b>	<b>-0.6%</b>
Personnel expenses	-1,655	-1,634	1.3%
General administrative expenses	-1,028	-1,044	-1.5%
Depreciation, impairment and disposal of fixed assets	-441	-438	0.7%
<b>Operating costs</b>	<b>-3,124</b>	<b>-3,116</b>	<b>0.3%</b>
<b>Gross operating income</b>	<b>4,441</b>	<b>4,498</b>	<b>-1.3%</b>
Cost of risk	-518	-470	10.2%
<b>Net operating income</b>	<b>3,923</b>	<b>4,027</b>	<b>-2.6%</b>
Profit on subsidiaries and associates	40	35	14.3%
Share in profit of pension scheme beneficiaries	-121	-133	-9.0%
<b>Profit before income taxes</b>	<b>3,843</b>	<b>3,929</b>	<b>-2.2%</b>
Income taxes	-666	-705	-5.5%
<b>Net profit</b>	<b>3,176</b>	<b>3,224</b>	<b>-1.5%</b>
Minority profit/(loss)	95	78	21.8%
<b>Net profit attributable to the Bank's shareholders</b>	<b>3,081</b>	<b>3,146</b>	<b>-2.1%</b>

<b>Balance Sheet</b> (CZK million, unaudited)	<b>31 Mar 2014</b>	<b>31 Dec 2013</b>	<b>Change year to date</b>
<b>Assets</b>	<b>869,566</b>	<b>863,980</b>	<b>0.6%</b>
Cash and balances with central bank	55,187	44,405	24.3%
Amounts due from banks	118,936	125,735	-5.4%
Loans and advances to customers (net)	466,168	473,090	-1.5%
Securities	189,638	182,533	3.9%
Other assets	39,637	38,218	3.7%
<b>Liabilities and shareholders' equity</b>	<b>869,566</b>	<b>863,980</b>	<b>0.6%</b>
Amounts due to banks	36,938	49,680	-25.6%
Amounts due to customers	658,896	649,158	1.5%
Securities issued	22,572	22,417	0.7%
Other liabilities	49,164	46,187	6.4%
Shareholders' equity	101,996	96,538	5.7%



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Key ratios and indicators	31 March 2014	31 March 2013	Change year on year
Capital adequacy (CNB)*	16.2%	14.9%	n.a.
Tier 1 ratio (CNB)*	16.2%	14.9%	n.a.
Total risk weighted assets (CZK billion)*	360.9	375.5	n.a.
Risk weighted assets for credit risk (CZK billion)*	304.7	314.6	n.a.
Net interest margin (NII/average interest-bearing assets)	2.6%	2.9%	▼
Loans (net) / deposits ratio	70.7%	75.8%	▼
Loans (net) / deposits ratio excluding client assets in Transformed fund	74.7%	80.2%	▼
Cost / income ratio	41.3%	40.9%	▲
Return on average equity (ROAE)	12.8%	12.7%	▲
Adjusted return on average equity (adjusted ROAE)**	15.2%	16.3%	▼
Return on average assets (ROAA)	1.4%	1.6%	▼
Earnings per share (CZK)	326	333	-2.1%
Average number of employees during the period	8,537	8,637	-1.2%
Number of branches (KB standalone in the Czech Republic)	398	398	0
Number of ATMs	728	712	+16
Number of clients (KB standalone)	1,600,000	1,592,000	0.5%

\* According to Basel II methodology in 2013, Basel III since 2014

\*\* 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 March 2014	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 147.8 billion	10%
– number of loans outstanding	125,000	13%
Building savings loans (MPSS) – volume of loans outstanding	CZK 42.1 billion	-13%
– number of loans outstanding	105,000	-12%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 28.8 billion	6%
Small business loans – volume of loans outstanding	CZK 28.1 billion	-1%
Total active credit cards – number	197,000	-3%
– of which to individuals	153,000	-3%
Total active debit cards – number	1,361,000	-2%
Insurance premiums written (KP)	CZK 3.9 billion	73%

## Financial calendar for 2014:

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

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