



Regulatory information

Solid business growth and financial performance in a challenging environment

Net profit affected by front-loading of costs of the Resolution Fund

- Total lending to clients expanded by 6.8% to CZK 548.8 billion. KB reinforced its market share particularly in lending to individuals and entrepreneurs;
- Client deposits in KB Group rose by 6.0% to CZK 672.9 billion. Client assets in mutual funds, pension savings and life insurance grew by 8.3% to CZK 141.7 billion;
- The number of Komerční banka's clients continued to grow. The Bank had 1,648,000 clients, 18,000 more than a year earlier;
- Capital adequacy remained strong, with the Core Tier 1 ratio at 16.0%;
- Net profit was down 16.3% year on year to CZK 2.9 billion, influenced by front-loading of estimated full year contributions to the Resolution Fund and Deposit Insurance Fund into the first quarter. Excluding these costs, net profit declined by 1.8%.

Prague, 4 May 2016 – Komerční banka reported today consolidated results for the first three months of 2016. The Bank saw an increase in the number of its clients by 18,000. The volume of loans to clients expanded by 6.8% to CZK 548.8 billion, volume of deposits improved by 6.0% to CZK 672.9 billion, and volume of other assets under management¹ grew by 8.3% to CZK 141.7 billion.

Thanks to growth in the Group's business volumes, and despite low market interest rates continued to weigh upon interest income, consolidated revenues remained at almost the same level year on year (-0.5%)². Operating expenditures excluding the contribution to the Deposit Insurance and Resolution funds decreased by 2.8%, but when these regulatory charges are included total operating expenditures rose by 15.6%. The cost of those charges estimated for the full year must newly be reported all in the first quarter. Although the cost of risk remained contained, it was up by 106% from the very low level of the first quarter of 2015. The reported net profit attributable to shareholders thus diminished by 16.3% year on year to CZK 2.9 billion. Excluding the Deposit insurance and Resolution fund contributions, the net profit declined by 1.8% year on year.

"We are seeing very good results from the recent changes we have made in loan-granting processes for consumers and small businesses, and these are helping us to strengthen our market position in retail banking. We have also brought new investment and savings products for the current environment. Corporate lending is still affected by clients' generally strong capacity to generate cash from operating profitability, and the first quarter has been slower seasonally also in recent years. We continue to regard the growth in business activities as essential for maintaining the revenue base even as the extremely low interest rates put significant pressure on the interest income and all the regulatory burden is continuing to increase dangerously costs of our industry," related Albert Le Dirac'h, KB's Chairman of the Board of Directors and Chief Executive Officer.

¹ Client assets in pension funds, mutual funds, technical reserves in life insurance and other client assets

² On a like-for-like basis adjusted for reclassification of contributions to the Deposit Insurance Fund from 'Net interest income' to 'Operating expenses' and contributions to the Investor Compensation Fund (supported by securities brokers) from 'Net fees and commissions' to 'Operating expenses'



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KB Group's financial soundness is well illustrated by the main indicators as of 31 March 2016. Its Common Equity Tier 1 capital adequacy ratio stood at a strong 16.0%, and liquidity measured as the ratio of net loans to deposits was at a solid 78.7%.

As of 31 March 2016, KB had 44,597 shareholders (+2,136 year on year), of which 39,335 were private individuals from the Czech Republic (+2,013 year on year).

Comments on business and financial results

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

BUSINESS PERFORMANCE OF KB GROUP

Market environment in the first quarter of 2016

The Czech economy continued in its good performance through the first quarter, albeit with a modest slowing from the exceptional dynamism seen in 2015 which had been driven by such one-off factors as greater tapping into EU structural funds and diminishing fuel prices. Retail sales, industrial production and construction activity all exhibited year-over-year gains. The unemployment rate diminished further and the number of vacancies rose, which continued to push up average wage growth across the economy much ahead of overall inflation. The consumer and producer price indices remained muted, however, mainly due to the lasting effect of decreased prices for crude oil and some other commodities.

The volume of the CNB's interventions to enforce the currency floor abated in comparison with the end of 2015. This occurred in reaction to the central bank's announcement that it would postpone its planned exit from the intervention regime until closer to mid-2017 and to inflation data that came in lower than expected. The CNB also kept its monetary policy rates unchanged during the quarter, and interbank rates continued to diminish moderately from their already very low levels.

The loan market was marked by continuing vigorous demand from individuals for mortgages. On the other hand, borrowing by entrepreneurs and corporations stagnated. This is not unusual, though, in the first months of the year. Deposit growth continued, and mainly in the individuals segment.

Developments in the client portfolio and distribution networks

At the close of March 2016, KB Group was serving 2.4 million clients on a consolidated basis. Standalone KB recorded 1,648,000 clients (+1.1% year on year), of which 1,391,000 were individuals. The remaining 257,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 512,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 544,000. ESSOX's services were being used by 213,000 active clients.

Komerční banka's clients had at their disposal 397 banking branches (including one branch for corporate clients in Slovakia), 771 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 1,351,000 by the end of March 2016 and corresponds to 82.0% of all clients. Customers held 1,610,000 active payment cards, of which 198,000 were credit cards. The number of active credit cards issued by ESSOX came to 116,000. Modrá pyramida's customers had at their disposal 219 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.



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Loans to customers

The total gross volume of loans provided by KB Group expanded by 6.8% year on year to CZK 548.8 billion. Mortgages contributed most to the growth, while loans to businesses and unsecured consumer lending also were on the rise.

Among lending to individuals, the overall volume of housing loans grew by 10.9% year on year. Within this total, the portfolio of mortgages to individuals expanded by 13.6% from the year earlier to CZK 189.1 billion while the volume of Modrá pyramida's loan portfolio diminished by 1.1% to CZK 37.1 billion. Modrá pyramida has nevertheless reversed the downtrend to report volume gains in its portfolio in the past two quarters. The volume of consumer lending provided by KB and ESSOX was up by 7.2% to CZK 30.8 billion, notably outperforming the market.

The total volume of **loans** provided by KB Group **to businesses** climbed by 4.4% to CZK 289.5 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 3.9% to CZK 234.6 billion. Lending to small businesses expanded by 7.3% to CZK 30.9 billion. Total credit and leasing amounts outstanding at SGEF were higher by 5.3% year over year at CZK 24.1 billion.

Amounts due to customers and assets under management

While excluding volatile repo operations with clients³, the overall **volume of deposits** within KB Group rose by 6.0% year on year to CZK 672.9 billion. Deposits at KB from individual clients grew by 10.7% year on year to CZK 200.5 billion. The deposit book at Modrá pyramida diminished by 7.1% to CZK 67.0 billion. Total deposits from businesses and other corporations climbed by 6.0% to CZK 397.8 billion.

Client assets managed by KB Penzijní společnost were higher by 9.6% at CZK 46.1 billion. Technical reserves in life insurance at Komerční pojišťovna expanded by 2.6% to CZK 45.1 billion. The volumes in mutual funds held by clients of KB Group grew by 12.7% to CZK 50.4 billion.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement

As from 1 January 2016, Komerční banka reclassified certain items in the income statement and statement of financial position in accordance with IFRS in order to better reflect the substance of those items and recommendations of the European Banking Authority.

Specifically, the contribution to the Deposit Insurance Fund has been reclassified from 'Net interest income' to 'General administrative expenses' and the contribution to the Investor Compensation Fund (supported by securities brokers) has been reclassified from 'Net fees and commissions' to 'General administrative expenses'. In addition, the balances of depository bills of exchange have been reclassified from 'Amounts due to customers' to 'Securities issued'.

The comments provided above and below are on a like-for-like basis. Results for the first quarter of 2016 and the comparable period (first quarter 2015) are presented in accordance with the reporting methodology applied from 2016.

Komerční banka's total revenues (**net banking income**) for the first three months of 2016 remained

³ The total volume of 'Amounts due to customers' was up by 5.4% to CZK 679.1 billion.



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almost stable year on year (-0.5%). Net interest income was down by 2.1% as pressure continued from the prevailing low market interest rates and in spite of growing loan and deposit volumes. Net fees and commissions were flat (-0.1%) thanks to the rising numbers of clients who are increasing their transaction activity and assets under management, offsetting the clients' tilt toward lower-cost on-line channels and their keenness to reap the rewards within the MojeOdměny (MyRewards) programme.

Net interest income decreased by 2.1% to CZK 5,234 million. The negative impact of very low market interest rates on yields from reinvesting deposits was only partially offset by higher volumes of loans and deposits. 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 the three months of 2016 from 2.6% one year earlier.

Net income from fees and commissions was stable (-0.1%), coming in at CZK 1,700 million. The income from transaction fees increased due to higher numbers of transactions executed by clients. Fees from deposit products were down year on year due to transition of clients to account bundles providing rewards for activity. This changeover process is now virtually completed, and the trend for fees from deposits has been more or less stable through the past few quarters. Fees from loans were down due to the mounting share of these for which no administration fees are charged, lower fees for early repayment of loans, and payment of commissions reflecting the strong sales of housing loans. Fees from cross-selling were stable, inasmuch as the volume of assets under management continued to grow strongly but sales of mutual funds and life insurance policies were somewhat subdued. A solid contribution was nevertheless made by private banking and capital market services (mainly debt issuance and custody).

Net gains from financial operations were higher by 11.2% at CZK 734 million. Greater numbers of foreign transactions and conversions translated into better net gains from FX payments. The increased volume of financing deals boosted as well the demand for hedging of currency and interest rate risks.

Operating expenditures excluding the estimated cost of contributions to the Deposit Insurance Fund, Resolution Fund and Investor Protection Fund (supported by securities brokers) were lower by 2.8% at CZK 3,044 million. Total operating costs including the aforementioned regulatory charges rose by 15.6% to CZK 3,879 million. Within this total, personnel expenses climbed by a slight 0.9% to CZK 1,692 million. The average number of employees diminished by 0.3% to 8,404. General administrative expenses (excluding the regulatory funds) were down by 7.5% to CZK 943 million. Savings were achieved across all main areas but the result was also influenced by postponement of certain expenditures. The cost of contributions to the regulatory funds amounted to CZK 835 million in the first quarter of 2016, which compares to CZK 224 million a year earlier. The difference is caused by a change in the methodology of accounting for the charges within the year. In accordance with the IFRIC 21 guideline, the contributions are recognised in the first quarter of the year. In 2015, the contributions had been recognised pro rata across all quarters of the year. The amount of the charge into the regulatory funds is estimated, because the final amount of the Bank's contribution for 2016 will be stipulated by the respective authorities in remaining quarters. The category 'Depreciation, impairment and disposal of fixed assets' was smaller by 6.2%, at CZK 409 million, due to ending of the depreciation period during 2015 for certain assets.

Gross operating income for the first three months of 2016 was 12.8% lower, at CZK 3,815 million.

The **cost of risk** remained at a satisfactory level of CZK 225 million, up 106.4% compared to the very low base from the first quarter of 2015. This translates into 17 basis points in relative terms as measured over the average volume of the lending portfolio. Provisioning in retail segments remained marginal, reflecting the very good repayment discipline of clients and successful recovery performance. The cost of risk in corporate segments was influenced by the need to create provisions for a few isolated cases.

Income from shares in associated undertakings (effectively only from Komerční pojišťovna) was up by 10.9% to CZK 51 million.



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Income taxes decreased by 11.5% to CZK 653 million.

At CZK 2,988 million, KB Group's consolidated net profit for the first quarter of 2016 was lower by 16.4% in comparison with the same period in the prior year. Of this amount, CZK 95 million was profit attributable to holders of minority stakes in KB's subsidiaries (-20.2% versus the year earlier).

Profit attributable to the Bank's shareholders totalled CZK 2,894 million, which is 16.3% less than in the first three months of 2015. The attributable net profit excluding the Deposit insurance and Resolution fund contributions declined by 1.8% year on year.

Statement of financial position

The comparison period for the balance sheet under IFRS is the end of the previous year. Therefore, unless indicated otherwise, the following text provides a comparison with the close of 2015.

As of 1 January 2016, Komerční banka reclassified depository bills of exchange from 'Amounts due to customers' to 'Securities issued'. The figures have been reclassified retrospectively. As a result of the reclassification, the item 'Amounts due to customers' as of 31 December 2015 contracts by CZK 10.1 billion and the item 'Securities issued' expands by the same amount.

As of 31 March 2016, KB Group's **total assets** had grown by 4.7% for the year to date to CZK 933.3 billion.

Cash and current balances with central banks were up by 18.1% to CZK 151.6 billion. The main component of this item comprises the volume of obligatory minimum reserves at central banks.

Amounts due from banks grew by 35.2% to CZK 64.6 billion. A large component of this item consists of placements with central banks in relation to reverse repo operations.

Financial assets measured at fair value through profit or loss increased by 6.6% to CZK 31.1 billion.

Total net loans and advances grew by 0.4% in comparison with the end of the previous year to reach CZK 534.5 billion. The gross amount of client loans and advances was up by 0.1% to CZK 548.8 billion. The share of standard loans within that total climbed to 94.5% (CZK 518.4 billion) while the proportion of loans rated watch was 1.6% (CZK 8.6 billion). Loans under special review (substandard, doubtful and loss) comprised 4.0% of the portfolio, with volume of CZK 21.9 billion. The volume of provisions created for loans reached CZK 15.2 billion. That was 4.0% less than at the close of 2015.

The portfolio of securities available for sale (AFS) shrank by 4.5% to CZK 40.0 billion. Of the CZK 40.0 billion in the AFS portfolio, debt securities comprised CZK 39.3 billion. These included CZK 19.8 billion in Czech government bonds and foreign government bonds of CZK 8.1 billion. The volume of securities in the held-to-maturity (HTM) portfolio decreased by 7.2% to CZK 62.2 billion. From the CZK 62.2 billion total volume of debt securities in this portfolio, Czech government bonds constituted CZK 53.8 billion and foreign government bonds CZK 8.5 billion.

The net book value of tangible fixed assets diminished by 0.7% to CZK 6.8 billion, while that of intangible fixed assets dropped by 2.0% to reach CZK 3.8 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF and ESSOX, remained unchanged at CZK 3.8 billion.

Total liabilities were 4.7% higher in comparison to the close of 2015 and reached CZK 822.1 billion. Amounts due to customers grew by 3.5% to CZK 679.1 billion. Because of the decrease in depository bills of exchange, the volume outstanding of issued securities fell by 13.7% to CZK 18.5 billion. The Group's **liquidity** as measured by the ratio of net loans to deposits was 78.7%.

Shareholders' equity rose year to date by 4.7% to CZK 111.2 billion. The generation of net profit and revaluation gains on cash flow hedges added to the equity. Revaluation gains on cash flow



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hedges were higher due to decrease in long-term interest rates in comparison with the end of 2015. The revaluation of the AFS portfolio (which represents primarily reinvestment of client deposits) declined as a result of the portfolio's amortisation as well as the revaluation difference on securities reclassified from the AFS to HTM portfolio in 2014. As of 31 March 2016, 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 March 2016. 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 16.0%. 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 through the year to date has safely met requirements established by the applicable regulations.



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ANNEX: Consolidated results as of 31 March 2016 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	1Q 2015 As reported	1Q 2015 Pro forma	1Q 2016	Change y-o-y	Change y-o-y Like-for- like
Net interest income	5,126	5,348	5,234	2.1%	-2.1%
Net fees and commissions	1,699	1,701	1,700	0.1%	-0.1%
Net gains from financial operations	660	660	734	11.2%	11.2%
Other income	22	22	27	22.7%	22.7%
Net banking income	7,507	7,731	7,694	2.5%	-0.5%
Personnel expenses	-1,677	-1,677	-1,692	0.9%	0.9%
General administrative expenses (excl. Resolution and similar funds)	-1,019	-1,019	-943	-7.5%	-7.5%
Resolution and similar funds	0	-224	-835	n.a.	272.8%
Depreciation, impairment and disposal of assets	-436	-436	-409	-6.2%	-6.2%
Operating costs	-3,132	-3,356	-3,879	23.9%	15.6%
Gross operating income	4,375	4,375	3,815	-12.8%	-12.8%
Cost of risk	-109	-109	-225	106.4%	106.4%
Net operating income	4,267	4,267	3,590	-15.9%	-15.9%
Profit on subsidiaries and associates	46	46	51	10.9%	10.9%
Profit before income taxes	4,313	4,313	3,641	-15.6%	-15.6%
Income taxes	-738	-738	-653	-11.5%	-11.5%
Net profit	3,575	3,575	2,988	-16.4%	-16.4%
Minority profit/(loss)	119	119	95	-20.2%	-20.2%
Net profit attributable to the Bank's shareholders	3,456	3,456	2,894	-16.3%	-16.3%

Balance Sheet (CZK million, unaudited)	31 Dec 2015 As reported	31 Dec 2015 Pro forma	31 Mar 2016	Change y-t-d	Change y-t-d Like-for- like
Assets	891,555	891,555	933,291	4.7%	4.7%
Cash and balances with central bank	128,336	128,336	151,603	18.1%	18.1%
Amounts due from banks	47,799	47,799	64,633	35.2%	35.2%
Loans and advances to customers (net)	532,617	532,617	534,539	0.4%	0.4%
Securities	138,144	138,144	133,336	-3.5%	-3.5%
Other assets	44,658	44,658	49,180	10.1%	10.1%
Liabilities and shareholders' equity	891,555	891,555	933,291	4.7%	4.7%
Amounts due to banks	56,230	56,230	64,812	15.3%	15.3%
Amounts due to customers	666,407	656,286	679,096	1.9%	3.5%
Securities issued	11,283	21,403	18,475	63.7%	-13.7%
Other liabilities	51,408	51,408	59,668	16.1%	16.1%
Shareholders' equity	106,228	106,228	111,240	4.7%	4.7%



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Key ratios and indicators	31 Mar 2015	31 Mar 2016	Change year on year
Capital adequacy (CNB)	16.7%	16.0%	▼
Tier 1 ratio (CNB)	16.7%	16.0%	▼
Total risk-weighted assets (CZK billion)	392.9	416.7	6.1%
Risk-weighted assets for credit risk (CZK billion)	325.4	349.6	7.4%
Net interest margin (NII/average interest-bearing assets)*	2.6%	2.5%	▼
Loans (net) / deposits ratio**	76.9%	78.7%	▲
Cost / income ratio*	43.4%	50.4%	▲
Return on average equity (ROAE)	12.9%	11.0%	▼
Adjusted return on average equity (adjusted ROAE)***	16.2%	13.4%	▼
Return on average assets (ROAA)	1.5%	1.3%	▼
Earnings per share (CZK)	366	306	-16.3%
Average number of employees during the period	8,434	8,404	-0.3%
Number of branches (KB standalone in the Czech Republic)	398	396	-2
Number of ATMs	759	771	12
Number of clients (KB standalone)	1,630,000	1,648,000	1.1%

* Adjusted for reclassification of Deposit Insurance Fund charge from 'Net interest income' to 'General administrative expenses'

** Adjusted for reclassification of depository bills of exchange from 'Amounts due to customers' to 'Securities issued'

*** 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 2016	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 189.1 billion	13.6%
Building savings loans (MPSS) – volume of loans outstanding	CZK 37.1 billion	-1.1%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 30.8 billion	7.2%
Small business loans – volume of loans outstanding	CZK 30.9 billion	7.3%
Total active credit cards – number	198,000	-0.9%
– of which to individuals	157,000	-0.2%
Total active debit cards – number	1,411,000	1.9%
Insurance premiums written (KP)	CZK 1.8 billion	-30.3%

Financial calendar for 2016:

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

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