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Komerční banka reports growth in loans and deposits, and increasing number of clients

Net profit at CZK 9.7 billion for nine months of 2014

Prague, 6 November 2014 – Komerční banka reported today consolidated results for the first nine months of 2014. The volume of client deposits¹ grew by 12% to CZK 662.8 billion, investments in mutual funds grew by 18%, pension savings by 11% and life insurance technical reserves rose by 26%. Loans to clients expanded by 4% to CZK 494.7 billion. The net profit attributable to shareholders came to CZK 9.7 billion, representing an increase of 1% year on year.

“The Czech economy sustained its recovery even through the summer, and there is a good chance that the positive economic trend will continue. We are nevertheless aware that there exist risks of a slowing in the euro area and from developments in Ukraine,” commented Albert Le Dirac’h, KB’s Chairman of the Board of Directors and Chief Executive Officer. “In our discussions with clients, we perceive an improving appetite to invest more and for clients to finance the growth of their businesses with the help of loans. At the same time, the growth in residential financing has kept a steady pace. Even consumer lending is reviving, although clients remaining rather cautious.”

“In order to retain the goodwill of our clients and to strengthen KB’s leading position on the market, we will invest in further reinforcing the reliability and accessibility of our services as well as the quality of our advisory to clients. These aspects, after all, are among our main competitive advantages.”

Highlights of the third quarter

- Lending maintained its positive trend. The volume of housing loans provided by KB and Modrá pyramida grew by 4% and the volume of consumer loans granted by KB and ESSOX was up by 3%. Lending to businesses increased by 5%.
- Clients’ confidence in Komerční banka brought dynamic growth in the volume of deposits and assets under management. Deposits from individuals expanded by 10% and those from businesses were up by 15%. Moreover, investments in mutual funds grew by 18%, pension savings by 11% and technical reserves in life insurance rose by 26%.
- KB was awarded the title “Nejlepší banka” (Best Bank) and Komerční pojišťovna “Nejlepší životní pojišťovna (Best Life Insurer) in a contest run by the daily newspaper Hospodářské noviny. These honours were founded upon an assessment as to the quality of the client offers and of the financial standings of banks and insurance companies operating on the Czech market.

KB Group’s consolidated revenues diminished by 1.8% to CZK 22.9 billion. Thanks to rapid growth in deposits and loans, net interest income rose by a modest 0.8%, in spite of the continued decline in market interest rates, which pushed down yields on reinvested deposits. Fees and commissions income dropped by 5.0%, as a growing number of clients took advantage of the MojeOdměny loyalty programme. Gains from financial operations decreased by 13.3% year over year. In the situation where measures by the Czech National Bank have anchored CZK exchange rates and short-term interest rates, opportunity for hedging and trading activities was limited.

Komerční banka achieved further savings in operating expenditures, which came down by 1.0% to CZK 9.6 billion. The cost of risk fell by 19.3% to CZK 1.1 billion thanks to the good quality of the loan portfolio in both retail and corporate segments.

¹ Excluding repo operations with clients.



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As of 30 September 2014, the Group's Core Tier 1 capital adequacy ratio according to Basel III standards stood at a strong 17.1%, and the ratio of net loans to deposits (excluding client assets in pension funds) was 74.2%.

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 growth of the Czech economy through the first three quarters of 2014 was grounded in solid export performance, improving domestic demand and revival of fixed investments. This reflected positively in creation of new job positions and diminishing unemployment. Consumer and production prices were nevertheless affected by such external factors as decreasing prices for some commodities and energy, as well as weakening growth in the euro zone. Inflation accordingly hovered at very low levels, despite the Czech crown's depreciation at the end of last year. The Czech Republic's status as a relatively safe economic environment underpinned demand for its government securities, and the required yields trended to record low levels during the third quarter. In parallel with the developments in the euro area, CZK interest rates on the interbank market also followed declining tendency. The pace of loans to individuals picked up gradually as consumer confidence improved, but the volume of household savings in banks, mutual and pension funds, and life insurance increased in synchrony. The growth of bank loans to non-financial corporations did not accelerate. In addition to the fact that businesses remained cautious, this was affected by a growing number of bond issues which some large corporations – often registered abroad – were placing on international capital markets. The growth of deposit volumes from businesses was gradually slowing down, while the pace of household savings was slightly accelerating.

Developments in the client portfolio and distribution networks

As of the end of September 2014, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,621,000 clients (+2.6% year on year), of which 1,367,000 were individuals. The remaining 254,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 557,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 558,000. ESSOX's services were being used by 277,000 active clients.

Komerční banka's clients had at their disposal 400 banking branches (including one branch for corporate clients in Slovakia), 746 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 1,249,000 by the end of September 2014 and corresponds to 77.1% of all clients. Customers held 1,580,000 active payment cards, of which 200,000 were credit cards. The number of active credit cards issued by ESSOX came to 129,000. Modrá pyramida's customers had at their disposal 209 points of sale and 1,025 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 4.0% year on year to CZK 494.7 billion. Mortgages and lending to corporations in the Czech Republic and Slovakia



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added most to the portfolio's growth.²

In the segment of **loans to individuals**, the volume of housing loans grew by 4.4% year on year. Within this total, the portfolio of mortgages to individuals rose by 9.8% year on year to CZK 155.4 billion. On the other hand, the volume of Modrá pyramida's loan portfolio dropped by 12.5% to CZK 39.6 billion as clients preferred mortgages over building savings loans in the environment of low interest rates. The volume of consumer lending provided by KB and ESSOX was up by 3.4% to CZK 29.0 billion.

The total volume of **loans** provided by KB Group to **businesses** climbed by 4.0% to CZK 266.4 billion. The overall volume of credit granted by KB to (medium-sized and large) corporate clients in the Czech Republic and Slovakia advanced by 4.4% to CZK 216.3 billion, inclusive of factor finance outstanding at Factoring KB. Lending to small businesses declined by 0.9% to CZK 28.3 billion. Total credit and leasing amounts outstanding at SGEF were higher by 7.2% year over year at CZK 21.8 billion.

Amounts due to customers and assets under management

The overall **volume of deposits**³ on KB Group's balance sheet expanded by 12.0% year on year to CZK 662.8 billion. Deposits from businesses climbed by 15.2% to CZK 373.4 billion. Significant increase was recorded across all size categories of corporations, including those from financial and public sectors. Deposits from large corporations grew the fastest. Deposits at KB from individual clients rose by 10.0% to CZK 172.9 billion, and the deposit book of Modrá pyramida added 0.7% year on year to reach CZK 71.8 billion. Client assets in the Transformed fund managed by KB Penzijní společnost (which are consolidated in the KB Group accounts) grew by 11.2% to CZK 38.8 billion.

Total technical reserves in life insurance at Komerční pojišťovna expanded by 26.4% to CZK 41.7 billion. The volumes in mutual funds held by KB clients (and managed by IKS KB and Amundi) increased by 18.2% to CZK 36.0 billion.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement

Total **net banking income** decreased in the first nine months of the year by 1.8% to CZK 22,866 million. Subdued activity in hedging and trading on financial markets was caused by the central bank's anchoring the exchange rate and interest rates. Prices for basic banking services came down as clients increasingly are using on-line banking tools and taking advantage of the KB MojeOdměny (MyRewards) programme. Impact from very low market interest rates, which continued to move even lower through the first three quarters was offset by the increasing volumes in deposits and other assets under management and the growing volume of lending.

Net interest income was up by 0.8% to CZK 16,009 million, as it was underpinned by growing volumes of loans and deposits. The market interest rates sunk to new record lows in the third quarter, thus limiting yields on reinvested deposits. Development of spreads on loans was determined by intense competition prevailing on the market. The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, therefore decreased to 2.6% in the first nine months of 2014 from 2.9% one year earlier.

Net income from fees and commissions declined by 5.0% to CZK 5,049 million. KB expanded

² 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 crown following CNB intervention in November 2013.

³ Excluding repo operations with clients. Total amounts due from clients expanded by 11.4% year on year to CZK 679.0 billion.



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its MojeOdměny client rewards programme, and that effectively drove down fee income from deposit products and transactions. Meanwhile, the overall number of transactions grew especially due to the use of payment cards and on-line banking. 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, growth in the volumes of client savings in life insurance policies and mutual funds boosted income from cross-selling and KB saw increased activity and thus better fee income from trade finance, bank guarantees and loan syndications.

Net gains from financial operations dropped by 13.3% to CZK 1,772 million. Although the proprietary trading result did improve in the third quarter, clients' demand for financial hedging and the potential to generate profits from trading were nevertheless diminished by the CNB's measures anchoring the exchange rate and interest rates. Net gains from FX payments reflected narrower average spreads and cost optimisation by clients on conversions.

Total **operating expenditures** declined by 1.0% to CZK 9,580 million, even though personnel expenses were higher by a slight 0.7%, at CZK 5,067 million. The average number of employees diminished by 1.0% to 8,533. General administrative expenses were down by 5.3% to CZK 3,178 million. The main savings were achieved in real estate costs and telecommunications. The category "Depreciation, impairment and disposal of fixed assets" grew by 3.8% to CZK 1,334 million, and this increase was driven mainly by amortisation of software applications.

Gross operating income for the first three quarters was 2.4% lower, at CZK 13,287 million.

Cost of risk was reduced by 19.3% to a very low CZK 1,085 million, reaching 30 basis points in relative terms as measured over the average volume of the lending portfolio. Risk costs remained at low levels in both retail and corporate segments thanks to stable and good quality of the portfolio of loans. The Bank was able to reduce its allowances for several classified exposures due to their favourable development.

Income from shares in associated undertakings rose by 47.4% to CZK 143 million, reflecting a gain in profit at Komerční pojišťovna which itself mirrors the insurer's business successes. The proportion of profit attributable to clients in the Transformed fund of KB Penzijní společnost came to CZK 362 million, down by 2.7%, as low market interest rates limited yields from the fund's portfolio.

Income taxes decreased by 6.1% to CZK 2,034 million.

At CZK 9,949 million, KB Group's consolidated net profit for three quarters of 2014 was higher by 1.3% in comparison with the same period of 2013. Of this amount, CZK 295 million was profit attributable to holders of minority stakes in KB's subsidiaries (+11.7%). **Profit attributable to the Bank's shareholders** totalled CZK 9,654 million, which is 1.0% more than for the first three quarters of 2013.

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 30 September 2014, KB Group's **total assets** had increased by 5.9% for the year to date to CZK 914.6 billion.

Amounts due from banks rose by 6.4% to CZK 133.8 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 grew by 1.4% to CZK 37.6 billion. That portfolio comprises the Group's proprietary trading positions.

At CZK 475.5 billion, total net loans and advances increased by 0.5% in comparison to the end of



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2013. The gross amount of client loans and advances was up by 0.6%, at CZK 494.7 billion. The share of standard loans within that total climbed to 92.8% (CZK 458.9 billion) while the proportion of loans rated watch was 1.8% (CZK 8.7 billion). Loans under special review (substandard, doubtful and loss) comprised 5.5% of the portfolio, with volume of CZK 27.1 billion. The volume of provisions created for loans reached CZK 19.3 billion, which was 4.4% more than at the end of 2013.

The portfolio of financial assets available for sale (AFS) shrank by 44.3% to CZK 78.6 billion. Meanwhile, the volume of securities in the held-to-maturity (HTM) portfolio increased by CZK 71.1 billion to CZK 75.3 billion. These effects were mainly due to reclassification from the AFS to HTM portfolio of certain debt securities in the nominal value of CZK 56.6 billion which the Group intends to hold until their maturity. The change was carried out in the first quarter of 2014. The reclassification was intended to limit volatility of regulatory capital in accordance with the Basel III regulatory framework while respecting all the rules of international accounting standards. The 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 those securities.

Of the CZK 78.6 billion total volume of debt securities in the AFS portfolio, Czech government bonds comprised CZK 42.4 billion and foreign government bonds CZK 8.9 billion. Of the HTM portfolio's CZK 75.3 billion in debt securities, Czech government bonds constituted CZK 66.5 billion and foreign government bonds CZK 8.8 billion.

The net book value of tangible fixed assets dropped by 3.8% to CZK 7.6 billion, while that of intangible fixed assets declined by 5.1% to CZK 3.6 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF and ESSOX, remained unchanged at CZK 3.8 billion.

Total liabilities were 5.6% higher in comparison to the end of 2013 and reached CZK 810.5 billion. Amounts due to customers grew by 4.6% to CZK 679.0 billion. The volume outstanding of issued securities decreased by 3.7% to CZK 21.6 billion. The Group's **liquidity**, as measured by the ratio of net loans to deposits, was 74.2% (70.0% if including client assets in the transformed pension fund).

Shareholders' equity rose for the year to date by 7.9% to CZK 104.1 billion. KB paid out CZK 8.7 billion in dividends during May, which was more than offset by the generation of net profit and increase in revaluation gains on the AFS portfolio and cash flow hedges (both of which represent primarily reinvestment of client deposits). The revaluation gains were due to lower market yields compared with the end of 2013. As of 30 September 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 under EU regulations implementing the **Basel III** regulatory framework. Consolidated regulatory capital for the capital adequacy calculation stood at CZK 65.0 billion as of 30 September 2014. This amount includes the current year's profit, which is adjusted with a provision for the dividend. That is in accordance with applicable regulations, and the provision is set at 69.8% of the dividend payout ratio from last year's profit. 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 17.1%, compared to the target level of 15-16%, laying foundation for review of the **dividend payout** guidance.

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



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ANNEX: Consolidated results as of 30 September 2014 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	9M 2013	9M 2014	Change year on year
Net interest income	15,879	16,009	0.8%
Net fees and commissions	5,315	5,049	-5.0%
Net gains from financial operations	1,986	1,722	-13.3%
Other income	101	86	-14.9%
Net banking income	23,282	22,866	-1.8%
Personnel expenses	-5,034	-5,067	0.7%
General administrative expenses	-3,356	-3,178	-5.3%
Depreciation, impairment and disposal of fixed assets	-1,285	-1,334	3.8%
Operating costs	-9,675	-9,580	-1.0%
Gross operating income	13,607	13,287	-2.4%
Cost of risk	-1,344	-1,085	-19.3%
Net operating income	12,263	12,202	-0.5%
Profit on subsidiaries and associates	97	143	47.4%
Share in profit of pension scheme beneficiaries	-372	-362	-2.7%
Profit before income taxes	11,989	11,982	-0.1%
Income taxes	-2,167	-2,034	-6.1%
Net profit	9,822	9,949	1.3%
Minority profit/(loss)	264	295	11.7%
Net profit attributable to the Bank's shareholders	9,558	9,654	1.0%

Balance Sheet (CZK million, unaudited)	31 Dec 2013	30 Sep 2014	Change year to date
Assets	863,980	914,624	5.9%
Cash and balances with central bank	44,405	67,653	52.4%
Amounts due from banks	125,735	133,820	6.4%
Loans and advances to customers (net)	473,090	475,522	0.5%
Securities	182,533	191,509	4.9%
Other assets	38,218	46,120	20.7%
Liabilities and shareholders' equity	863,980	914,624	5.9%
Amounts due to banks	49,680	50,103	0.9%
Amounts due to customers	649,158	679,002	4.6%
Securities issued	22,417	21,593	-3.7%
Other liabilities	46,187	59,776	29.4%
Shareholders' equity	96,538	104,150	7.9%



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Key ratios and indicators	30 Sep 2013	30 Sep 2014	Change year on year
Capital adequacy (CNB)*	16.7%	17.1%	n.a.
Tier 1 ratio (CNB)*	16.7%	17.1%	n.a.
Total risk-weighted assets (CZK billion)*	355.4	380.8	n.a.
Risk-weighted assets for credit risk (CZK billion)*	298.5	315.8	n.a.
Net interest margin (NII/average interest-bearing assets)	2.9%	2.6%	▼
Loans (net) / deposits ratio	75.1%	70.0%	▼
Loans (net) / deposits ratio excluding client assets in Transformed fund	79.6%	74.2%	▼
Cost / income ratio	41.6%	41.9%	▲
Return on average equity (ROAE)	13.5%	13.2%	▼
Adjusted return on average equity (adjusted ROAE)**	16.8%	16.1%	▼
Return on average assets (ROAA)	1.6%	1.4%	▼
Earnings per share (CZK)	337	341	1.0%
Average number of employees during the period	8,618	8,533	-1.0%
Number of branches (KB standalone in the Czech Republic)	398	399	+1
Number of ATMs	715	746	+31
Number of clients (KB standalone)	1,580,000	1,621,000	2.6%

* 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	30 Sep 2014	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 155.4 billion	9.8%
Building savings loans (MPSS) – volume of loans outstanding	CZK 39.6 billion	-12.5%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 29.0 billion	3.4%
Small business loans – volume of loans outstanding	CZK 28.3 billion	-0.9%
Total active credit cards – number	200,000	-1.3%
– of which to individuals	157,000	0.2%
Total active debit cards – number	1,381,000	0.7%
Insurance premiums written (KP)	CZK 8.7 billion	36.7%

Financial calendar for 2015:

- 12 February 2015: Publication of FY 2014 and 4Q 2014 results
- 6 May 2015: Publication of 1Q 2015 results
- 5 August 2015: Publication of 1H 2015 and 2Q 2015 results
- 5 November 2015: Publication of 9M 2015 and 3Q 2015 results