



# KB Group

## 1H 2008 Financial Results (International Financial Standards)

Prague  
6 August 2008



## Disclaimer

This document contains a number of forward-looking statements relating to the targets and strategies of the Komerční banka Group. These statements are based on a series of assumptions, both general and specific. As a result, there is a risk that these projections will not be met. Readers are therefore advised not to rely on these figures more than is justified as the Group's future results are liable to be affected by a number of factors and may therefore differ from current estimates.

Readers are advised to take into account factors of uncertainty and risk when basing their investment decisions on information provided in this document.



# Agenda

- **Business Highlights**
- Consolidated Financial Results
- Loan Portfolio Quality and Development
- Appendix



## Very successful first half for KB Group

- Consolidated net banking income of KB Group reached CZK 16,178 million, up 12.3%
- Cost income ratio further improved to 44.5%
- Return on equity above 26%
- Net operating income increased by 14.7% to CZK 8,063 million
- Consolidated cost of risk further improved to 35bps
- Consolidated net profit of KB Group at 6,458 million CZK, up 22.1%
- More challenging macroeconomic environment expected

(Year on year comparisons)



## Balanced model for the individuals segment

- Opening hours in retail branches extended in response to changing needs of clients.
- Call centre in Zlín fully operational. It will back up operations of the call centre in Liberec so that the smooth servicing of more than 720,000 telephone banking users is assured.
- New co-branded T-Mobile bonus credit card launched as a part of the mobile telephony operator's loyalty scheme.
- Part of corporate social responsibility, Komerční banka signed in April agreement on taking Green Energy supplies from ČEZ. Komerční banka contributes CZK 0.10 for each kWh of electricity it consumes. The funds so collected will support environmental projects for research into, education in, and use of energy from renewable resources.





## Growth in increasingly challenging environment

- Continuing increase in number of KB's individual customers by 5% to 1,322,000.
- Volume of newly sold mortgages up 3.7%, outperforming the market (declining by one fifth). Total number of mortgages to individuals up 20% to nearly 73,000. Outstanding volume rose 27%.
- Increase KB cross-selling ratio from 5.31 to 5.64 driven by demand for internet banking, card insurance, credit cards and other products.
- Number of active KB payment cards rose by 8% to 1,663,000, of which number of credit cards increased by 21% to 225,000.
- Growth in new MPSS contracts: number of concluded saving contracts up 26%, volume of new loans higher by 2% with outstanding volume up 30%.
- 483,000 participants in Penzijní fond KB, an increase of 8%.

Year on year comparisons



### Successful development of partnership with business clients

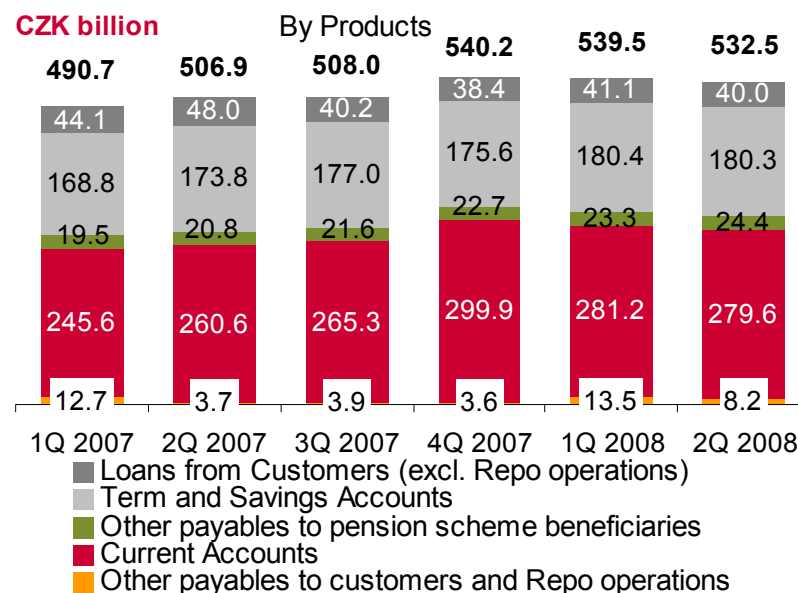
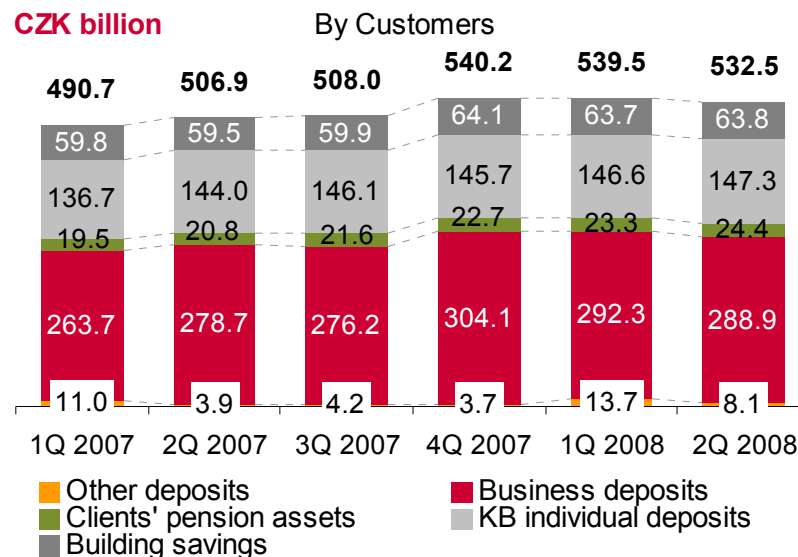
- Growth of lending to business clients accelerated to 23% to reach CZK 202.2 billion.
- New model of client servicing implemented in Top corporations segment. Relationship managers supported by dedicated Client Service Teams allowing better identification and meeting of client needs.
- Advantageous SEPA payments launched in April.
- Revenues of Factoring KB up 17% to CZK 68.0 million.
- In Slovakia, KBB increased new production of loans by 54% (in SKK) and continued preparations for introduction of Euro from 2009.
- Trade finance revenues rose 12%.

Year on year comparisons



## Slowing deposit volume growth

- Group deposits increased 5.1% YoY. QoQ development affected by decline in repo operations with customers.
- KB represents 83% of CZK 532.5 billion of total depositary base, of which:
  - KB individuals deposits rose by 2.3% to CZK 147.3 billion
  - KB corporate deposits increased by 3.6% to CZK 286.0 billion
- Clients' pension assets in PF KB grew by 17.2% YoY to CZK 24.4 billion.
- MPSS deposits up 7.3% to CZK 63.8 billion
- Sales of alternative saving products during 1H 2008
  - IKS sales through KB and MPSS (CZK 6.8 bn)
  - KP Vital insurance written premium (CZK 757 million)

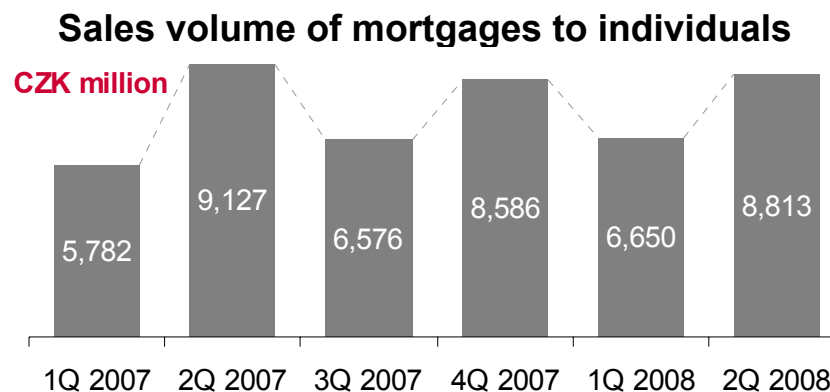
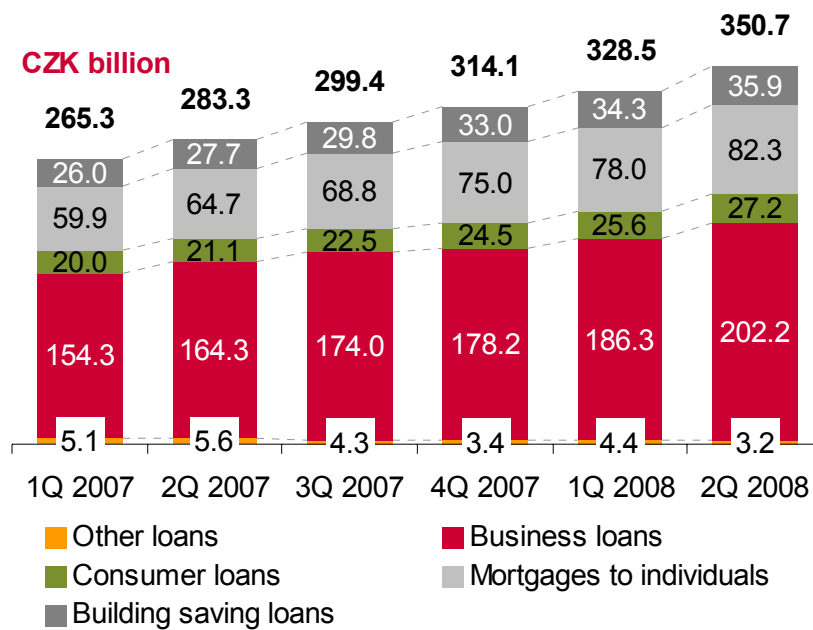






## Lending growth exceeding market

- Total lending expanded by 23.8% YoY.
- Business loans grew by 23.1% YoY:
  - Small businesses (KB) +38.6% to CZK 17.9 bn.
  - Corporations (KB+KBB) +22.1% to CZK 181.1 billion.
  - Factoring KB +6.3% to CZK 3.1 billion.
- Consumer loans provided by KB and ESSOX rose 28.8% YoY to CZK 27.2 billion.
- Mortgages to individuals up 27.2% YoY to CZK 82.3 billion (outstanding volume), despite slowing sales in 2Q.
- Building standard and bridging loans provided by MPSS stood at CZK 35.9 billion rising 29.7% YoY.
- Irrevocable off-balance sheet commitments amounted to CZK 186.6 billion.





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## Consolidated financial results

### Profit and Loss Statement

(CZK million, unaudited)

	1H 2007	1H 2008	Change YoY
Net interest income	9,023	10,310	14.3%
Net fees & commissions	3,812	4,059	6.5%
Income from financial operations	1,505	1,723	14.5%
Other income	69	86	24.6%
<b>Net banking income</b>	<b>14,409</b>	<b>16,178</b>	<b>12.3%</b>
Personnel expenses	-2,941	-3,053	3.8%
General administrative expenses	-2,911	-3,259	12.0%
Depreciation, impairment and disposal of fixed assets	-739	-893	20.8%
<b>Operating costs</b>	<b>-6,591</b>	<b>-7,205</b>	<b>9.3%</b>
<b>Gross operating income</b>	<b>7,818</b>	<b>8,973</b>	<b>14.8%</b>
Cost of risk	-787	-910	15.6%
<b>Net operating income</b>	<b>7,031</b>	<b>8,063</b>	<b>14.7%</b>
Profit on subsidiaries and associates	29	37	27.6%
Share of profit of pension scheme beneficiaries	-288	-181	-37.2%
<b>Profit before income taxes</b>	<b>6,772</b>	<b>7,918</b>	<b>16.9%</b>
Income taxes	-1,484	-1,460	-1.6%
<b>Net profit</b>	<b>5,289</b>	<b>6,458</b>	<b>22.1%</b>
Minority profit/(loss)	11	47	327.3%



## Consolidated financial results

### Balance Sheet

(CZK million, unaudited)

	30 June 2007	30 June 2008	Change YoY
<b>Assets</b>	<b>639,347</b>	<b>677,022</b>	<b>5.9%</b>
Cash and balances with central bank	12,108	8,322	-31.3%
Amounts due from banks	227,200	169,788	-25.3%
Loans and advances to customers ( <i>net</i> )	274,574	341,051	24.2%
Securities	103,575	132,395	27.8%
Other assets	21,890	25,466	16.3%
<b>Liabilities</b>	<b>639,347</b>	<b>677,022</b>	<b>5.9%</b>
Amounts due to banks	22,956	15,418	-32.8%
Amounts due to customers	506,876	532,529	5.1%
Securities issued	26,077	29,805	14.3%
Other liabilities	32,950	44,753	35.8%
Subordinated debt	6,002	6,003	0.0%
Shareholders' equity	44,487	48,514	9.1%



## Consolidated financial ratios

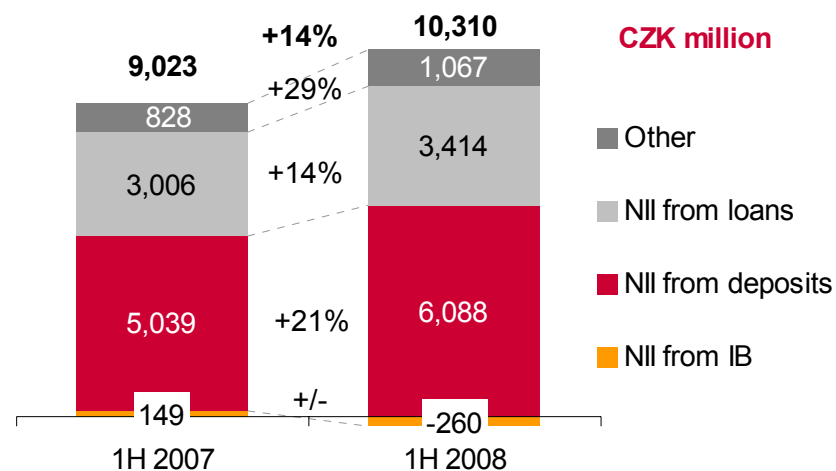
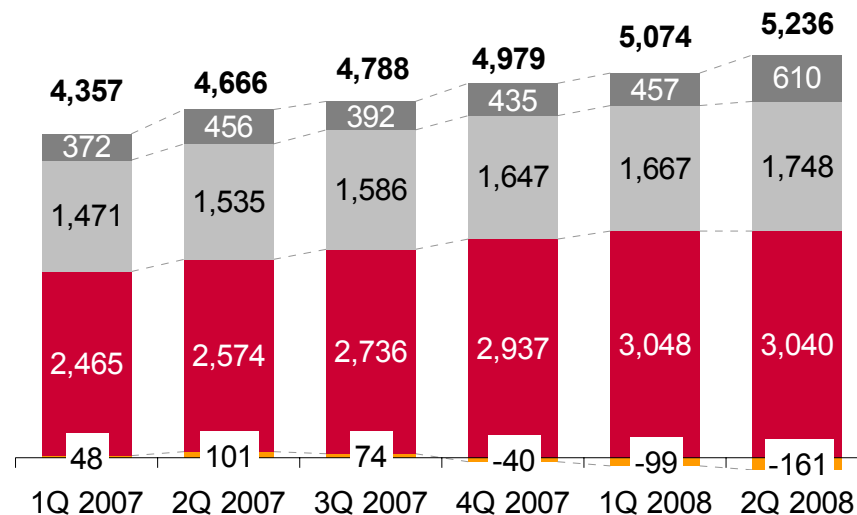
<b>Key ratios and indicators</b>	<b>30 June 2007</b>	<b>30 June 2008</b>	<b>Change YoY</b>
Capital Adequacy (Basel II)	n.a.	12.46%	n.a.
Capital Adequacy (Basel I)	11.20%	10.42%	▼
Tier 1 Ratio (Basel II)	n.a.	11.09%	n.a.
Tier 1 Ratio (Basel I)	9.90%	9.28%	▼
Risk weighted assets for credit risk (CZK billion) *	330	277	-15.9%
Net Interest Margin (NII/Av. Interest Bearing Assets)	3.1%	3.3%	▲
Loans (net) / Deposits ratio	54.2%	64.0%	▲
Cost / Income ratio	45.7%	44.5%	▼
Return on Average Equity (ROAE), annualized	22.3%	26.1%	▲
Return on Average Assets (ROAA), annualized	1.7%	1.9%	▲
Earnings per Share (CZK), annualized	278	340	▲
Average number of employees during the period	8,448	8,756	3.6%

\* RWA as of 30 June 2007 based on Basel I



## Favourable development underpinned by lending

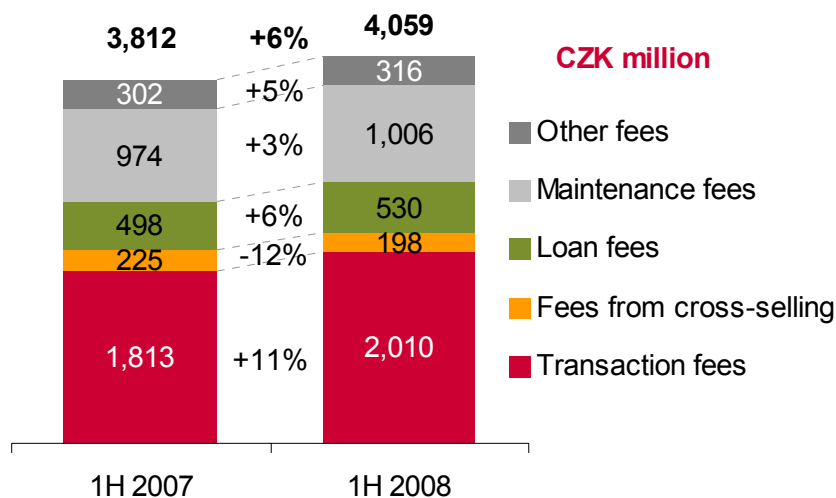
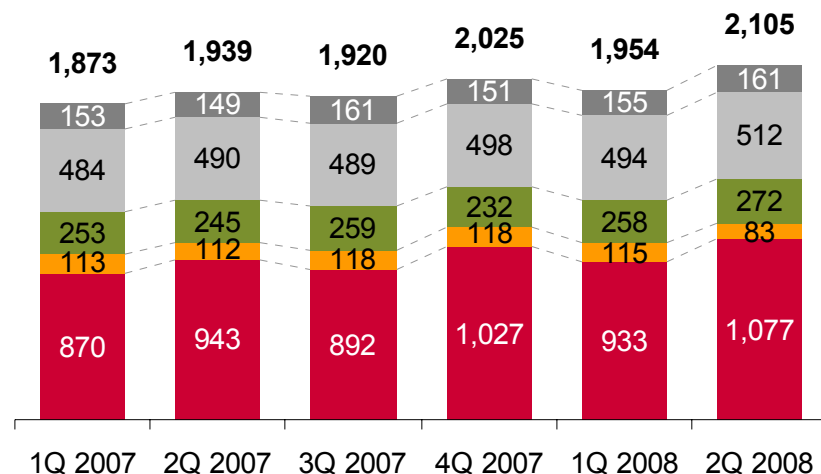
- 1H YoY increase in NII of 14.3%. QoQ NII rose 3.2%
- MPSS NII (before adjustments) up 36%. ESSOX NII up 24% YoY. Standalone KB NII rose 12% YoY.
- NII from loans – benefiting from rising volumes. Market pressure on spreads slightly eased in 2Q in business segments.
- NII from deposits – spreads on term deposits started returning to more sustainable levels in 2Q. YoY higher both volumes and spreads. Significant contribution to the increase from current accounts.
- Declining NII from Investment Banking offset by gains in Net Profit from Financial Operations.
- NII from Other benefited from higher yield on reinvestment of capital and higher dividend income.
- Consolidated NII in 1H 2008 impacted by CZK 162 million from acquisition revaluation of MPSS (v. CZK 201 million in 1H 2007)





## Fees growing with strong economic activity and one-off settlement

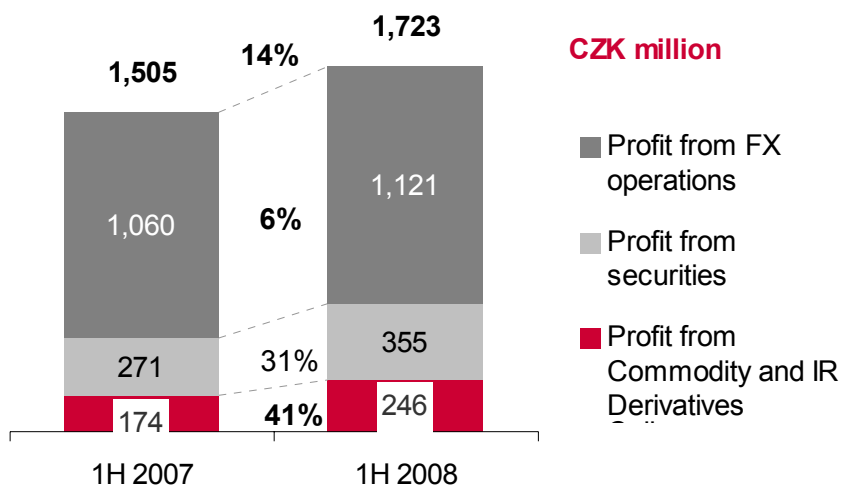
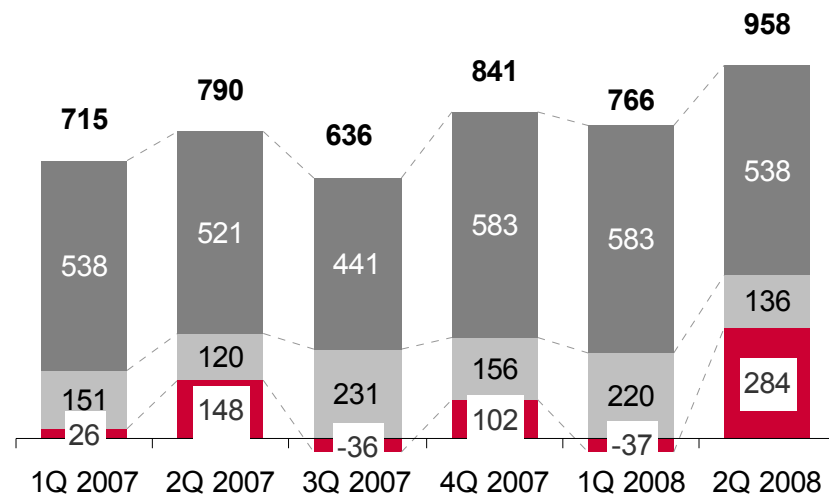
- YoY growth of 6.5%, QoQ increase of 7.7%. Result influenced by one-off inter-bank settlement of interchange fees on card transactions (CZK 162 mil.)
- Transaction fees – underlying strong payment cards and direct banking transactions. Classic channels gradually declining, continuing pricing pressure on payments.
- Fees from cross-selling – Sales of mutual funds significantly impacted by negative development of financial markets, particularly in 2Q.
- Maintenance fees - continued switch from non-package products to packages.
- Loan fees – positive development of fees from business loans, mortgage fees affected by higher commissions paid to intermediaries (+25%) and marketing campaigns.
- Other fees - driven by very good development of trade finance. Brokerage fees suffered from market situation.





## Solid client-driven development of trading income

- Net profit from financial operations increased by 14.5% YoY, 25.1% QoQ.
- Profit from FX operations generated mainly by client operations.
- Growth of income from FX payments and conversions YoY negative (-1.6%) in line with long term trend. QoQ increase determined by seasonality.
- Increase in profit from IR derivatives and profit from securities offsetting decline in NII from Investment banking.
- Profit from commodity derivatives increased 79% YoY but share on total NPFO still small.



CZK million

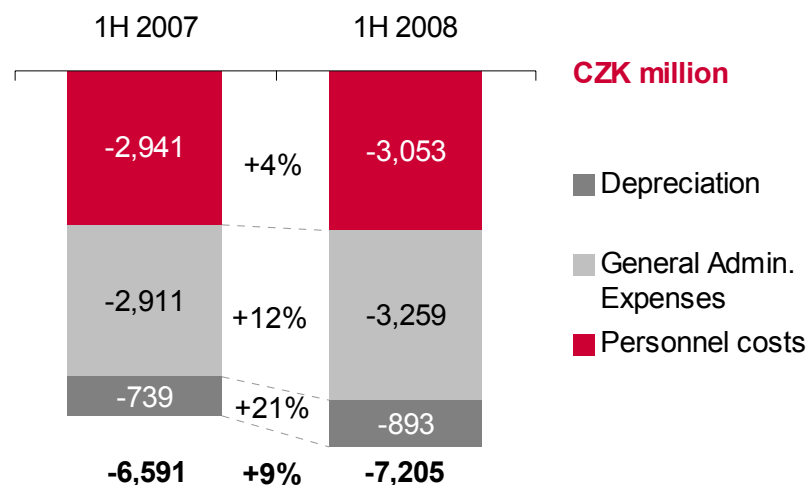
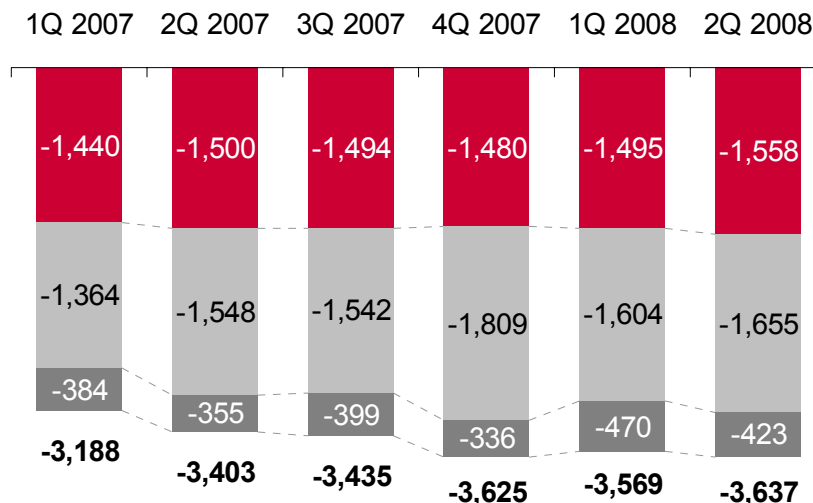
- Profit from FX operations
- Profit from securities
- Profit from Commodity and IR Derivatives





## Increase in operating expenses slowed down in second quarter

- YoY growth of 9.3%, QoQ operating expenses rose by 1.9%.
- Personnel costs rising with increase in average headcount (+3.6%) and salary increase in 2Q, benefiting from cap on social and health insurance and lower utilization of some employee benefits.
- General Administrative Expenses rising with increased activities in Marketing but also higher inflation (maintenance, property costs, energy). Despite seasonality, both factors weakened in 2Q leading to QoQ growth of 3.2%.
- YoY increase in Depreciation & Impairment impacted by extraordinary income from sale of unused buildings (CZK 77 million in 1H 2007) and one-off impairment of a building in PF KB investment portfolio (CZK -57 million in 1Q 2008).



CZK million

■ Depreciation

■ General Admin. Expenses

■ Personnel costs



## Shareholders' Equity

Total shareholders' equity  
as at 31 December 2007

**- 2,141**

Total shareholders' equity  
as at 30 June 2008

Shareholders' equity	31/12/2007	1/1/2008	Increase	Decrease	30/06/2008
<b>Share capital</b>	19,005	19,005			19,005
Capital and reserve funds	20,802	31,990		-6,852	25,138
- Retained earnings, reserve funds and dividends	20,952	32,140		-6,852	25,288
- Treasury shares	-150	-150			-150
Attributable net profit	11,188	0	6,412		6,412
Hedging revaluation reserve	-791	-791		-629	-1,420
AFS securities' fair value changes	-727	-727		-1,115	-1,842
Others	116	116		-2	114
Minorities	1,060	1,060	47		1,107
<b>Total Shareholders' equity</b>	<b>50,654</b>	<b>50,654</b>	<b>6,458</b>	<b>-8,599</b>	<b>48,514</b>



# Agenda

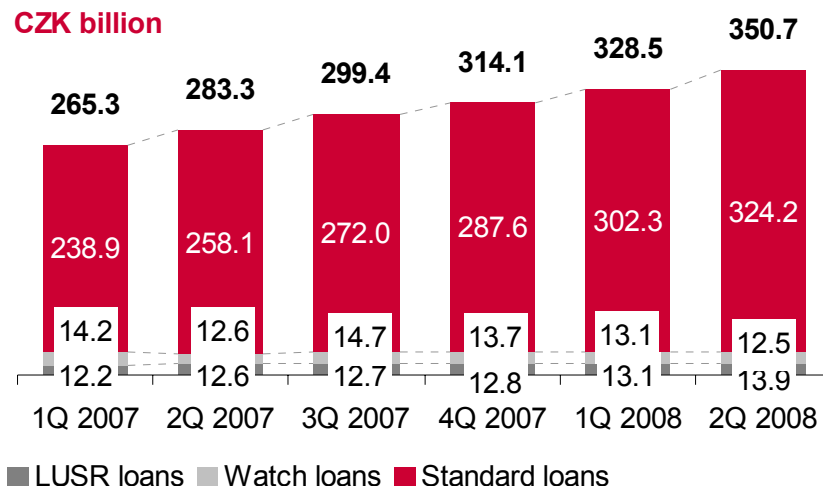
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## Continued loan exposure growth and adequate provisions coverage

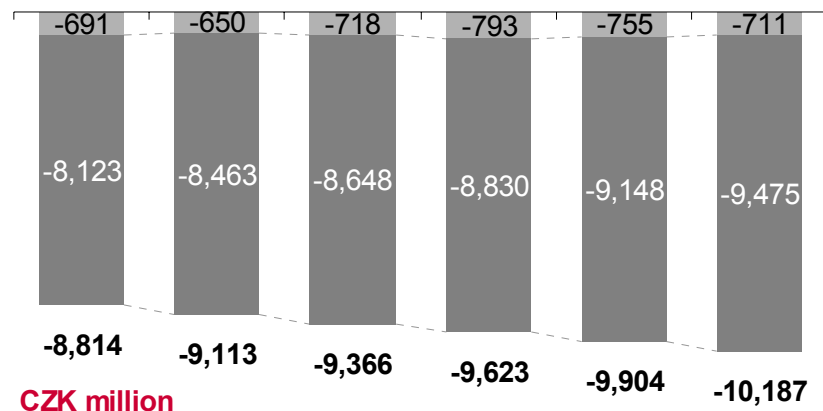
### Gross exposure

- Total loan portfolio up by CZK 22.2 billion (faster quarterly growth when comparing to Q1 2008)
- Standard loan portfolio up by CZK 21.9 billion (faster quarterly growth when compared to Q1 2008)
- Share of standard exposure posted at 92,5% of total exposure (compared to 92% in Q1/2008)
- Cumulative watch and defaulted loans at stable level (with few newly defaulted exposures)



### Specific provisions

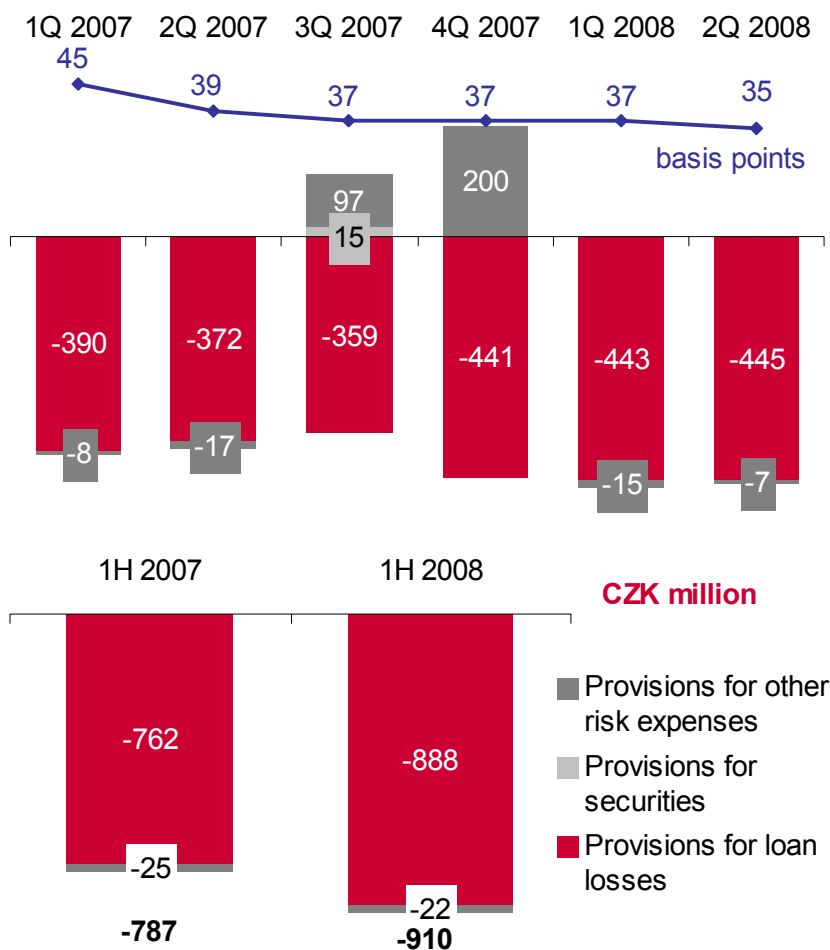
- Stable and adequate provision coverage ratios
- 5.7% coverage for watch exposure and 68% coverage for defaulted exposure (LUSR)





## Cost of risk slightly better than expected

- Limited decrease of KB consolidated cost of risk from 37 bps to 35 bps
- QoQ net creation of provisions maintained at stable level of CZK 452 mil. (comparing to 458 mil. in Q1/2008)
- Retail activities well under control with decreasing share in net provision creations
- Natural increase in the share of corporate credit in net provision creations
- 14% YoY growth in cost of commercial risk (well below KB Group loan portfolio's growth posted at 24%)





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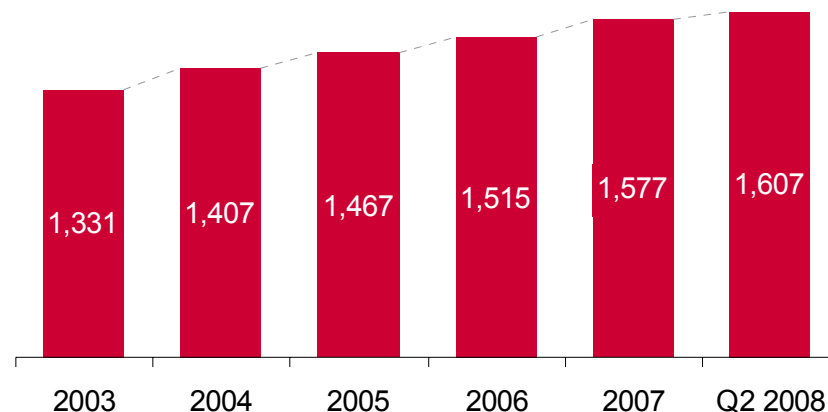
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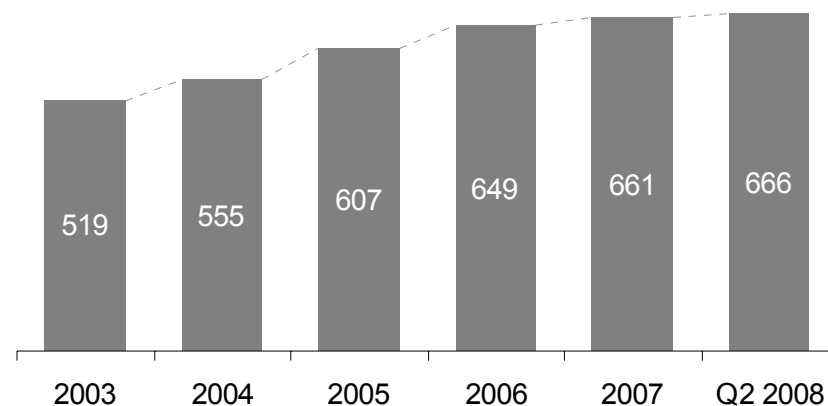
## Dynamic growth of KB's portfolio and networks

- **Clients**
  - KB bank 1,607,000 clients (+4%)
  - MPSS 755,000 clients (-4%)
  - PFKB 483,000 clients (+8%)
  - ESSOX 186,000 active clients (+15%)
- **Network**
  - 390 branches for retail clients, 35 business centres for MEM, 4 corporate divisions for large corporate clients
  - 666 ATMs
  - MPSS: 239 points of sale; 1,302 sales agents (of which 372 full-time professionals)
- **Direct Channels**
  - Two call centres, internet and mobile banking
  - 931,000 clients (i.e. 58% of KB client base) using direct banking products

### Clients of KB (bank)



### Number of ATMs





## Business performance of subsidiaries 1/2

		1H 2007	1H 2008	Change YoY
<b>MPSS</b>	Volume of new loans (CZK million)	5,589	5,696	2%
	Volume of total loans (gross, CZK million)	27,680	35,898	30%
	Target volume of new contracts (CZK million)	14,998	18,501	23%
	Volume of deposits (CZK million)	59,484	63,840	7%
	Number of FTEs	358	362	1%
	Number of points of sale	252	239	-5%
<b>PF KB</b>	Number of new contracts	52,896	39,263	-26%
	Number of contracts (stock)	448,237	483,257	8%
	Assets under management (CZK million)	22,668	24,396	8%
	Number of FTEs	57	61	7%
<b>ESSOX</b>	Volume of new contracts (CZK million)	1,947	2,245	15%
	Volume of total loans (gross, CZK million)	4,815	6,529	36%
	Number of FTEs	231	272	18%





## Business performance of subsidiaries 2/2

		1H 2007	1H 2008	Change YoY
<b>Factoring KB</b>	Factoring turnover (CZK million)	8,054	8,171	1%
	New contracts (number)	168	102	-39%
	Number of FTEs	41	42	1%
<b>KBB</b>	Total client loans (gross, CZK milion)	3,510	4,827	38%
	Total client deposits (CZK milion)	3,224	2,262	-30%
	Number of clients	1,389	1,352	-3%
	Number of FTEs	77	75	-3%
<b>KP</b>	Newly concluded policies (number)	268,590	250,319	-7%
	of which in life insurance	74,854	80,857	8%
	of which in non-life insurance	193,736	169,462	-13%
	Premium written (CZK milion)	1,142	1,172	3%
	of which in life insurance	872	887	2%
	of which in non-life insurance	270	285	6%
	Number of FTEs	148	147	-1%

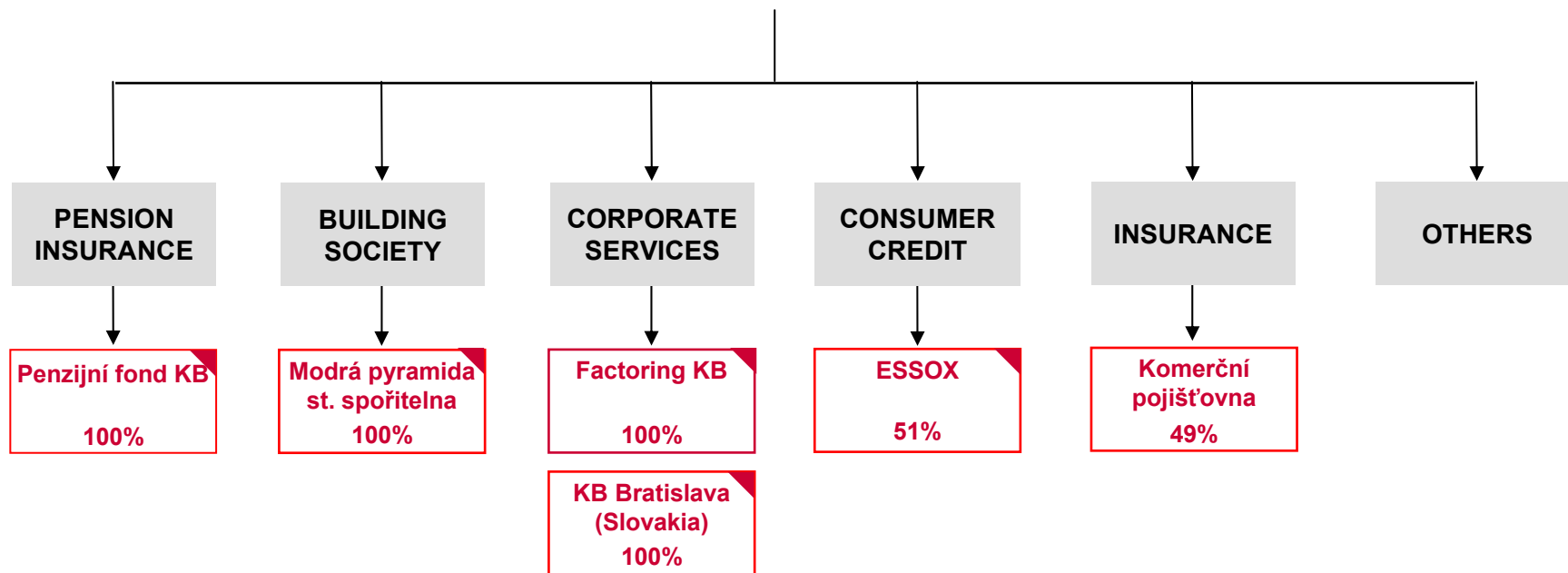


## Standalone results of KB Group companies and associated undertakings

	Account. standards	Share of KB	Net Profit	YoY	Equity	YoY	Assets	YoY
<b>CZK million</b>								
KB	IFRS	n.a.	5,799	21%	47,778	10%	595,421	7%
ESSOX, s.r.o. (IFRS)	IFRS	51%	95	332%	2,256	87%	8,097	41%
Factoring KB, a.s.	CAS	100%	39	255%	1,384	6%	4,420	9%
Komerční banka Bratislava, a.s. (IFRS)	IFRS	100%	36	13%	726	1%	6,652	-3%
Penzijní fond Komerční banky, a. s.*	CAS	100%	212	-26%	-101	-129%	24,352	15%
Bastion European Investments S.A. (IFRS)	IFRS	100%	74	3%	3,189	-19%	6,345	-18%
Komerční pojišťovna, a.s.	IFRS	49%	75	25%	1,028	14%	12,054	2%
Modrá pyramida SS, a.s.	IFRS	100%	298	25%	2,356	12%	67,823	7%
Protos (IFRS)	IFRS	90%	249	0%	12,814	0%	12,828	0%
Czech Banking Credit Bureau (CAS)	CAS	20%	6	-14%	10	-9%	40	33%

\* 85% of net profit must be distributed to pension scheme beneficiaries

Note: Fully consolidated companies are: Essox, Factoring, KBB, PFKB, Bastion, Modra pyramida and Protos. CBCB is not consolidated.



**MPSS:**

- Until 3Q 2006 equity method
- Since 4Q 2006 full consolidation

**PFKB:**

- Full consolidation method
- 85% of net profit redistributed to pensioners (Share of profit of pension scheme beneficiaries)

Note: Red marked companies are fully consolidated



## Quarterly financial results

### Profit and Loss Statement

(CZK million, unaudited)

	2Q 2007	2Q 2008	Change YoY
Net interest income	4,666	5,236	12.2%
Net fees & commissions	1,939	2,105	8.6%
Income from financial operations	790	958	21.2%
Other income	41	35	-13.3%
<b>Net banking income</b>	<b>7,435</b>	<b>8,334</b>	<b>12.1%</b>
Personnel expenses	-1,500	-1,558	3.9%
General administrative expenses	-1,548	-1,655	7.0%
Depreciation, impairment and disposal of fixed assets	-355	-423	19.1%
<b>Operating costs</b>	<b>-3,403</b>	<b>-3,637</b>	<b>6.9%</b>
<b>Gross operating income</b>	<b>4,032</b>	<b>4,697</b>	<b>16.5%</b>
Cost of risk	-388	-452	16.5%
<b>Net operating income</b>	<b>3,644</b>	<b>4,245</b>	<b>16.5%</b>
Profit on subsidiaries and associates	19	20	4.7%
Share of profit of pension scheme beneficiaries	-211	-94	-55.6%
<b>Profit before income taxes</b>	<b>3,452</b>	<b>4,172</b>	<b>20.8%</b>
Income taxes	-765	-761	-0.5%
<b>Net profit</b>	<b>2,687</b>	<b>3,410</b>	<b>26.9%</b>
Minority profit/(loss)	0	20	



## Background

- ▶ Remaining 60% in Modrá pyramida acquired in October 2006. Full consolidation of MPSS since 4Q 2006.
- ▶ Preliminary goodwill on acquisition of Modrá pyramida at CZK 2,741 mil.
- ▶ In accordance with IFRS 3 A&L valuation to be completed within 12 months after acquisition
- ▶ Valuation based on detailed data on the contracts of Modrá Pyramida

## Adjustments to provisional goodwill

- ▶ The fair value adjustments of MPSS balance sheet relating to acquired 60% stake amount to CZK 647 mil.
- ▶ Recognized goodwill on acquisition stands at CZK 3,389 mil.

## Main sources of adjustments

- ▶ Valuation of client's deposits, buildings and securities

## P/L impact

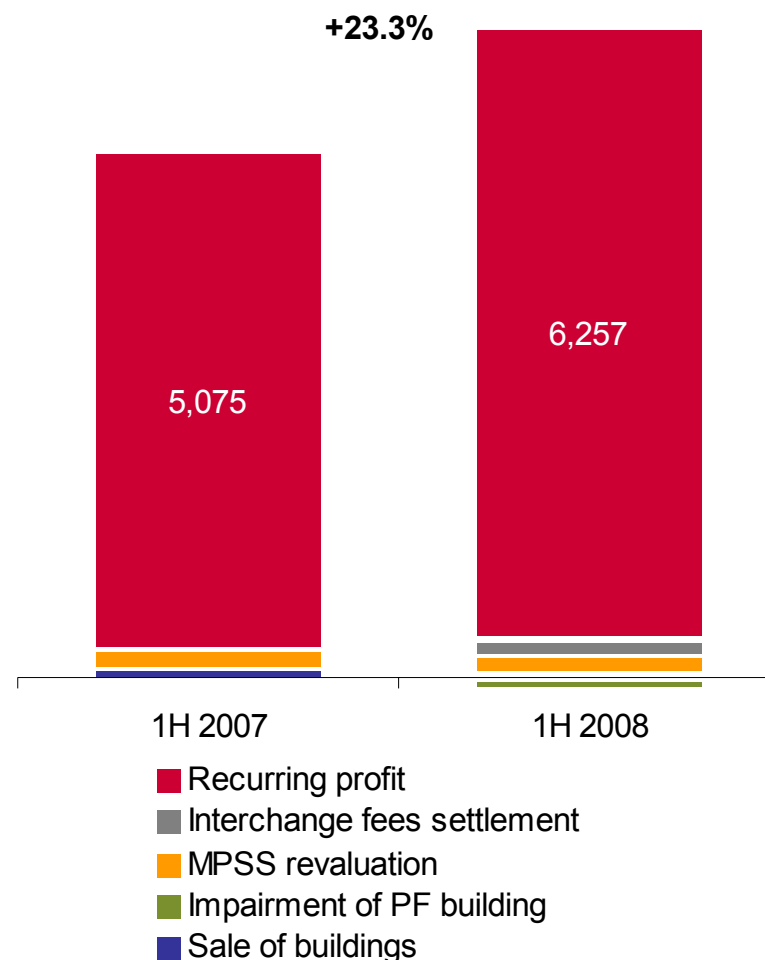
- ▶ Impact from revaluation on consolidated P/L:

CZK millions	2006	2007	1H 2008	2008	2009	2010	2011	2012
<b>NII</b>	94	387	162	267	149	102	45	20
<b>NPFO</b>	0	-19	0	-2	0	0	0	0
<b>Depreciation</b>	1	5	3	5	5	5	5	5
<b>Tax</b>	-23	-117	-35	-57	-31	-20	-9	-4
<b>Net profit</b>	73	255	130	213	124	87	41	21



## Pro-forma Profit and Loss without one-offs

	1H 2007	1H 2008	Change YoY
<b>Net banking income</b>	14,208	15,854	11.6%
Net interest income	8,822	10,148	15.0%
Non-interest income	5,386	5,707	6.0%
<b>Operating costs</b>	-6,671	-7,151	7.2%
Personnel expenses	-2,941	-3,053	3.8%
Other costs	-3,730	-4,097	9.9%
<b>Gross operating income</b>	7,537	8,704	15.5%
Cost of risk	-787	-910	15.8%
Profit on subsidiaries	29	37	25.0%
Share of profit of pension scheme beneficiaries	-288	-181	-37.2%
<b>Profit before income taxes</b>	6,492	7,649	17.8%
Income tax	-1,416	-1,391	-1.8%
<b>Net recurring profit</b>	5,075	6,257	23.3%
<b>Reported net profit</b>	5,289	6,458	22.1%



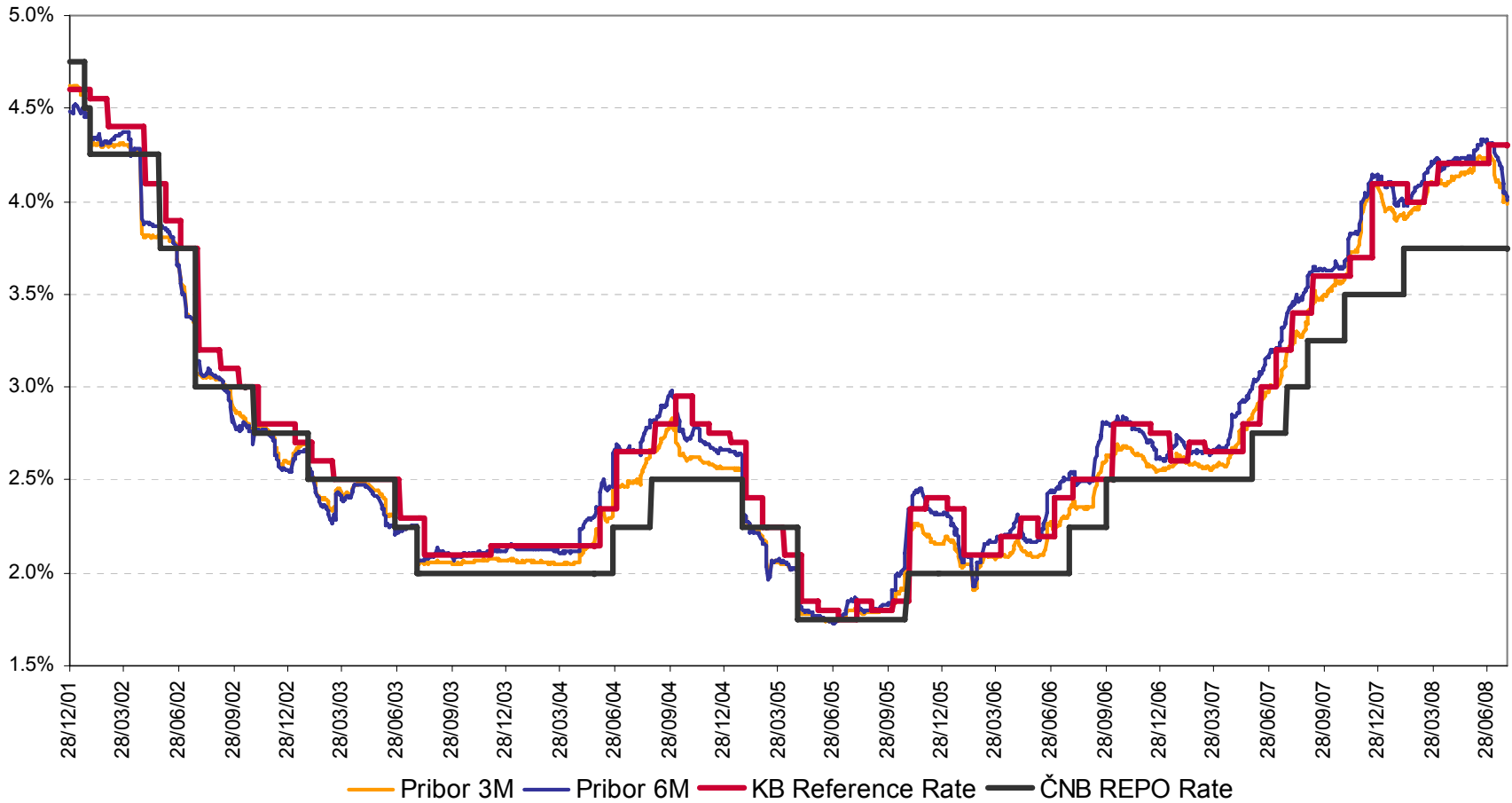


## Czech Republic

<b>Macroeconomic Indicators</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008*</b>	<b>2009*</b>
Real GDP (%)	6.3	6.8	6.6	4.8	4.5
Inflation (%)	1.9	2.5	2.8	6.0	3.0
Household income (%)	4.2	6.7	7.9	5.9	5.0
M2 (%)	8.0	9.9	13.2	11.0	10.0
3M PRIBOR (% , average)	2.0	2.3	3.1	4.0	4.0
<b>Potential of the market</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008*</b>
Loans / GDP (year-end)	36.3	38.7	41.9	47.4	51.0
Mortgages / GDP (year-end)	5.8	9.5	11.6	14.5	17.0
Deposits / GDP (year-end)	65.0	69.2	68.5	71.7	71.5
Household debt / GDP (year-end)	n/a	17.5	20.3	24.5	28.0



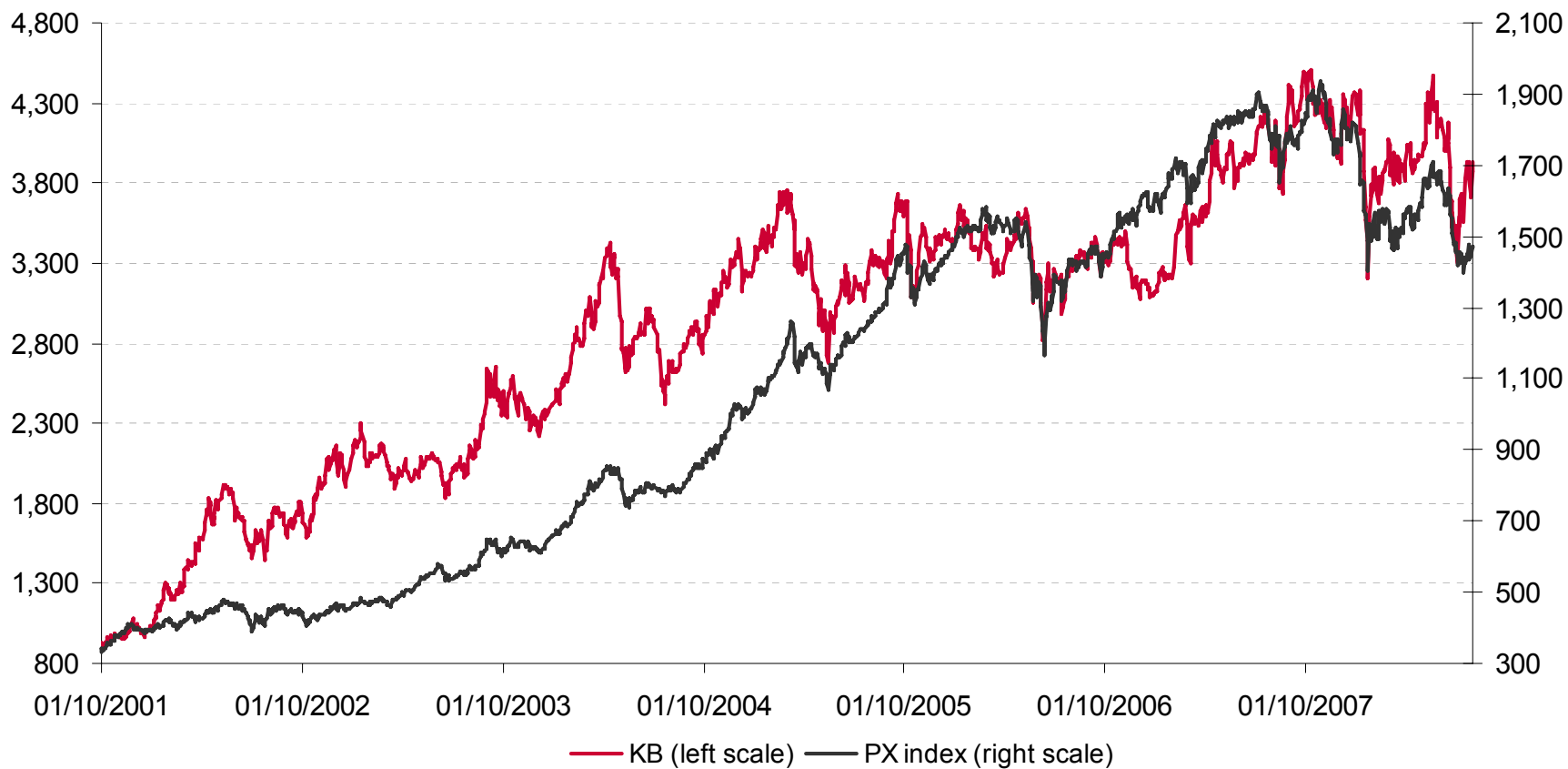
# Interest Rates Evolution





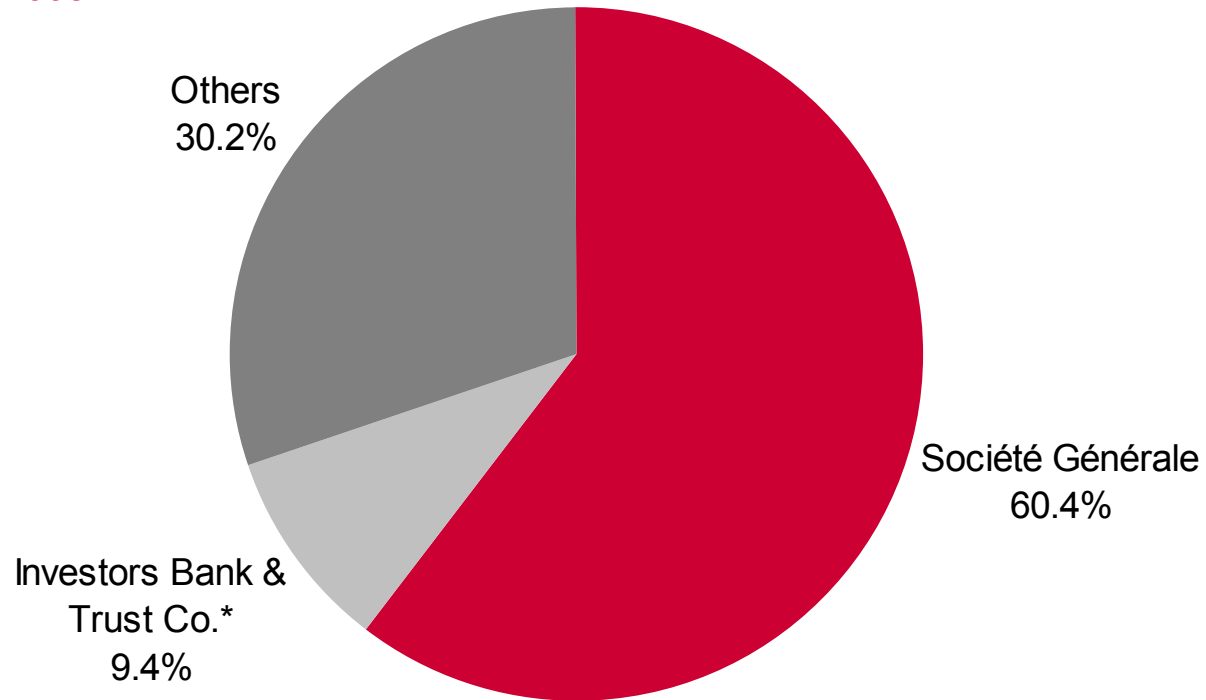


# Development of KB's share price and PX Index





As at 29 May 2008



\*Shares held on behalf of third parties



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