

Komerční banka gains in deposit balances and loans volume

Net profit reached CZK 10.9 billion for first three quarters 2012

Prague, 8 November 2012 – In an environment where individuals and businesses were seeking certainty and stability in their financial affairs, the volume of Komerční banka Group's business activities continued to increase through the first nine months of 2012. The volume of loans provided to KB Group clients rose by 6.2% year on year to CZK 462.3 billion. Growth in the volume of deposits from clients reached 3.1% year on year, bringing the total to CZK 568.3 billion. KB Group reported a solid level of free liquidity which allows it to provide continuous support to the clients. Total net banking revenues climbed by a slight 1.5% to CZK 24.7 billion, reflecting growth in KB's business as well as certain one-off items. Operating costs grew by just 0.4% to CZK 9.9 billion. Quality of the lending portfolio remained high, and the cost of risk from lending was at a low CZK 1.3 billion, representing a 3.5% increase. KB Group reported a net profit of CZK 10.9 billion for the first nine months of 2012, which was a significant gain of 55.1% as the prior year result had been affected by the impairment of Greek government bonds.

Main events of third quarter 2012

- Komerční banka's business grew successfully, deposit and loan volumes increased.
- Number of clients in Penzijní fond KB increased by 5% year on year to 521,000.
- The Czech National Bank awarded Penzijní fond KB a licence to provide services related to individual retirement savings as well as the supplemental pension savings in the reformed pension system effective in the Czech Republic from 1 January 2013.
- Komerční banka enabled its clients to pay for their purchases by mobile telephone using NFC technology or by contactless credit cards, thus providing the fastest and most comfortable payment means ever.
- KB won several awards, including the title Best Bank 2012 from the daily newspaper *Hospodářské noviny*. *Komerční pojišťovna* and *Modrá pyramida*, too, were recognised with significant awards.

Comment of the CEO

KB Group's performance was generally successful in the challenging macroeconomic context. In response to the uncertainty caused by slowing export demand and turbulence in domestic politics, Czech customers and business are more cautious. Clients often are postponing long-term investments and plans, thus reducing the demand for loans despite the extremely low interest rates.

Due to stable and long-term relationships with its clients, KB continues to strengthen its position on the Czech market and helps clients in financing their export activities as well. It is clear that in order to restore confidence in the economy the prepared structural reforms should be finalised and implemented promptly so that they begin to manifest their benefits as soon as possible and halt the rise in costs to businesses induced by regulation. From KB's perspective, a proper start of the new pension system from 1 January 2013 is especially important. That step will create conditions to improve people's financial security in old age even as it boosts the capital strength of the Czech economy.

Henri Bonnet

Chairman of the Board of Directors and Chief Executive Officer

Comments on business and financial results

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

BUSINESS PERFORMANCE OF KB GROUP

Although the Czech economy did not suffer problems with its external balance through the first three quarters of 2012, the demand for its exports did slow gradually due to the situation in Western Europe and domestic demand did not yet begin its recovery. During the first nine months, Czech National Bank lowered its two-week repo rate twice, in June and September, to 0.25%, followed by a further cut in November, to 0.05%. Also yields from the Czech government bonds reached their all-time lows. Perceived as a relatively safe currency, Czech koruna (CZK) appreciated by more than 3% against USD and EUR since the beginning of the year. In this environment, volume growth in loans was stable year on year because the healthy Czech banking sector presented no obstacles to funding viable projects. Quite the contrary, growth in deposits was underpinned by clients' desire to boost their reserves against future risks and to accumulate funds for future implementation of projects presently on hold.

Development of clients portfolio and distribution networks

As of the end of September 2012, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,605,000 clients (+0.5% year on year), of which 1,343,000 were individuals. The remaining 261,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 616,000 customers, and the number of pension insurance participants at Penzijní fond reached 521,000. ESSOX's services were being used by 273,000 active clients.

Komerční banka's clients had at their disposal 400 banking branches (including one in Bratislava), 702 ATMs, and 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 1,104,000 at the end of September 2012 and corresponds to 68.8% of all clients. Customers held 1,635,000 active payment cards, of which 209,000 were credit cards. The number of active credit cards issued by ESSOX came to 152,000, and consumer financing from ESSOX was available through its network of 2,800 merchants. Modrá pyramida's customers had at their disposal 225 points of sale and 1,260 advisors. SG Equipment Finance (SGEF) was providing its leasing services through nine branches (two of which are in Slovakia), as well as through KB's network.

Loans to customers

Total **gross volume of loans** provided by KB Group expanded year on year by 6.2% to CZK 462.3 billion. Lending to individuals grew, as did that to corporate clients and small businesses.

The increase in lending to individuals was driven by demand for mortgages, which remained solid thanks to the extraordinarily good affordability of housing that is attributable to a combination of low interest rates and diminished property prices. The overall mortgage portfolio enlarged by 10.6% to CZK 130.5 billion. Sales by Modrá pyramida's network contributed to the mortgage growth following enhancement of the product portfolio offered by agents of Modrá pyramida with mortgages. This effect was partly offset by a slight 2.8% decline in the volume of Modrá pyramida's loan portfolio, to CZK 49.8 billion. The outstanding volume of consumer lending provided by KB and ESSOX continued to decrease (by 1.0% to CZK 27.4 billion), but there were signs that the bank's consumer financing may have bottomed out during the first half of the year.

The overall volume of loans provided by KB Group to businesses expanded by 6.6% to CZK 249.9 billion. Of this amount, lending to small businesses rose by 5.9% to CZK 28.7 billion. The volume of credit granted by KB to corporate clients in the Czech Republic and Slovakia climbed by 7.2% to

CZK 198.5 billion. Factor finance outstanding at Factoring KB grew by 17.6% to CZK 2.8 billion, and SGEF's credit and leasing totals outstanding declined by 0.2% year over year to CZK 19.9 billion.

Amounts due to customers and assets under management

The total **volume of deposits** rose by 3.1% year on year to CZK 568.3 billion. Deposits at KB from individual clients increased by 2.3% to CZK 160.5 billion, and deposits from businesses expanded by 2.5% to CZK 298.5 billion. Saving accounts constituted the most dynamic product in the overall deposits portfolio.

Client assets with Penzijní fond KB grew by 6.1% to CZK 31.7 billion. The deposits book at Modrá pyramida gained 1.7% year on year to reach CZK 70.9 billion. The volume of technical reserves in life insurance at Komerční pojišťovna rose by 19.7% to CZK 27.6 billion.

The ratio of net loans to deposits reached 78.4%.

New products and services (in third quarter 2012)

The Czech National Bank awarded a licence to Penzijní fond Komerční banky for the business of KB Penzijní společnost, a.s. Komerční banka Group is ready for the start of the reformed pension system in the Czech Republic effective from January 2013. KB Penzijní společnost will offer systematic savings for pensions in the second and third pillars of the pension system with the aim of enhancing clients' welfare in their retirement years.

In the banking technologies area, Komerční banka advanced substantially in contactless payments. Since August, KB has enabled clients to pay for their purchases using mobile telephones with NFC technology. In September, contactless versions of all credit cards were included into the offer, thus allowing users to pay at merchants swiftly just by waving their cards over a reader at the point of sale. KB has been gradually equipping merchants with new terminals accepting both contactless cards as well as payments by mobile telephone.

In co-operation with Rosbank from Société Générale Group in Russia, KB started to offer its clients the made-to-measure 'Russian payment' current account. This account provides favourable conditions for incoming and outgoing payments, and it guarantees same-day crediting for selected types of payments between KB and Rosbank.

Recognitions and awards (from third quarter 2012)

KB Group companies were presented several honours that they appreciate as confirming their reference position on the Czech financial market. Among the most important is the title Best Bank 2012 from the daily newspaper Hospodářské noviny. In this same competition, Komerční banka took a place on the podium also in the category Friendliest Bank 2012 while both KB and Modrá pyramida ranked amongst the top three in the category Banking Innovator 2012. In the Sodexo Employer of the Year competition, students named KB the Most Desired Employer of the Decade.

Komerční pojišťovna was named the Best Insurance Company in the Czech Republic for 2012 by the magazine World Finance, following the earlier success of Penzijní fond KB in the pension funds category.

FINANCIAL PERFORMANCE OF KB GROUP

Total **net banking income** increased by a slight 1.5% year on year through the first nine months of 2012 to CZK 24,730 million. Growth was driven by income from financial operations, which itself was influenced by several one-off items. Interest income remained almost at the same level as last year while fee income continued to decline.

Interest income was driven by higher loan and deposit volumes. On the other hand, the net

interest margin slipped to 3.2% from 3.3% in the previous year under the pressure of continuing downward movement in market interest rates. Some negative effects were seen, too, due to aggressive competition, and particularly in the area of savings accounts. Net interest income thus remained almost stable, diminishing by just 0.1% year on year to CZK 16,500 million.

Net income from fees and commissions slid by 5.7% to CZK 5,264 million. Influenced by rollout of the MojeOdměny reward scheme, lower average prices and higher acquisition commissions related to strong sales of pension fund policies in the current pension scheme, fees for account maintenance and for transactions decreased. Loan fees increased, boosted by rising number of mortgages. Revenues from trade finance services rose slightly.

Net gains from financial operations improved by 30.4% to CZK 2,870 million, driven by solid demand from clients for hedging of financial risks and in the area of debt capital markets. The overall result, however, was affected by one-off items that had been recorded in the first half, among which there were positive impacts from an adjustment in the portfolio of Penzijní fond KB made in the first quarter, which reflected changes brought about by the pension reform, as well as selling of the equity interest in Bohemian–Moravian Guarantee and Development Bank (CMZRB) in the second quarter. On the contrary, sale of the remaining Greek and Portuguese government bonds in the second quarter had a negative effect.

Operating costs were up by a slight 0.4% year on year to CZK 9,861 million. Within these, personnel costs grew by 2.6% to CZK 5,066 million as the average number of employees rose by 1.0% to 8,776. General administrative expenses decreased by 1.8% to CZK 3,513 million. Savings were achieved in many areas, most notably in information technology and communications costs. In September, a network was completed of seven centres for centralised processing of cash. Spaced across the Czech Republic, these help to improve the efficiency of processing and transporting cash within KB. Depreciation, impairment and disposal of fixed assets was lower by 1.5%, totalling CZK 1,282 million, due to lower amortisation of certain intangible assets.

Gross operating income in the first three quarters of 2012 increased by 2.1% year on year to CZK 14,869 million.

Overall risk costs diminished by a significant 76.0% year on year to CZK 1,345 million, due to the fact that the impairment of Greek government bonds of CZK 4,299 million had been recorded in the second and third quarters of 2011. The total cost of risk in relative terms decreased to 40 basis points in comparison with 181 basis points from 2011's first nine months. **Net creation of provisions for loan losses** grew by 1.8%, affected by growth in the portfolio's overall size as well as by the continued improvement in loan portfolio quality. KB had succeeded in both comparison periods to restructure certain defaulted corporate exposures, and that had led to release of the relevant provisions.

Income from shares in associated undertakings climbed by 40.6% to CZK 90 million. The share in the profit of pension scheme beneficiaries was down by 13.7% to CZK 427 million. This item will next year cease to be part of the consolidated income statement, because, as part of the pension reform, assets of the clients in pension funds will be separated from those assets belonging to pension companies.

Income taxes rose by 57.4% to CZK 2,075 million.

KB Group's consolidated net profit for the first three quarters of 2012 reached CZK 11,113 million, which was 54.1% more than in the previous year. Of this amount, CZK 195 million was profit attributable to holders of minority stakes in KB's subsidiaries (+14.7%). **Profit attributable to the Bank's shareholders** amounted to CZK 10,918 million (55.1% higher year on year).

The comparison period in 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 2011.

KB Group's **total assets** as of 30 September 2012 increased by 2.2% year to date to CZK 771.5

billion.

Amounts due from banks decreased by 23.0% to CZK 78.0 billion. The largest component of this item is loans provided to central banks as part of reverse repo operations, which were lower by 42.7% at CZK 33.8 billion.

Financial assets at fair value through profit or loss grew by 48.0% to CZK 51.7 billion. That portfolio comprises the Group's proprietary trading positions.

Total net loans and advances expanded by 2.5% to CZK 445.4 billion. The gross amount of client loans and advances increased by 6.2% to CZK 462.3 billion. The share of standard loans within that total climbed to 91.9% (CZK 424.8 billion) while the proportion of watch loans was 2.4% (CZK 11.3 billion). Loans under special review (substandard, doubtful and loss) comprised 5.7% of the portfolio with volume of CZK 26.2 billion. The volume of provisions created for loans reached CZK 17.4 billion, which is 4.7% more than at the end of 2011.

The portfolio of available-for-sale securities expanded by 11.6% to CZK 140.6 billion. The book value of shares and participation securities in the available-for-sale portfolio is negligible since KB's second-quarter sale of its stake in CMZRB. From the CZK 140.6 billion total volume of debt securities, Czech government bonds represented CZK 95.6 billion and foreign government bonds CZK 24.3 billion.

The volume of securities in the held-to-maturity portfolio was down by 1.9% to CZK 3.3 billion. This portfolio consists entirely of bonds.

The net book value of tangible fixed assets climbed by 14.3% to CZK 7.9 billion, primarily due to recognising the new KB headquarters building. Intangible fixed assets decreased by a moderate 0.1% to CZK 3.8 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida and SGEF, remained unchanged at CZK 3.8 billion.

Total liabilities increased by 0.5% in comparison with the end of 2011 to CZK 676.3 billion. Amounts due to customers grew by 1.4% to CZK 568.3 billion. The outstanding volume of issued securities rose by 4.8% to CZK 19.2 billion. The Group's **liquidity**, as measured by the ratio of net loans to deposits, reached 78.4% (82.9% excluding client assets in Penzijní fond KB).

Shareholders' equity, which expanded year to date by 16.3% to CZK 95.2 billion, was primarily affected by the generation of net profit, increase in the available-for-sale portfolio revaluation reserve by CZK 5.0 billion, and a CZK 3.3 billion rise in hedging instruments. As of 30 September 2012, KB held in treasury 238,672 of its own shares, representing 0.63% of the registered capital.

Comprising solely of core tier 1 capital, regulatory capital for the capital adequacy calculation reached CZK 53.9 billion as of the end of September 2012. KB Group's **capital adequacy**, as well as the core tier 1 capital ratio under Basel II standards, stood at a high level of 14.5%.

Annualised return on average equity for the first three quarters of 2012 came to 17.0% while annualised return on average assets was 1.9%.

Net profit adjusted for one-off effects declined by 1.5%. Excluding one-off items, adjusted annualised return on average equity was 15.3% and adjusted annualised return on average assets 1.8%.

Changes to the Corporate Governance in third quarter 2012

The composition of Komerční banka's Board of Directors changed with effect from 1 August 2012. The Supervisory Board elected Pavel Čejka and Karel Vašák as new members of the Board of Directors. Pavel Čejka is in charge of Strategy and Finance, Operations, Information Technology, Project Organisation and Management, Support Services, and Investment Banking Operations. Karel Vašák is in charge of Top Corporations and Investment Banking. The former members of the Board of Directors, Jan Juchelka and Patrice Taillandier-Thomas, moved to pursue other duties within the Société Générale Group.

With effect from 1 August 2012, Komerční banka broadened the competences of its ombudsman, who addresses contentious issues between certain companies in the KB Group and their clients. Clients of Komerční banka, Komerční pojišťovna, Modrá pyramida stavební spořitelna, Penzijní fond Komerční banky, ESSOX and (newly) Factoring KB and SG Equipment Finance Czech Republic can seek help from the ombudsman. Komerční banka's ombudsman is Dr Joseph Franciscus Vedlich, LL.M.

ANNEX: Consolidated results as of 30 September 2012 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	9M 2012	9M 2011	Change year on year
Net interest income	16,500	16,519	-0.1%
Net fees and commissions	5,264	5,585	-5.7%
Net gains from financial operations	2,870	2,201	30.4%
Other income	96	71	35.2%
Net banking income	24,730	24,376	1.5%
Personnel expenses	-5,066	-4,940	2.6%
General administrative expenses	-3,513	-3,576	-1.8%
Depreciation, impairment and disposal of fixed assets	-1,282	-1,302	-1.5%
Operating costs	-9,861	-9,818	0.4%
Gross operating income	14,869	14,558	2.1%
Cost of risk	-1,345	-5,598	-76.0%
Net operating income	13,524	8,960	50.9%
Profit on subsidiaries and associates	90	64	40.6%
Share in profit of pension scheme beneficiaries	-427	-495	-13.7%
Profit before income taxes	13,187	8,529	54.6%
Income taxes	-2,075	-1,318	57.4%
Net profit	11,113	7,211	54.1%
Minority profit/(loss)	195	170	14.7%
Net profit attributable to the Bank's shareholders	10,918	7,041	55.1%

Balance Sheet (CZK million, unaudited)	30 Sep 2012	31 Dec 2011	Change year to date
Assets	771,470	754,810	2.2%
Cash and balances with central bank	8,557	16,980	-49.6%
Amounts due from banks	78,045	101,393	-23.0%
Loans and advances to customers (net)	445,428	434,386	2.5%
Securities	195,587	164,260	19.1%
Other assets	43,853	37,791	16.0%
Liabilities and shareholders' equity	771,470	754,810	2.2%
Amounts due to banks	34,660	37,454	-7.5%
Amounts due to customers	568,329	560,700	1.4%
Securities issued	19,217	18,338	4.8%
Other liabilities	54,109	50,465	7.2%
Subordinated debt	0	6,002	Repaid
Shareholders' equity	95,155	81,850	16.3%

Key ratios and indicators	30 Sep 2012	30 Sep 2011	Change year on year
Capital adequacy (CNB, Basel II)	14.5%	16.0%	▼
Tier 1 ratio (CNB, Basel II)	14.5%	14.7%	▼
Total capital requirement (CZK billion)	29.6	28.4	4.5%
Capital requirement for credit risk (CZK billion)	25.0	23.6	5.8%
Net interest margin (NII/average interest-bearing assets), annualised	3.2%	3.3%	▼
Loans (net) / deposits ratio	78.4%	76.1%	▲
Loans (net) / deposits ratio excluding pension fund client assets	82.9%	80.3%	▲
Cost / income ratio	39.9%	40.3%	▼
Return on average equity (ROAE), annualised	17.0%	12.2%	▲
Return on average assets (ROAA), annualised	1.9%	1.3%	▲
Earnings per share (CZK), annualised	385	247	55.8%
Average number of employees during the period	8,776	8,688	1.0%
Number of branches (KB standalone in the Czech Republic)	399	396	+3
Number of ATMs	702	690	+12
Number of clients (KB standalone)	1,605,000	1,597,000	+0.5%

Business performance in retail segment – overview	30 Sep 2012	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 130.5 billion	11%
– number of loans outstanding	108,000	10%
Building society loans (MPSS) – volume of loans outstanding	CZK 49.8 billion	-3%
– number of loans outstanding	128,000	-10%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 27.4 billion	-1%
Small business loans – volume of loans outstanding	CZK 28.7 billion	6%
Total active credit cards – number	209,000	-3%
– of which to individuals	160,000	-1%
Total active debit cards – number	1,425,000	-2%
Insurance premiums written (KP)	CZK 4.8 billion	-11%

Financial calendar for 2013:

13 February 2013: Publication of FY 2012 and 4Q 2012 results

7 May 2013: Publication of 1Q 2013 results

1 August 2013: Publication of 1H 2013 and 2Q 2013 results

7 November 2013: Publication of 9M 2013 and 3Q 2013 results