Despite challenging environment, Komerční banka Group recorded strong annual growth in financing of clients and in deposits volume

Net profit reached CZK 3.5 billion for first quarter 2012

Prague, 3 May 2012 – As of the end of the first quarter of 2012, Komerční banka had grown the volume of loans provided to clients by 13.1% year on year to CZK 450.5 billion and deposits from clients by 5.3% to CZK 564.8 billion. KB recorded a 5.4% gain in revenues due to higher interest income and gains from financial operations. Operating costs grew at a considerably slower pace, by 1.9%. Despite stable quality in the lending portfolio, cost of risk increased by 14.6% as the prior year's extraordinary income from historical exposures did not recur in 2012. KB Group reported a net profit of CZK 3,488 million for the first three months, which represents a gain of 3.3% compared to the same period of 2011. Net profit adjusted for one-off effects would rose by 0.7% to CZK 3,385 million.

Main business achievements

- Steady growth in the mortgage portfolio (by 13.0% year on year to CZK 126.5 billion) and further improvements in KB's mortgage market position.
- Continued increase in the volume of deposits, with the most dynamic growth recorded in saving accounts.
- Penzijní fond KB yielded 2.04% for its clients in 2011, which was the second-best performance on the Czech pension fund market. PF KB was also recognised as Pension Fund of the Year 2012 – Czech Republic by *World Finance* magazine.
- In February, Komerční banka acted as joint lead manager in a pioneering issue of Slovak government bonds denominated in Czech koruna.

Comment of the CEO

Komerční banka has provided further evidence of its capacity to develop lending as well as the scope and quality of its services offer. This is despite that the Czech economy is registering signs of slowdown, as expected, which is affecting corporates' demand for new loans. Although we do not expect a swift recovery, most of our clients, and indeed KB itself, are well prepared for a stagnant economy and I see no new risks to meeting our targets for this year. In the long run, however, it's not just improvement in the economic situation in Europe that will be important, but also clarification about certain of the government's initiatives, such as plans of the Ministry of Finance to withdraw part of public entities' deposits from the banking sector or to transform the system of building society savings.

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

The economic indicators for the first months of 2012 countered concerns about a possible rapid onset of deep recession. Nevertheless, KB's outlook continues to expect a more or less stagnant economy in 2012, thus affecting the outlook for loans, deposits and interest rates.

Development of clients' portfolio and distribution networks

As of the end of March 2012, KB Group was serving 2.6 million clients on a consolidated basis. Standalone KB recorded 1,599,000 clients (+1.0% year on year), of which 1,335,000 were individuals. The remaining 263,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 642,000 customers, and the number of pension insurance participants at Penzijní fond reached 515,000. ESSOX's services were being used by 283,000 active clients.

Komerční banka's clients had at their disposal 399 banking branches (including one in Bratislava), 699 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 1,074,000 at the end of March 2012 and corresponds to 67.2% of all clients. Customers held 1,671,000 active payment cards, of which 213,000 were credit cards. The number of active credit cards issued by ESSOX came to 156,000, and consumer financing from ESSOX was available through its network of 2,700 merchants. Modrá pyramida's customers had at their disposal 226 points of sale and 1,210 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.

Sufficient capacity to finance Czech businesses and consumers

Total **gross volume of loans** provided by KB Group expanded year on year by 13.1% to CZK 450.5 billion. Lending to individuals increased, as did that to corporate clients and small businesses. Excluding the contribution of financing volumes provided by SGEF, acquired in May 2011, the growth was 10.8%.

Overall growth in lending to individuals was driven by mortgages, which experienced strong sales in 2012's first quarter due to low interest rates, a drop in property prices, and the flexibility of KB's mortgages. The total portfolio of mortgages expanded by 13.0% to CZK 126.5 billion. Moreover, Modrá pyramida's loan portfolio grew in comparison with March 2011 by 1.5% to CZK 50.8 billion. Consumer finance, however, did not reconfirm the earlier signs of recovery observed in the past year, and the outstanding volume of consumer lending provided by KB and ESSOX decreased by 0.8% to CZK 26.8 billion.

KB continued to support its clients, and the volume of loans provided by KB Group to businesses expanded by a significant 17.9% to CZK 243.7 billion (growth excluding contribution from SGEF acquisition reached 13.4%). Of this amount, lending to small businesses rose by 6.6% to CZK 27.7 billion. The volume of credit granted by KB to corporate clients in the Czech Republic and Slovakia climbed by 8.5% to CZK 194.0 billion. Factor financing amounts outstanding at Factoring KB grew by 37.5% to CZK 2.6 billion, and SGEF's credit and leasing totals outstanding at the end of March 2012 came to CZK 19.4 billion.

Strong growth in deposits affected by seasonality in the first quarter

The total **volume of deposits** rose by 5.3% year on year to CZK 564.8 billion. Deposits at KB from individual clients increased by 5.3% to CZK 162.4 billion, and deposits from businesses expanded by 6.5% to CZK 296.9 billion. Solid growth in the volumes on current accounts evidences KB's strong relationships with its clients. The most dynamic gain was recorded in the volumes on savings accounts.

Client assets with Penzijní fond KB grew by 7.6% to CZK 31.2 billion. Penzijní fond KB earned a return of 2.04% for its clients for 2011, which was the second best annual yield accruing to clients on the Czech pension fund market. Penzijní fond KB continues to prepare its transformation to become a pension company providing supplementary pension saving schemes as well as individual pension saving schemes within the second pillar of the reformed Czech pension system. It has asked the Czech National Bank to issue the relevant licences.

The deposits book at Modrá pyramida expanded by 2.5% year on year to CZK 70.9 billion. The volume of technical reserves in life insurance at Komerční pojišťovna grew by 21.4% to CZK 25.1 billion.

New products and services of KB Group and awards

KB Group introduced several new products in the first quarter that respond to changing customer preferences. Fluctuations in the value of financial assets at the time of turmoil in the financial markets led to heightened interest for investing into commodities. In co-operation with Komerční pojišťovna, KB began to offer the opportunity to invest through its Vital Invest insurance policies into a new guaranteed fund known as Optimo Komodity. The fund's returns derive from the performance of underlying commodity indices. This fund also guarantees clients 100% return of their invested amount on the day of maturity.

Farmers can minimise their costs of financing new equipment by using the new credit product AGROÚVĚR PGRLF 3+ from SGEF with support from the Czech Republic's Agriculture and Forestry Support and Guarantee Fund (PGRLF).

In February 2012, KB acted as a joint lead manager in the pioneering issue and placement of Slovak government bonds in Czech koruna.

KB Group received several awards in the first quarter. Penzijní fond KB was twice named the best pension fund in the Czech Republic – first by the *Global Banking and Finance Review* portal and shortly thereafter by *World Finance* magazine. In March, moreover, in a survey by *Global Finance* magazine, Komerční banka was named the second safest bank in the emerging markets of Central and Eastern Europe.

FINANCIAL PERFORMANCE OF KB GROUP

Total **net banking income** increased in the first quarter of 2012 by 5.4% year on year to CZK 8,395 million. The growth was driven by net interest income and supported by the volumes of loans and deposits. Net gains from financial transactions also contributed positively. On the other hand, fee income continued to decline.

The largest component of total revenues, which is net interest income, rose by 3.2% to CZK 5,543 million, driven by higher loans and deposit volumes. The growth was restrained by persistently low market interest rates. The average net interest margin declined to 3.2% from 3.3% in 2011.

Net income from fees and commissions declined by 3.2% to CZK 1,807 million due to decrease in average values for the transaction and maintenance fees charged. On the other hand, income from trade finance rose, as did income from loan fees. Income from cross-selling remained at a low level due to a persisting unfavourable environment particularly for sales of mutual funds.

Net gains from financial operations improved by a significant 42.8% to CZK 1,018 million. Clients' demand for hedging of interest rate risks developed favourably. KB completed, too, several big-ticket transactions for clients mainly in the areas of hedging and bond issuance. Profit from financial operations was also positively influenced by a CZK 260 million gain from adjustment in the portfolio of Penzijní fond KB, which reflected the changes brought by the pension reform.

Operating costs were up by 1.9% year on year to CZK 3,209 million. Within these, personnel costs grew by 4.5% to CZK 1,677 million as the average number of employees rose by 2.4% to

8,803. Administrative costs grew by a slight 0.9% to CZK 1,132 million. Higher marketing expenditures and impacts from the VAT increase and inflation were offset by savings in the remaining areas. Depreciation, impairment and disposal of fixed assets dropped by 4.8% to CZK 401 million due to ending of the depreciation period for certain assets and extension of the service life for particular software.

Gross operating income in the first quarter 2012 increased by 7.6% year on year to CZK 5,186 million.

Net creation of provisions for loan losses reflected the positive trend in the development of loan portfolio quality as well as its growth in size. On the other hand, the previous year's extraordinary income from release of provisions in relation to successful restructuring of historical corporate exposures did not recur in the first quarter of 2012. Thus, total cost of risk increased by 14.6% to CZK 628 million. When adjusted for the aforementioned extraordinary revenues, cost of risk was lower year on year in all major segments with the exception of mortgages to individuals. The total cost of risk in relative terms remained almost flat at 56 basis points in comparison with the 55 basis points from 2011's first quarter.

Income taxes rose by 1.4% to CZK 719 million.

KB Group's consolidated net profit for the first quarter of 2012 came to CZK 3,549 million, which was 4.2% more than in the previous year. Of this amount, CZK 61 million was profit attributable to holders of minority stakes in KB's subsidiaries, and **profit attributable to the Bank's shareholders** amounted to CZK 3,488 million (3.3% 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 31 March 2012 decreased by a slight 0.2% relative to the end of 2011 to CZK 753.6 billion.

Amounts due from banks increased by a slight 0.5% to CZK 101.9 billion. The largest component of this item is loans provided to central banks as part of reverse repo operations, which were higher by 3.2% at CZK 60.9 billion.

Financial assets at fair value through profit or loss grew by 0.8% to CZK 35.2 billion. The portfolio comprises the Group's proprietary trading positions.

Total net loans and advances remained at the same level in comparison with the end of 2011, at CZK 433.9 billion, with the gross amount of client loans and advances being flat at CZK 450.5 billion. The share of standard loans within that total climbed to 91.4% (CZK 411.9 billion), while the proportion of watch loans was 2.9% (CZK 12.8 billion). Loans under special review (substandard, doubtful and loss) comprised 5.7% of the portfolio with volume of CZK 25.8 billion. The volume of provisions created for loans reached CZK 16.8 billion, which is 1.1% more than at the end of 2011.

The portfolio of available-for-sale securities expanded by 2.9% to CZK 129.6 billion. The major part of this portfolio consists of debt securities in the amount of CZK 128.9 billion. From this total, Czech government bonds represented CZK 82.5 billion and foreign government bonds CZK 25.2 billion. In March, KB decided to participate in the exchange of Greek government bonds along with other private sector institutions in support of the Hellenic Republic. In the exchange, KB received a part of the value of its original exposure in the form of bonds issued by the European Financial Stability Facility (EFSF). These bonds mature within 2 years and their book value at the end of March totalled CZK 1.0 billion. The book value of the remaining exposure to Greece, which is in the form of new government bonds, stood at CZK 0.4 billion as of the end of March. The book value of shares and participation securities in the available-for-sale portfolio totalled CZK 0.7 billion.

The volume of securities in the held-to-maturity portfolio decreased by 1.6% to CZK 3.3 billion. This portfolio consists entirely of bonds.

The net book value of tangible fixed assets diminished by 1.2% to CZK 6.9 billion, while that of intangible fixed assets was 0.2% lower, at CZK 3.8 billion. Goodwill, which primarily derives from the acquisitions of Modrá Pyramida and SGEF, remained at the same level of CZK 3.8 billion.

Total liabilities decreased by 0.8% in comparison with the end of 2011, to CZK 667.3 billion. Amounts due to customers grew by 0.7% to CZK 564.8 billion. The outstanding volume of issued securities rose by 0.8% to CZK 18.5 billion. The Group's **liquidity**, as measured by the ratio of net loans to deposits, reached 76.8%. Excluding client assets in Penzijní fond KB (which in connection with transformation of the fund will be deconsolidated) came to 81.0%. In January 2012, KB repaid the entire volume of subordinated debt in the amount of CZK 6.0 billion.

Shareholders' equity, which expanded year to date by 5.4% to CZK 86.2 billion, was primarily affected by generation of the net profit and by an increase in the available-for-sale portfolio revaluation reserve of CZK 1.4 billion. As of 31 March 2012, KB held in treasury 238,672 of its own shares, representing 0.63% of the registered capital.

Regulatory capital for the capital adequacy calculation reached CZK 49.7 billion as of the end of March 2012 comprising solely Core Tier 1 capital. KB Group's **capital adequacy**, as well as the Core Tier 1 capital ratio under Basel II standards stood at a high level of 13.6%.

Return on average equity in the first quarter of 2012 came to 17.1%, and return on average assets was 1.8%. Excluding one-off items, adjusted return on average equity was 1.8% and adjusted return on average assets was 16.0%.

Regulatory information

ANNEX: Consolidated results as of 31 March 2012 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	**1Q 2012**	**1Q 2011**	**Change year on year**
Net interest income	5,543	5,372	3.2%
Net fees and commissions	1,807	1,866	-3.2%
Net gains from financial operations	1,018	713	42.8%
Other income	27	15	80.0%
Net banking income	**8,395**	**7,966**	**5.4%**
Personnel expenses	-1,677	-1,605	4.5%
General administrative expenses	-1,132	-1,122	0.9%
Depreciation, impairment and disposal of fixed assets	-401	-421	-4.8%
Operating costs	**-3,209**	**-3,148**	**1.9%**
Gross operating income	**5,186**	**4,818**	**7.6%**
Cost of risk	-628	-548	14.6%
Net operating income	**4,558**	**4,270**	**6.7%**
Profit on subsidiaries and associates	26	19	36.8%
Share in profit of pension scheme beneficiaries	-316	-175	80.6%
Profit before income taxes	**4,268**	**4,114**	**3.7%**
Income taxes	-719	-709	1.4%
Net profit	**3,549**	**3,406**	**4.2%**
Minority profit/(loss)	61	30	103.3%
Net profit attributable to the Bank's shareholders	**3,488**	**3,376**	**3.3%**

Balance Sheet (CZK million, unaudited)	**31 Mar 2012**	**31 Dec 2011**	**Change year to date**
Assets	**753,552**	**754,810**	**-0.2%**
Cash and balances with central bank	12,084	16,980	-28.8%
Amounts due from banks	101,944	101,393	0.5%
Loans and advances to customers (net)	433,878	434,386	-0.1%
Securities	168,097	164,260	2.3%
Other assets	37,548	37,791	-0.6%
Liabilities and shareholders' equity	**753,552**	**754,810**	**-0.2%**
Amounts due to banks	37,940	37,454	1.3%
Amounts due to customers	564,773	560,700	0.7%
Securities issued	18,490	18,338	0.8%
Other liabilities	46,118	50,465	-8.6%
Subordinated debt	0	6,002	Repaid
Shareholders' equity	86,230	81,850	5.4%

Key ratios and indicators	31 March 2012	31 March 2011	Change year on year
Capital adequacy (CNB, Basel II)	13.6%	15.5%	▼
Tier 1 ratio (CNB, Basel II)	13.6%	14.2%	▼
Total capital requirement (CZK billion)	29.2	27.0	8.2%
Capital requirement for credit risk (CZK billion)	24.6	22.5	9.4%
Net interest margin (NII/average interest-bearing assets)	3.2%	3.3%	▼
Loans (net) / deposits ratio	76.8%	71.4%	▲
Loans (net) / deposits ratio excl. PF client assets	81.0%	75.5%	▲
Cost / income ratio	38.2%	39.5%	▼
Return on average equity (ROAE), annualised	17.1%	17.9%	▼
Return on average assets (ROAA), annualised	1.8%	1.9%	▼
Earnings per share (CZK), annualised	369	356	3.8%
Average number of employees during the period	8,803	8,600	2.4%
Number of branches (KB standalone in the Czech Republic)	398	395	+3
Number of ATMs	699	680	+19
Number of clients (KB standalone)	1,599,000	1,583,000	+1.0%

Business performance in retail segment – overview	31 March 2012	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 126.5 billion	13%
– number of loans outstanding	103,000	12%
Building society loans (MPSS) – volume of loans outstanding	CZK 50.8 billion	1%
– number of loans outstanding	136,000	-8%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 26.8 billion	-1%
Small business loans – volume of loans outstanding	CZK 27.7 billion	7%
Total active credit cards – number	213,000	-3%
– of which to individuals	161,000	-1%
Total active debit cards – number	1,458,000	0%
Insurance premiums written (KP)	CZK 1.8 billion	-14%

Financial calendar for 2012:

1 August 2012: Publication of 1H 2012 and 2Q 2012 results

8 November 2012: Publication of 9M 2012 and 3Q 2012 results