

## Komerční banka Group accelerated financing of the Czech economy with 13% loan growth

### Net profit at CZK 9.5 billion for the full year 2011

Prague, 16 February 2012 – KB recorded in 2011 substantial acceleration in the volume growth of loans provided to clients in all segments, to 12.7% year on year, while total deposits rose by strong 4.2%. Revenues grew by modest 1.2%, limited by persistent low market interest rates and declining fees charged. Quality of lending portfolio improved during the year, which was reflected in the lower net creation of provisions for loans by 36.2%. Overall cost of risk was however affected by CZK 5,355 million charge on Greek government bonds, which were written down to 25% of their face value. Komerční banka Group reported a net profit of CZK 9,475 million for the year 2011, which represents a decrease of 28.9% in comparison with 2010. Net profit adjusted for one off effects rose by 5.3% to CZK 13,632 million.

On the back of the solid 2011 result and a robust capital position, and while also considering developments in the economic and regulatory environment as well as capital needs for the Bank's continuing growth, Komerční banka's Board of Directors has decided to propose to the Supervisory Board a **dividend payment** of CZK 6,082 million, which is CZK 160 per share and represents a payout ratio at 64.2% of KB Group's attributable net profit. The corresponding gross dividend yield based on 2011's closing share price is 4.8%.

#### Successful business performance for 2011

- In 2011, KB Group attended to 2.6 million clients. Standalone KB was serving 1,602,000 customers, an increase of 12,000 compared to the year earlier.
- Volume of financing provided to clients expanded by a significant 12.7% to CZK 450.5 billion. Lending rose in all client segments.
- Mortgages recorded the most dynamic growth, rising by 13.6% to CZK 124.1 billion. The flexible and advantageous product features of KB mortgages underpinned the gain in KB's share on the mortgage market.
- A preference for safety among both business and individual clients contributed to 4.2% growth in the total volume of deposits to CZK 560.7 billion. The overall increase was driven mainly by volumes on current accounts and saving accounts.

#### Sound foundations for sustained development

- Komerční banka's commitment to building long-term mutually beneficial partnerships with its clients remains the cornerstone of its strategy.
- The Bank maintains a solid capital base (with total capital adequacy at 14.6% and the core Tier 1 ratio at 13.4%) and an excellent funding profile (with the loans-to-deposits ratio at 77.5%). Free liquidity, meanwhile is mostly directed to operations with the Czech National Bank and Czech government bonds.
- In November 2011, Komerční banka was named Bank of the Year in the contest organised by Fincentrum. Winning for the fourth time in the survey's ten-year history, the bank was recognised for its stability, solidity and innovations.

## Comment of the CEO

*Komerční banka's financial results for 2011 have provided further evidence of the Bank's stability and competitiveness. We have succeeded to enlarge our client base while enhancing the portfolio of services we provide and as a result we have been able to accelerate financing of our clients and the Czech economy at large. At the same time, the intrinsic profitability of KB moderately increased and even the reported result, despite being impacted by significant and exceptional impairment of Greek bonds, remained solid. These to me are clear signs that the strategy reviewed in 2010 is on the right course and that our universal banking model provides a solid platform for achieving our business objectives. I am confident we are on track to deliver upon our main undertaking, which is to be the reference bank on the market, to be a bank that stands by its clients in long-term mutually beneficial partnerships, and to be one that continually brings them advantageous and reliable services.*

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**

According to preliminary estimates, the Czech economy continued in its moderate growth throughout 2011, driven mainly by industrial production. The banking market saw relatively resilient demand for loans from both businesses and individual clients. However, since the economy of the euro zone, which comprises the Czech Republic's main trading area, had probably already entered recession in the late months of 2011, it is expected that economic activity and lending in the Czech economy will slow in 2012.

### **Komerční banka Group business results show success in 2011**

As of the end of the year, KB Group was serving 2.6 million clients on a consolidated basis. Standalone KB recorded 1,602,000 clients (+0.8% year on year), of which 1,336,000 were individuals. The remaining 266,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 649,000 customers, and the number of pension insurance participants at Penzijní fond reached 508,000. ESSOX's services were being used by 288,000 active clients.

Komerční banka's clients had at their disposal 398 banking branches (including one in Bratislava), 693 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 1,061,000 at the end of the year and corresponds to 66.2% of all clients. Customers held 1,662,000 active payment cards, of which 216,000 were credit cards. The number of active credit cards issued by ESSOX reached 157,000, and consumer financing from ESSOX was available through the network of 2,900 merchants. Modrá pyramida's customers had at their disposal 229 points of sale and 1,298 advisors. SG Equipment Finance was providing its leasing services through nine branches, of which two are in Slovakia, but also through KB's network.

### **Komerční banka boosted its financing of Czech businesses and consumers**

Total **gross volume of loans** provided by KB Group expanded year on year by 12.7% to CZK 450.5 billion. Excluding the financing contribution provided by SGEF, acquired in May 2011, the growth was 10.0%. Lending grew in all segments.

Mortgages comprised the most dynamic part of the portfolio. Demand for mortgages got a boost from decreased property prices, low interest rates, and expectation for VAT increases in 2012 and 2013. The total portfolio of mortgages expanded by 13.6% compared to the previous year, to CZK 124.1 billion. The advantageous and flexible features of KB's mortgages helped the Bank to increase its share on the mortgage market. Modrá pyramida's loan portfolio grew by 3.4% to reach CZK 51.4 billion. The outstanding volume of consumer lending provided by KB and by ESSOX diminished by a modest 0.3% to CZK 28.2 billion, affected by lingering uncertainty on the labour market.

The volume of financing provided by KB Group to businesses expanded by 16.0% to CZK 244.7 billion. When adjusted for the SGEF acquisition, the growth reached 8.7%. Within business segments, lending to entrepreneurs and small companies rose by 8.2% to CZK 27.8 billion. The volume of credit granted by KB to corporate clients in the Czech Republic and Slovakia climbed by 5.6% to CZK 193.7 billion. Factor financing outstanding at Factoring KB grew by 47.2% to CZK 2.8 billion, while SGEF's credit and leasing outstanding at the end of the year totalled CZK 20.4 billion.

### **Growth in deposits volume accelerated**

The total **volume of deposits** rose by 4.2% year on year to CZK 560.7 billion. Deposits at KB from individual clients increased by 4.1% to CZK 159.9 billion, and deposits from businesses rose by

5.0% to CZK 295.1 billion. Within the Bank's deposit base, growth in current account volumes was robust even as the most dynamic gain was recorded in the volumes on saving accounts, due in part to transfer from clients' term deposits.

Client assets in Penzijní fond KB grew by 5.7% to CZK 30.4 billion. Following Parliament's enactment of pension reform, Penzijní fond KB is preparing its transformation during 2012 into 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.

The deposits book at Modrá pyramida expanded by 2.7% year on year to CZK 70.9 billion. The volume of technical reserves in life insurance at Komerční pojišťovna grew by 24.4% to CZK 23.9 billion. New insurance premiums totalled CZK 6.9 billion, down 23.7% compared to 2010. From this total, life insurance premiums contributed CZK 6.6 billion.

### Efforts to innovate and Group's solidity recognised

As part of the Group's efforts to continuously improve customer satisfaction and the value for clients of its services, Komerční pojišťovna significantly expanded the coverage provided by Merlin insurance for payment cards, irrespective of whether they are issued by KB or other banks. The stronger protection covers consequences of a payment card's misuse in the case of its loss or theft and, for the first time, also the related loss or theft of personal property or cash withdrawn using the card.

In November 2011, KB won the prestigious Bank of the Year title in the contest organised by Fincentrum. The professional selection panel appreciated the Bank's stability and solidity, its client-oriented approach, and the innovative product offer. Furthermore, *Global Finance* named Komerční banka The Safest Bank in the emerging markets of Central and Eastern Europe. And Penzijní fond KB was named The Best Pension Fund in the Czech Republic by *Global Banking and Finance Review*.

### FINANCIAL PERFORMANCE OF KB GROUP

Total **net banking income** increased in 2011 by 1.2% year on year to CZK 32,764 million. The growth was driven by net interest income and supported by the volumes of loans and deposits. Net gains from financial transactions contributed positively, too. On the other hand, fee income declined significantly.

Net interest income, the largest component of total revenues, rose by 3.5% to CZK 22,190 million, driven by rising volumes of loans and deposits. The growth was limited by persistently low market interest rates. An increase in the statutory contribution to the Deposit Insurance Fund affected the result negatively, as well. The average net interest margin remained unchanged at 3.3%.

Net income from fees and commissions declined by 5.4% to CZK 7,305 million, affected by lower average prices and higher commissions paid to third parties for intermediating mortgages. Fees from cross-selling declined as well, primarily due to an unfavourable environment for selling mutual funds in 2011.

Net gains from financial operations improved by 0.7% to CZK 3,157 million. In the year's second half, KB registered moderate improvement in client demand for hedging of currency and interest rate risks. The Bank's focus on hedging products with higher value added also contributed to the growth in revenues.

For Komerční banka, 2011 was a year of investing into future growth. The Bank significantly boosted spending directed to further advancing the professional competences of its staff, developing direct banking channels, as well as improving the Bank's infrastructure and processes. Along with the acquisition of SGEF, these efforts contributed to a 6.5% increase in **operating costs** year on year to CZK 13,490 million. Moreover, the comparative base from 2010 had been affected by a positive one-off item under staff costs and a positive result from the sale of several buildings. Personnel costs grew by 7.4% to CZK 6,526 million, due to a 1.3% rise in the average

number of employees, slight increase in remuneration and year-on-year growth was significantly influenced by one-off items related to releasing reserves for bonuses and for social insurance that had positively impacted the 2010 result. Administrative costs grew by 3.8% to CZK 5,155 million, as higher costs were recorded in relation to sales of banking products and to property maintenance. Depreciation, impairment and disposal of fixed assets rose by 11.4% to CZK 1,809 million due to investments to improve direct banking channels and software, and also because in 2010 the Bank had booked in this line a positive result of CZK 71 million from sale of unused buildings.

**Gross operating income** in 2011 decreased by 2.3% year on year to CZK 19,274 million.

**Net creation of provisions for loan losses** reflected the positive trend in development of the loan portfolio quality, thus declining by 36.2% to CZK 1,988 million. The number of new defaults has been gradually decreasing, especially in corporate segments. In several individual cases, Komerční banka released provisions upon receiving repayments exceeding the uncovered part of the exposure. However, improvement in the retail segment was less pronounced, due to deteriorated recovery performance in mortgages.

**Total cost of risk** nevertheless increased considerably – by 136.3% to CZK 7,325 million – due to a CZK 5,355 million write-down in the value of Greek government bonds held in the banking book of Komerční banka. KB decided to value these bonds as at 31 December 2011 based on a conservative analysis of the Greek government's credit risk which incorporates assumptions on the terms and conditions, such as interest rate, maturity and nominal haircut, currently under negotiation as to the involvement of private investors in restructuring the Greek government debt. The Bank wrote down the value of those bonds by a total 75% of their nominal value. The book value of the bonds after write-downs is at relatively low and manageable level of CZK 2.1 billion. The total cost of risk in relative terms increased to 175 basis points in 2011. Cost of risk of lending decreased to 48 basis points from 80 basis points in 2010.

KB Group's consolidated net profit for 2011 came to CZK 9,717 million, which was 27.5% less than in the previous year. Of this, CZK 243 million was profit attributable to holders of minority stakes in KB's subsidiaries; the **profit attributable to the Bank's shareholders** amounted to CZK 9,475 million (down 28.9% year on year).

The volume of KB Group's **total assets** as of 31 December 2011 grew by 8.1% relative to the end of 2010 to CZK 754.8 billion.

Amounts due from banks dropped by 9.6% to CZK 101.4 billion. The largest component of this item is loans provided to central banks as part of reverse repo operations, which were down by 16.9% to CZK 59.0 billion.

Financial assets at fair value through profit or loss rose by 2.7% to CZK 34.9 billion. The portfolio comprises the Group's proprietary trading positions.

Total net loans and advances expanded by 12.9% to CZK 434.4 billion, with the gross amount of client loans and advances rising by 12.7% to CZK 450.5 billion. The difference in the pace of growth is due to improvement in the portfolio quality. The share of standard loans within that total climbed to 91.0% (CZK 410.2 billion), while the proportion of watch loans was 3.2% (CZK 14.6 billion). Loans under special review (substandard, doubtful and loss) comprised 5.7% of the portfolio with volume of CZK 25.7 billion. The volume of provisions created for loans reached CZK 16.6 billion, which is 8.4% more than at the end of 2010.

The portfolio of available-for-sale securities increased by 8.2% to CZK 126.0 billion. The major part of this portfolio consists of debt securities in the amount of CZK 125.3 billion. From this total, Czech government bonds represented CZK 78.5 billion and foreign government bonds CZK 25.6 billion. Valued at 25% of their nominal book value, the Greek government bonds held in the banking book of Komerční banka stood at CZK 2.1 billion. 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 50.0% to CZK 3.4 billion. This portfolio consists entirely of bonds.

The net book value of tangible fixed assets diminished by 2.0% to CZK 6.9 billion, while intangible fixed assets expanded by 2.4% to CZK 3.8 billion. Due to the acquisition of SG Equipment Finance Czech Republic s.r.o., goodwill was higher by 5.7% at CZK 3.8 billion.

**Total liabilities** grew by 8.2% in comparison with the end of 2010, to CZK 673.0 billion. Amounts due to customers increased by 4.2% to CZK 560.7 billion. The outstanding volume of issued securities rose by 5.2% to CZK 18.3 billion. As measured by the ratio of net loans to deposits, the Group's **liquidity** reached an excellent 77.5%. While the balance of subordinated debt as of the end of 2011 remained unchanged at CZK 6.0 billion, KB announced in December its intention to exercise the option to repay the subordinated debt to Société Générale. The repayment occurred in January 2012.

**Shareholders' equity**, which expanded year to date by 7.6% to CZK 81.9 billion, was primarily affected by generation of the net profit, the dividend payment of CZK 10.2 billion in May, and an increase in the hedging revaluation reserve by CZK 5.9 billion. As of 31 December 2011, 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 55.6 billion as of the end of December 2011. KB Group's **capital adequacy** under Basel II standards stood at a high level of 14.6%, while the core Tier 1 capital ratio reached 13.4%.

Return on average equity in 2011 came to 12.3% and return on average assets was 1.3%. Excluding one-off items, adjusted return on average equity was 17.1% and adjusted return on average assets was 1.9%.

**ANNEX:** Consolidated results as of 31 December 2011 under International Financial Reporting Standards (IFRS)

<b>Profit and Loss Statement</b> (CZK million, unaudited)	<b>FY 2011</b>	<b>FY 2010</b>	<b>Change year on year</b>
Net interest income	22,190	21,431	3.5%
Net fees and commissions	7,305	7,725	-5.4%
Net gains from financial operations	3,157	3,135	0.7%
Other income	111	95	16.8%
<b>Net banking income</b>	<b>32,764</b>	<b>32,386</b>	<b>1.2%</b>
Personnel expenses	-6,526	-6,076	7.4%
General administrative expenses	-5,155	-4,967	3.8%
Depreciation, impairment and disposal of fixed assets	-1,809	-1,624	11.4%
<b>Operating costs</b>	<b>-13,490</b>	<b>-12,666</b>	<b>6.5%</b>
<b>Gross operating income</b>	<b>19,274</b>	<b>19,720</b>	<b>-2.3%</b>
Cost of risk	-7,325	-3,100	136.3%
<b>Net operating income</b>	<b>11,949</b>	<b>16,620</b>	<b>-28.1%</b>
Profit on subsidiaries and associates	81	75	8.0%
Share of profit of pension scheme beneficiaries	-575	-621	-7.4%
<b>Profit before income taxes</b>	<b>11,455</b>	<b>16,075</b>	<b>-28.7%</b>
Income taxes	-1,738	-2,665	-34.8%
<b>Net profit</b>	<b>9,717</b>	<b>13,410</b>	<b>-27.5%</b>
Minority profit/(loss)	243	80	203.8%
<b>Net profit attributable to the Bank's shareholders</b>	<b>9,475</b>	<b>13,330</b>	<b>-28.9%</b>

<b>Balance Sheet</b> (CZK million, unaudited)	<b>31 Dec 2011</b>	<b>31 Dec 2010</b>	<b>Change year to date</b>
<b>Assets</b>	<b>754,810</b>	<b>698,014</b>	<b>8.1%</b>
Cash and balances with central bank	16,980	13,689	24.0%
Amounts due from banks	101,393	112,179	-9.6%
Loans and advances to customers (net)	434,386	384,593	12.9%
Securities	164,260	157,160	4.5%
Other assets	37,791	30,392	24.3%
<b>Liabilities and shareholders' equity</b>	<b>754,810</b>	<b>698,014</b>	<b>8.1%</b>
Amounts due to banks	37,454	29,073	28.8%
Amounts due to customers	560,700	538,051	4.2%
Securities issued	18,338	17,431	5.2%
Other liabilities	50,465	31,379	60.8%
Subordinated debt	6,002	6,001	0.0%
Shareholders' equity	81,850	76,078	7.6%

Key ratios and indicators	31 Dec 2011	31 Dec 2010	Change year on year
Capital adequacy (CNB, Basel II)	14.6%	15.3%	▼
Tier 1 ratio (CNB, Basel II)	13.4%	14.0%	▼
Total capital requirement (CZK billion)	30.4	27.5	10.9%
Capital requirement for credit risk (CZK billion)	25.8	23.3	10.8%
Net interest margin (NII/average interest-bearing assets)	3.3%	3.3%	▲
Loans (net) / deposits ratio	77.5%	71.5%	▲
Cost / income ratio	41.2%	39.1%	▲
Return on average equity (ROAE), annualised	12.3%	18.7%	▼
Return on average assets (ROAA), annualised	1.3%	1.9%	▼
Earnings per share (CZK), annualised	250	351	-28.8%
Average number of employees during the period	8,735	8,619	1.3%
Number of branches (KB standalone in the Czech Republic)	397	395	+2
Number of ATMs	693	677	+16
Number of clients (KB standalone)	1,602,000	1,590,000	+0.8%

Business performance in retail segment – overview	31 Dec 2011	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 124.1 billion	14%
– number of loans outstanding	101,000	13%
Building loans (MPSS) – volume of loans outstanding	CZK 51.4 billion	3%
– number of loans outstanding	139,000	-7%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 28.2 billion	0%
Small business loans – volume of loans outstanding	CZK 27.8 billion	8%
Total active credit cards – number	216,000	-5%
– of which to individuals	163,000	-3%
Total active debit cards – number	1,446,000	0%
Insurance premiums written (KP)	CZK 6.9 billion	-24%

## Financial calendar for 2012:

- 3 May 2012: Publication of 1Q 2012 results
- 1 August 2012: Publication of 1H 2012 and 2Q 2012 results
- 8 November 2012: Publication of 9M 2012 and 3Q 2012 results