

## Komerční banka Group reports net profit of CZK 5,478 million for the first half of 2011

Prague, 3 August 2011 – Komerční banka Group reported a net profit of CZK 5,478 million for the first six months of 2011, which represents a decrease of 15.5% in comparison with the same period of 2010. The decrease is due to CZK 1,663 million impairment relating to Greek government bonds. On the other hand, net profit was enhanced for the first time by a contribution from the newly acquired subsidiary SG Equipment Finance. Net profit adjusted for the one-off impacts improved by 7.5% to CZK 6,777 million. A significant year-on-year reduction in cost of risk of lending was the main factor driving growth in the adjusted profits. Revenues increased marginally. Komerční banka's investments into projects for improving service quality and into product innovations brought an increase in operating expenses.

Ratios gauging financial stability confirmed KB Group's strong position, as capital adequacy rose to 16.1% and the loans-to-deposits ratio was 74.3%. Komerční banka is well prepared to meet the requirements for increased capital and liquidity upon implementing the Basel III regulatory framework.

### Strong financial standing allows KB to improve its market position in lending and long-term savings

- Clients' demand for advantageous and flexible mortgages from KB provided for an increase in the Bank's market share for mortgage lending in the first half of the year. The volume of newly granted mortgages in the first six months of 2011 increased by 49.3% to CZK 15 billion. The mortgage portfolio outstanding grew by 11.0% to CZK 115.7 billion.
- Recovery in the economy is reflected in improved credit demand from small businesses. The volume of financing provided to this segment grew by 8.2% to CZK 26.6 billion.
- Mainly due to success of the Vital range of investment and saving life insurance policies, the volume of technical reserves in life insurance rose by 35.5% to CZK 22.4 billion for the past 12 months to June.

### Komerční banka remains a leader on the Czech banking market in innovations and quality of products

- The first project in the Czech Republic for contactless payments using mobile telephone handsets has been launched. KB co-operates with other important companies in that project.
- In relation to the new Business Service concept, clients are provided tailored advisory from dedicated advisors available in the KB branches on setting up financial products and services.
- New payment insurance policies for individuals and small businesses, My Payment Protection and Profi Payment Protection, offer clients security by making regular monthly payments in cases of incapacity to work, disability, accidental death or loss of employment.

### **Comment of the CEO**

*During the second quarter, KB observed moderate improvement in demand for loans both from individuals as well as from our business clients. This trend seems to be confirming the relatively successful pace of recovery in the Czech economy. On the other hand, we continue to see risks for development in the coming months, and at present these stem mainly from the sovereign debt problems in several countries in Europe and elsewhere. Komerční banka stands fully ready to face future challenges, and our baseline scenario remains positive. We continue to invest into improving our services, because our clients' satisfaction is indispensable to developing our capacity to deliver solid financial results.*

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**

Moderate economic recovery accompanied by similarly rising loans demand continued in the first half of 2011. Lending was supported by continuing low interest rates and, in financing of residential property, by expectations for increased VAT on new housing. Rising industrial capacity utilisation encouraged companies to begin investing into their production facilities. The economic outlook nevertheless remains uncertain, and, despite some improvement, a high level of unemployment persists. This has a negative impact on demand for banking services.

Endeavouring to lead in improving customer services, Komerční banka brought several innovations to the Czech market.

In co-operation with other important companies, KB launched a pilot project for contactless payments involving real users in the Czech Republic. The new technology transfers payment functions from conventional payment cards to mobile telephone SIM cards, which further enhances payment security and comfort.

In co-operation with Komerční pojišťovna, Komerční banka offered new accident insurance products: My Payment Protection Insurance for individuals and Profi Payment Protection Insurance for business owners. The products are intended to provide money covering regular monthly payments in cases of long-term incapacity for work, disability, accidental death, or loss of employment.

Komerční banka introduced a new fund, the KB Absolute Return fund. It is intended for clients who want to invest their money and achieve higher returns than are possible from term deposits and saving accounts. IKS KB is manager of the fund.

In June, KB was recognised for its Lady Card product as “Bank Innovator 2011” in the “Best Bank 2011” competition conducted by Hospodářské noviny.

Total **gross volume of loans** provided by KB Group as of the end of June 2011 increased year on year by 9.4% to CZK 421.9 billion. The loans growth excluding the SGEF acquisition reached 6.1%.

In particular, growth in the volume of mortgages to individuals accelerated, as the total portfolio rose by 11.0% to CZK 115.7 billion. Komerční banka increased its new mortgages sales in the first half of 2011 by 49.3% to CZK 15.0 billion. The loan portfolio at Modrá pyramida grew by 6.3% to reach CZK 50.6 billion. The outstanding volume of consumer lending provided by KB and by ESSOX reversed an earlier downward trend during the second quarter. Nevertheless, the volume decreased by 0.6% year on year to CZK 28.3 billion as of the end of June.

Within business segments, consolidated lending grew by 11.5% (by 5.1% excluding the SGEF acquisition). The Bank's lending to small businesses increased by a relatively rapid 8.2% to CZK 26.6 billion. Loans to corporate clients expanded by a moderate 0.9% to CZK 178.0 billion. The volume of factor financing at Factoring KB rose by 22.8% to CZK 2.2 billion, while SGEF outstandings totalled CZK 19.2 billion.

The consolidated **volume of deposits** totalled CZK 546.8 billion, which is 1.9% more compared to the end of June 2010. A successful saving accounts offer drove the overall volume of deposits from individuals up by 2.7% to CZK 156.3 billion. The volume of clients' assets registered with Penzijní fond KB rose by a dynamic 6.6% to CZK 29.7 billion. Due to the successful “Wise Savings” campaign, deposits at the building society Modrá pyramida grew by 2.8% to CZK 70.4 billion. Deposits of business clients at Komerční banka increased by 0.3% to CZK 281.9 billion.

The volume of technical **reserves in life insurance** at Komerční pojišťovna grew by 35.5% to CZK 22.4 billion. Written insurance premiums declined by 21.5% compared to the extraordinary figures achieved in 2010, to CZK 4.2 billion. From this total, premiums for life insurance contributed CZK 4.0 billion.

As of the end of June 2011, **KB Group was serving 2.67 million clients** on consolidated base. Standalone KB recorded 1,577,000 clients, of which 1,312,000 were individuals. The remaining 266,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was serving 669,000 customers and the number of pension insurance participants at Penzijní fond reached almost 500,000. The services of ESSOX were being used by 295,000 active clients.

Komerční banka's clients had at their disposal 396 banking branches, 686 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 1,020,000 at the end of the quarter, which represents 65.0% of all clients. Customers held 1,670,000 active payment cards, of which 222,000 were credit cards. The number of active credit cards issued by ESSOX reached 159,000, and consumer financing from ESSOX was available through the network of 3,200 merchants. Modrá pyramida's customers had at their disposal 239 points of sale and 1,300 advisors.

## FINANCIAL PERFORMANCE OF KB GROUP

Total **net banking income** rose by 0.8% year on year in the first half of 2011 to CZK 16,118 million. The growth was positively impacted by the acquisition of SGEF CR and by a slight increase in net interest income.

Net interest income, the most important contributor to total revenues, increased by 2.2% to CZK 10,941 million. The Group recorded a gain in interest income in an environment of low interest rates due to higher loan and deposit volumes. The result was negatively affected by year-on-year growth in the statutory contribution to the Deposit Insurance Fund. The average net interest margin remained unchanged at 3.3%.

Net income from fees and commissions declined by 0.5% to CZK 3,748 million as a result of a decrease in the average prices for transaction and maintenance fees. On the other hand, a growing number and volumes of loans in retail banking and fees from cross-selling, particularly in relation to life insurance, contributed most to the growth. As a result of higher sales, significantly increased commissions were paid to third parties for intermediating mortgages.

Net gains from financial operations decreased by 5.6% to CZK 1,385 million. Liquidity on the financial markets remained subdued and the clients' demand for hedging products was recovering only slowly. Due to lower average spreads, revenues from FX payments decreased slightly.

Investments into improving the services provided, strengthening market position, and increasing efficiency led to a slight increase in operating costs. Total operating costs rose 7.3% year on year. However, the comparative base from the first half of 2010 was affected by a positive one-off item under staff costs and a positive result from the sale of several buildings. The acquisition of SGEF was also reflected in the costs. Personnel costs grew by 9.7% to CZK 3,258 million. If non-recurring items are excluded, the growth was affected by slight increase in the average number of employees and wages. The average number of employees expanded by 0.5%. Administrative costs grew by 2.0%, due to cost increases in marketing and an improvement of employees' skills. Costs under the item "Depreciation, impairment and disposal of fixed assets" were up by 14.9% to CZK 854 million, due to a positive result of CZK 62 million from the Bank's sale of unused buildings in the last year and due to new investments into software.

**Gross operating income** for the first half of 2011 decreased by 3.3% year on year to CZK 9,569 million.

**Overall risk costs** increased by 53.3 % year on year to CZK 2,706 million due to the impairment of Greek government bonds held in the banking book of Komerční banka. **Cost of risk of lending** fell by 41.0% year on year to CZK 1,042 million as credit risk costs had been still high in the first half of 2010 due to the crisis. Moreover, Komerční banka was able this year to release provisions upon successfully restructuring corporate exposures that had been long in default. The trend in risk costs, after adjusting for one-offs, remained stable, as the corporate segment continued to improve while in the retail segment the situation was still burdened by high unemployment and deteriorated recovery performance in mortgages. The total cost of risk in relative terms grew to 133 basis points in the first half of 2011 versus 92 basis points in the same period of last year (comparing the creation of reserves and provisions vis-à-vis average volume of loans).

Income taxes dropped by 24.8% to CZK 1,009 million.

KB Group's consolidated net profit for the first half of 2011 reached CZK 5,571 million, which was 14.6% lower than in the same period of last year. Of this, CZK 94 million was profit attributable to minority interests (in subsidiaries) and the **profit attributable to the Bank's shareholders** amounted to CZK 5,478 million (down 15.5% year on year).

The comparison period in the balance sheet under IFRS is the end of the previous year. Therefore, the following text provides a comparison with the close of 2010, unless otherwise indicated.

The volume of KB Group's **total assets** as of 30 June 2011 increased by 3.8% relative to the end of 2010 to CZK 724.2 billion.

Amounts due from banks expanded by 4.1% to CZK 116.7 billion. The largest component of this item is loans provided to central banks as part of reverse repo operations, which grew by 13.6 % to CZK 80.7 billion.

Financial assets at fair value through profit or loss decreased by 6.5% to CZK 31.8 billion. The portfolio comprises the Group's proprietary trading positions.

Total net loans and advances grew by 5.7% to CZK 406.4 billion. The gross amount of client loans and advances also increased, by 5.5% to CZK 421.9 billion. The share of standard loans within that total was 90.2% (CZK 380.7 billion), while the proportion of watch loans was 3.3% (CZK 14.0 billion) and loans under special review (substandard, doubtful, loss) comprised 6.4% of the portfolio with volume of CZK 27.2 billion. The volume of provisions created reached CZK 16.1 billion, which is 5.3% more than at the end of 2010.

The portfolio of securities available for sale increased by 2.0% to CZK 118.8 billion. The major part of this portfolio consists of debt securities in the amount of CZK 118.1 billion. The Greek government bonds were held in this portfolio at the parent KB, while KB's subsidiaries did not have any Greek government bonds in their books. The book value of shares and participation securities in the portfolio totalled just CZK 0.7 billion.

The volume of securities in the held to maturity portfolio increased by 1.6% to CZK 6.8 billion. That portfolio consists entirely of bonds.

The net book value of tangible fixed assets diminished by 2.2% to CZK 6.9 billion, and intangible fixed assets by 0.2% to CZK 3.7 billion. Due to the acquisition of SG Equipment Finance Czech Republic s.r.o. the amount of goodwill increased by 11.2% to CZK 3.9 billion.

**Total liabilities** grew by 4.4% to CZK 649.3 billion. Amounts due to customers increased by 1.6% to CZK 546.8 billion. The outstanding volume of issued securities rose by 7.8% to CZK 18.8 billion. The Group's **liquidity** as measured by the ratio of net loans to deposits reached a strong 74.3%. The balance of subordinated debt remained unchanged at CZK 6.0 billion.

**Shareholders' equity**, which declined by 1.5% to CZK 75.0 billion, was primarily affected by the net profit creation, dividend payment of CZK 10.2 billion. Revaluation in the fair value of hedging derivatives was a positive CZK 0.9 billion, and revaluation of the portfolio of securities available for

sale was a positive CZK 1.2 billion.

Regulatory capital for the capital adequacy calculation reached CZK 57.8 billion as of the end of June 2011. KB Group's **capital adequacy** under Basel II standards stood at a high level of 16.1%, while the core Tier 1 capital ratio climbed to 14.6 %.

Return on average equity in the first half of 2011 reached 14.9% and return on average assets was 1.5%.

**ANNEX:** Consolidated results as of 30 June 2011 under International Financial Reporting Standards (IFRS)

<b>Profit and Loss Statement</b> (CZK million, unaudited)	<b>1H 2010</b>	<b>1H 2011</b>	<b>Change year on year</b>
Net interest income	10,709	10,941	2.2%
Net fees and commissions	3,766	3,748	-0.5%
Net gains from financial operations	1,467	1,385	-5.6%
Other income	54	44	-18.5%
<b>Net banking income</b>	<b>15,996</b>	<b>16,118</b>	<b>0.8%</b>
Personnel expenses	-2,971	-3,258	9.7%
General administrative expenses	-2,390	-2,438	2.0%
Depreciation, impairment and disposal of fixed assets	-743	-854	14.9%
<b>Operating costs</b>	<b>-6,104</b>	<b>-6,550</b>	<b>7.3%</b>
<b>Gross operating income</b>	<b>9,892</b>	<b>9,569</b>	<b>-3.3%</b>
Cost of risk	-1,766	-2,706	53.3%
<b>Net operating income</b>	<b>8,127</b>	<b>6,863</b>	<b>-15.6%</b>
Profit on subsidiaries and associates	34	43	26.5%
Share of profit of pension scheme beneficiaries	-298	-326	9.4%
<b>Profit before income taxes</b>	<b>7,863</b>	<b>6,580</b>	<b>-16.3%</b>
Income taxes	-1,341	-1,009	-24.8%
<b>Net profit</b>	<b>6,521</b>	<b>5,571</b>	<b>-14.6%</b>
Minority profit/(loss)	39	94	141.0%
<b>Net profit attributable to the Bank's shareholders</b>	<b>6,482</b>	<b>5,478</b>	<b>-15.5%</b>

<b>Balance Sheet</b> (CZK million, unaudited)	<b>31 Dec 2010</b>	<b>30 June 2011</b>	<b>Change year to date</b>
<b>Assets</b>	<b>698,014</b>	<b>724,208</b>	<b>3.8%</b>
Cash and balances with central bank	13,689	11,262	-17.7%
Amounts due from banks	112,179	116,727	4.1%
Loans and advances to customers (net)	384,593	406,387	5.7%
Securities	157,160	157,424	0.2%
Other assets	30,392	32,409	6.6%
<b>Liabilities and shareholders' equity</b>	<b>698,014</b>	<b>724,208</b>	<b>3.8%</b>
Amounts due to banks	29,073	39,657	36.4%
Amounts due to customers	538,051	546,774	1.6%
Securities issued	17,431	18,789	7.8%
Other liabilities	31,379	38,029	21.2%
Subordinated debt	6,001	6,001	0.0%
Shareholders' equity	76,078	74,958	-1.5%

Key ratios and indicators	30 June 2010	30 June 2011	Change year on year
Capital adequacy (CNB)	14.7%	16.1%	▲
Tier 1 ratio (CNB)	13.5%	14.6%	▲
Total capital requirement (CZK billion)	28.4	28.8	1.3%
Capital requirement for credit risk (CZK billion)	24.2	24.2	-0.1%
Net interest margin (NII/average interest-bearing assets)	3.3%	3.3%	▼
Loans (net) / deposits ratio	69.2%	74.3%	▲
Cost / income ratio	38.2%	40.6%	▲
Return on average equity (ROAE), annualised	18.8%	14.9%	▼
Return on average assets (ROAA), annualised	1.9%	1.5%	▼
Earnings per share (CZK), annualised	341	288	-15.5%
Average number of employees during the period	8,624	8,669	0.5%
Number of branches (KB standalone)	395	396	1
Number of ATMs	676	686	10
Number of clients (KB standalone)	1,598,000	1,577,000	-1.3 %

Business performance in retail segment – overview	30 June 2011	Change year on year
Mortgages to individuals – volume of outstanding loans	CZK 115.7 billion	11%
– number of outstanding loans	96,000	11%
Building loans (MPSS) – volume of outstanding loans	CZK 50.6 billion	6%
– number of outstanding loans	145,000	-6%
Consumer loans (KB + ESSOX) – volume of outstanding loans	CZK 28.3 billion	-1%
Small business loans – volume of outstanding loans	CZK 26.6 billion	8%
Total active credit cards – number	222,000	-4%
– of which to individuals	167,000	-3%
Total active debit cards – number	1,449,000	1%
Premiums written (KP)	CZK 4.2 billion	-21%

## Financial calendar for the rest of 2011

8 November 2011: Publication of 3Q 2011 results