Solid commercial performance of Komerční banka

Net profit reflecting challenging environment at CZK 3.2 billion for the first quarter of 2013

Prague, 7 May 2013 – Komerční banka significantly expanded its client business during the first quarter of 2013. KB Group grew the volume of loans provided to clients by 4.8% year on year to CZK 472.3 billion. The volume of deposits from clients rose by 6.0% to CZK 598.7 billion.

In spite of KB's strong business performance, consolidated revenues decreased by 9.2% year on year to CZK 7.6 billion. The comparison was influenced by one-off gains booked in the previous year connected to an adjustment in Penzijní fond KB's portfolio in anticipation of the pension reform, extremely low market interest rates, subdued activity in the recessionary economy, and intense competition. In the challenging environment, KB reduced operating expenditures by 2.7% to CZK 3.1 billion and the cost of risks declined by 25.2% to CZK 0.5 billion as the good quality of the assets portfolio was maintained. Consolidated net profit attributable to shareholders diminished by 9.9% to CZK 3.1 billion.

As measured by financial and regulatory indicators, KB's financial soundness remained more than solid. The Group's Core Tier 1 capital adequacy ratio stood at a strong 14.9% under Basel II standards and KB also maintained an excellent ratio of net loans to deposits at 80.2%.

Highlights of the first quarter

- KB's strong relationships with clients paved the way for dynamic increase in the volume of deposits by 6%.
- Komerční Banka continued to support the Czech economy through unrestricted lending to individuals and businesses. The volume of loans grew almost 5%.
- Reflecting the pension reform in the Czech Republic, the launch of new pension funds as of 1 January 2013 assists clients to strengthen their financial independence in old age.

Comment of the CEO

"While I expect the environment to remain quite challenging through the next several quarters, the upcoming easing of fiscal consolidation makes me optimistic that the economy will start to pick up gradually in the near future. Once households reverse their negative stance on the economy, their consumer appetite will return. This trend should later be joined also by improvements in businesses' demand for new investments. The foundations of the Czech economy are healthy, and that includes its banking system. Implementation of the pension reform was a very important step in assuring the long-term sustainability of public finances."

Henri Bonnet
Chairman of the Board of Directors and Chief Executive Officer

Comments on business and financial results

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

BUSINESS PERFORMANCE OF KB GROUP

Developments in the Czech banking sector during the first quarter of 2013 were marked by gradually moderating growth in total volume of loans to individuals, reflecting the rising unemployment rate as well as amortisation of loans provided prior to onset of the recession. The market saw tentative signs of improving demand for loans by corporations, although the increase came from a limited number of sectors, such as utilities or logistics companies, and mainly from large corporations. The pace of savings in banks by individuals remained steady, and businesses in general continued in reinforcing their deposit reserves.

The recessionary environment in the Czech economy and absence of inflationary pressures allowed the Czech National Bank to keep its policy-setting 2-week repo rate at an all-time low of 0.05%. The commensurately depressed market interest rates (when yields on 10-year Czech government bonds hovered around 1.9% at the end of the quarter) weighed upon yields for banks' reinvested deposits.

Developments in client portfolio and distribution networks

As of the end of March 2013, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,592,000 clients (−0.4% year on year), of which 1,335,000 were individuals. The remaining 257,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 597,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 566,000. ESSOX's services were being used by 260,000 active clients.

Komerční banka's clients had at their disposal 399 banking branches (including one in Bratislava), 712 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 1,124,000 by the end of March 2013 and corresponds to 70.6% of all clients. Customers held 1,588,000 active payment cards, of which 205,000 were credit cards. The number of active credit cards issued by ESSOX came to 144,000, and consumer financing from ESSOX was available through its network of 2,600 merchants. Modrá pyramida's customers had at their disposal 213 points of sale and 1,150 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

The total **gross volume of loans** provided by KB Group expanded year on year by 4.8% to CZK 472.3 billion. The volume of mortgages increased, as did lending to businesses and, in particular, to large corporations.

The portfolio of mortgages to individuals expanded by 7.3% year on year to CZK 134.4 billion. The overall growth in loans for housing was slower, however, because borrowers on the market generally were preferring mortgages to building saving loans and the volume in Modrá pyramida's loan portfolio thus decreased by 4.9% to CZK 48.3 billion. The uncertain economic outlook created an environment not favourable for unsecured consumer lending. The volume of consumer loans (from KB and ESSOX) declined by 1.3% to CZK 27.0 billion.

The total volume of loans provided by KB Group to businesses expanded by 6.1% to CZK 258.5 billion. Loans to large corporations contributed most to the growth in business lending, underpinned by solid demand for export and acquisition financing. The overall volume of credit granted by KB to corporate clients in the Czech Republic and Slovakia climbed by 6.4% to CZK 206.4 billion. Lending to small businesses rose by 2.7% to CZK 28.4 billion. Factor finance outstanding at Factoring KB grew by a strong 25.0% to CZK 3.3 billion, and SGEF's total credit and leasing amounts outstanding was up by 5.0% year over year to CZK 20.4 billion.

Amounts due to customers and assets under management

The total **volume of deposits** climbed by 6.0% year on year to CZK 598.7 billion. Deposits from businesses expanded by 8.8% to CZK 323.1 billion and deposits at KB from individual clients diminished by 2.9% to CZK 157.7 billion. Client assets in the transformed fund managed by KB Penzijní společnost and which had replaced Penzijní fond KB grew by 6.7% to CZK 33.2 billion. These client assets continued to be consolidated in KB Group accounts. On the other hand, volumes in pension funds introduced in accordance with the new regulation remain small after the first three months of operations. The deposit book at Modrá pyramida gained 1.2% year on year to reach CZK 71.8 billion. The volume of technical reserves in life insurance at Komerční pojišťovna rose by 19.5% to CZK 30.0 billion.

The ratio of net loans to deposits reached 80.2% (not including assets of clients in the transformed fund managed by KB Penzijní společnost).

New products and services (in first quarter 2013)

KB Group continues to bring its clients a number of innovations and improvements in products and services.

- in pension savings

From 1 January 2013, KB Penzijní společnost began offering a full range of funds and investment strategies in the second and third pillars of the Czech Republic's reformed pension system. It continues, too, in managing the transformed fund. Moreover, in the initial year 2013, KB Penzijní společnost is charging no asset management fees in the newly established funds of the second and third pillars and no fees for change of investment strategy for those funds.

- in savings and investment

The new KB Spořicí konto Bonus Aktiv has no notice period to tie up clients' savings. Its owners can enjoy attractive growth while having instant access on demand to their deposited money. Deposits earn a two-component rate comprised of the basic interest rate and a bonus rate. It is easy to earn an attractive bonus, as to do so clients need only to actively use any of their payment cards issued by KB for payments at merchants.

Komerční pojišťovna is presenting as part of its Vital Invest life insurance new secured funds, known as Certus and Certus 2, that guarantee a return of the invested amount at the funds' maturity in 6 years and offer potential gains of up to 9.3% p.a. Equity investments in the funds are directed to the food and pharmaceutical industries.

- in lending

Since the beginning of 2013, Komerční banka has been offering mortgages and consumer loans with no loan administration fee. In April, clients can obtain mortgage loans from Komerční banka with a special and guaranteed interest rate of 2.99% and with no fees for loan processing and administration or for property appraisal.

- in day-to-day banking

With the new Program KB Rodina (KB Family) scheme, clients can choose anyone as a partner for jointly collecting benefits from the MojeOdměny scheme. If the conditions of the scheme are met, both clients can get back their monthly fees for account maintenance or for ATM cash withdrawals, receive financial rewards for their banking activity, or accrue additional savings on their pension accounts.

KB has included the Transparent Account service into its offer. This service makes it possible for a client to disclose via KB's website an overview of transactions executed through its bank accounts. While non-profit and public sector entities will particularly appreciate the new service, which is completely free of charge, any of Komerční banka's clients can request this service.

- in supporting KB clients' businesses

KB will finance its SME clients' innovative projects under a guarantee agreement that has been concluded with the European Investment Fund (EIF). Clients will be able to draw loans on more advantageous terms and with more permissive security requirements in total volume of up to CZK 2.5 billion for a broad range of innovations – from development of new technologies, products and services to process optimisation.

Awards (from first quarter 2013)

For the third consecutive year, KB Penzijní společnost has been named in 2013 the best pension fund in the Czech Republic. Again, the recognition came from *World Finance* magazine as well as from the *Global Banking and Finance Review* portal.

KB's corporate credit card has been named the Commercial Card of 2012 in the Czech Republic by MasterCard. The KB corporate card comprises a comprehensive solution for monitoring and evaluating employees' business expenses, then exporting this data to bookkeeping systems.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement

Total **net banking income** in the first quarter of 2013 decreased by 9.2% year over year. The decline was influenced by one-off gains from adjustments in the bond portfolio of Penzijní fond KB preceding its transformation. The underlying revenues trend was impacted by extremely low market interest rates, intense competition on the market, and subdued activity in the recessionary economy.

Net interest income was down by 5.2% despite growing loan and deposit volumes. The very low market interest rates that declined even further during the quarter put significant pressure on yields from reinvested deposits, although KB's hedging policy mitigated the short-term impacts. The environment was highly competitive both on the deposit market as well as in lending, and that put pressure on revenue streams and product pricing. The net interest margin slipped to 2.9% from 3.2%.

Net income from fees and commissions decreased by 4.0% to CZK 1,725 million. Fee income from deposit products and transactions were lower as KB expanded the MojeOdměny client reward scheme and transaction activity was slower due to the stagnant economy. Income from sales of mutual funds and life insurance grew as clients increasingly sought alternative investments more attractive than modestly yielding bank deposits.

Net gains from financial operations declined by a marked 41.4%. That was due in part, however, to one-off gains booked last year from adjustments in the portfolio of Penzijní fond KB. The comparative base was also affected by several big-ticket transactions for clients (mainly in the areas of hedging and bond issuance) which KB had completed in the first quarter of 2012. The demand from clients for hedging of financial risks remained satisfactory in the situation of decreasing foreign trade turnover and interest rates broadly expected to remain low for a prolonged period.

KB continued in its rigorous costs management. Total **operating expenditures** were reduced by 2.7%. Within this category, personnel costs were down by 2.4% year over year to CZK 1,634 million as the average number of employees contracted by 1.9% to 8,637. General administrative expenses decreased by a significant 7.4% to CZK 1,044 million. The Group began to benefit from optimisation of the buildings portfolio in connection with last year's acquisition of a new building in Prague Stodůlky. Savings were achieved in many other areas, too, including on costs of telecommunications and marketing. The category depreciation, impairment and disposal of fixed assets was up by 9.2% to CZK 438 million, mainly because of implementing new and improved software applications.

Gross operating income for the first three months of 2013 was down by 13.3% to CZK 4,498 million.

Cost of risk diminished by 25.2% to CZK 470 million, as KB Group maintained the very good quality of its lending portfolio. In relative terms, the cost of risk in the first quarter decreased to 40 basis points in comparison with 56 basis points in the same period of the previous year. The risk profile improved in retail segments and remained favourable in lending to corporations.

Income from shares in associated undertakings climbed by 34.6% to CZK 35 million. The proportion of profit due to be attributed to the clients of the transformed fund reached CZK 133 million.

Income taxes declined by 1.9% to CZK 705 million.

KB Group's consolidated net profit for the first quarter of 2013 decreased by 9.2% year on year to CZK 3,224 million. Of this amount, CZK 78 million was profit attributable to holders of minority stakes in KB's subsidiaries (+27.9%). **Profit attributable to the Bank's shareholders** amounted to CZK 3,146 million, which is 9.9% less than in the first quarter of 2012.

Statement of financial position

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 2012.

KB Group's **total assets** as of 31 March 2013 had grown by 3.1% year to date to CZK 811.0 billion.

Amounts due from banks increased by 4.7% to CZK 67.1 billion. The largest components of this item are loans to central banks as part of reverse repo operations, which were higher by 22.3% at CZK 28.0 billion, and term placements with other banks, which decreased by 2.2% to CZK 18.4 billion.

Financial assets at fair value through profit or loss declined by 3.8% to CZK 49.6 billion. That portfolio comprises the Group's proprietary trading positions.

Total net loans and advances grew by 0.6% to CZK 454.1 billion. The gross amount of client loans and advances improved by 0.7% to CZK 472.3 billion. The share of standard loans within that total climbed to 92.0% (CZK 434.5 billion) while the proportion of watch loans was 2.2% (CZK 10.4 billion). Loans under special review (substandard, doubtful and loss) comprised 5.8% of the portfolio with volume of CZK 27.3 billion. The volume of provisions created for loans reached CZK 18.3 billion, which was 3.1% more than at the end of 2012.

The portfolio of securities available for sale slipped by 1.1% to CZK 140.3 billion. From the CZK 140.1 billion total volume of debt securities in this portfolio, Czech government bonds comprised CZK 99.2 billion and foreign government bonds CZK 20.0 billion.

The volume of securities in the held-to-maturity portfolio decreased by a slight 1.2% to CZK 3.3 billion. This portfolio consists entirely of bonds.

The net book value of tangible fixed assets diminished by 1.0% to CZK 7.9 billion, while that of intangible fixed assets was lower by 1.6%, at 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 were 3.2% higher in comparison to the end of 2012, reaching CZK 708.4 billion.

Amounts due to customers grew by 3.4% to CZK 598.7 billion. The outstanding volume of issued securities expanded by 16.4% to CZK 22.8 billion. The Group's **liquidity**, as measured by the ratio of net loans to deposits, reached 80.2% (75.8% including client assets in the transformed fund).

Shareholders' equity rose year to date by 2.1% to CZK 102.6 billion. The generation of net profit contributed to the growth, while revaluation of the available-for-sale portfolio and cash flow hedges, which both represent primarily reinvestment of client deposits, decreased slightly due to wider credit spreads and marginally increased interest rates. As of 31 March 2013, KB held in treasury 238,672 of its own shares, representing 0.63% of the registered capital.

Comprised solely of Core Tier 1 capital, regulatory capital for the capital adequacy calculation reached CZK 53.7 billion as of the end of March 2013. KB Group's **capital adequacy**, as well as the Core Tier 1 capital ratio under Basel II standards, stood at a high level of 14.9%.

Return on average equity in the first quarter of 2013 came to 12.7% while return on average assets was 1.6%.

Net profit adjusted for one-off effects decreased by 8.7%. Excluding one-off items, adjusted return on average equity was 12.4% and adjusted return on average assets was 1.6%.

KB

Regulatory information

ANNEX: Consolidated results as of 31 March 2013 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	**1Q 2013**	**1Q 2012**	**Change year on year**
Net interest income	5,259	5,548	-5.2%
Net fees and commissions	1,725	1,797	-4.0%
Net gains from financial operations	597	1,018	-41.4%
Other income	33	27	22.2%
Net banking income	**7,614**	**8,390**	**-9.2%**
Personnel expenses	-1,634	-1,675	-2.4%
General administrative expenses	-1,044	-1,127	-7.4%
Depreciation, impairment and disposal of fixed assets	-438	-401	9.2%
Operating costs	**-3,116**	**-3,202**	**-2.7%**
Gross operating income	**4,498**	**5,188**	**-13.3%**
Cost of risk	-470	-628	-25.2%
Net operating income	**4,027**	**4,560**	**-11.7%**
Profit on subsidiaries and associates	35	26	34.6%
Share in profit of pension scheme beneficiaries	-133	-316	-57.9%
Profit before income taxes	**3,929**	**4,270**	**-8.0%**
Income taxes	-705	-719	-1.9%
Net profit	**3,224**	**3,551**	**-9.2%**
Minority profit/(loss)	78	61	27.9%
Net profit attributable to the Bank's shareholders	**3,146**	**3,490**	**-9.9%**

Balance Sheet (CZK million, unaudited)	**31 Mar 2013**	**31 Dec 2012**	**Change year to date**
Assets	**811,032**	**786,836**	**3.1%**
Cash and balances with central bank	51,452	28,057	83.4%
Amounts due from banks	67,130	64,111	4.7%
Loans and advances to customers (net)	454,052	451,547	0.6%
Securities	193,195	196,706	-1.8%
Other assets	45,204	46,415	-2.6%
Liabilities and shareholders' equity	**811,032**	**786,836**	**3.1%**
Amounts due to banks	33,766	38,901	-13.2%
Amounts due to customers	598,735	579,067	3.4%
Securities issued	22,834	19,624	16.4%
Other liabilities	53,087	48,705	9.0%
Shareholders' equity	102,611	100,538	2.1%

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Regulatory information

Key ratios and indicators	31 March 2013	31 March 2012	Change year on year
Capital adequacy (CNB, Basel II)	14.9%	13.6%	▲
Tier 1 ratio (CNB, Basel II)	14.9%	13.6%	▲
Total capital requirement (CZK billion)	28.9	29.2	-1.2%
Capital requirement for credit risk (CZK billion)	24.4	24.6	-1.1%
Net interest margin (NII/average interest-bearing assets)	2.9%	3.2%	▼
Loans (net) / deposits ratio	75.8%	76.8%	▼
Loans (net) / deposits ratio excluding TF client assets	80.2%	81.0%	▼
Cost / income ratio	40.9%	38.2%	▲
Return on average equity (ROAE)	12.7%	17.2%	▼
Adjusted return on average equity (adjusted ROAE)*	16.3%	20.2%	▼
Return on average assets (ROAA)	1.6%	1.9%	▼
Earnings per share (CZK)	333	370	-9.9%
Average number of employees during the period	8,637	8,803	-1.9%
Number of branches (KB standalone in the Czech Republic)	398	398	0
Number of ATMs	712	699	+13
Number of clients (KB standalone)	1,592,000	1,599,000	-0.4%

* Computed as Net profit attributable to equity holders divided by (Average Group shareholders' equity w/o Minority equity, Cash flow hedging and revaluation of AFS securities)

Business performance in retail segment – overview	31 March 2013	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 134.4 billion	7%
– number of loans outstanding	111,000	8%
Building saving loans (MPSS) – volume of loans outstanding	CZK 48.3 billion	-5%
– number of loans outstanding	120,000	-12%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 27.0 billion	-1%
Small business loans – volume of loans outstanding	CZK 28.4 billion	3%
Total active credit cards – number	205,000	-4%
– of which to individuals	157,000	-2%
Total active debit cards – number	1,383,000	-5%
Insurance premiums written (KP)	CZK 2.2 billion	27%

Financial calendar for 2013:

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

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