

Komerční banka, a.s.

Report on Financial Results as at 30 June 2007



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My world. My bank.



Social Responsibility

Komerční banka honours its commitments to society that arise from its position as a major Czech financial institution. Sponsorship and donating activities reflect the fundamental values to which KB subscribes: professionalism, innovation and team spirit. The Bank has become a traditional partner for Czech culture, amateur sport and educational institutions.

Highlights from 2007's First Half

Growing consolidated profit and revenues

In the first half of 2007, KB Group recorded an increase in the net profit by 9.8% compared to the same period of 2006 to reach CZK 5,289 million. The acquisition of Modrá pyramida stavební spořitelna (MPSS) in October 2006 contributed most to the increase but the Group benefited also from a rising net interest income and successfully developing financial markets. A low cost of risk influenced the bottom line positively, as well. Consolidated net banking income climbed 11.3% to reach CZK 14,407 million. KB Group was able to maintain an excellent level of operational efficiency. That is reflected in the cost-to-income ratio, which reached 45.5%. Operating profit rose by 10.9% to CZK 7,847 million.

Annual General Meeting of Shareholders

KB's Annual General Meeting (AGM), held on 25 April 2007, decided to pay out dividends of CZK 150 per share, totalling to CZK 5.7 billion and representing 62.5% of the consolidated net profit for 2006.

Shareholders also approved the Board of Directors' Management Report for 2006, the annual financial statements together with the proposal for distributing the profit for 2006 and the discretionary part of remuneration for members of the Board of Directors.

The AGM extended KB's authorisation to acquire its own shares representing up to 10% of its registered capital within the price range of CZK 2,000 to CZK 4,500.

KB named Corporate Bank of the Year 2007

In June, KB was again awarded the title MasterCard Corporate Bank of the Year 2007. The recognition is conferred in accord with voting by more than 150 financial directors of the top Czech companies. The award evidences success in the Bank's continuous effort to provide high quality and expert services while cultivating long-term relationships with its clients.

Introducing product and service innovations

KB Group expanded its portfolio with innovative products and services, which often were unique to the Czech market:

- Flexible mortgage – with options for increasing or decreasing the monthly instalments or to defer up to three payments, according to an individual client's needs;
- Mojekarta – provides clients a simple way to design their own payment cards;
- Extra and Premium accounts – all services the client needs for a single fee;
- www.G2.cz – a website that accompanies the G2 student account, loaded with advantages and entertaining benefits;
- EIB and EBRD facilities – specialised financing for corporations and municipalities with EU subsidies;
- Efekt Start – advantageous and convenient financial management for entrepreneurs just starting up;
- KB funds – a family of mutual funds designed for exclusive distribution within the KB network;
- SGAM funds – an expanded portfolio of funds offered to KB customers.

Improvements in the distribution network

In accordance with the strategy of making the Group's services better accessible to clients and in order to further capitalize on the sales potential of the network, KB has partly reorganised its client segmentation and the structure of the distribution function. The new structure includes 4 Divisions dedicated to serving Top Corporations, 35 Business Centres for corporate clients and 381 retail branches.

In April, the Bank also selected a location for the second call centre. The new call centre in Zlín will begin providing support to businesses of KB Group companies from 2008.

Incorporation of Protos, a fund for qualified investors

In January, a fund for qualified investors, Protos, was established. The fund will help to optimise investment opportunities for companies of the KB Group. The licence from the Czech National Bank was granted in May and the fund became operational in June after registration with the Commercial Registry was completed. Protos will invest in OECD government bonds and other assets with low credit risk.

Factoring KB's share capital increased

On 27 June 2007, Komerční banka boosted the share capital of its fully owned subsidiary Factoring KB, a.s. from CZK 84 million to CZK 1,184 million.

The capital was increased to enhance Factoring KB's financial strength and to improve its competitiveness in the area of non-recourse factoring.

Rating changes

In February, Fitch Ratings upgraded Komerční banka's individual rating to "B/C" from "C". According to the agency, the upgrade reflects the Bank's continued good financial performance as well as its low risk profile.

In May, Moody's Investors Service assigned to KB the Long Term Local Currency Deposits rating of Aa3. Unlike the agency's foreign currency deposits ratings, this rating is not constrained by the rating for the Czech Republic itself (at A1 as of the end of 2007's first half).

Also in February, Moody's Investors Service assigned a national scale rating of Aa1.cz to Penzijní fond KB, which is the highest rating achievable for a pension fund in the Czech Republic.

Macroeconomic Trends in the First Half of 2007

Economic activity in the Czech Republic remained strong, as GDP expanded by 6.1% year on year in 2007's first quarter and growth for 2006 was revised upward to 6.5%. The structure of economic growth substantially changed, however, with strong consumer demand (which increased by 6.7% year on year) taking over as growth's major driving force. Rapidly rising wages and declining unemployment combined with a broad and growing offer of lending products and low interest rates to fuel households' spending.

The biggest contributor to GDP growth in the first quarter continued to be manufacturing, which accounted for 28% of GDP. Industrial output accelerated from the beginning of the year, rising by 11.2% year on year through the first five months of 2007. Double-digit growth in industrial output was driven especially by excellent results in the electrical and general machinery sectors, as well as by solid growth in the automotive industry that was accompanied by rapid expansion in rubber and plastics. Industrial expansion is more and more driven by companies under foreign control, which account for approximately one-half of the value added that is produced by Czech industry. The export orientation among these firms continues to increase, and more than three-quarters of their production is sent abroad.

Therefore, Czech exports performed well. From January to May, exports grew 16.4% year on year, which was notably above the rise in imports (at 14.7% year on year). The trade balance thus reached a surplus of CZK 44.4 billion, which was slightly higher than 2006's revised full-year surplus of CZK 43 billion. Machinery exports rose slightly faster than average and produced a record-high surplus of CZK 136 billion for the first five months of 2007. A mild and short winter combined with lower world oil prices to help hold down fuel imports, which declined by 10% year on year, and this was another important reason for the good trade balance.

Favourable weather conditions enabled construction works to proceed almost through the whole winter, and construction output rose by a record 18.1% year on year from January to May. Housing construction reported a particularly high number of finished flats in 2007's first quarter. That reflects a boom in housing that was driven in part by the unclear situation about the future VAT rate on housing. The housing expansion is also one of the reasons for booming retail sales and strong consumer demand. Retail sales rose by 8.6% year on year, driven by consumer goods (especially home furnishings) and cars. There is a mounting preference for people to buy their own housing, and that is leading to greater spending on home furnishings as people are more willing to invest into their own flats than into rental housing.

The unemployment rate stood at 6.3% at the end of June 2007, which represented a noteworthy decline from the 7.7% of a year earlier. Strong economic activity promotes new jobs creation, and the choice of available positions was very good at the end of 2007's first half. There were some 123,000 vacancies at that time and only 3 unemployed persons for each vacancy. Nevertheless, there is a structural mismatch between the vacancies and the available labour force – and especially in the segment of non-qualified workers and low-level administrative staff. In this market segment, there were approximately 10 unemployed workers for each vacancy. Meanwhile, signs are appearing of a deficit of qualified labour, which could pose a barrier to economic activity and growth in future.

Strong consumer demand brought with it emerging demand inflation pressures. The consumer price index rose 2.5% year on year in June 2007. At the same time, it appears that dearer raw materials and energy prices are being passed through to producer prices, which rose 4.6% year on year in June. The appreciating Czech currency, which had been a very important brake on inflationary pressures over the past 2 years, stopped functioning as such from February 2007. The crown depreciated from its January average of 27.8 CZK/EUR to 28.5 in June 2007, partly as a consequence of extremely low interest rates that promote so-called carry trades. These factors induced the Czech National Bank to tighten its monetary policy.

The CNB Board nudged up the basic interest rates twice, by 25 basis points each time, during the first seven months of 2007: the first time at the end of May, then again at the end of July. The 2W repo rate thus stood at 3% as of July 27, up from 2.5% at the beginning of the year. Likewise, 3M PRIBOR rose from January's average of 2.58% to July's average of 3.07% (the first-half average was 2.67%). Czech interest rates continue nevertheless to be the lowest among the EU 27. The Czech repo rate maintained its interest differential of 100 basis points relative to the ECB refi rate, and the differential between 3M PRIBOR and 3M EURIBOR averaged 127 basis points in the first half.

Low interest rates promoted further credit growth in the Czech economy, and in particular borrowing by households. At the end of 2007's first half, lending to households amounted to CZK 604 billion, representing year-on-year growth of 31%. Housing loans comprise the major part (70%) of lending to Czech households, followed by consumer credit (including bank overdrafts and payment cards receivables), which accounts for 20% of households' borrowing. According to a CNB analysis, the current level of households' indebtedness is not risky either for the banking or the households sectors. Less than 3% of loans are rated as risky or non-performing.

Business Activities

The development of business in the first half of 2007 corresponded with Komerční banka's strategic objectives.

In the retail segment, KB is striving to grow the retail client base, to develop lending activities, and to increase cross-selling of products developed by companies within the KB and SG groups or by other partners.

The objectives for the corporate segment include to further improve long-term relationships with clients, grow business loans volumes, develop the KB's investment banking activities, and focus on synergies within both the Komerční banka and wider Société Générale groups.

Clients

Standalone Komerční banka's total clients increased year on year by some 60,000 to reach 1.54 million. The number of individual clients rose by 5% to 1.26 million. Modrá pyramida stavební spořitelna was serving 783,000 clients as at the end of June, and the number of participants in pension schemes operated by Penzijní fond KB had climbed to some 448,000. The consumer finance company ESSOX registered 161,000 active clients.

Distribution network

Extension and improvements of Komerční banka's distribution network continued also in the first half of 2007. As at the end of June, the network included 381 branches for retail clients (up by 21 year on year). The structure of the network for corporate clients was refined as from January 2007 with the aim of promoting an individualised approach to business clientele. The new structure consists of 4 Divisions dedicated to serving Top Corporations and 35 Business Centres for corporate clients and municipalities.

Clients can access the Bank 24 hours a day through direct banking channels. As at the end of the first half, some 57% of clients were using at least one direct banking channel, such as Mojebanka on the internet, Expresní linka by telephone, or the mobile telephone channel Mobilní banka. The total number of active direct banking products rose by 10% to exceed 1.2 million. The gains in payment cards usage did not let up, either. Clients held almost 187,000 credit cards, which translates into year-on-year growth of 25%. Of these, some 140,000 credit cards were issued to individual clients.

The project for more closely integrating the sales network of MPSS into KB Group was launched in the first half of 2007. MPSS's own distribution occurs through 252 points of sale and 1,550 sales agents, of which 477 were full-time professionals. This network was preparing to begin selling additional products of the KB Group on a more substantial scale from the fourth quarter of this year.

Lending activities

Successful development of lending activities was bolstered by overall economic development and influenced, too, by expectations of rising interest rates. In the individual customers segment, the outstanding volume of mortgages to individuals rose by 31% to CZK 64.7 billion. Komerční banka has further refined its distribution function in order to make mortgages better accessible. Some 1,200 relationship managers were trained to improve their mortgage-selling skills. MPSS's standard and bridging loans increased by 29.5% to CZK 27.7 billion. Consumer loans provided by KB and ESSOX rose by 23% to reach CZK 21.1 billion.

Growth in the volume of loans to business clients also has been strong, at 16% year on year. Loans to small businesses and entrepreneurs grew by 22% to CZK 12.9 billion. Lending to corporations, provided both by KB and in Slovakia by Komerční banka Bratislava, were up by 15% to CZK 153.5 billion. The volume of factoring receivables at Factoring KB recorded 17% growth to CZK 2.9 billion.

Deposits

Year-on-year organic growth of the Group's deposits base (including MPSS deposits in both periods) was 12.4%, bringing deposits to CZK 507.4 billion. KB administers 83% of the Group's total deposits. The Bank's deposits from individual clients rose by 12% to CZK 144 billion, while deposits from corporates increased by 14% to CZK 277 billion. Clients' pension assets at Penzijní fond KB grew by 22% year on year to reach CZK 20.8 billion. Deposits in MPSS were up 9.1% to CZK 59.5 billion. Sales of IKS/SGAM mutual funds through KB network totalled CZK 9.2 billion, and Komerční pojišťovna's Vital life insurance product attracted CZK 0.8 billion in written premiums.

Cross-selling and sales by subsidiaries

Komerční banka's cross-selling ratio, an indicator showing the number of products sold per current account, had increased to 5.31 as at the end of June 2007 from a level of 5.07 in the first half of 2006. The growing penetration of KB products is supported by significant contributions from products developed by other members of the KB and SG groups and by third parties (such as Allianz for non-life insurance).

The overall sales performance of other KB Group members was also satisfactory. The volume of new loans provided by ESSOX was 21% higher than in the first half of 2006 and reached CZK 1.9 billion. The factoring turnover at Factoring KB rose by 7% to almost CZK 8.6 billion. Also, new sales of SGAM mutual funds through the KB network improved by 66% year on year to CZK 0.7 billion. Assets in the new family of KB funds exceeded CZK 1 billion at the end of June, which was just 4 months after its launch.

Product innovations

Several new products were introduced in the first half to better tailor KB Group's comprehensive offer to the clients' specific needs.

The Flexible Mortgage Loan offers the possibilities of changing the monthly instalment level or to defer up to three monthly instalments. The new Mojekarta product allows KB's clients to design their own payment cards, and they also can change their cards' PINs at any of the Bank's ATMs. The new Efekt Start package offers easy management of a firm's finances for start-up businesses. Komerční banka began offering the Diners Club Corporate Card, which is intended mainly for companies whose employees travel frequently.

The new www.G2.cz website that accompanies the G2 student account has become very popular with clients, as it attracted more than 100,000 visitors in the first 4 months since its launch. The G2 package recorded some 140,000 young users at the end of June 2007. Approximately 80% of G2 clients decided to remain KB clients after they had left school and their G2 accounts terminated.

The offer of mutual funds has also been extended. A new family of funds that will be distributed exclusively in Komerční banka's network – KB funds – was introduced in March. The funds newly available to the Bank's clients include KB Realitních společností, which is focused on shares and bonds of property development companies, and especially those in the Central European region; the KB Ametyst guaranteed fund; KB Kapitál funds for companies and municipalities; and SGAM funds investing in Indian equities and the USD money market.

Komerční banka implemented new functionalities in the Mojebanka internet banking channel to feed the continuously growing popularity of direct banking among customers. The improvements, for example, allow for easily investing into mutual funds, provide customers with an online archive of account and card transactions statements, and simplify the direct debit set-up process.

Major transactions

On 21 June 2007, Komerční banka signed a contract with UNIVYC to become the first clearing bank on the new Prague Energy Exchange.

As the Mandated Joint-Lead Arranger, KB successfully executed in May a syndicated loan for International Power Opatovice totalling CZK 5 billion, to which another six banks have committed.

Komerční banka was appointed in June, jointly with one other bank, as the Mandated Lead Manager to execute a CZK 7 billion domestic bond issue by ČEZ.

Expected development of business activities

Komerční banka will strive to implement successfully its business strategy outlined above. The Bank expects to increase its total number of clients and further expand its distribution network. KB will continue to make itself more accessible to clients. Direct banking channels allowing 24/7 access will be developed further. Komerční banka intends to have 400 branches in 2008. Working hours of some branches will be extended to late evenings and Saturdays in order to cope with the busy schedules of younger clients, in particular. Also in 2008, the new call centre in Zlín will start its operations.

The effects of the project to enhance selling synergies with Modrá pyramida stavební spořitelna will begin to be visible from the fourth quarter of 2007. The initial offer will include current account packages, consumer loans and credit cards co-branded with MPSS's blue colour. Later, the offer will be enriched with mutual funds and other products.

Consolidated Financial Results (IFRS)

For the first half of 2007, KB Group recorded a year-on-year increase in unaudited consolidated net profit of 9.8% to CZK 5,289 million. The reported consolidated financial results were influenced by acquisition of the outstanding 60% stake in Modrá pyramida stavební spořitelna in October 2006, which started to be fully consolidated as from the fourth quarter of 2006. The Group benefited also from successful development of lending activities, which were underpinned by the overall positive economic development. A low cost of risk influenced the bottom line positively, as well. KB Group maintained an excellent level of operational efficiency, with the cost-income ratio increasing just slightly to 45.5%. Thanks to the improving financial performance the return on equity rose to 22.2%.

Valuation of MPSS's balance sheet in accordance with the IFRS 3 standard was completed as at the end of 2007's first half, thereby finalising the acquisition accounting for MPSS. The recognised goodwill on the acquisition stands at CZK 3,389 million. The adjustments relate mainly to the fair value of clients' deposits, buildings and securities held by MPSS. The valuation was based on detailed analysis of MPSS's contracts. In line with accounting standards, the revaluation will be amortised through the profit and loss, and it will thereby generate a positive impact on the consolidated net result of CZK 825 million from 2006 to 2012. The impact will be negligible in years thereafter. For the first half of 2007, the resulting positive impact on net profit totalled CZK 155 million.

Profit and Loss Statement

Net interest income

Net interest income reached CZK 8,922 million, showing 13.6% growth year on year. The 2006 figure had been affected by extraordinary income from early CDO redemptions in the amount of CZK 262 million. Besides the MPSS acquisition, the increase was mainly driven by growing volumes of current accounts and loans. The growth in net interest income was partially moderated, however, by a continuing decrease in spreads. The total net interest income from loans gained nearly 24%, with the main contributions coming from mortgages, consumer credit and credit cards. Net interest income was also affected by approximately CZK 200 million of net fair value adjustments (as mentioned above) after the MPSS revaluation, and this related mainly to deposits. The underlying growth in interest income (excluding one-offs and MPSS consolidation) amounted to 7.5%. The net interest margin declined to 3.1% from 3.3% in the same period of 2006. That was due to the ongoing pressures on loan spreads and to the consolidation of MPSS, which typically has a lower margin.

Net fees and commissions

Net fees and commissions rose by 5.6% to CZK 4,561 million, thanks to both a larger customer base and product innovations, while prices remained unchanged. Non-FX fees improved by 6.5%, mainly due to larger numbers of direct channels and payment card transactions. Also, maintenance fees saw a change from their trend and reported a slight increase, as the gain in the number of packages offset the decrease of non-packages products. On the other hand, promotional campaigns in the first half brought with them lower fee income from processing of loans. FX-fees also reported a slight rise, by 1%, especially due to a higher number of payment cards conversions.

Net profit from financial operations

Net profit from financial operations recorded a 16.7% increase to reach CZK 854 million, benefiting from improved performance in both client and proprietary trading. The result was also affected by higher realised capital gains at Pension Fund KB compared to the same period of last year. The profit from foreign exchange operations, which reached CZK 406 million, still represents the largest component of net profit from financial operations.

Net banking income

Consolidated net banking income grew by 11.3% compared to the first half of last year and reached CZK 14,407 million. Adjusted for the MPSS acquisition, the increase was 5.3%.

Total operating costs

Overall operating costs grew by 11.8% to CZK 6,560 million. Year-on-year comparison of operating costs is influenced by the acquisition of MPSS in October 2006 and to some extent also by one-off items booked in the first half of 2006. The latter included, in particular, release of provision for loyalty bonuses in the amount of CZK 147 million, pertaining to personnel costs. Personnel costs rose by 19.4% to CZK 2,944 million, wherein underlying growth of 8.2% reflects a 3.4% increase in the average number of employees and a rise in average salaries. The increase in general administrative costs of 10.4% was driven by expanding business activities and a planned increase in marketing spending connected to the marketing campaigns for new products. The item depreciation and impairment declined by 6.9% to CZK 739 million due to a change in the depreciation period for some intangible assets and some real estate sales. Excluding MPSS consolidation, total costs would have risen by 6.5%.

Net operating income

The successful acquisition of MPSS, growing revenues in retail and corporate banking and at the subsidiaries, accompanied by adequate cost control led to a 10.9% rise in net operating income to CZK 7,847 million.

Cost of risk

Cost of risk includes provisions for loan losses and provisions for other risk expenses (mainly for costs of legal disputes). The net provisioning charge in the first half of 2007 totalled CZK 816 million, down 3.4%. The decline, however, mainly reflects a one-off provision creation for a legal dispute in 2006 of CZK 149 million. Provisions for loan losses increased by 28% to CZK 791 million, resulting mainly from the fast growing share of mass retail activities and no net reversals on corporate clients compared to the same period of last year (when KB had reported write-backs). Thanks to ongoing refinement of risk management procedures and techniques, the consolidated cost of risk stood at 39 basis points and the standalone KB cost of risk was 34 basis points. Provisions for other risk expenses totalled CZK 25 million.

Share of profit of pension scheme beneficiaries

The share of profit of pension scheme beneficiaries rose by 49.2% to CZK 288 million from CZK 193 million in the same period of 2006. This item represents beneficiaries' share of the pension fund's net profit, at least 85% of which must, in accordance with the statutory requirement, be devoted to the pension scheme's participants. At the Annual General Meeting of Penzini fond KB it was decided to redistribute slightly more than 85% of the 2006 net profit, and this is reflected in the second quarter figure.

Income tax

Following the increase in profit, income taxes rose 9% to CZK 1,483 million. The effective tax rate was nearly stable at 22%.

Net profit

Komerční banka Group's net profit in the first half of 2007 amounted to CZK 5,289 million, rising by 9.8%. The growth of recurring profit, which excludes MPSS consolidation and other extraordinary items in both of the periods compared, was 11.7%. The gain in profitability was mainly supported by the growing business and the acquisition of MPSS.

Key Financial Ratios

	as at 30 June 2007	as at 30 June 2006
Capital Adequacy – CNB (%)	11.2	11.8
Risk Weighted Assets (CZK billion)	346.2	275.6
Cost/Income Ratio (%)	45.5	45.3
Return on Average Equity – ROAE (% , annualized)	22.2	20.4
Return on Average Assets – ROAA (% , annualized)	1.7	1.9
Net Interest Margin (%)	3.1	3.3
Earnings per Share – annualized (CZK)	278.3	253.4

Balance Sheet

As at 30 June 2007, total consolidated assets stood at CZK 639.3 billion, rising almost 25% year on year. This was especially a result of KB's increasing depositary base and full consolidation of MPSS. The gain is 13% when adjusted for MPSS.

Assets

Cash and current accounts with banks

Cash and balances with central banks reached CZK 12.1 billion, growing by 3.5% compared to June 2006. Balances with central banks, which represent obligatory minimum reserves, stood at CZK 5.3 billion and increased by 1.5%. The interest earned on obligatory minimum reserves with the CNB is equal to the CNB's two-week repurchase rate, which stood at 2.75% as at 30 June 2006 and 2% as at 30 June 2006. In July 2007, there was another rise by 25bp to 3.00%. Obligatory minimum reserves with the National Bank of Slovakia bore interest at 1.5% as at 30 June for both years.

Amounts due from banks

Amounts due from banks increased to CZK 227.2 billion, i.e. by 5.4%, since the end of 2006's first half. Advances due from the Czech National Bank, which represent reverse repo transactions, declined by 12.2% to CZK 137.9 billion. Term deposits with other banks went up by 66.2% to CZK 64.5 billion. The bond portfolio, at amortised cost of CZK 15.4 billion, grew by 33.1%. Within this portfolio, CZK 13.8 billion represented bonds issued by the parent bank, Société Générale S.A.

Net loans and advances to customers

Total net loans and advances rose by a substantial 31.1% to CZK 274.6 billion. Gross loans increased by 31.7% to CZK 283.3 billion (including CZK 27.7 billion in loans of MPSS). The loan book expanded by 19.8% if adjusted for acquisition of MPSS. Standalone KB accounted for 85% of the Group loan portfolio.

The quality of the loan book remained under control despite the rapid growth in lending activities. Standard loans rose by 37.8% to CZK 258.1 billion, and their share in the total portfolio increased to 91% (87% in June 2006). Loans rated watch declined by 28.0%, diminishing their share in the total portfolio to 4.5% (8.2% in June 2006). Loans under special review (substandard, doubtful, loss) went up by 22.6% to CZK 12.6 billion, while growing at a slower pace than did the total portfolio. Consequently, their share in the portfolio declined to 4.4% from 4.8% in June 2006. The contribution of KB's subsidiaries to Group standard loans was 16%, to watch loans 7%, and to loans under special review 13%.

The balance of specific provisions for loan losses increased by 25.4% to CZK 9.1 billion, in line with the portfolio expansion. At the end of June 2007, 67% of the loans under special review were provisioned by specific reserves (up from 65% at the end June 2006).

Securities

The Group's securities portfolio increased by 92% to CZK 97.8 billion, mainly due to the consolidation of MPSS. The portfolio of securities held for trading reached CZK 19 billion, up by 77%, due to a 90.4% increase in fixed income debt securities to CZK 16.5 billion. The volume of securities available for sale grew by 104.8% to CZK 75.5 billion. Standalone KB held 35% of the securities, or CZK 26.8 billion, while the securities held by subsidiaries amounted to CZK 48.7 billion (up 193%, mainly due to consolidation of MPSS). The securities held to maturity remained stable at CZK 3.4 billion and comprised bonds from countries within the European Monetary Union and the Czech Republic.

Goodwill

At the end of the first half, goodwill stood at CZK 3,551 million, in comparison with CZK 163 million as at June 2006. The increase was due to the acquisition of MPSS. Following completion of revaluating MPSS' assets and liabilities, recognised goodwill on the acquisition stands at CZK 3,389 million compared to the preliminary figure of CZK 2,741 million.

Liabilities and Shareholders' Equity

Amounts due to banks

In the first half of 2007, amounts due to banks increased slightly by 3.3% year on year to CZK 24.7 billion. The rise stems mainly from term placement due to banks, while repo operations with CNB and other banks declined.

Amounts due to customers

Amounts due to customers totalled CZK 507.4 billion, which represents an increase of 27.8% year on year. Of this, CZK 60.4 billion is a contribution from the MPSS acquisition, adjusted for which the deposit base increased by 12.6%. Partially due to the acquisition, the proportion of retail deposits rose from 37% to 44%. The volume of deposits on current accounts reached CZK 260.4 billion, which was up by 9.4% and represented 61% of total primary deposits. Total term and saving deposits increased by 77.2% to CZK 178.8 billion, the biggest contributor being the acquired deposit base of MPSS. Clients' pension assets grew by 22.3% to CZK 20.8 billion.

Securities issued

The volume of securities issued grew by 19.1% to CZK 26.1 billion. The portfolio is made up entirely of publicly tradable mortgage bonds issued by Komerční banka to fund its mortgage activities.

Subordinated debt

In December 2006, Komerční banka accepted a subordinated debt of CZK 6.0 billion in order to strengthen its capital and support further growth potential as well as to optimise the capital structure. The subordinated debt was issued by Société Générale under standard market conditions.

Shareholders' equity

As at the end of June 2007, the Group's shareholders' equity amounted to CZK 44.5 billion, compared to CZK 43.2 billion at the same date last year. In June 2007 Komerční banka paid out CZK 5.7 billion in dividends (approved at the 2007 Annual General Meeting). KB's share capital remained stable at CZK 19 billion. The hedging revaluation reserve, which reflects changes in the fair value of hedging derivatives, decreased from CZK 1.7 billion to a negative CZK 887 million as a result of an increase in interest rates. Also part of equity is the revaluation reserve for the available-for-sale portfolio, which ended the half at a negative CZK 470 million compared to a negative CZK 189 million on the same date last year. Shareholders' equity also includes the attributable net profit of the current period in the amount of CZK 5.3 billion. Total shareholders' equity represents 7% of the Group's total assets.

Expected developments in the financial situation

KB's financial performance in past years has been impacted by significant one-off gains that are not likely to be repeated in coming years. Management expects, however, that Komerční banka's business strategy will:

- have a positive impact on the Bank's revenues generation and the level of recurring profitability;
- sustain a high level of efficiency due to faster growth in revenues than in costs, thus targeting the cost/income ratio to remain below 50%; and
- imply a slight increase in the cost of risk as a result of rapidly developing retail lending activities, although it will remain under control and correspond to the risk profile of the Bank.

Management also expects that the strategy's implementation will not have significant impact on Komerční banka's very good liquidity. Moreover, KB will maintain its strong capital base, as reflected in the targeted Tier 1 capital-adequacy ratio's remaining close to 10%.

Consolidated Profit and Loss Statement According to IFRS

CZK million	1H 2007 (unaudited)	1H 2006 (unaudited)
Interest income	15,695	12,100
Interest expense	(6,773)	(4,246)
Net interest income	8,922	7,854
Net fees and commissions	4,561	4,321
Net profit/(loss) on financial operations	854	732
Dividends and other income	70	37
Net banking income	14,407	12,944
Personnel expenses	(2,944)	(2,466)
General administrative expenses	(2,877)	(2,607)
Depreciation, impairment and disposal of fixed assets	(739)	(794)
Total operating expenses	(6,560)	(5,867)
Net operating income	7,847	7,077
Provision for loan losses	(791)	(617)
Provision for losses on securities	0	0
Provision for other risks expenses	(25)	(228)
Cost of risk	(816)	(845)
Net profit/(loss) from subsidiaries and associates	29	136
Share of profit of pension scheme beneficiaries	(288)	(193)
Profit/(loss) before income taxes	6,772	6,175
Income taxes	(1,483)	(1,360)
Profit/(loss) for the period before minority interest	5,289	4,815
Profit attributable to the Bank's equity holders	5,278	4,828
Minority profit/(loss)	11	(13)
Earnings/(loss) per share (in CZK)	139.15	126.68

Consolidated Balance Sheet According to IFRS

CZK million	30 June 2007	30 June 2006
Assets	(unaudited)	(unaudited)
Cash and currents balances with national banks	12,108	11,694
Amounts due from banks	227,200	215,494
Financial assets at fair value through profit or loss	18,955	10,707
Positive fair value of financial derivative transactions	8,315	8,730
Loans and advances to customers, net	274,574	209,394
Securities available for sale	75,483	36,857
Investments held to maturity	3,360	3,361
Prepayments, accrued income and other assets	3,050	3,867
Income taxes receivable	109	741
Deferred tax asset	1,054	167
Assets held for sale	604	772
Investment property	219	231
Goodwill	3,551	163
Intangible fixed assets (net)	2,650	2,190
Tangible fixed assets (net)	7,667	7,348
Investments in associates and unconsolidated subsidiaries	448	1,116
Total assets	639,347	512,832

CZK million	30 June 2007	30 June 2006
Liabilities	(unaudited)	(unaudited)
Amounts due to banks	24,708	23,914
Amounts due to customers	507,414	396,992
of which: Amounts due to customers of PF KB	21,123	17,286
Negative fair value of financial derivative transactions	8,610	5,433
Securities issued	26,077	21,902
Accruals and other liabilities	19,732	19,132
Provisions	2,303	2,291
Income taxes payable	11	0
Deferred tax liability	3	0
Subordinated debt	6,002	0
Total liabilities	594,860	469,664
Shareholders' equity		
Share capital	19,005	19,005
Share premium and reserves	24,891	24,152
Minority interest	591	11
Total shareholders' equity	44,487	43,168
Total liabilities and shareholders' equity	639,347	512,832

Rating

Rating agency	Long-term	Short-term
Moody's Investors Service	A1	Prime-1
Standard & Poor's	A	A-1
Fitch Ratings	AA-	F1+

Shareholder Structure

Major shareholders of Komerční banka, a.s. as at 25 May 2007



Komerční banka, a.s.

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performances of Raymonda and La clemenza di Tito
interior of National Theatre Building

