Komerční banka continued in 2012 to deliver growth in business and profitability

Net profit reached CZK 14.0 billion for the year

Prague, 13 February 2013 – KB Group increased the volume of loans provided to clients by 4.1% to CZK 469.1 billion in the year 2012. The volume of deposits from clients rose by 3.3% to CZK 579.1 billion.

Consolidated revenues remained almost stable year on year (down 0.2% to CZK 32.7 billion), as did operating expenditures (up 0.2% to CZK 13.5 billion). A significant decline, by 74.5% to CZK 1.9 billion, was observed in the cost of risk, mainly due to impairment of Greek government bonds booked in the previous year. The lower risk costs were therefore the main driver for the 47.3% gain in the Group's net profit attributable to shareholders to CZK 14.0 billion.

KB maintains a solid basis for further growth of its business. The Group's Core Tier 1 capital adequacy ratio came to a strong 14.7% under Basel II standards. Liquidity remained excellent with the net loans-to-deposits ratio at 78.0%.

The Board of Directors has decided to propose to the Supervisory Board and Annual General Meeting a dividend payment of CZK 8,687 million, which is CZK 230 per share and represents a payout ratio at 62.7% of KB Group's attributable net profit. The corresponding gross dividend yield based on 2012's closing share price is 5.7%.

Highlights

- Komerční banka successfully expanded its deposit base (by 3.3%) and outperformed the market in lending growth (by 4.1%).
- KB Group completed its preparations to operate in the Czech Republic's strengthened pension system. Clients began subscribing to the new pension funds managed by KB Penzijní společnost from the beginning of 2013.
- The number of clients at Penzijní fond KB rose by a significant 12.8% year on year to 571,000. In accordance with the new regulation, the transformed pension fund has been operated by KB Penzijní společnost since 1 January 2013.
- Komerční banka retained the prestigious Bank of the Year title for 2012. KB won for the fifth time in the 11-year history of Fincentrum's Bank of the Year awards. Indeed, Komerční banka Group made it into the winners' circle for 6 of the 13 announced categories.

Comment of the CEO

Thanks to the strengths of KB's business model and client franchise, the Group delivered a very solid performance in 2012 despite the challenging environment. While economic conditions will probably remain difficult this year and market interest rates will stay very low, we must focus on disciplined cost management, developing our long-term relationships with clients and leveraging KB's strengths.

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

Comments on business and financial results

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

BUSINESS PERFORMANCE OF KB GROUP

The Czech economy remained in recession throughout 2012, with net exports the only growing component of GDP. Client demand for loans on the market was limited by an uncertain outlook, gradually rising unemployment and decreasing capacities utilisation. At the same time, clients added to their deposits with Czech banks. The Czech National Bank pursued an accommodative monetary policy and gradually eased its policy-setting 2-week repo rate to an all-time low of 0.05%. The commensurate decline in market interest rates pressed down yields on banks' reinvestments of deposits. The competitive situation remained tight, as several banks strove to improve their liquidity by offering high rates for deposits while the healthy state of the Czech banking market attracted several new entrants keen to acquire market share and build operations to a scale sufficient to be sustainable.

Development of client portfolio and distribution networks

As of the end of the year, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,602,000 clients (flat year on year), of which 1,343,000 were individuals. The remaining 259,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 609,000 customers, and the number of pension insurance participants at Penzijní fond reached 571,000. ESSOX's services were being used by 266,000 active clients.

Komerční banka's clients had at their disposal 400 banking branches (including one in Bratislava), 702 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 1,119,000 by the end of the year and corresponds to 69.9% of all clients. Customers held 1,612,000 active payment cards, of which 209,000 were credit cards. The number of active credit cards issued by ESSOX came to 148,000, and consumer financing from ESSOX was available through its network of 2,600 merchants. Modrá pyramida's customers had at their disposal 218 points of sale and 1,230 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

Total **gross volume of loans** provided by KB Group expanded year on year by 4.1% to CZK 469.1 billion. Lending grew across all client segments.

Mortgages constituted the main driver for growth in lending to individuals, as demand was underpinned by low client interest rates and property prices generally stabilised at diminished levels. The portfolio of mortgages to individuals grew by 8.4% to CZK 133.3 billion. The volume in Modrá pyramida's loan portfolio decreased by 4.1% to CZK 49.3 billion, because clients on the market generally were preferring mortgages to building society loans and, furthermore, Modrá pyramida's sales agents had begun selling KB mortgages in line with a revision of the company's business model. Unsecured consumer lending (from KB and ESSOX) continued to be affected by customers' uncertainty as to the economic outlook, and it declined by 0.4% to CZK 27.5 billion.

In business lending, loans to large corporations were the most dynamic element, thanks mainly to several acquisition financings provided in the second half of the year. Lending to small businesses rose by 4.1% to CZK 28.9 billion. The volume of credit granted by KB to corporate clients in the Czech Republic and Slovakia climbed by 5.1% to CZK 203.6 billion. Factor finance outstanding at Factoring KB grew by 6.4% to CZK 3.0 billion, and SGEF's total credit and leasing amounts outstanding declined by a slight 0.8% year over year to CZK 20.3 billion. The overall volume of loans provided by KB Group to businesses expanded by 4.5% to CZK 255.7 billion.

Amounts due to customers and assets under management

The total **volume of deposits** climbed by 3.3% year on year to CZK 579.1 billion. Deposits from businesses expanded by 4.4% to CZK 308.0 billion and deposits at KB from individual clients decreased by 2.2% to CZK 156.4 billion. Client assets with Penzijní fond KB grew by 4.9% to CZK 31.9 billion. From 1 January 2013, these assets have been held in the “transformed fund” operated by KB Penzijní společnost. The deposit book of Modrá pyramida gained 1.3% year on year to reach CZK 71.8 billion. The volume of technical reserves in life insurance at Komerční pojišťovna rose by 19.2% to CZK 28.5 billion.

The ratio of net loans to deposits reached 78.0%, which was 82.5% excluding assets of clients in the pension fund.

New products and services (in fourth quarter 2012)

Penzijní fond KB – from 1 January 2013 transformed into KB Penzijní společnost (i.e. KB pension company) – received by the end of 2012 all necessary authorisations, including approvals for the statutes of the funds for the second and third pillars of the Czech Republic’s reformed pension system. KB and Modrá pyramida obtained permissions to sell policies in both pension pillars and started offering them to clients from the beginning of 2013.

The new KB Corporate Card is a comprehensive solution for monitoring and evaluating employees’ expenditures and for recording these into accounting systems. KB Corporate Card was awarded the title Commercial Card of the Year 2012 in the Czech Republic from MasterCard.

KB became the first bank on the Czech market to support payments with the help of QR codes for mobile telephones. The client simply takes a picture of the code using the handset’s camera and an application converts the code into a payment order that needs only to be validated by the client.

Selected awards (from fourth quarter 2012)

Komerční banka retained the prestigious Bank of the Year title for 2012. KB won for the fifth time in the 11-year history of Fincentrum’s Bank of the Year awards. KB, Modrá pyramida and Penzijní fond KB made it into the winners’ circle for 6 of the 13 announced categories.

In October, KB was named the Most Desired Employer of the Decade by students in Sodexo’s Employer of the Year competition.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement

Total **net banking income** in 2012 declined marginally by 0.2% year on year to CZK 32,689 million. Income from financial operations improved, but fee income continued to decline and net interest income also decreased under the pressure of low market interest rates.

Net interest income was underpinned by growing volumes of loans and deposits, but the significantly diminished market rates through the year put pressure on yields from reinvested deposits. At the same time, efforts by some banks to boost liquidity lead to very high rates being offered on the market for certain deposit products, and particularly on saving accounts. The net interest margin therefore slipped to 3.1% from 3.3% in the previous year. Net interest income thus declined by a slight 1.1% to CZK 21,947 million.

Net income from fees and commissions decreased by 3.9% to CZK 7,018 million. Fees from account maintenance and for transactions were lower as KB expanded the MojeOdměny client reward scheme. This category was also influenced by higher acquisition commissions related to strong sales of pension fund policies before the former pension fund was locked up for new clients in preparation for the pension reform. Income from card transactions rose, driven by clients' more frequent use of payment cards, and revenues from trade finance services also increased.

Net gains from financial operations improved by 14.0% to CZK 3,598 million. The underlying results were driven by solid demand from clients for hedging of financial risks and in the area of debt capital markets. The overall result, however, was affected by several one-off items, among which there were positive impacts from adjustments in the portfolio of Penzijní fond KB, as well as from selling the equity interest in Bohemian–Moravian Guarantee and Development Bank (CMZRB). On the other hand, sale of the remaining Greek and Portuguese government bonds in the second quarter had a negative effect.

Operating costs remained under control (up by a slight 0.2% year on year to CZK 13,512 million). Within this category, personnel costs grew by 4.0% to CZK 6,787 million as the average number of employees expanded by 0.3% to 8,758. General administrative expenses decreased by 2.6% to CZK 5,019 million. Savings were achieved in many areas, most notably in IT and communications costs, marketing, and on transportation of cash. Real estate expenses slightly increased in connection with the move of certain functions to the new building in Prague – Stodůlky. Depreciation, impairment and disposal of fixed assets was lower by 5.6%, totalling CZK 1,707 million, due to lower amortisation of certain software equipment.

Gross operating income for 2012 was down by 0.5% to CZK 19,177 million.

Total cost of risk diminished by a significant 74.5% year on year to CZK 1,871 million. The decline was for the most part due to the fact that impairment of Greek government bonds totalling CZK 5,355 million had been recorded in 2011. The total cost of risk in relative terms decreased to 41 basis points in comparison with 175 basis points in the previous year. **Cost of risk excluding securities** declined by 5.0%, as the Group observed only moderate shifting of exposures to the default category and the overall quality of the loan portfolio remained very good. Furthermore, KB managed in both years to successfully resolve certain defaulted corporate exposures, and that led to release of the relevant provisions.

Income from shares in associated undertakings climbed by 49.4% to CZK 121 million. The share in the profit of pension scheme beneficiaries was down by 15.0% to CZK 489 million.

Income taxes rose by 55.8% to CZK 2,708 million.

KB Group's consolidated net profit for the year 2012 reached CZK 14,230 million, which was 46.4% greater than in 2011. Of this amount, CZK 278 million was profit attributable to holders of minority stakes in KB's subsidiaries (+14.4%). **Profit attributable to the Bank's shareholders** amounted to CZK 13,953 million (47.3% higher year on year).

Statement of financial position

KB Group's **total assets** as of 31 December 2012 increased by 4.2% year on year to CZK 786.8 billion.

Amounts due from banks decreased by 36.8% to CZK 64.1 billion. The largest component of this item is loans to central banks as part of reverse repo operations, which were lower by 61.2% at CZK 22.9 billion, and term placements with other banks that increased by a slight 0.5% to CZK 18.8 billion.

Financial assets at fair value through profit or loss rose by 47.7% to CZK 51.6 billion. That portfolio comprises the Group's proprietary trading positions.

KB

Regulatory information

Total net loans and advances grew by 4.0% to CZK 451.5 billion. The gross amount of client loans and advances expanded by 4.1% to CZK 469.1 billion. The share of standard loans within that total climbed to 91.9% (CZK 431.0 billion) while the proportion of watch loans was 2.4% (CZK 11.1 billion). Loans under special review (substandard, doubtful and loss) comprised 5.8% of the portfolio with volume of CZK 27.0 billion. The volume of provisions created for loans reached CZK 17.7billion, which was 7.0% more than at the end of 2011.

The portfolio of available-for-sale securities expanded by 12.6% to CZK 141.8 billion. The book value of shares and participation securities in the available-for-sale portfolio is negligible since KB's second-quarter sale of its stake in CMZRB. From the CZK 141.6 billion total volume of debt securities, Czech government bonds represented CZK 96.9 billion and foreign government bonds CZK 24.3 billion.

The volume of securities in the held-to-maturity portfolio decreased by a slight 1.1% to CZK 3.3 billion. This portfolio consists entirely of bonds.

The net book value of tangible fixed assets rose by 15.3% to CZK 8.0 billion, primarily due to recognising the new KB headquarters building. Intangible fixed assets increased by 1.7% to CZK 3.9 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida and SGEF, remained unchanged at CZK 3.8 billion.

Total liabilities were 2.0% higher in comparison to the end of 2011, reaching CZK 686.3 billion. Amounts due to customers grew by 3.3% to CZK 579.1 billion. The outstanding volume of issued securities rose by 7.0% to CZK 19.6 billion. The Group's **liquidity**, as measured by the ratio of net loans to deposits, reached 78.0% (82.5% excluding client assets in Penzijní fond KB).

Shareholders' equity expanded year over year by 22.9% to CZK 100.6 billion. The generation of net profit contributed to the growth, as did increase in the available-for-sale portfolio revaluation reserve by CZK 6.0 billion, and a CZK 4.5 billion rise in hedging instruments, both reflecting lower market interest rates and narrower credit spreads on bonds. Both portfolios comprise primarily reinvestments of client deposits. As of 31 December 2012, 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 December 2012. KB Group's **capital adequacy**, as well as the Core Tier 1 capital ratio under Basel II standards, stood at a high level of 14.7%.

Return on average equity for the year 2012 came to 15.8% while return on average assets was 1.8%.

Net profit adjusted for one-off effects decreased by 3.3%. Excluding one-off items, adjusted return on average equity was 14.3% and adjusted return on average assets was 1.6%.

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Regulatory information

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

Profit and Loss Statement (CZK million, unaudited)	**FY 2012**	**FY 2011**	**Change year on year**
Net interest income	21,947	22,190	-1.1%
Net fees and commissions	7,018	7,305	-3.9%
Net gains from financial operations	3,598	3,157	14.0%
Other income	126	111	13.5%
Net banking income	**32,689**	**32,764**	**-0.2%**
Personnel expenses	-6,787	-6,526	4.0%
General administrative expenses	-5,019	-5,155	-2.6%
Depreciation, impairment and disposal of fixed assets	-1,707	-1,809	-5.6%
Operating costs	**-13,512**	**-13,490**	**0.2%**
Gross operating income	**19,177**	**19,274**	**-0.5%**
Cost of risk	-1,871	-7,325	-74.5%
of which Cost of risk excluding securities	-1,871	-1,969	-5.0%
Net operating income	**17,307**	**11,949**	**44.8%**
Profit on subsidiaries and associates	121	81	49.4%
Share in profit of pension scheme beneficiaries	-489	-575	-15.0%
Profit before income taxes	**16,938**	**11,455**	**47.9%**
Income taxes	-2,708	-1,738	55.8%
Net profit	**14,230**	**9,717**	**46.4%**
Minority profit/(loss)	278	243	14.4%
Net profit attributable to the Bank's shareholders	**13,953**	**9,475**	**47.3%**

Balance Sheet (CZK million, unaudited)	**31 Dec 2012**	**31 Dec 2011**	**Change year to date**
Assets	**786,836**	**754,810**	**4.2%**
Cash and balances with central bank	28,057	16,980	65.2%
Amounts due from banks	64,111	101,393	-36.8%
Loans and advances to customers (net)	451,547	434,386	4.0%
Securities	196,706	164,260	19.8%
Other assets	46,415	37,791	22.8%
Liabilities and shareholders' equity	**786,836**	**754,810**	**4.2%**
Amounts due to banks	38,901	37,454	3.9%
Amounts due to customers	579,067	560,700	3.3%
Securities issued	19,624	18,338	7.0%
Other liabilities	48,666	50,465	-3.6%
Subordinated debt	0	6,002	n.a.
Shareholders' equity	100,577	81,850	22.9%

Regulatory information

Key ratios and indicators	31 Dec 2012	31 Dec 2011	Change year on year
Capital adequacy (CNB, Basel II)	14.7%	14.6%	▲
Tier 1 ratio (CNB, Basel II)	14.7%	13.4%	▲
Total capital requirement (CZK billion)	29.3	30.4	-3.8%
Capital requirement for credit risk (CZK billion)	24.7	25.8	-4.1%
Net interest margin (NII/average interest-bearing assets)	3.1%	3.3%	▼
Loans (net) / deposits ratio	78.0%	77.5%	▲
Loans (net) / deposits ratio excluding pension fund client assets	82.5%	81.6%	▲
Cost / income ratio	41.3%	41.2%	▲
Return on average equity (ROAE)	15.8%	12.3%	▲
Return on average assets (ROAA)	1.8%	1.3%	▲
Earnings per share (CZK)	369	250	47.8%
Average number of employees during the period	8,758	8,735	0.3%
Number of branches (KB standalone in the Czech Republic)	399	397	+2
Number of ATMs	702	693	+9
Number of clients (KB standalone)	1,602,000	1,602,000	+0.0%

Business performance in retail segment – overview	31 Dec 2012	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 133.3 billion	8%
– number of loans outstanding	110,000	8%
Building society loans (MPSS) – volume of loans outstanding	CZK 49,3 billion	-4%
– number of loans outstanding	124,000	-11%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 27,5 billion	-0%
Small business loans – volume of loans outstanding	CZK 28,9 billion	4%
Total active credit cards – number	209,000	-3%
– of which to individuals	161,000	-1%
Total active debit cards – number	1,403,000	-3%
Insurance premiums written (KP)	CZK 6.1 billion	-10%

Financial calendar for 2013:

7 May 2013: Publication of 1Q 2013 results

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

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