Regulatory information

Komerční banka Group reports dynamic loan growth of 12%. Net profit at CZK 7,041 million for first three quarters of 2011

Prague, 8 November 2011 – Komerční banka Group recorded acceleration in the volume growth of loans in all segments, to 12% year on year. Net profit for the first nine months of 2011 reached CZK 7,041 million, which represents a decrease of 29.3% in comparison with the same period of 2010. Revenues grew marginally, limited by persistent low interest rates and declining fees charged. Cost of risk recorded a significant increase, despite very positive development in the cost of risk for lending, due to a charge on Greek government bonds. Net profit adjusted for impairment of Greek bonds grew by 5.6% to CZK 10,532 million.

KB expanded lending to households and businesses and increased the volume of deposits.

- Total lending rose by 11.9% year on year to CZK 435.1 billion. Excluding the contribution from acquiring a 50.1% stake in SG Equipment Finance Czech Republic (SGEF) in May 2011, the growth was 8.6%.
- Organic growth in the volume of loans to business clients accelerated to 6.9% year on year. The increase including the contribution from the acquisition of SGEF came to 15.3%. The total volume of credit provided to businesses rose to CZK 234.5 billion.
- Low interest rates, favourable development in property prices, and the advantageous product features of KB mortgages combined to boost the volume of the mortgage portfolio by 11.9% year on year to CZK 119.1 billion.
- The total volume of deposits increased by 2.9% to CZK 551.1 billion. Increase was registered in deposits both from individuals and businesses, driven by current accounts and saving accounts.

Komerční banka stands ready to meet increased regulatory requirements and to develop partnerships with its clients in the challenging period ahead.

- Komerční banka remains fully committed to developing its business in the Czech Republic and to building long-term partnerships with its clients.
- On 25 August, the rating agency Standard & Poor's raised KB's long-term rating to A+ from A, with Stable outlook. Komerční banka is rated at the best level among Czech banks by the three largest rating agencies.
- On 3 November, Komerční banka was named The Safest Emerging Market Bank in Central and Eastern Europe by Global Finance magazine.
- KB's funding is independent of financial markets, as its loans-to-deposits ratio stands at 76.1%. Placements of free liquidity are confined by strict limits and mostly directed to operations with the Czech National Bank and Czech government bonds.
- With capital adequacy at 16.0% and core Tier 1 ratio at 14.7%, as compared to the current 8% regulatory minimum and 10.5% minimum proposed as of 2019 (according to Basel III), Komerční banka is well prepared to meet all requirements for banks' equity regardless of the manner in which the state debt problems of the GIIPS countries will be resolved.

SOCIETE GENERALE GROUP
Komerční banka, a.s., Na Příkopě 33, 114 07 Prague 1, Czech Republic

Comment of the CEO

The European banking industry finds itself in a difficult situation where macroeconomic challenges are combined with regulatory uncertainties. Despite this broader environment, the Czech banking system is healthy and Komerční banka, in particular, has proven its capacity and commitment to supply credit to the economy and stand by its clients. We strive continuously to improve the services we provide to our clients while aiming to maintain and bolster high levels of client satisfaction and confidence.

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

On 25 August, the rating agency Standard & Poor's raised Komerční banka's long-term rating to A+ from A, with Stable outlook affirmed. Komerční banka is rated at the best level among Czech banks by the three largest rating agencies.

The Czech economy continued in its modest recovery through the first three quarters, which was particularly visible in export industries. The trend was evidenced by improving demand for loans from individual clients and businesses, including a rise in financing new investments and growth in mortgages. Confidence in the economy seemed to start deteriorating toward the end of summer, however, reflecting worsening news from the euro zone. Developments in the euro zone, including the situation of indebted member countries and pressure for rapidly boosting banks' capital levels, constitute the main risks to growth in the Czech economy for the near future.

Striving continuously to improve customer services, Komerční banka introduced several initiatives and improvements in the third quarter.

The successful "A" and "Lady" credit cards that combine insurance programmes, assistance, shopping discounts and rewards are newly available also to the holders of KB student accounts. In co-operation with IKS KB, Komerční banka introduced to the Czech market Amundi mutual funds. These funds take in a diverse range of investment strategies, underlying assets, sectors and regions. From July, KB began offering new accident insurance policies that cover a client's regular monthly payments in cases of long-term incapacity for work, disability, accidental death, or loss of employment. Also in July, the first users made contactless payments using their mobile phones in selected shops as part of a pilot operation to introduce NFC technology to the Czech Republic. Another product launched in summer was the MojeAuto car loan, whereby, following a very simple procedure, KB grants a loan even before the client has selected a particular vehicle to buy.

In the corporate segments, KB has signed co-operative agreements with important partners, including the Chamber of Trade and Industry for CIS countries and National Cluster Association, aimed at joint support to members of the respective organisations in their business expansion. Small business clients may benefit from improved conditions for Profi loans, easier access to financing from Factoring KB and SGEF, as well as reduced costs and availability of financing guarantees thanks to agreements made by KB and SGEF with Czech–Moravian Guarantee and Development Bank and the European Investment Bank.

Total **gross volume of loans** provided by KB Group as of the end of September 2011 increased year on year by 11.9% to CZK 435.1 billion. Excluding the contribution from acquiring a 50.1% stake in SGEF in May 2011, the growth was 8.6%. Loans grew in all segments.

The total portfolio of mortgages expanded by 11.9% to CZK 119.1 billion. New mortgage sales in the first nine months rose by 44.6% compared to the previous year and totalled CZK 21.9 billion. Modrá pyramida's loan portfolio grew by 5.2% to reach CZK 51.3 billion. The outstanding volume of consumer lending provided by KB and by ESSOX began also to grow in a year-on-year comparison, albeit by only a modest 0.2% to CZK 28.4 billion at the end of September.

The volume of financing provided by KB Group to businesses expanded by 15.3% to CZK 234.5 billion. Adjusting for the SGEF acquisition, the growth reached 6.9%. Within business segments, lending to entrepreneurs and small companies rose 8.6% to CZK 27.1 billion. The volume of credit granted by KB to corporate clients in the Czech Republic and Slovakia climbed by 4.9% to CZK 185.1 billion. The outstandings of factor financing at Factoring KB grew by 26.1% to CZK 2.4

billion, while SGEF's credit outstanding at the end of September totalled CZK 20.0 billion.

The total **volume of deposits** rose by 2.9% in comparison with the end of September 2010, to CZK 551.1 billion.

Deposits at KB from individual clients increased by 3.7% to CZK 156.9 billion, driven by a successful saving accounts offer and solid volumes growth on current accounts. On the other hand, term deposits had less appeal to clients due to the low interest rate environment. The volume of clients' assets registered with Penzijní fond KB grew by 6.1% to CZK 29.9 billion. KB Group is preparing for active participation in the second pillar of the Czech Republic's pension system once the way is cleared through the legislative process. Meanwhile, decreased subsidies to building savings have begun to impact deposit growth in Czech building societies. Nevertheless, Modrá pyramida managed to grow its deposit book by 1.0% year over year to CZK 69.7 billion. Deposits from business clients at Komerční banka increased by a respectable 3.7% to CZK 291.1 billion.

The volume of technical **reserves in life insurance** at Komerční pojišťovna grew by 28.3% to CZK 23.1 billion. New insurance premiums written declined by 24.5% compared to the extraordinary figures achieved in the same period of 2010, to CZK 5.5 billion. From this total, premiums for life insurance contributed CZK 5.2 billion.

As of the end of September 2011, KB Group was serving 2.6 million clients on a consolidated basis. Standalone KB recorded 1,597,000 clients, of which 1,331,000 were individuals. The remaining 266,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was serving 656,000 customers and the number of pension insurance participants at Penzijní fond reached almost 500,000. The services of ESSOX were being used by 288,000 active clients.

Komerční banka's clients had at their disposal 396 banking branches, 690 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 1,044,000 at the end of the quarter, which represents 65.4% of all clients. Customers held 1,670,000 active payment cards, of which 215,000 were credit cards. The number of active credit cards issued by ESSOX reached 153,000, and consumer financing from ESSOX was available through the network of 3,200 merchants. Modrá pyramida's customers had at their disposal 231 points of sale and 1,258 advisors.

FINANCIAL PERFORMANCE OF KB GROUP

Total **net banking income** increased in the first three quarters of 2011 by 1.2% year on year to CZK 24,376 million. The growth was positively impacted by the acquisition of SGEF and by a slight increase in net interest income, while income from fees and commissions and gains from financial operations decreased year over year.

Net interest income, the largest contributor to total revenues, increased by 3.4% to CZK 16,519 million. The gain in interest income was driven by solid growth in loan and deposit volumes, albeit partly offset by low interest rates on the financial market. Increase in the statutory contribution to the Deposit Insurance Fund also had a negative effect on the result. The average net interest margin remained unchanged at 3.3%.

Net income from fees and commissions declined by 2.0% to CZK 5,585 million due to lower average prices and higher commissions paid to third parties for intermediating mortgages. Despite increase in the overall number of transactions, transaction fee income went down as clients benefited from the new MojeOdměny rewards programme and, at the same time, increasingly took advantage of lower-cost direct channels. Decreasing prices and newly offered rewards influenced income from account maintenance fees, too. Income from services for loans got a boost from solid growth in the number of products in retail segments, which was offset, however, by increased commissions paid for selling mortgages. Fees from cross-selling slowed their growth in a deteriorating environment for mutual funds sales. Among other items, private banking, trade finance and loan syndication activities contributed positively to fee income.

Net gains from financial operations decreased by 5.6% to CZK 2,201 million, as liquidity on the financial markets remained modest and spreads on FX payments narrowed. During 2011, however, the Bank has registered improving demand for hedging of interest rate risks and, after recent weakening of the crown, also of foreign exchange risk.

Komerční banka launched several projects in 2011 aiming to improve the services it provides, develop distribution channels, and boost efficiency. Along with the acquisition of SGEF, these efforts contributed to a slight, 5.9% increase in operating costs year on year to CZK 9,818 million. Moreover, the comparative base from 2010 had been affected by a positive one-off item under staff costs and a positive result from the sale of several buildings. Personnel costs grew by 7.8% to CZK 4,940 million, influenced by an 0.7% increase in the average number of employees, as well as by a slight increase in remuneration, the one-off item from 2010, and the acquisition. Administrative costs grew by 1.6% to CZK 3,576 million, while a year-on-year rise was recorded in costs of staff training and marketing. Costs under the item "Depreciation, impairment and disposal of fixed assets" were up by 11.7% to CZK 1,302 million, due to investments to improve direct banking channels and software, and also because of last year's CZK 86 million positive result from the Bank's sale of unused buildings.

Gross operating income for the first nine months of 2011 decreased by 1.7% year on year to CZK 14,558 million.

Total cost of risk increased to CZK 5,598 million from CZK 2,401 million in the same period last year due to a CZK 4,327 million write-down in the value of Greek government bonds held in the banking book of Komerční banka. Reflecting ongoing negotiations on involvement of private investors in restructuring the Greek government debt and upon assessment of the sustainable level of debt to be serviced by Greece in future, Komerční banka decided to take a write-down in the value of Greek bonds totalling 60% of those bonds' nominal value. The book value of the bonds after the write-downs stands at 40% of their face value, at manageable CZK 2.9 billion.

Development in the **cost of risk from lending** prolonged its positive trend (which had begun in the first half of 2010) as it decreased by 45.3% year on year to CZK 1,304 million. Moreover, Komerční banka was this year able in some cases to release provisions upon receiving repayments from provisioned cases. The number of new defaults has been gradually decreasing, and especially in corporate segments. Improvement in the retail segment was less pronounced, due to deteriorated recovery performance in mortgages.

The total cost of risk in relative terms grew to 181 basis points in the nine months of 2011 (43 basis points excluding impairment of Greek bonds) in comparison to 83 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 declined by 33.4% to CZK 1,318 million.

KB Group's consolidated net profit for the first nine months of 2011 came to CZK 7,211 million, which was down by 28.1% compared to the same period of last year. Of this, CZK 170 million was profit attributable to minority interests (in subsidiaries) and the **profit attributable to the Bank's shareholders** amounted to CZK 7,041 million (down 29.3% year on year).

The point of comparison 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 September 2011 increased by 7.2% relative to the end of 2010 to CZK 748.6 billion.

Amounts due from banks declined by 10.7% to CZK 100.2 billion. The largest component of this item is loans provided to central banks as part of reverse repo operations, which were down by 17.1% to CZK 58.9 billion.

Financial assets at fair value through profit or loss rose by 11.0 % to CZK 37.7 billion. The portfolio comprises the Group's proprietary trading positions.

Total net loans and advances expanded by 9.0% to CZK 419.4 billion, with the gross amount of client loans and advances increasing by 8.9% to CZK 435.1 billion. The difference in the pace of growth is due to improvement in the average portfolio quality. The share of standard loans within that total rose to 90.7% (CZK 394.3 billion), while the proportion of watch loans was 3.2% (CZK 14.1 billion) and loans under special review (substandard, doubtful and loss) comprised 6.1% of the portfolio with volume of CZK 26.3 billion. The volume of provisions created for loans reached CZK 16.0 billion, which is 4.8% more than at the end of 2010.

The portfolio of available-for-sale securities increased by 7.2% to CZK 124.8 billion. The major part of this portfolio consists of debt securities in the amount of CZK 124.1 billion. The Greek state bonds were held in this portfolio at the parent Komerční banka, while KB's subsidiaries had no Greek state bonds on 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 1.2% to CZK 6.8 billion. That portfolio consists entirely of bonds.

The net book value of tangible fixed assets diminished by 3.7% to CZK 6.8 billion, and intangible fixed assets by 1.1% to CZK 3.7 billion.

Following upon the acquisition of SGEF on 4 May 2011, KB completed in the third quarter an assessment as to the fair value of SGEF's assets and liabilities in accordance with the accounting standard IFRS 3 – Business Combinations. The adjustments to the fair value were calculated with the objective of establishing transaction prices that would have been reached in transactions at arm's length under normal business circumstances as at the date of the acquisition. The adjustments totalled CZK 487 million and will be amortised in accordance with the amortisation schedule through 2016. The resulting goodwill recognised on the acquisition totalled CZK 201 million and will be regularly tested for impairment.

The total goodwill amounted to CZK 3,752 million, which is by 5.6% more year on year.

Total liabilities grew by 7.1% in comparison with the end of 2010, to CZK 666.0 billion. Amounts due to customers increased by 2.4% to CZK 551.1 billion. The outstanding volume of issued securities rose by 8.7% to CZK 18.9 billion. The Group's **liquidity** as measured by the ratio of net loans to deposits reached a strong 76.1%. The balance of subordinated debt remained unchanged at CZK 6.0 billion.

Shareholders' equity, which increased year to date by 8.5% to CZK 82.6 billion, was primarily affected by generation of the net profit, the dividend payment of CZK 10.2 billion in May, an increase in the hedging revaluation reserve by CZK 5.9 billion, and increased valuation of the AFS securities by CZK 2.3 billion. As at 30 September 2011, KB held 172,400 own shares, representing 0.45% of registered capital.

Regulatory capital for the capital adequacy calculation reached CZK 56.6 billion as of the end of September 2011. KB Group's **capital adequacy** under Basel II standards stood at a high level of 16.0%, while the core Tier 1 capital ratio advanced to 14.7%.

Return on average equity in the first three quarters of 2011 stood at 12.2% and return on average assets was 1.3%.

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

Profit and Loss Statement (CZK million, unaudited)	**9M 2011**	**9M 2010**	**Change year on year**
Net interest income	16,519	15,982	3.4%
Net fees and commissions	5,585	5,698	-2.0%
Net gains from financial operations	2,201	2,331	-5.6%
Other income	71	70	1.4%
Net banking income	**24,376**	**24,081**	**1.2%**
Personnel expenses	-4,940	-4,584	7.8%
General administrative expenses	-3,576	-3,521	1.6%
Depreciation, impairment and disposal of fixed assets	-1,302	-1,166	11.7%
Operating costs	**-9,818**	**-9,271**	**5.9%**
Gross operating income	**14,558**	**14,809**	**-1.7%**
Cost of risk	-5,598	-2,401	133.2%
Net operating income	**8,960**	**12,408**	**-27.8%**
Profit on subsidiaries and associates	64	54	18.5%
Share of profit of pension scheme beneficiaries	-495	-456	8.6%
Profit before income taxes	**8,529**	**12,006**	**-29.0%**
Income taxes	-1,318	-1,980	-33.4%
Net profit	**7,211**	**10,025**	**-28.1%**
Minority profit/(loss)	170	62	174.2%
Net profit attributable to the Bank's shareholders	**7,041**	**9,963**	**-29.3%**

Balance Sheet (CZK million, unaudited)	**30 Sep 2011**	**31 Dec 2010**	**Change year to date**
Assets	**748,562**	**698,014**	**7.2%**
Cash and balances with central bank	20,981	13,689	53.3%
Amounts due from banks	100,178	112,179	-10.7%
Loans and advances to customers (net)	419,387	384,593	9.0%
Securities	169,359	157,160	7.8%
Other assets	38,656	30,392	27.2%
Liabilities and shareholders' equity	**748,562**	**698,014**	**7.2%**
Amounts due to banks	44,298	29,073	52.4%
Amounts due to customers	551,088	538,051	2.4%
Securities issued	18,946	17,431	8.7%
Other liabilities	45,678	31,379	45.6%
Subordinated debt	6,001	6,001	0.0%
Shareholders' equity	82,551	76,078	8.5%

Regulatory information

Key ratios and indicators	30 Sep 2011	30 Sep 2010	Change year on year
Capital adequacy (CNB, Basel II)	16.0%	14.9%	▲
Tier 1 ratio (CNB, Basel II)	14.7%	13.6%	▲
Total capital requirement (CZK billion)	28.4	28.2	0.5%
Capital requirement for credit risk (CZK billion)	23.6	24.0	-1.7%
Net interest margin (NII/average interest-bearing assets)	3.3%	3.3%	▼
Loans (net) / deposits ratio	76.1%	70.0%	▲
Cost / income ratio	40.3%	38.5%	▲
Return on average equity (ROAE), annualised	12.2%	18.4%	▼
Return on average assets (ROAA), annualised	1.3%	1.9%	▼
Earnings per share (CZK), annualised	247	350	-29.3%
Average number of employees during the period	8,688	8,624	0.7%
Number of branches (KB standalone)	396	393	+3
Number of ATMs	690	675	+15
Number of clients (KB standalone)	1,597,000	1,595,000	0.1%

Business performance in retail segment – overview	30 Sep 2011	Change year on year
Mortgages to individuals – volume of outstanding loans	CZK 119.1 billion	12%
– number of outstanding loans	98,000	12%
Building loans (MPSS) – volume of outstanding loans	CZK 51.3 billion	5%
– number of outstanding loans	143,000	-7%
Consumer loans (KB + ESSOX) – volume of outstanding loans	CZK 28.4 billion	0%
Small business loans – volume of outstanding loans	CZK 27.1 billion	9%
Total active credit cards – number	215,000	-6%
– of which to individuals	161,000	-5%
Total active debit cards – number	1,454,000	1%
Insurance premium written (KP)	CZK 5.5 billion	-25%

Financial calendar for the year 2012:

16 February 2012: Publication of FY 2011 and 4Q 2011 results

3 May 2012: Publication of 1Q 2012 results

1 August 2012: Publication of 1H 2012 and 2Q 2012 results

8 November 2012: Publication of 9M 2012 and 3Q 2012 results