

Komerční banka Group recorded acceleration of deposit inflow and increased volume of loans to clients

Net profit reached CZK 7.6 billion for first half 2012

Prague, 1 August 2012 – As of the end of the first half of 2012, the volume of Komerční banka's business activities had expanded significantly. The volume of loans provided to KB Group clients rose by 8.0% year on year to CZK 456.2 billion. Growth in the volume of deposits from clients also accelerated – by 6.5% year on year – bringing the total volume to CZK 582.4 billion. Komerční banka reported a 5.0% rise in net banking revenues, to CZK 16,927 million, due to higher interest income and gains from financial operations, as well as certain one-off items. Continuing careful management brought operating costs down slightly (by 0.3%) to CZK 6,529 million. Quality in the lending portfolio further improved, and the cost of risk from lending decreased by 8.2% to CZK 965 million. KB Group reported a net profit of CZK 7,603 million for the first six months of 2012, representing a significant gain of 38.8% as the prior year result had been affected by the impairment of Greek government bonds. Net profit adjusted for one-off effects rose by 3.9% to CZK 6,945 million.

Main events of second quarter 2012

- Strong client trust was confirmed by accelerating growth in deposits volume (by 6.5% year on year to CZK 582.4 billion), with particularly dynamic development recorded on current and savings accounts.
- Market share in lending further increased due to long-term partnership with clients. Gross lending volume rose by 8.0% to CZK 456.2 billion.
- A new generation of internet banking, KB MojeBanka, was launched. It brings advanced functionalities for administering KB Group products and arranging new services.
- The new building in Prague-Stodůlky was completed to provide modern office space and environmentally efficient operations for a part of KB's head office as well as for other Group companies.

Comment of the CEO

Due to its strong position, and even in the present environment of weak economic growth and heightened regulatory pressure, Komerční banka has been able to continue in developing solutions to meet the financial needs of its clients and facilitate their reliable access to the Group's services. KB remains a leading bank in financing the Czech economy, and once again it has succeeded in boosting its market share in the lending market. One of KB's strategic priorities will be to assert leadership in building the new pillar of the Czech pension system. This second pillar can in the medium term strengthen people's financial security in old age, support development of the Czech financial market, and, by creating additional capacity for financing of non-financial businesses, also give a boost to the country's economic growth.

The outlook for the banking industry points to momentous challenges ahead, especially due to the weakness in the European economy and unresolved euro zone crisis. Nevertheless, KB's strong balance sheet and its outstanding efficiency will allow it to make the most of available market opportunities and to continue creating value for clients, shareholders and other stakeholders.

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

Despite resilience of its export industries, the Czech economy in the first half of 2012 probably contracted slightly. Household consumption and fixed investments were limited by uncertainty about future development and austerity measures. Nevertheless, the stable banking sector presented no obstacle to funding viable projects.

Development of clients portfolio and distribution networks

As of the end of June 2012, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,601,000 clients (+1.5% year on year), of which 1,339,000 were individuals. The remaining 262,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 629,000 customers, and the number of pension insurance participants at Penzijní fond reached 519,000. ESSOX's services were being used by 278,000 active clients.

Komerční banka's clients had at their disposal 400 banking branches (including one in Bratislava), 698 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 1,089,000 at the end of June 2012 and corresponds to 68.0% of all clients. Customers held 1,640,000 active payment cards, of which 211,000 were credit cards. The number of active credit cards issued by ESSOX came to 155,000, and consumer financing from ESSOX was available through its network of 2,900 merchants. Modrá pyramida's customers had at their disposal 224 points of sale and 1,240 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 8.0% to CZK 456.2 billion. Lending to individuals increased, as did that to corporate clients and small businesses.

Overall growth in lending to individuals was driven by demand for mortgages, which remained good thanks to low interest rates, decreased property prices, and the advantageous features of KB's mortgages. The overall mortgages portfolio expanded by 11.8% to CZK 128.2 billion. On the other hand, clients' preference for mortgages also influenced development in the volume of Modrá pyramida's loan portfolio, which declined in comparison with June 2011 by 0.8% to CZK 50.3 billion. Clients' continuing uncertainty over the economic outlook weighed further on consumer credit trends. The outstanding volume of consumer lending provided by KB and ESSOX diminished by 0.6% to CZK 27.4 billion.

The overall volume of loans provided by KB Group to businesses expanded by 8.7% to CZK 246.2 billion. Of this amount, lending to small businesses rose by 5.9% to CZK 28.1 billion. The volume of credit granted by KB to corporate clients in the Czech Republic and Slovakia climbed by 9.4% to CZK 195.2 billion. Factor financing amounts outstanding at Factoring KB grew by 35.5% to CZK 3.0 billion, and SGEF's credit and leasing totals outstanding rose by 3.7% year over year to CZK 20.0 billion.

Amounts due to customers and assets under management

The total **volume of deposits** rose by 6.5% year on year to CZK 582.4 billion. Deposits at KB from individual clients increased by 4.0% to CZK 162.6 billion, and deposits from businesses expanded by 10.7% to CZK 312.1 billion. The most dynamic gain was recorded in the volumes on savings accounts and current accounts.

Client assets with Penzijní fond KB grew by 4.4% to CZK 31.0 billion. The deposits book at Modrá pyramida increased by 0.5% year on year to CZK 70.8 billion. The volume of technical reserves in life insurance at Komerční pojišťovna gained 16.2% to reach CZK 26.0 billion.

New products and services

In the second quarter, KB Group introduced several new enhancements to its on-line services. Most important was the launch of a new generation of internet banking, MojeBanka, which is used by more than 890,000 users in retail banking. It allows easy and comfortable access to the services of KB itself as well as administration of clients' building savings, life insurance policies, savings for pension and mutual funds. It even permits concluding selected contracts. Moreover, KB launched its Video Banker service that enables those who want to open an account or obtain a credit card to contact relationship managers on-line who will recommend the best product and help to complete the application form. KB also improved orientation on its website and made it easier to search for information, reflecting operational experience and results of surveys.

Komerční banka became the first bank in the Czech Republic to begin accepting payment cards issued by the UnionPay card association from China. It also issued a limited edition of Visa payment cards picturing Olympic themes on the occasion of the Summer Games in London. Moreover, KB newly established cooperation with the Benzina network of petrol stations that will bring holders of KB business credit cards savings of 2.2% on the cost of fuel.

Since June, KB has extended the scope of its MojeOdměny programme rewarding for activity to a broader group of clients, and moreover, they can now be refunded up to 100% of the fees paid for account maintenance. Among additional innovations, there is a new insurance policy related to Profi Loans for self-employed persons and which covers the risks of long-term inability to work, full invalidity, and death.

FINANCIAL PERFORMANCE OF KB GROUP

Total **net banking income** increased in the first half of 2012 by 5.0% year on year to CZK 16,927 million. Net interest income contributed to the growth thanks to the rise in volumes of both loans and deposits. Net gains from financial transactions also contributed positively, reflecting successful business activities as well as some one-off items. On the other hand, fee income continued to decline.

The largest component of total revenues, net interest income, rose by 1.0% to CZK 11,045 million, driven by higher loans and deposit volumes. The downward trend in market interest rates, which deepened further both in the second quarter and after its end, led to a decline in the average net interest margin to 3.2% from 3.3% in the first six months 2011. Due to the May sale of its equity interest in Bohemian–Moravian Guarantee and Development Bank (CMZRB), KB received no dividend from that bank this year.

Net income from fees and commissions declined by 4.5% to CZK 3,580 million. Influenced by rollout of the MojeOdměny reward scheme and lower average prices, fees for account maintenance and for transactions decreased. Income from cross-selling was affected by a persisting unfavourable environment, which was particularly inauspicious for sales of mutual funds. On the other hand, income from trade finance rose, as did that from loan fees.

Net gains from financial operations improved by a significant 62.2% to CZK 2,246 million. Clients' demand for investment banking products was strong, particularly in hedging of financial risks and bond issuance. Activity improved in trading emission allowances and gold. The Bank's proprietary trading achieved a solid result, mainly in relation to movements of market interest rates. The overall result, however, was affected by one-off items, among which there were positive impacts from an adjustment in the portfolio of Penzijní fond KB done in the first quarter, which reflected changes brought by the pension reform, as well as the sale of the equity interest in CMZRB in the second quarter. On the contrary, sale of the remaining Greek and Portuguese government bonds

in the second quarter had a negative effect.

Operating costs were down by a slight 0.3% year on year to CZK 6,529 million. Within these, personnel costs grew by 2.7% to CZK 3,347 million as the average number of employees rose by 1.4% to 8,792. Despite higher inflation, administrative costs dropped by 4.5% to CZK 2,328 million as the Group achieved savings in various areas, most notably in information technology and communications costs. Depreciation, impairment and disposal of fixed assets remained stable at CZK 854 million.

Gross operating income in the first half of 2012 increased by 8.7% year on year to CZK 10,398 million.

Overall risk costs decreased by a significant 63.8% year on year to CZK 979 million, due to the fact that the first part of impairment of Greek government bonds of CZK 1,663 million had been recorded in the second quarter of 2011. The total cost of risk in relative terms decreased to 44 basis points in comparison with 133 basis points from 2011's first half. **Net creation of provisions for loan losses** declined by 8.2% to CZK 965 million, affected by the continued improvement in loan portfolio quality as well as by growth in the portfolio's overall size. In both comparison periods KB had succeeded in restructuring certain defaulted corporate exposures. In both periods, then, the relevant provisions were released.

Income from shares in associated undertakings grew by 39.5% to CZK 60 million. The share of profit of pension scheme beneficiaries increased by 21.5% to CZK 396 million. This item will next year cease to be part of the consolidated income statement, because, as part of the pension reform, assets of the clients in pension funds will be separated from those assets belonging to pension companies.

Income taxes rose by 34.4% to CZK 1,356 million.

KB Group's consolidated net profit for the first half of 2012 reached CZK 7,726 million, which was 38.7% more than in the previous year. Of this amount, CZK 123 million was profit attributable to holders of minority stakes in KB's subsidiaries (+30.9%). **Profit attributable to the Bank's shareholders** amounted to CZK 7,603 million (38.8% higher year on year).

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 2011.

KB Group's **total assets** as of 30 June 2012 had increased by 2.9% relative to the end of 2011 to CZK 777.0 billion.

Amounts due from banks decreased by 1.3% to CZK 100.1 billion. The largest component of this item is loans provided to central banks as part of reverse repo operations, which were lower by 8.6% at CZK 53.9 billion.

Financial assets at fair value through profit or loss grew by 23.2% to CZK 43.0 billion. The portfolio comprises the Group's proprietary trading positions.

Total net loans and advances grew by 1.1% to CZK 439.3 billion. The gross amount of client loans and advances increased by 1.3% to CZK 456.2 billion. The share of standard loans within that total climbed to 91.5% (CZK 417.2 billion) while the proportion of watch loans was 2.8% (CZK 12.8 billion). Loans under special review (substandard, doubtful and loss) comprised 5.7% of the portfolio with volume of CZK 26.2 billion. The volume of provisions created for loans reached CZK 17.3 billion, which is 4.1% more than at the end of 2011.

The portfolio of available-for-sale securities expanded by 6.6% to CZK 134.3 billion. In May 2012, KB sold its 13% stake in CMZRB. Following this transaction, the book value of shares and participation securities in the available-for-sale portfolio is negligible. From the CZK 134.3 billion total volume of debt securities, Czech government bonds represented CZK 88.7 billion and foreign government bonds CZK 25.1 billion. During the second quarter, KB sold the remaining bonds

issued by Greece and Portugal, and therefore KB Group had no exposure to the sovereign debt of these countries as of the end of the first half.

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

The net book value of tangible fixed assets grew by 14.0% to CZK 7.9 billion, primarily due to recognising the new KB headquarters building. Intangible fixed assets expanded moderately by 0.2% 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 increased by 2.6% in comparison with the end of 2011 to CZK 690.2 billion. Amounts due to customers grew by 3.9% to CZK 582.4 billion. The outstanding volume of issued securities rose by 2.3% to CZK 18.8 billion. The Group's **liquidity**, as measured by the ratio of net loans to deposits, reached 75.4%. Excluding client assets in Penzijní fond KB (which in connection with transformation of the fund will be deconsolidated) brings the liquidity ratio to 79.5%.

Shareholders' equity, which expanded year to date by 6.1% to CZK 86.8 billion, was primarily affected by the generation of net profit, increase in the available-for-sale portfolio revaluation reserve by CZK 2.4 billion, and a CZK 1.0 billion rise in hedging instruments. As of 30 June 2012, KB held in treasury 238,672 of its own shares, representing 0.63% of the registered capital.

Comprising solely of core tier 1 capital, regulatory capital for the capital adequacy calculation reached CZK 53.9 billion as of the end of June 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 14.6%. Increase in the ratio compared to end of the first quarter was mainly driven by inclusion of retained earnings from the year 2011 to the regulatory capital, following the decision of the Annual general meeting of KB held in April 2012 on distribution of 2011 profit.

Return on average equity in the first half of 2012 came to 18.6% while return on average assets was 2.0%. Excluding one-off items, adjusted return on average equity was 16.4% and adjusted return on average assets 1.8%.

ANNEX: Consolidated results as of 30 June 2012 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	1H 2012	1H 2011	Change year on year
Net interest income	11,045	10,941	1.0%
Net fees and commissions	3,580	3,748	-4.5%
Net gains from financial operations	2,246	1,385	62.2%
Other income	56	44	27.3%
Net banking income	16,927	16,118	5.0%
Personnel expenses	-3,347	-3,258	2.7%
General administrative expenses	-2,328	-2,438	-4.5%
Depreciation, impairment and disposal of fixed assets	-854	-854	0.0%
Operating costs	-6,529	-6,550	-0.3%
Gross operating income	10,398	9,569	8.7%
Cost of risk	-979	-2,706	-63.8%
Net operating income	9,419	6,863	37.2%
Profit on subsidiaries and associates	60	43	39.5%
Share in profit of pension scheme beneficiaries	-396	-326	21.5%
Profit before income taxes	9,082	6,580	38.0%
Income taxes	-1,356	-1,009	34.4%
Net profit	7,726	5,571	38.7%
Minority profit/(loss)	123	94	30.9%
Net profit attributable to the Bank's shareholders	7,603	5,478	38.8%

Balance Sheet (CZK million, unaudited)	30 Jun 2012	31 Dec 2011	Change year to date
Assets	777,018	754,810	2.9%
Cash and balances with central bank	15,999	16,980	-5.8%
Amounts due from banks	100,058	101,393	-1.3%
Loans and advances to customers (net)	439,272	434,386	1.1%
Securities	180,705	164,260	10.0%
Other assets	40,983	37,791	8.4%
Liabilities and shareholders' equity	777,018	754,810	2.9%
Amounts due to banks	36,350	37,454	-2.9%
Amounts due to customers	582,384	560,700	3.9%
Securities issued	18,767	18,338	2.3%
Other liabilities	52,669	50,465	4.4%
Subordinated debt	0	6,002	Repaid
Shareholders' equity	86,848	81,850	6.1%

Key ratios and indicators	30 Jun 2012	30 Jun 2011	Change year on year
Capital adequacy (CNB, Basel II)	14.6%	16.1%	▼
Tier 1 ratio (CNB, Basel II)	14.6%	14.6%	▼
Total capital requirement (CZK billion)	29.6	28.8	2.7%
Capital requirement for credit risk (CZK billion)	24.8	24.2	2.6%
Net interest margin (NII/average interest-bearing assets)	3.2%	3.3%	▼
Loans (net) / deposits ratio	75.4%	74.3%	▲
Loans (net) / deposits ratio excluding PF client assets	79.5%	78.4%	▲
Cost / income ratio	38.6%	40.6%	▼
Return on average equity (ROAE), annualised	18.6%	14.9%	▲
Return on average assets (ROAA), annualised	2.0%	1.5%	▲
Earnings per share (CZK), annualised	403	289	39.5%
Average number of employees during the period	8,792	8,669	1.4%
Number of branches (KB standalone in the Czech Republic)	399	396	+3
Number of ATMs	698	686	+12
Number of clients (KB standalone)	1,601,000	1,577,000	+1.5%

Business performance in retail segment – overview	30 Jun 2012	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 128.2 billion	12%
– number of loans outstanding	106,000	11%
Building society loans (MPSS) – volume of loans outstanding	CZK 50.3 billion	-1%
– number of loans outstanding	131,000	-10%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 27.4 billion	-1%
Small business loans – volume of loans outstanding	CZK 28.1 billion	6%
Total active credit cards – number	211,000	-5%
– of which to individuals	160,000	-4%
Total active debit cards – number	1,428,000	-1%
Insurance premiums written (KP)	CZK 3.2 billion	-23%

Financial calendar for 2012:

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