

Komerční banka Group reports net profit of CZK 3,376 million for first quarter of 2011

Prague, 5 May 2011 – Komerční banka Group reported a net profit of CZK 3,376 million for the first three months of 2011, which represents an improvement by 5.2% in comparison with the same period of 2010. The increase in net profit is due to significantly lower cost of risk compared to the still-elevated level at the beginning of 2010. Revenues marginally increased, while operating expenses rose moderately as KB invested into improvements in the product range, client services and distribution networks.

Financial ratios confirm the strong position of KB Group: the loans-to-deposits ratio was 71.4% and the capital adequacy ratio reached 15.5%. In the beginning of April, rating agency Standard & Poor's affirmed KB's rating at the highest level among Czech banks, which is A/A-1 with a positive outlook.

KB Group brings to its clients new, better and more valuable services

- Advancement of the MojeOdměny rewards programme allows customers significantly to decrease costs of banking services and to gain additional benefits just by actively and at the same time conveniently utilising the functionalities of modern banking.
- New credit cards Lady Card and A Card introduce a unique combination of insurance programmes, assistance services, significant shopping discounts, and, at the same time, a bonus in the amount of 1% of the volume of transactions made using the card that is credited to the client's account at Penzijní fond KB.
- New, attractively priced packages of essential services MůjÚčet for individuals and Profi účet for businesses can be supplemented with additional services at advantageous rates. Meanwhile, using other Group products substantially decreases the base price even further.

Solid financial situation reinforces KB's leading position in financing households and enterprises

- KB mortgage production dynamics exceeded those of the market. Komerční banka provided new mortgages in the amount of CZK 6.8 billion, higher by 76% compared to the first quarter of 2010.
- Modrá pyramida was the only building society on the Czech market to increase its volume of new loans, which gained by 8% to CZK 1.8 billion.
- Improved economic conditions supported recovering demand of small businesses for new loans. Total volume of financing increased by 4.9% to CZK 26.0 billion.

Comment of the CEO

Komerční banka has fully embarked on executing its strategic targets. We are bringing innovations and improvements in the quality and value of our products and services. We are investing into facilitating clients' access to their bank, enhancing the professional skills of our relationship managers, as well as into technical and information infrastructure. We believe that by offering our clients the best quality of service and long-term relationships, we should be able to outperform our competitors and will lead the market in its development.

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

Market development was not uniform across all segments in the first quarter of 2011. While client demand for financing of residential property was supported by low interest rates, stabilisation of property prices but also by expected increase in VAT on housing, the volumes of consumer loans were still affected by the relatively high unemployment rate. Small businesses slowly increased their activity, while part of medium and large enterprises were cautious due to uncertainty surrounding the economic growth following austerity measures in the Czech Republic and elsewhere in Europe.

Komerční banka was developing a number of important projects and began increasing its investments with the goal of reinforcing its position as the reference bank on the Czech market. Individual projects are primarily focused on improving the satisfaction of KB Group's clients, but they also aim to improve working conditions for employees, boost efficiency of Group processes, and develop synergies among KB Group member companies.

The total **volume of loans** provided by KB Group as of the end of March 2011 increased year on year by 4.2% to CZK 398.2 billion.

Growth dynamics for the volume of mortgages to individuals accelerated, as the total portfolio rose by 10.1% to CZK 112.0 billion upon a 76% increase in new sales. The loan portfolio at Modrá pyramida grew by 7.8% and exceeded CZK 50.0 billion. On the other hand, despite an increase in sales of consumer loans through KB branches, the outstanding volume of consumer lending provided by KB and by ESSOX was still declining, mainly as a result of persisting uncertainty on the labour market. The volume decreased by 1.9% year on year to CZK 28.1 billion.

Within business segments, growth in lending to small businesses was faster, rising by 4.9% to CZK 26.0 billion. Loans to corporate clients increased by a moderate 1.3% to CZK 178.9 billion. After a deep drop during the recession, the trend in the volume of factoring financing at Factoring KB reversed and it went up by 27.9% to CZK 1.9 billion.

The consolidated **volume of deposits** totalled CZK 536.1 billion, which is 0.9% lower compared to the end of March 2010. The successful saving accounts drove the overall volume of deposits from individuals up by a slight 0.9% to CZK 154.2 billion. Continued solid growth of 5.4% in the volume of clients' assets registered with Penzijní fond KB brought its total to CZK 29.0 billion. Deposits at the building society Modrá pyramida grew by 1.7% to CZK 69.2 billion. Deposits of business clients at KB declined by 2.0% to CZK 278.8 billion.

Insurance premiums written by Komerční pojišťovna declined by 29% compared to the extraordinary figures achieved in 2010, to 2.0 billion. From this total, premiums for life insurance amounted to CZK 1.9 billion. The volume of technical reserves in life insurance continued to grow rapidly, by 43.5% to 20.7 billion.

As of the end of March 2011, **KB Group** in its entirety **was serving 2.5 million clients**. The number of pension insurance participants at Penzijní fond reached more than 500,000. Standalone KB recorded 1,583,000 clients, of which 1,316,000 were individuals. The remaining 267,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was serving 679,000 customers, and the services of ESSOX were being used by 301,000 active clients.

Komerční banka's clients had at their disposal 395 banking branches, 680 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 1,010,000 at the end of the quarter, which represents 64% of all clients. Customers held 1,670,000 active payment cards, of

which 219,000 were credit cards. The number of active credit cards issued by ESSOX reached 159,000, and consumer financing from ESSOX was available through the network of 3,000 merchants. Modrá pyramida's customers had at their disposal 238 points of sale and 1,234 advisors.

Most of the product innovations launched in the first quarter of 2011 capitalised on introduction of the MojeOdměny rewards programme, which encourages clients to use KB Group services and supports cross-selling of Group products. Even on their own, the individual products belonging to the programme are among the most attractive offerings available on the Czech market. By combining several of these, the clients can boost the value they get even further. New Lady Card and A Card credit cards bring, in addition to a grace period of up to 45 days, a unique combination of insurance programmes, assistance services, deep shopping discounts as well as a bonus in the amount of 1% of the volume of transactions made using the card and which is credited every month to the client's account at Penzijní fond KB. New, attractively priced packages of essential services MůjÚčet for individuals and Profi účet for businesses can be supplemented with additional services at advantageous rates, while using other Group products substantially decreases the base price even further. Setting up of the packages can be done online in just a few minutes.

KB also introduced a new line of profiled mutual funds, which invest pursuing pre-defined investment styles. Customers can select those funds best matching their investment needs and objectives and they need not worry about allocating their investment money among individual asset classes.

In co-operation with other important companies, KB announced the launch of a project for contactless payments by telephone handset based on NFC technology. A pilot operation will commence in the middle of the year.

In February, Penzijní fond KB was awarded the title "Best pension fund in the Czech Republic" by World Finance magazine. Komerční banka later was recognised for "Best deal of 2010" from Global Trade Review. This deal was to provide export financing for deliveries of infrastructure, special equipment and services in Azerbaijan.

FINANCIAL PERFORMANCE OF KB GROUP

Total **net banking income** remained on a similar level as in the first quarter of last year, rising by just 0.1% to CZK 7,966 million.

The most important contributor to total revenues, net interest income, increased by 1.5% to CZK 5,372 million. The growth was driven by more lending and increased interest rates on the interbank market. The result was negatively affected by year-on-year growth in the statutory contribution to the Deposit Insurance Fund. The average net interest margin for the first quarter remained almost unchanged at 3.3%.

Net income from fees and commissions rose by a slight 0.6% to CZK 1,866 million. Loans fees and fees from cross-selling contributed most to the growth, while transaction fees decreased slightly due to the reduction in average prices. Maintenance fees remained stable.

Net gains from financial operations decreased by 8.8% to CZK 713 million. A significant part of that income stemmed from proprietary trading, as client demand was relatively weak.

Komerční banka began slightly to increase its **operating costs** in order to take full advantage of the available market opportunities. Total operating costs rose 6.3% year on year, although that growth was lower if adjusted for certain non-recurring items. Personnel costs grew by 10.2%, but the comparison was affected by a release of reserves for bonuses in the first quarter of 2010 amounting to CZK 64 million. Excluding this one-off, personnel costs increased by 5.5%. The average number of employees decreased year on year by 0.7% to 8,600. Nevertheless, KB plans to slightly increase its number of employees this year. Administrative costs continued to decline, dropping a further 2.9% to CZK 1,122 million. Costs in the item "Depreciation, impairment and disposal of fixed assets" increased by 21.0% to CZK 421 million, mainly as a result of new investments and also influenced by a CZK 30 million positive result from the Bank's sale of unused

buildings in the last year.

Gross operating income for the first three months of the year decreased by 3.6% to CZK 4,818 million.

Cost of risk fell by 42.4% year on year to CZK 548 million. The decrease reflected especially a high comparison base, as in the first quarter of 2010 risk costs had still been significantly affected by the crisis and were at their highest for all of last year. Furthermore, Komerční banka registered this year a release of provisions upon successfully restructured corporate exposures that had been long in default. The trend in risk costs, after adjusting for one-offs, remained stable, as the corporate segment continued moderately to improve while in the retail segment the situation was still burdened by high unemployment and also by seasonal increase in the post-Christmas period. The total cost of risk in relative terms fell to 55 basis points in the first three months of 2011 versus 98 basis points in the year-earlier period (according to KB's modified methodology, which compares the creation of reserves and provisions vis-à-vis average volume of loans).

Income taxes rose by 3.8% to CZK 709 million.

KB Group's consolidated net profit for the first quarter of 2011 reached CZK 3,406 million, which was 5.4% higher than in the same period of last year. Of this CZK 30 million was profit attributable to minority interests (in subsidiaries) and the **profit attributable to the Bank's shareholders** amounted to CZK 3,376 million (up 5.2% year on year).

The comparison period 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 31 March 2011 increased by 0.9% relative to the end of 2010 to CZK 704.0 billion.

Amounts due from banks increased by a slight 0.2% to CZK 112.4 billion. The largest component of this item is loans provided to central banks as part of reverse repo operations, which grew by 8.5% to CZK 77.0 billion.

Financial assets at fair value through profit or loss increased by 20.6% to CZK 41.0 billion. The portfolio comprises proprietary trading positions of the Group.

Total net loans and advances diminished by 0.4% to CZK 383.0 billion. The gross amount of client loans and advances also declined, by 0.4% to CZK 398.2 billion. The share of standard loans within that total represented 90.2% (CZK 359.4 billion), while the proportion of watch loans was 3.5% (CZK 14.0 billion) and loans under special review (substandard, doubtful, loss) comprised 6.2% of the portfolio with volume of CZK 24.8 billion. The volume of provisions created reached CZK 15.4 billion, which is 0.5% more than at the end of 2010.

The portfolio of securities available for sale increased by 1.5% to CZK 118.1 billion. The major part of this portfolio consists of debt securities. 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 expanded by 2.2% to CZK 6.9 billion. That entire portfolio consists of bonds.

The net book value of tangible fixed assets diminished by 2.2% to CZK 6.9 billion, and intangible fixed assets by 1.4% to CZK 3.7 billion. Goodwill, which primarily derives from the acquisition of Modrá Pyramida, remained at the same level of CZK 3.6 billion.

Total liabilities increased by 0.7% to CZK 626.3 billion. Amounts due to customers decreased by 0.4% to CZK 536.1 billion. The volume of outstanding securities remained at CZK 17.4 billion. The Group's **liquidity** as measured by the ratio of net loans to deposits reached a strong 71.4%. The balance of subordinated debt remained unchanged at CZK 6.0 billion.

Shareholders' equity rose by 2.1% to CZK 77.7 billion. Net profit creation was the main source of

that increase. On the other hand, revaluation in the fair value of hedging derivatives was a negative CZK 1.2 billion and revaluation of the portfolio of securities available for sale was a negative CZK 0.6 billion.

Regulatory capital for the capital adequacy calculation reached CZK 52.4 billion as of the end of March 2011. KB Group's **capital adequacy** under Basel II standards stood at a high level of 15.5%, while the core Tier 1 capital ratio climbed to 14.2%.

Return on average equity in the first quarter of 2011 reached 17.9% and return on average assets was 1.9%.

ANNEX: Consolidated results as of 31 March 2011 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	1Q 2010	1Q 2011	Change YoY
Net interest income	5,294	5,372	1.5%
Net fees and commissions	1,855	1,866	0.6%
Net gains from financial operations	782	713	-8.8%
Other income	25	15	-40.0%
Net banking income	7,957	7,966	0.1%
Personnel expenses	-1,457	-1,605	10.2%
General administrative expenses	-1,156	-1,122	-2.9%
Depreciation, impairment and disposal of fixed assets	-348	-421	21.0%
Operating costs	-2,961	-3,148	6.3%
Gross operating income	4,996	4,818	-3.6%
Cost of risk	-951	-548	-42.4%
Net operating income	4,045	4,270	5.6%
Profit on subsidiaries and associates	14	19	35.7%
Share of profit of pension scheme beneficiaries	-145	-175	20.7%
Profit before income taxes	3,914	4,114	5.1%
Income taxes	-683	-709	3.8%
Net profit	3,231	3,406	5.4%
Minority profit/(loss)	22	30	36.4%
Net profit attributable to equity holders	3,209	3,376	5.2%

Balance Sheet (CZK million, unaudited)	31 Dec 2010	31 March 2011	Change year-to-date
Assets	698,014	703,984	0.9%
Cash and balances with central bank	13,689	14,016	2.4%
Amounts due from banks	112,179	112,411	0.2%
Loans and advances to customers (<i>net</i>)	384,593	382,982	-0.4%
Securities	157,160	166,014	5.6%
Other assets	30,392	28,560	-6.0%
Liabilities and shareholders' equity	698,014	703,984	0.9%
Amounts due to banks	29,073	33,673	15.8%
Amounts due to customers	538,051	536,134	-0.4%
Securities issued	17,431	17,439	0.0%
Other liabilities	31,379	33,061	5.4%
Subordinated debt	6,001	6,001	0.0%
Shareholders' equity	76,078	77,676	2.1%

Key ratios and indicators	31 March 2010	31 March 2011	Change YoY
Capital adequacy (CNB)	14.1%	15.5%	▲
Tier 1 ratio (CNB)	12.8%	14.2%	▲
Total capital requirement (CZK billion)	27.2	27.0	-0.8%
Capital requirement for credit risk (CZK billion)	23.0	22.5	-2.2%
Net interest margin (NII/average interest-bearing assets)	3.3%	3.3%	▼
Loans (net) / deposits ratio	68.0%	71.4%	▲
Cost / income ratio	37.2%	39.5%	▲
Return on average equity (ROAE), annualised	18.5%	17.9%	▼
Return on average assets (ROAA), annualised	1.8%	1.9%	▲
Earnings per share (CZK), annualised	338	355	5.2%
Average number of employees during the period	8,659	8,600	-0.7%
Number of branches (KB standalone)	398	395	-3
Number of ATMs	688	680	-8
Number of clients (KB standalone)	1,609,000	1,583,000	-1.6 %

Business performance in retail segment – overview	31 March 2011	Change YoY
Mortgages to individuals – volume of outstanding loans	CZK 112.0 billion	10%
– number of outstanding loans	93,000	10%
Building loans (MPSS) – volume of outstanding loans	CZK 50.0 billion	8%
– number of outstanding loans	148,000	-5%
Consumer loans (KB + ESSOX) – volume of outstanding loans	CZK 28.1 billion	-2%
Small business loans – volume of outstanding loans	CZK 26.0 billion	5%
Total active credit cards – number	219,000	-7%
– of which to individuals	163,000	-7%
Total active debit cards – number	1,451,000	1%
Premiums written (KP)	CZK 2.0 billion	-29%

Financial calendar for the rest of 2011

3 August 2011: Publication of 2Q 2011 results

8 November 2011: Publication of 3Q 2011 results