

**Komerční banka Group reports net profit of CZK 9,963 million
for first three quarters of 2010**

Prague, 3 November 2010 – Komerční banka Group reported a net profit of CZK 9,963 million for the first nine months of 2010, which is 18.1% more than in the same period of 2009. KB's net profit for the third quarter increased by 6.4% quarter-on-quarter to CZK 3,481 million. KB Group's strong position was evidenced by its loans-to-deposits ratio at 70.0% and its capital adequacy rose to 14.9%. Moreover, the rating agency Fitch Ratings affirmed KB's long-term rating at "A".

Komerční banka supports the ongoing economic recovery by increasing lending activity and extending its range of offers

- Volume of loans to clients increased by 1.7% year on year to CZK 389.0 billion and deposits by 2.0% to CZK 535.3 billion.
- Volume of mortgages to individuals rose by 8.4% year on year to CZK 106.4 billion. Volume of loans provided by the building society Modrá pyramida expanded by 10.8% to CZK 48.7 billion.
- Introduced were a new concept to reward customers for using bank services (MojeOdměny), an innovative consumer loan (Premium půjčka), and improved parameters for the Flexible mortgage.

Improved profitability despite tough conditions for increasing revenues thanks to discipline in cost and risk management

- Interest income was under pressure from lower market rates and increased contribution to the Deposit Insurance Fund. Non-interest income was supported by slightly improving economic activity. Total revenues declined by a slight 0.6% year on year to CZK 24.3 billion due to lower profit from financial operations compared to the exceptional result at the beginning of 2009.
- Measures to improve efficiency have led to operating expenses being reduced by 4.5% to 9,487 million CZK.
- Prudent risk management has helped to reduce provisions by 38.4% to CZK 2,401 million.

Comment of the CEO

The results from the third quarter confirm that there is modest recovery in demand for loan products, and especially in the corporate clients segment. Komerční banka is prepared to meet this demand thanks to its strong capital position, which the Bank has managed to maintain despite the downturn in the Czech economy. KB is emerging from the recession as a sound and well-capitalised bank having good liquidity. Nevertheless, an expected slowing in economic growth for the months ahead continues to call for prudence in risk management.

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

Komerční banka has recorded signs of reviving loan demand from businesses and entrepreneurs in the third quarter, and also the demand for mortgages was sound. The total **volume of loans** provided by KB Group as at the end of September 2010 increased by 1.7% to CZK 389.0 billion compared to the same date in 2009. Growth in lending was at around 2.5% after adjusting for the effects of writing off from the Bank's balance sheet long overdue non-performing loans fully covered by provisions in the amounts of CZK 1.8 billion in November 2009, CZK 1.2 billion in May 2010, and CZK 0.2 billion in August 2010.

The volume of mortgages to individuals expanded by 8.4% to reach CZK 106.4 billion. As a result of the usually less active holiday period, mortgage sales in the third quarter were slightly behind those from the second quarter of 2010, but quarterly sales year on year were much better. The volume of new mortgages for the first nine months of 2010 also increased slightly. The loan portfolio at Modrá pyramida, which mainly finances housing needs of its customers, grew by 10.8% year on year to CZK 48.7 billion. Partly due to the write-off of old loan receivables, the volume of consumer loans provided by KB and by the consumer finance company ESSOX decreased by 6.6% to CZK 28.3 billion. Adjusted for impact of the write-off, the decline was approximately 2.9%.

Despite recorded growth in the third quarter, the overall volume of business loans decreased by 1.2% in a year-on-year comparison to CZK 203.4 billion. The total volume of loans to small businesses declined by 1.8% to CZK 25.0 billion. Loans to corporations (provided by Komerční banka and Komerční banka Bratislava) declined by 0.8% to CZK 176.5 billion.

The consolidated **volume of deposits** increased by 2.0% year on year to CZK 535.3 billion. The most dynamic growth in deposits was recorded at the building society Modrá pyramida, representing an increase of 7.1% to CZK 69.0 billion. Clients' pension assets at Penzijní fond KB increased by 5.3% to CZK 28.2 billion. Deposits of business clients at KB and KB Bratislava grew by 1.4% to CZK 280.7 billion. In contrast, deposits from individuals at KB slightly decreased by 1.6% to CZK 151.3 billion.

Total **insurance premiums** written by Komerční pojišťovna rose by 121.0% year on year to CZK 7.2 billion. From this total, premiums for life insurance amounted to CZK 7.0 billion. With a market share of 13.9%, KP is the second largest insurance company on the Czech life insurance market (according to data from the Czech Insurance Association).

The entire **KB Group** served 2.7 million **clients**. Standalone KB registered 1,595,000 clients, of which 1,324,000 were individuals. The remaining 271,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was serving 701,000 customers and the number of pension insurance participants at Penzijní fond KB was 498,000. The services of ESSOX were used by 320,000 customers.

As at the end of September 2010, the clients had at their disposal 393 Komerční banka branches, 675 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, came near one million - 996 000 customers represented 62% of the total number. Customers held 1,672,000 active payment cards, of which 229,000 were credit cards. The number of active credit cards issued by ESSOX exceeded 159,000, and consumer financing at ESSOX was available through its network of 3,300 merchants. Modrá pyramida's customers had at their disposal 255 points of sale and 1,434 advisors.

The most important innovation introduced in the third quarter, MojeOdměny, is a new concept to reward clients for their behaviour and activity that is at one and the same time convenient for the

clients and brings additional valuable business volume for the Bank. As the first component since January 2011, every client will obtain one free withdrawal from a KB ATM for every payment made at a retailer using his or her payment card. Thereby, clients may readily obtain all withdrawals free of charge. Additional rewards will follow during 2011.

Komerční banka has expanded its offer of consumer loans especially for the more affluent clients. The new Premium Loan is an unsecured any-purpose cash loan of up to CZK 2.5 million. Moreover, it comes with an attractive interest rate. The loan can be repaid early at any time and with no penalties while clients receive payment protection insurance for the loan free of charge. In addition, KB now offers an option to make an extraordinary repayment of up to 20% of the initial amount of the Flexibilní hypotéka mortgage free of charge every 12 months. Following upon the great success of the Zajištěný fond Forte 3, KB in July came up with a new guaranteed fund KB Akcent 2. The new fund seeks the best growth potential among stocks in Europe, Asia, America and commodities.

Especially corporate clients appreciate an extension of foreign payments services since July. KB can execute standard payment orders in 160 countries of the world in 110 currencies.

FINANCIAL PERFORMANCE OF KB GROUP

Total **net banking income** for the first nine months of 2010 decreased by 0.6% year on year to CZK 24,296 million. All the major components of income were stronger by comparison, the exception being profit from financial operations, which had reached an extraordinary value at the beginning of last year.

Net interest income was adversely affected by the continued low level of market interest rates and also by the increase in the statutory contribution to the Deposit Insurance Fund. Therefore, it grew by just a slight 0.9% to CZK 15,982 million year on year even despite the faster growth in loans and deposits. Net interest margin stood at 3.3% comparing to the previous period at 3.4%.

Net income from fees and commissions was supported by the reviving economic activity and increased by 2.4% to CZK 5,943 million. The main contributor to the growth was a gain in income from loan fees in the corporate segment, reflecting larger demand for bank guarantees and fees from syndicated loans. Increased use of payment cards had a positive effect, as did the increasing sales of life insurance at Komerční pojišťovna. On the contrary, account maintenance fees dropped by 7% and due to lower customer activity in the first months of the year the income from transaction fees was lower by 1%.

Net profit from financial operations for the first three quarters declined by 16.0% to CZK 2,301 million. In the second half of the period, however, the Bank recorded a year-on-year increase supported by the increasing demand from businesses for financial risk hedging associated with the improved outlook for foreign trade.

Komerční banka has reached an extraordinary level of operational efficiency. Rigorous control of operating costs has led to a further reduction in total operating costs by 4.5% year on year to CZK 9,487 million. Personnel costs declined by 4.9% to CZK 4,584 million, while the average number of employees decreased by 2.5% to 8,624. Optimisation of administrative expenses has allowed these to decline by 6.7% to CZK 3,737 million. As a result of implementing new software, depreciation and amortisation of fixed assets increased by 5.0% to CZK 1,166 million.

Gross operating income rose in the first three quarters of 2010 compared to the same period of last year by 2.1% to CZK 14,809 million.

The slight improvement in the macroeconomic situation, together with the continuous fine-tuning of risk management standards at KB has led to a reduction in the **cost of risk**. Net creation of provisions decreased by a significant 38.4% to CZK 2,401 million. Improvement in the corporate segment supported by revived dynamics in export and industrial production was evident. However, improvement of the risk profile in loans to individuals remains fragile. The total cost of risk in terms relative to the average volume of loans and off balance sheet irrevocable commitments amounted to 56 basis points, which compares with 91 basis points in the first nine months of 2009.

Income tax increased by 8.6% to CZK 1,980 million.

KB Group's net profit for the first three quarters of 2010 reached CZK 10,025 million, which is 17.8% higher than in the previous year. From this amount, CZK 62 million is attributed to the minority interest holders and the **profit attributable to the Bank's shareholders** was CZK 9,963 million (up 18.1% 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 end of 2009, unless otherwise indicated.

The volume of KB Group's **total assets** as of 30 September 2010 increased by 0.3% relative to the end of 2009 to CZK 697.4 billion.

Amounts due from banks declined by 26.4% to CZK 96.7 billion. The largest component of this item is represented by loans provided to central banks as part of reverse repo operations, which diminished by 42.8% to CZK 54.5 billion.

Financial assets at fair value through profit or loss increased by 72.9% to CZK 42.3 billion. The portfolio comprises proprietary trading positions of the Group.

Total net loans and advances increased by 0.6% to CZK 374.6 billion. The gross amount of client loans and advances increased by a slight 0.8% to CZK 389.0 billion. The share of standard loans within that total represented 89.8% (CZK 349.2 billion), while the proportion of watch loans was 3.7% (CZK 14.5 billion) and loans under special review (substandard, doubtful, loss) comprised 6.5% of the portfolio with volume of CZK 25.2 billion. The volume of provisions created reached CZK 14.5 billion, which is 5.1% greater than at year's end.

The portfolio of securities available for sale increased by 4.9% to CZK 119.7 billion, the major part of which 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 decreased by 2.3% to CZK 6.6 billion. That entire portfolio consists of bonds.

The net book value of tangible fixed assets diminished by 6.4% to CZK 7.2 billion, and intangible fixed assets grew by a slight 0.5% to CZK 3.7 billion. Total goodwill, which primarily derives from the acquisition of Modrá Pyramida, remained at the same level of CZK 3.6 billion.

Total liabilities declined by 1.1% to CZK 619.5 billion. Reflecting seasonality, amounts due to customers decreased by 3.0% to CZK 535.3 billion. The volume of securities issued rose by a slight 0.6% to CZK 18.3 billion. The Group's **liquidity** as measured by the ratio of net loans to deposits reached a strong 70.0%. The balance of the subordinated debt (excluding the accrued interest) remained unchanged at CZK 6.0 billion.

Shareholders' equity grew by 13.3% to CZK 78.0 billion through 2010's first nine months. The main reason for the increase was the net profit creation and also growth in the book value of hedging derivatives by CZK 4.8 billion. Revaluation of the portfolio of securities available for sale reached a positive value of CZK 0.7 billion. On the other hand, shareholders' equity decreased due to the dividend payment of CZK 6.5 billion in the second quarter.

Regulatory capital for the capital adequacy calculation reached CZK 52.5 billion as at the end of September 2010. KB Group's **capital adequacy** under Basel II standards reached a high level of 14.9%, while the core Tier 1 capital ratio climbed to 13.6%.

Return on average equity reached 18.4% for the first nine months of 2010 and return on average assets was 1.9%.

ANNEX: Consolidated results as of 30 September 2010 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	1-3Q 2009	1-3Q 2010	Change YoY
Net interest income	15,838	15,982	0.9%
Net fees and commissions	5,806	5,943	2.4%
Income from financial operations	2,739	2,301	-16.0%
Other income	65	70	7.7%
Net banking income	24,448	24,296	-0.6%
Personnel expenses	-4,821	-4,584	-4.9%
General administrative expenses	-4,007	-3,737	-6.7%
Depreciation, impairment and disposal of fixed assets	-1,110	-1,166	5.0%
Operating costs	-9,938	-9,487	-4.5%
Gross operating income	14,510	14,809	2.1%
Cost of risk	-3,898	-2,401	-38.4%
Net operating income	10,611	12,408	16.9%
Profit on subsidiaries and associates	50	54	8.0%
Share of profit of pension scheme beneficiaries	-330	-456	38.2%
Profit before income taxes	10,331	12,006	16.2%
Income taxes	-1,823	-1,980	8.6%
Net profit	8,508	10,025	17.8%
Minority profit/(loss)	70	62	-11.4%
Net profit attributable to equity holders	8,438	9,963	18.1%

Balance Sheet (CZK million, unaudited)	31 Dec 2009	30 Sep 2010	Change year-to-date
Assets	695,076	697,435	0.3%
Cash and balances with central bank	16,271	21,216	30.4%
Amounts due from banks	131,271	96,675	-26.4%
Loans and advances to customers (<i>net</i>)	372,302	374,617	0.6%
Securities	145,294	168,546	16.0%
Other assets	29,938	36,381	21.5%
Liabilities and shareholders' equity	695,076	697,435	0.3%
Amounts due to banks	18,739	18,003	-3.9%
Amounts due to customers	551,808	535,344	-3.0%
Securities issued	18,172	18,279	0.6%
Other liabilities	31,563	41,836	32.5%
Subordinated debt	6,001	6,001	0.0%
Shareholders' equity	68,792	77,972	13.3%

Key ratios and indicators	30 Sep 2009	30 Sep 2010	Change YoY
Capital adequacy (CNB)	13.9%	14.9%	▲
Tier 1 ratio (CNB)	12.6%	13.6%	▲
Total capital requirement (CZK billion)	27.1	28.2	4.1%
Capital requirement for credit risk (CZK billion)	23.2	24.0	3.4%
Net interest margin (NII/average interest-bearing assets)	3.4%	3.3%	▼
Loans (net) / deposits ratio	70.2%	70.0%	▼
Cost / income ratio	40.6%	39.0%	▼
Return on average equity (ROAE), annualized	18.2%	18.4%	▲
Return on average assets (ROAA), annualized	1.7%	1.9%	▲
Earnings per share (CZK), annualized	296	349	18.1%
Average number of employees during the period	8,843	8,624	-2.5%
Number of branches (KB standalone)	398	393	-5
Number of ATMs	682	675	-7
Number of clients (KB standalone)	1,638,000	1,595,000	-2.6%

Business performance in retail segment – overview	30 Sep 2010	Change YoY
Mortgages to individuals – volume of outstanding loans	CZK 106.4 billion	8%
– number of outstanding loans	88,000	7%
Building loans (MPSS) – volume of outstanding loans	CZK 48.7 billion	11%
– number of outstanding loans	154,000	-4%
Consumer loans (KB + ESSOX) – volume of outstanding loans	CZK 28.3 billion	-7%
Small business loans – volume of outstanding loans	CZK 25.0 billion	-2%
Total active credit cards – number	229,000	-8%
– of which to individuals	170,000	-9%
Total active debit cards – number	1,444,000	-1%
Premium written (KP)	CZK 7.2 billion	121%

Financial calendar for 2011

16 February 2011 – Publication of FY 2010 results

5 May 2011 – Publication of 1Q 2011 results

3 August 2011 – Publication of 2Q 2011 results

8 November 2011 – Publication of 3Q 2011 results