

Komerční banka Group reports net profit of CZK 13,330 million for 2010

Prague, 16 February 2011 – Komerční banka Group reported a net profit of CZK 13,330 million for the full year just ended. This represents 21.1% growth in comparison with 2009. The increase was driven by a slight rise in revenues, further savings on operating expenditures, and a significant reduction in the cost of risk.

KB Group confirmed its strong position: the loans-to-deposits ratio reached 71.5%, the capital adequacy ratio was 15.3%, and KB was awarded the highest ratings among Czech banks by the leading rating agencies. Komerční banka's robust financials facilitate full accommodation of the increased regulatory requirements on capital and liquidity in the Basel III framework.

In view of the good 2010 result and developments in the economic environment, while also considering capital needs for the Bank's continuing growth, Komerční banka's Board of Directors has decided to propose to the Supervisory Board a **dividend payment** of CZK 10,263 million. That comes to CZK 270 per share and puts the payout ratio at 77% of KB Group's attributable net profit. This corresponds to a gross dividend yield of 6.1% based on the closing share price for the year 2010.

Komerční banka Group active in developing lending activities

- KB provided to its individual clients 12,000 mortgages in a total amount of more than CZK 21 billion. Overall volume of mortgages to individuals rose by 9.0% to CZK 109.3 billion.
- Modrá pyramida granted 13,900 new loans amounting to CZK 9 billion. With its total volume of loans to clients of CZK 49.7 billion, Modrá pyramida is the second largest building society in the Czech Republic by this measure.
- Total volume of KB Group's lending to business clients increased by 2.3% to CZK 211 billion.

Strong performance in 2010 bolsters KB's confidence to invest during 2011 into future growth

- KB is reinforcing its approach to clients based on the quality advisory that is the Bank's strong competitive advantage.
- Significant investments are being directed to upgrading direct banking channels and KB branch network.
- Diversification of Modrá pyramida's business model will complement KB's other distribution platforms.

Comment of the CEO

The economic recovery in late 2010 generated new business opportunities, in particular in the area of lending. Thanks to its strong capital position, the Komerční banka Group could take advantage of this development, which was positively reflected in, for example, the dynamic growth of its loan portfolio. The favourable financial and business results as well as the comfortable capital and liquidity position of KB make it possible for the Board of Directors to propose to the Supervisory Board a level of dividend that rewards all of our shareholders.

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

In the fourth quarter of 2010, Komerční banka took several steps in its effort to reinforce its benchmark status on the Czech banking market. It decided to acquire a new office building in Prague that will offer better working conditions to employees brought together from various locations in the city and improve the efficiency of its operations. KB Group rearranged its capacities in Slovakia so that it can focus on providing first-class service to its corporate clients there. Several projects were launched whose implementation in the coming periods will improve clients' experience with KB, increase efficiency of processes, and capture new business opportunities.

The fourth quarter of 2010 confirmed the improvement in loan demand from businesses and entrepreneurs. The demand for mortgages also revived. The total **volume of loans** provided by KB Group as of the end of 2010 increased year on year by 3.5% to CZK 399.7 billion.

Year-on-year growth in the volume of mortgages to individuals reached 9.0%, bringing the total to CZK 109.3 billion. New sales of mortgages in 2010 increased by 14.5% in comparison with the previous year. At building society Modrá pyramida, the loan portfolio expanded by the same 9.0% to reach CZK 49.7 billion. In 2010, Modrá pyramida became the second largest building society according to volume of loans. For the sixth time in a row, the quality of Modrá pyramida's products and services was recognised with the title 'Building Society of the Year'. Reflecting uncertainty about jobs and the economic outlook still affecting the attitudes of consumers, the volume of consumer loans provided by KB and by the consumer finance company ESSOX decreased by 3.4% to CZK 28.3 billion.

The consolidated **volume of deposits** totalled CZK 538.1 billion, which is 2.5% lower compared to the end of 2009. The decline was driven mainly by the decrease in deposits from business clients, where signs of improvement were recorded only in the second part of the year. The solid growth of 5.6% in the volume of clients' assets registered with Penzijní fond KB brought its total to CZK 28.8 billion. Deposits at the building society Modrá pyramida grew at a steady 2.9% pace to CZK 69.0 billion. In contrast, deposits from individuals at the Bank were stable at CZK 153.7 billion. Deposits of business clients at KB and KB Bratislava declined by 4.8% to CZK 281.1 billion.

Sales performance at Komerční pojišťovna was very successful, as the total **insurance premiums** written rose by 86.2% year on year to CZK 9.0 billion. From this total, premiums for life insurance amounted to CZK 8.7 billion. Data from the Czech Insurance Association confirm that in 2010 Komerční pojišťovna was the second largest insurance company on the Czech life insurance market, with a market share of 12.3% by premiums written.

As of the end of December 2010, the **KB Group** in its entirety **was serving 2.5 million clients**. The number of pension insurance participants at Penzijní fond KB crossed the half million threshold in the fourth quarter and reached 501,000. Standalone KB recorded 1,590,000 clients, of which 1,321,000 were individuals. The remaining 269,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was serving 691,000 customers, and the services of ESSOX were being used by 316,000 active clients.

Komerční banka's clients had at their disposal 395 banking branches, 677 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, also crossed an important milestone of 1 million and reached 1,003,000 at the end of the year. That represented 63% of all clients. Customers held 1,670,000 active payment cards, of which 226,000 were credit cards. The number of active credit cards issued by ESSOX exceeded 162,000, and consumer financing from ESSOX was available through the network of 3,200 merchants. Modrá pyramida's customers had at their disposal 219 points of sale and 1,470 advisors.

KB prepared a new concept *MojeOdměny* of rewarding clients for their behaviour and activity that at one and the same time is convenient for the clients and brings additional valuable business volume to the Bank. As a component of the new concept, since January 2011 every client obtains one free withdrawal from a KB ATM for every payment made at a retailer using his or her payment card. Additional rewards will be introduced during 2011.

Komerční banka endeavours to make its services readily accessible to all clients. A new design of the www.kb.cz site made the web page easier to view and implemented a clear and consistent structure for the broad range of information presented there. At the same time, the upgraded website enabled better accessibility for visually handicapped and motion-impaired users.

In co-operation with Komerční pojišťovna, KB launched a new addition to the Vital Invest product range: the *Zajištěný fond Forte 4* guaranteed fund. The fund offered clients an opportunity to share in the growth of equity and commodity markets while limiting loss in the case of their downturn.

FINANCIAL PERFORMANCE OF KB GROUP

Total **net banking income** for 2010 increased by 1.5% from 2009 to reach CZK 32,662 million. All the major components of income contributed to that growth.

In spite of the low interest rate environment and increased statutory contribution to the Deposit Insurance Fund, net interest income grew by a slight 0.9% to CZK 21,431 million. The gain was supported by the growth in loans and non-term deposits, and in September market interest rates began rising again. The average net interest margin in the whole of 2010 remained at 3.3%.

Growth in net income from fees and commissions by 2.5% to CZK 8,038 million was driven by dynamic sales of added-value products and services in the corporate clients segment. These included, among others, trade finance products, loan syndications, custody services and credit line commitments. In retail segments, the fee income decreased as clients increasingly took advantage of more advantageous account packages and direct banking channels. On the other hand, income from use of payment cards recorded solid growth and the rise in fees from cross-selling was very dynamic, especially as a result of Komerční pojišťovna's excellent sales performance.

Net profit from financial operations increased by 2.4% to CZK 3,098, which was a positive result given the high comparative base from the first half of 2009. Investment banking revenues were underpinned by clients' increased demand to hedge interest rate and foreign exchange risks, and the share of client business from investment banking in the overall income more or less returned to the level usual before the crisis.

Komerční banka's operating efficiency was boosted further by optimisation and rigorous control of **operating costs**. In addition, the Bank recorded for 2010 extraordinary savings in the area of personnel costs. This related to the release of reserves for social and health insurance and for restructuring in the total amount of CZK 164 million. The line "Depreciation, impairment and disposal of fixed assets" was influenced by a CZK 71 million positive result from sales of unused buildings, although that amount was less than the CZK 122 million in 2009. Total reported operating costs declined by 4.3% year on year to CZK 12,942 million. Personnel costs were reduced by 5.6% to CZK 6,076 million, while the average number of employees decreased by 2.2% to 8,619. General administrative expenses were cut by 6.7% to CZK 5,242 million. Depreciation and disposals of fixed assets increased by 10.6% to CZK 1,624 million, mainly as a result of implementing new software.

Gross operating income rose in 2010 by 5.6% to CZK 19,720 million.

A reduction in the cost of risk, by 39.0% to CZK 3,100 million, was enabled by continuously improving risk management standards as well as by gradual improvement in the Czech Republic's macroeconomic situation. The progress was less significant in retail segments, which were affected by a persisting high unemployment rate and subdued real estate market. The development in the corporate segment, on the other hand, confirmed that a solid performance by the export industries had contributed to stabilising and reviving activity in the broader economy. As

a result of the aforementioned developments, the total cost of risk in terms relative to the average volume of loans and off balance sheet irrevocable commitments amounted to 55 basis points. That compares with 88 basis points in 2009. Nevertheless, KB is cognizant of a number of risks to the economic growth, including sovereign debt problems of some European countries, impacts of public budget austerity measures in the Czech Republic and abroad, and rising prices for commodities and food.

Income taxes rose by 8.6% to CZK 2,665 million.

KB Group's net profit for 2010 reached CZK 13,410 million, which is 20.9% higher than in the previous year. From this amount, CZK 80 million was attributed to the minority interest holders and the **profit attributable to the Bank's shareholders** was CZK 13,330 million (up 21.1% year on year).

The volume of KB Group's **total assets** as of 31 December 2010 increased by 0.4% relative to the end of 2009 to CZK 698.0 billion.

Amounts due from banks declined by 14.5% to CZK 112.2 billion. The largest component of this item is represented by loans provided to central banks as part of reverse repo operations, which diminished by 25.4% to CZK 71.0 billion.

Financial assets at fair value through profit or loss increased by 39.1% to CZK 34.0 billion. The portfolio comprises proprietary trading positions of the Group.

Total net loans and advances increased by 3.3% to CZK 384.6 billion. The gross amount of client loans and advances grew by 3.5% to CZK 399.7 billion. The share of standard loans within that total represented 90.3% (CZK 360.9 billion), while the proportion of watch loans was 3.3% (CZK 13.0 billion) and loans under special review (substandard, doubtful, loss) comprised 6.5% of the portfolio with volume of CZK 25.8 billion. The volume of provisions created reached CZK 15.3 billion, which is 10.5% more than at the end of 2009.

The portfolio of securities available for sale increased by 2.1% to CZK 116.4 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 decreased by 1.1% to CZK 6.7 billion. That entire portfolio consists of bonds.

The net book value of tangible fixed assets diminished by 8.5% to CZK 7.1 billion, and intangible fixed assets grew by a slight 0.9% to CZK 3.8 billion. Goodwill, which primarily derives from the acquisition of Modrá Pyramida, remained at the same level of CZK 3.6 billion.

Total liabilities declined by 0.7% to CZK 621.9 billion. Amounts due to customers decreased by 2.5% to CZK 538.1 billion. The volume of outstanding securities issued was down by 4.1% to CZK 17.4 billion. The Group's **liquidity** as measured by the ratio of net loans to deposits reached a strong 71.5%. The balance of subordinated debt remained unchanged at CZK 6.0 billion.

Shareholders' equity rose by 10.6% to CZK 76.1 billion. The growth was driven by retained earnings from 2009, higher generation of net profit in 2010, and a positive change in fair value of hedging derivatives by CZK 1.5 billion. On the other hand, revaluation of the portfolio of securities available for sale had a negative value of CZK 1.2 billion. KB also paid out the dividend of CZK 6.5 billion in the second quarter of 2010.

Regulatory capital for the capital adequacy calculation reached CZK 52.4 billion as of the end of 2010. KB Group's **capital adequacy** under Basel II standards reached a high level of 15.3%, while the core Tier 1 capital ratio climbed to 14.0%.

Return on average equity in 2010 reached 18.7% and return on average assets was 1.9%.

ANNEX: Consolidated results as of 31 December 2010 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	FY 2009	FY 2010	Change YoY
Net interest income	21,242	21,431	0.9%
Net fees and commissions	7,839	8,038	2.5%
Income from financial operations	3,024	3,098	2.4%
Other income	90	95	5.6%
Net banking income	32,195	32,662	1.5%
Personnel expenses	-6,434	-6,076	-5.6%
General administrative expenses	-5,619	-5,242	-6.7%
Depreciation, impairment and disposal of fixed assets	-1,468	-1,624	10.6%
Operating costs	-13,521	-12,942	-4.3%
Gross operating income	18,674	19,720	5.6%
Cost of risk	-5,083	-3,100	-39.0%
Net operating income	13,591	16,620	22.3%
Profit on subsidiaries and associates	24	75	212.5%
Share of profit of pension scheme beneficiaries	-65	-621	855.4%
Profit before income taxes	13,550	16,075	18.6%
Income taxes	-2,455	-2,665	8.6%
Net profit	11,095	13,410	20.9%
Minority profit/(loss)	87	80	-8.0%
Net profit attributable to equity holders	11,007	13,330	21.1%

Balance Sheet (CZK million, unaudited)	31 Dec 2009	31 Dec 2010	Change year-to-date
Assets	695,076	698,014	0.4%
Cash and balances with central bank	16,271	13,689	-15.9%
Amounts due from banks	131,271	112,179	-14.5%
Loans and advances to customers (<i>net</i>)	372,302	384,593	3.3%
Securities	145,294	157,160	8.2%
Other assets	29,938	30,392	1.5%
Liabilities and shareholders' equity	695,076	698,014	0.4%
Amounts due to banks	18,739	29,073	55.1%
Amounts due to customers	551,808	538,051	-2.5%
Securities issued	18,172	17,431	-4.1%
Other liabilities	31,563	31,379	-0.6%
Subordinated debt	6,001	6,001	0.0%
Shareholders' equity	68,792	76,078	10.6%

Key ratios and indicators	31 Dec 2009	31 Dec 2010	Change YoY
Capital adequacy (CNB)	14.1%	15.3%	▲
Tier 1 ratio (CNB)	12.7%	14.0%	▲
Total capital requirement (CZK billion)	27.2	27.5	0.9%
Capital requirement for credit risk (CZK billion)	23.3	23.3	-0.2%
Net interest margin (NII/average interest-bearing assets)	3.3%	3.3%	▲
Loans (net) / deposits ratio	67.5%	71.5%	▲
Cost / income ratio	42.0%	39.6%	▼
Return on average equity (ROAE), annualized	17.0%	18.7%	▲
Return on average assets (ROAA), annualized	1.6%	1.9%	▲
Earnings per share (CZK), annualized	290	351	21.1%
Average number of employees during the period	8,815	8,619	-2.2%
Number of branches (KB standalone)	398	395	-3
Number of ATMs	685	677	-8
Number of clients (KB standalone)	1,620,000	1,590,000	-1.9%

Business performance in retail segment – overview	31 Dec 2010	Change YoY
Mortgages to individuals – volume of outstanding loans	CZK 109.3 billion	9%
– number of outstanding loans	90,000	9%
Building loans (MPSS) – volume of outstanding loans	CZK 49.7 billion	9%
– number of outstanding loans	150,000	-5%
Consumer loans (KB + ESSOX) – volume of outstanding loans	CZK 28.3 billion	-3%
Small business loans – volume of outstanding loans	CZK 25.6 billion	2%
Total active credit cards – number	226,000	-7%
– of which to individuals	169,000	-7%
Total active debit cards – number	1,443,000	0%
Premium written (KP)	CZK 9.0 billion	86%

Financial calendar for 2011

5 May 2011: Publication of 1Q 2011 results

3 August 2011: Publication of 2Q 2011 results

8 November 2011: Publication of 3Q 2011 results