Komerční banka sustained growing trend for loans and deposits

Net profit at CZK 6.3 billion for first half of 2013

Prague, 1 August 2013 – Komerční banka continued its support to consumers, businesses and communities through growth of lending during the first half of 2013. The volume of loans provided to clients increased by 4.1% year on year to CZK 475.0 billion. Deposits from clients[1] rose by 1.8% to CZK 591.0 billion in the same period.

Despite improving commercial performance, KB Group's consolidated revenues declined by 8.3% to CZK 15.5 billion. This was due in part to several one-off items booked in the previous year. The decline in recurring revenues by 4.9% was caused by very low market interest rates which limit returns from reinvestment of liquidity, persisting subdued activity in the Czech economy, and intense competition. In this context, KB sharpened further its focus on carefully managing operating costs and enhancing operational efficiency. Operating expenditures thus declined by 1.6% to CZK 6.4 billion. The quality of the assets portfolio remained good, and the cost of risk was trimmed by 1.5% to CZK 1.0 billion. Consolidated net profit attributable to shareholders diminished by 17.0% to CZK 6.3 billion. Adjusted for one-off items, the percentage decline in net profit was 10.6% year on year.

Komerční banka continues to manage its capital and liquidity conservatively. The Group's Core Tier 1 capital adequacy ratio ended the half at a strong 16.2% under Basel II standards, and the ratio of net loans to deposits (excluding client assets in pension funds) was an excellent 79.8%.

Highlights of the second quarter

- Komerční banka continued to expand its lending activities to clients and to reinforce its position on the lending market. The mortgage-granting process was streamlined, thereby bolstering the competitiveness of KB mortgages.
- In support of new business start-ups, KB offers comprehensive advice and a Profi account package for new businesses that is free of charge. In partnership with the Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic, KB launched a programme providing grants of as much as CZK 300,000 for starting up a new business.
- The volume of assets under management among KB Group companies rose decisively, with particularly dynamic growth of assets in mutual funds, reserves in life insurance and pension assets.
- Within the first six months after launch of the new pension pillar in the Czech Republic, 13,500 clients subscribed to the newly established funds managed by KB Penzijní společnost.

Comment of the CEO

"In the context of subdued aggregate demand in the economy and heightened uncertainty, KB's performance in the first half was solid. As I hand over leadership of Komerční banka to Albert Le Dirac'h tomorrow, I can confirm that the Bank is well prepared to continue in its development and to face future challenges. I am proud of the achievements of Komerční banka and of the dedication of our employees to better serve our clients. I would like to thank the clients and other stakeholders of Komerční banka Group for their loyalty and trust, and I assure them that KB remains keen to maintain long-term, mutually beneficial relationships with them."

Henri Bonnet
Chairman of the Board of Directors and Chief Executive Officer

[1] Excluding repo operations with clients

Comments on business and financial results

The published financial data are from unaudited consolidated results under IFRS (International Financial Reporting Standards).

BUSINESS PERFORMANCE OF KB GROUP

The pace of growth in lending on the Czech banking market accelerated marginally in the second quarter while demand for lending, which came mainly from non-financial corporations and for housing purposes, was boosted by record-low interest rates and slightly improved consumer confidence (as measured by the Czech Statistical Office). The pace of adding to savings in banks by individuals remained steady, and businesses in general continued to fortify their deposit reserves in banks.

The Czech National Bank kept its policy-setting two-week repo rate at the minimal level of 0.05%. The longer end of the yield curve as denominated in the Czech currency rose notably, however, as a consequence of growing expectations of monetary policy change in the United States. The required yields on 10-year Czech government bonds exceeded 2.0% at the end of the second quarter against less than 1.6% at the end of March.

Developments in client portfolio and distribution networks

As of the end of June 2013, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,587,000 clients (-0.9% year on year), of which 1,332,000 were individuals. The remaining 255,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 586,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 563,000. ESSOX's services were being used by 266,000 active clients.

Komerční banka's clients had at their disposal 399 banking branches (including one in Bratislava), 713 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 1,133,000 by the end of June 2013 and corresponds to 71.4% of all clients. Customers held 1,581,000 active payment cards, of which 205,000 were credit cards. The number of active credit cards issued by ESSOX came to 141,000, and consumer financing from ESSOX was available through its network of 2,900 merchants. Modrá pyramida's customers had at their disposal 208 points of sale and 1,020 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

The total **gross volume of loans** provided by KB Group further increased, by 4.1% to CZK 475.0 billion. All main categories of lending expanded, with the exception of building savings loans, although growth in consumer lending was only modest.

In the segment of **loans to individuals**, the portfolio of mortgages to individuals expanded by 7.2% year on year to CZK 137.3 billion. KB streamlined the granting process for mortgages, which enhanced the competitiveness of KB mortgages without compromising either profitability or credit risk standards. At the same time, KB's Flexible Mortgage won the Zlatá koruna (Golden Crown) award for being the best mortgage on the Czech market. The popularity of mortgages partly affected the demand for building savings loans, and the volume in Modrá pyramida's loan portfolio thus decreased by 6.8% to CZK 46.8 billion. The demand for unsecured consumer lending exhibited a noteworthy volatility. In a year-over-year comparison, the volume of consumer loans (from KB and ESSOX) rose by a slight 0.3% to CZK 27.5 billion.

The total volume of **loans** provided by KB Group **to businesses** expanded by 5.0% to CZK 258.5 billion. Among the individual types of loans, export financing grew the most dynamically, underpinned by growth in Czech exports to Eastern Europe and Asia, as well as by KB's co-operation with EGAP, the Czech Republic's export credit insurance company. The overall volume of credit granted by KB to (medium-sized and large) corporate clients in the Czech Republic and Slovakia climbed by 5.3% to CZK 205.5 billion. Lending to small businesses expanded by 1.5% to CZK 28.6 billion. Clients appreciated factoring's advantages in the presently difficult environment, and factor finance outstanding at Factoring KB grew by a strong 33.3% to CZK 4.0 billion. Total credit and leasing amounts outstanding at SGEF were up by 2.2% year over year, at CZK 20.4 billion.

Amounts due to customers and assets under management

The total **volume of deposits**[2] on KB Group's balance sheet rose by 1.8% year on year to CZK 591.0 billion. Deposits from businesses expanded by 3.7% to CZK 323.7 billion. Deposits at KB from individual clients diminished by 3.2% to CZK 157.4 billion, influenced by a transfer of some clients' savings to such non-banking products as mutual funds and life insurance. The deposit book at Modrá pyramida gained 0.9% year on year to reach CZK 71.4 billion. Client assets in the transformed fund managed by KB Penzijní společnost grew by 9.8% to CZK 34.0 billion. These client assets continued to be consolidated into the KB Group accounts.

The volumes in newly established pension funds remained small after their first six months of operations. The volume of technical reserves in life insurance at Komerční pojišťovna rose by 20.4% to CZK 31.3 billion. The volumes in mutual funds held by KB clients (managed by IKS KB and Amundi) increased by 19.5% to CZK 29.9 billion.

Selected business achievements and initiatives

KB Group unveiled in the second quarter several initiatives to benefit clients.

In partnership with the Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic, KB launched a programme offering grants of as much as CZK 300,000 for starting up businesses. The programme complements the offer of the Profi account package that is provided at no charge for new businesses.

Telefónica Czech Republic chose ESSOX as provider of financing for mobile handsets for its clients. The clients can pay by instalments over as long as 24 months from the purchase date for any selected device from the Telefónica's O_2 offer – and without paying an added finance charge.

Komerční banka and the Federation of the Food and Drink Industries of the Czech Republic extended their co-operation agreement in order to further intensify their mutual efforts to develop their industries. For example, Komerční banka will organise with FFDI a series of seminars on opportunities for financing investment plans of businesses in the food industry.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement

Total **net banking income** in the first half of 2013 decreased by 8.3% year over year to CZK 15,509 million. The decline was influenced by several one-off items booked in the previous year, including income from the sale of KB's stake in Bohemian–Moravian Guarantee and Development Bank (CMZRB) and gains from adjustments in the bond portfolio of Penzijní fond KB prior to its transformation. Decline in revenues adjusted for extraordinary items reached 4.9%, despite the growing loan and deposit volumes, reflecting the very low market interest rates, subdued economic activity in the Czech Republic, and intense competition on the banking market.

Net interest income was lower by 4.2%, at CZK 10,587 million. Growing loan and deposit

[2] Excluding repo operations with clients. Total amounts due from clients expanded by 4.2% YoY to CZK 606.9 billion

volumes did not fully compensate the continued pressure on yields from reinvested deposits due to very low market interest rates. Interest income was affected, too, by derisking of the asset portfolio (through divestment of government bonds from southern Europe) in 2012 and 2013. The net interest margin, measured as a percentage of interest-earning assets, declined to 2.9% in the first half of 2013 from 3.2% a year earlier.

Net income from fees and commissions diminished by 0.9% to CZK 3,526 million. Fee income from deposit products and transactions was lower as KB expanded the MojeOdměny client reward scheme and transaction activity was slower due to the stagnant economy. Income from mutual funds and life insurance got a boost from growth in the volume of client savings by means of these products. Fees from loan syndication increased year over year, but, on the other hand, demand for bank guarantees declined especially in line with developments in the construction sector.

Net gains from financial operations declined by 41.0% to CZK 1,326 million, affected by several one-off items from the previous year (mainly income from sale of KB's stake in CMZRB, gains from adjustments in the portfolio of Penzijní fond KB, and the sale of remaining Greek and Portuguese government bonds). KB recorded a small capital gain in 2013's first half from sale of Italian government bonds. Income from operations for clients decreased slightly, influenced by the low yields and low volatility prevailing on the CZK-denominated market. Net gains from FX payments reflect lower export and import turnover as well as declining average spreads.

Total **operating expenditures** were reduced by 1.6% to CZK 6,409 million. Within this category, personnel costs declined by 0.9% to CZK 3,315 million as the average number of employees was down by 1.9% at 8,624. General administrative expenses were cut by 3.8% to CZK 2,228 million, with the main savings being achieved in costs of mailing services (relating to the switch to electronic account statements), marketing and telecommunications. Higher expenditures were related to the rolling out of contactless payment cards and infrastructure. The category depreciation, impairment and disposal of fixed assets was up by 1.4%, as higher amortisation of software applications was only partly compensated by lower depreciation of buildings and IT hardware.

Gross operating income for the first six months of 2013 was down by 12.5%, at CZK 9,099 million.

Cost of risk declined by a slight 1.5% to CZK 964 million. The quality of KB Group's lending portfolio remained very good in both the retail and corporate segments. In relative terms, the cost of risk during the first half came to 41 basis points in comparison with 44 basis points for the same period of the previous year.

Income from shares in associated undertakings climbed by 23.3% to CZK 74 million. The proportion of profit attributable to the clients of the transformed pension fund reached CZK 259 million.

Income taxes increased by 7.4% to CZK 1,457 million.

KB Group's consolidated net profit for the half of 2013 declined by 16.0% to CZK 6,493 million. Of this amount, CZK 183 million was profit attributable to holders of minority stakes in KB's subsidiaries (+48.8%). **Profit attributable to the Bank's shareholders** amounted to CZK 6,310 million, which is 17.0% less than in the first half of 2012. **Adjusted for one-off effects,** attributable net profit decreased by 10.6%.

Statement of financial position

The comparison period for 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 2012.

KB Group's **total assets** as of 30 June 2013 had increased by 1.1% year to date to CZK 795.8 billion.

Amounts due from banks grew by 18.2% to CZK 75.8 billion. The largest components of this item are loans to central banks as part of reverse repo operations, which were higher by 70.3%, at CZK 39.0 billion, and term placements with other banks, which dropped by 21.4% to CZK 14.8 billion.

Financial assets at fair value through profit or loss decreased by 21.3% to CZK 40.6 billion. That portfolio comprises the Group's proprietary trading positions.

Total net loans and advances grew by 1.3% to CZK 457.6 billion. The gross amount of client loans and advances was higher by 1.3%, at CZK 475.0 billion. The share of standard loans within that total climbed to 92.0% (CZK 437 billion) while the proportion of watch loans was 2.3% (CZK 10.8 billion). Loans under special review (substandard, doubtful and loss) comprised 5.7% of the portfolio with volume of CZK 27.2 billion. The volume of provisions created for loans reached CZK 18.5 billion, which was 4.2% more than at the end of 2012.

The portfolio of securities available for sale diminished by 4.4% to CZK 135.6 billion. From the CZK 135.4 billion total volume of debt securities in this portfolio, Czech government bonds comprised CZK 94.9 billion and foreign government bonds CZK 17.0 billion. During the second quarter, KB sold the remaining bonds issued by Italy. KB Group thus had no exposure to the sovereign debt of any country in southern Europe, as of the end of the first half.

The volume of securities in the held-to-maturity portfolio decreased by a slight 0.9% to CZK 3.3 billion. This portfolio consists entirely of bonds.

The net book value of tangible fixed assets slipped by 2.0% to CZK 7.8 billion, while that of intangible fixed assets was lower by 2.9%, at CZK 3.8 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida and SGEF, remained unchanged at CZK 3.8 billion.

Total liabilities were 2.9% higher in comparison to the end of 2012, reaching CZK 705.9 billion. Amounts due to customers grew by 4.8% to CZK 606.9 billion. The outstanding volume of issued securities expanded by 20.3% to CZK 23.6 billion. The Group's **liquidity**, as measured by the ratio of net loans to deposits, reached 79.8% (75.4% if including client assets in the transformed fund).

Shareholders' equity came down year to date by 10.6% to CZK 89.9 billion. KB paid out CZK 8.7 billion in dividends on 27 May, and the generation of net profit was more than offset by the lower fair value of the available-for-sale portfolio and cash flow hedges, both of which represent primarily reinvestment of client deposits. This was due to increased interest rates. As of 30 June 2013, KB held in treasury 238,672 of its own shares, constituting 0.63% of the registered capital.

Comprised solely of Core Tier 1 capital, regulatory capital for the capital adequacy calculation stood at CZK 59.3 billion as of the end of June 2013. KB Group's **capital adequacy**, as well as the Core Tier 1 capital ratio under Basel II standards, stood at a high level of 16.2%. Increase in this indicator compared to end of the first quarter was mainly driven by inclusion of retained earnings from the year 2012 to the regulatory capital, following the decision of the Annual general meeting of KB held in April 2013 on distribution of 2012 profit.

Return on average equity in the first half of 2013 came to 13.6% while return on average assets was 1.6%. Excluding one-off items, adjusted return on average equity was 13.3% and adjusted return on average assets was 1.6%.

Changes in corporate governance

At its meeting on 25 June 2013, the Supervisory Board of Komerční banka elected Mr Albert Le Dirac'h as a new Member of the Board of Directors with effect from 2 August 2013. On the same day, the Board of Directors of Komerční banka elected Mr Le Dirac'h Chairman of the Board of Directors and Chief Executive Officer with effect from 2 August 2013. This followed an earlier decision by Mr Henri Bonnet to retire from both positions with effect from 1 August 2013.

KB

Regulatory information

ANNEX: Consolidated results as of 30 June 2013 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement (CZK million, unaudited)	**1H 2013**	**1H 2012**	**Change year on year**
Net interest income	10,587	11,056	-4.2%
Net fees and commissions	3,526	3,558	-0.9%
Net gains from financial operations	1,326	2,246	-41.0%
Other income	71	56	26.8%
Net banking income	**15,509**	**16,916**	**-8.3%**
Personnel expenses	-3,315	-3,345	-0.9%
General administrative expenses	-2,228	-2,317	-3.8%
Depreciation, impairment and disposal of fixed assets	-866	-854	1.4%
Operating costs	**-6,409**	**-6,516**	**-1.6%**
Gross operating income	**9,099**	**10,400**	**-12.5%**
Cost of risk	-964	-979	-1.5%
Net operating income	**8,135**	**9,421**	**-13.7%**
Profit on subsidiaries and associates	74	60	23.3%
Share in profit of pension scheme beneficiaries	-259	-396	-34.6%
Profit before income taxes	**7,950**	**9,084**	**-12.5%**
Income taxes	-1,457	-1,356	7.4%
Net profit	**6,493**	**7,728**	**-16.0%**
Minority profit/(loss)	183	123	48.8%
Net profit attributable to the Bank's shareholders	**6,310**	**7,604**	**-17.0%**

Balance Sheet (CZK million, unaudited)	**30 June 2013**	**31 Dec 2012**	**Change year to date**
Assets	**795,808**	**786,836**	**1.1%**
Cash and balances with central bank	45,780	28,057	63.2%
Amounts due from banks	75,781	64,111	18.2%
Loans and advances to customers (net)	457,551	451,547	1.3%
Securities	179,499	196,706	-8.7%
Other assets	37,196	46,415	-19.9%
Liabilities and shareholders' equity	**795,808**	**786,836**	**1.1%**
Amounts due to banks	27,776	38,901	-28.6%
Amounts due to customers	606,859	579,067	4.8%
Securities issued	23,616	19,624	20.3%
Other liabilities	47,643	48,705	-2.2%
Shareholders' equity	89,913	100,538	-10.6%

KB

Regulatory information

Key ratios and indicators	30 June 2013	30 June 2012	Change year on year
Capital adequacy (CNB, Basel II)	16.2%	14.6%	▲
Tier 1 ratio (CNB, Basel II)	16.2%	14.6%	▲
Total capital requirement (CZK billion)	29.2	29.6	-1.1%
Capital requirement for credit risk (CZK billion)	24.6	24.8	-0.7%
Net interest margin (NII/average interest-bearing assets)	2.9%	3.2%	▼
Loans (net) / deposits ratio	75.4%	75.4%	▼
Loans (net) / deposits ratio excluding client assets in transformed fund	79.8%	79.5%	▲
Cost / income ratio	41.3%	38.5%	▲
Return on average equity (ROAE)	13.6%	18.6%	▼
Adjusted return on average equity (adjusted ROAE)*	17.0%	22.3%	▼
Return on average assets (ROAA)	1.6%	2.0%	▼
Earnings per share (CZK)	334	403	-17.0%
Average number of employees during the period	8,624	8,792	-1.9%
Number of branches (KB standalone in the Czech Republic)	398	398	0
Number of ATMs	713	698	+15
Number of clients (KB standalone)	1,587,000	1,599,000	-0.9%

* Computed as net profit attributable to equity holders divided by average Group shareholders' equity w/o minority equity, cash flow hedging and revaluation of AFS securities.

Business performance in retail segment – overview	30 June 2013	Change year on year
Mortgages to individuals – volume of loans outstanding	CZK 137.3 billion	7%
– number of loans outstanding	115,000	9%
Building savings loans (MPSS) – volume of loans outstanding	CZK 46.8 billion	-7%
– number of loans outstanding	116,000	-12%
Consumer loans (KB + ESSOX) – volume of loans outstanding	CZK 27.5 billion	0%
Small business loans – volume of loans outstanding	CZK 28.6 billion	2%
Total active credit cards – number	205,000	-3%
– of which to individuals	158,000	-1%
Total active debit cards – number	1,377,000	-4%
Insurance premiums written (KP)	CZK 4.4 billion	37%

Financial calendar for 2013:

7 November 2013: Publication of 9M 2013 and 3Q 2013 results