

Komerční banka, a.s.

# RESULTS

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# 9M 2021

## AND STATUS OF KB CHANGE 2025 IMPLEMENTATION



Regulatory information

Komerční banka, a.s.

## Komerční banka in 9 months of 2021: delivering on strategy, rebounding from pandemic

*“Komerční banka has passed an inflection point in the development of its revenues after the significant hit it took from the pandemic. I am proud of how we have been able to consistently support our clients and even grow the volume of our business with them throughout this period,”* remarked Jan Juchelka, KB’s Chairman of the Board of Directors and Chief Executive Officer.

*“I am also especially proud to see the progress we have made in only 12 months in implementing the KB Change 2025 strategic plan, including to complete the first phase of building the new digital bank in KB,”* Jan Juchelka added.

- | **The number of clients with KB Mobile Banking exceeded 1,000,000, as it climbed by 104,000 year on year to 1,008,000, representing 62% of 1,623,000 customers of the Bank. The KB Klíč (KB Key) authentication application for accessing banking services was being used by 935,000 clients, 194,000 more than a year earlier. The whole KB Group was serving 2,237,000 clients.**
- | **The total volume of KB Group’s lending to customers expanded by 4.7% year on year, mainly driven by lending for housing purposes. The overall volume of standard client deposits within KB Group was up by 12.1%, with strong growth in the retail as well as corporate segments. The volume of non-bank assets under management leapt up by 6.1% .**
- | **Consolidated revenues for the first three quarters improved by 1.3% year on year, as the volumes of both lending and deposits expanded, clients in retail segments added to their investments in mutual funds, and corporate clients were benefiting from favourable conditions for issuance on the debt capital markets while prudently hedging their financial risks.**
- | **Total operating expenditures declined by (0.7%), as lower personnel and administrative costs were offset by increased regulatory charges for the Resolution Fund and higher depreciation and amortisation reflecting investments in digitalisation.**
- | **Net creation of credit risk provisions reached CZK 0.7 billion, lower by (78.9%) year on year. Cost of risk, albeit low, was concentrated in the corporate segment. In retail, KB was able to reduce the volume of provisions thanks to continued excellent risk performance.**
- | **Net profit attributable to shareholders improved by 40.7% to CZK 8.6 billion. Income taxes increased by 36.6% to CZK 2.0 billion .**
- | **In comparison with a regulatory minimum of 16.2%, KB Group’s capital adequacy ratio reached 23.0%. The liquidity coverage ratio stood at 200% even as a minimum of 100% is required.**
- | **The Extraordinary General Meeting of KB, held per rollam, approved the distribution of retained earnings in the amount of CZK 4.5 billion, which is CZK 23.86 per share before taxation. The record date for the dividend is 11 November 2021 and the payment date is 3 December 2021.**
- | **KB won the Best Debut Deal category after the votes of covered bond market participants were counted in the GlobalCapital 2021 Covered Bond Awards for its innovative January issue of mortgage bonds denominated in euro. The Czech Corporate Social Responsibility Association recognised KB in its 2021 SDG Awards for non-financial reporting.**

Prague, 4 November 2021 – Komerční banka reported today its unaudited consolidated results for the first nine months of 2021.

Total revenues improved by 1.3% to CZK 22.6 billion. Despite increase in the volumes of both loans and deposits, net interest income was down by (4.7%), at CZK 15.3 billion, reflecting the sharp drop in interest rates after the first pandemic outbreak last year. Net fee and commission income improved by 8.0% to CZK 4.2 billion, driven by income from cross-selling, demand from corporations for services on debt capital markets, and greater economic activity compared to last year. Net profit on financial operations grew by 33.2% to CZK 3.0 billion, supported by strong demand from clients for hedging of financial risks and by market volatility.

Operating expenses were down by (0.7%), at CZK 11.4 billion, in spite of a 10.6% increase in regulatory charges to Resolution and Deposit insurance. KB Group has achieved savings in personnel as well as administrative expenditures. The average number of employees decreased by (4.9%) to 7,705. Reflecting investments in digitalisation, amortisation charges were higher year on year.

Net creation of provisions for the first nine months of 2021 totalled CZK 0.7 billion, down by (78.9%) . This reflected continuing resilience of the Group's loan portfolios and limited migration into the non-performing loan category. The charges were influenced by a precautionary increase in provisioning of certain Covid-sensitive corporate portfolios and a creation of provisions for a limited number of defaulted corporate exposures. KB Group recorded good recovery performance levels in corporate as well retail portfolios.

The reported attributable net profit improved by 40.7%, to CZK 8.6 billion. and the income taxes were up by 36.6% , at CZK 2.0 billion.

Lending to clients gained by 4.7% to CZK 724.8 billion.<sup>1)</sup> This growth was driven mainly by financing of housing from KB and Modrá pyramida, which expanded by 8.9%. Still affected by the pandemic-related uncertainty and restrictions, consumer lending by KB and ESSOX declined by (1.0%). Lending to businesses and other clients was up by 1.6%, driven year over year mainly by working capital financing. A negative contribution of approximately 1.0 percentage point to the total reported value of loans stemmed from 6.3% year-on-year appreciation of the Czech crown vis-à-vis the euro. That affected the crown value of euro-denominated loans, provided almost solely to corporations.

Deposits from clients climbed by 12.1% year on year to CZK 1,043.1 billion.<sup>2)</sup> The growth in deposits was strong from both individual as well as business clients, except for large corporations. The volume of KB Group clients' assets in mutual funds, pension savings, and life insurance expanded by 6.1% to CZK 199.5 billion.

The capital adequacy ratio reached a strong 23.0%, and Core Tier 1 capital stood at 22.5%. The liquidity coverage ratio was 200%, far above the regulatory minimum of 100%.

KB's General Meeting, held remotely, concluded its voting on 2 November 2021 and has approved payment of dividends in the volume of CZK 4.5 billion (CZK 23.86 per share). This volume was set in accordance with the maximum limit allowed by the Czech National Bank and is equal to 100 basis points of the total risk-weighted assets as of 31 December 2020. The dividend is payable on 3 December 2021 to shareholders of record registered as holders of KB shares as of the record date, which is 11 November 2021.

The Bank had 58,154 shareholders as of 30 September 2021 (up by 1,086 year on year), of which 52,558 were private individuals from the Czech Republic (greater by 1,066 from the year earlier). Strategic shareholder Société Générale maintained its 60.4% stake while minority shareholders owned 39.0% and KB held 0.6% of the registered capital in treasury.

<sup>1)</sup> Excluding volatile reverse repo operations with clients but including debt securities issued by KB's clients and held by the Bank. Inclusive of repo operations, lending rose by 4.2% year over year to CZK 724.8 billion.

<sup>2)</sup> Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 13.2% to CZK 1,093.9 billion.

## Market environment (in third quarter 2021)<sup>1)</sup>

The third quarter was marked by a continuous and substantial retreat of the Covid-19 pandemic in Czechia to almost zero. That allowed for gradually lifting most of the pandemic measures. From the peak of around 17,000 new infections daily reported at the beginning of March, the number moved down to a level near 100 newly diagnosed per day in the second half of June, hovered around 200 per day during the summer months, then starting rising again in September to to surpass 4,000 people per day in late-October. Since summer months, the pace of vaccination progress slowed down significantly. As of 31 October 2021, some 56% of the population was already fully vaccinated, with 57% of the population having received at least one shot and some 16% of Czechs officially having recovered from Covid-19.

Opening of all economic and most cultural and sporting life across Czech society created a solid basis for economic rebound in the third quarter of 2021 (GDP in the third quarter grew by +1.4% quarter over quarter and +2.8% year on year, according to the initial flash estimate of the Czech Statistical Office) after the economy had been still affected by the fading pandemic restrictions in the second quarter. The tight labour market conditions prevailed through the pandemic. In the second quarter alone wage inflation was +11.3% year on year (8.2% in real terms), driven mainly by increases in the public sector. During the third quarter, the unemployment rate declined to just below 3%. Unemployment remained at one of the lowest national rates within the EU (standing at 2.9% in August according to the Eurostat methodology after seasonal adjustment).<sup>2)</sup> More recent data from the Czech labour ministry has shown slight decline in the unemployment rate.<sup>3)</sup>

The dynamics of industrial producer prices averaged a weighty 9% year on year in 2021's third quarter. Pressure from the primary price categories together with continuous robust wage cost dynamics transmitted through to consumer price inflation, which jumped as high as 4.9% year on year in September. That is well above the upper bound of the national bank's inflation target tolerance band. Meanwhile, the Czech crown remained flat quarter on quarter against the euro through to the end of third quarter, ending at CZK 25.5 per euro. The crown was stronger by 6.3% in a year-on-year comparison.

Mounting headline as well as core inflation stemming from the global situation, amplified by domestic factors, and with creeping inflationary expectation on the monetary policy horizon led the CNB to begin its rate-hiking cycle. The national bank raised its two-week repo rate by 25 bps to 0.5% at the end of June 2021. In the beginning of August, it once again boosted by 25 bps, and then the CNB Bank Board hiked by another 75 bps on the very last day of September, bringing the 2W repo rate to 1.50%. Three-month PRIBOR accordingly moved up to 1.24% by the end of September and to 1.82% on 1 October. The 10Y swap rate climbed to 2.44% from the 1.28% as of 31 December 2020 (+116 bps year to date). CZK-denominated 10Y Czech government bond yields increased by 79 bps during the nine months to 2.09%.

Growth in prices of residential real estate continued to accelerate, influenced by expectations for further price and interest rate increases, deployment of excess savings accumulated due to pandemic restrictions, and increased disposable incomes from tax changes implemented at the beginning of 2021. Prices paid in 2021's second quarter for previously owned flats were up 17.9% year on year across Czechia and higher by 15.8% year on year in Prague. Prices obtained for new flats (in Prague only) were 11.9% greater than a year earlier.<sup>4)</sup>

Total bank lending for the overall market (excluding repo operations) grew by 4.5% year on year by the end of September.<sup>5)</sup> Lending growth was faster in retail banking, with mortgage growth continuing apace and improving dynamics of consumer lending, supported by relatively stable income household situation. Business loans outstanding were marginally lower year on year, as some companies were still postponing their investment plans and year on year appreciation of the Czech crown technically diminished the reported value of loans denominated in euros.

The volume of client deposits in Czech banks expanded by 7.2% year on year as of September.<sup>6)</sup> Deposits from individuals continued to grow dynamically and were up 10.2% year on year. Within the corporate segments (up 4.0% year on year overall), deposits from non-financial corporations were 9.6% higher and public sector deposits went up by 4.8%, while deposits from financial institutions declined year over year.

<sup>1)</sup> Unless stated otherwise, data sources for this section: Czech Statistical Office, Czech National Bank, KB Economic Research. Comparisons are year on year.

<sup>2)</sup> <https://ec.europa.eu/eurostat/documents/2995521/11563287/3-30092021-AP-EN.pdf/82040a37-de8f-4112-2f9c-65645098cb2a?t=1632927399820> Data up to August 2021.

<sup>3)</sup> <https://www.mpsv.cz/web/cz/mesicni>. Data as available up to September 2021.

<sup>4)</sup> Source: <https://www.czso.cz/csu/czso/house-price-index-2-quarter-of-2021> Publication code 014005-21, released 29 September 2021.

<sup>5)</sup> Source of data on banking market developments: ARAD statistics of the CNB, [www.cnb.cz](http://www.cnb.cz).

<sup>6)</sup> Source of data on banking market developments: ARAD statistics of the CNB, [www.cnb.cz](http://www.cnb.cz).

## Progress in implementing KB Change 2025 strategic plan 12 months from its launch

Komerční banka had presented on 5 November 2020 its KB Change 2025 plan updating strategic directions and addressing the emerging challenges and opportunities for creating a strong, client-focused bank. Komerční banka aims to build together with its clients a better and sustainable future through responsible and innovative financial solutions. KB aspires to be a leader in a new era of banking for 2 million active clients. In the 12 months following launch of the strategic plan, the Bank has already delivered tangible progress in ten areas covered by KB Change 2025.

The building of a new digital bank with the Temenos Transact system at its core has already achieved a Drop 1 phase, wherein a functional bank with basic features is being tested by several hundred clients. KB and Modrá pyramida together are also building a new joint infrastructure and front-end system for housing finance. Because the branch remains an important building block of KB's omnichannel strategy, a new design concept was created that is appropriate for advisory and effectively serving clients' various financial needs. The first new outlet was opened in July in Prague-Dejvice. Moreover, clients can newly obtain several additional products in their mobile banking application, such as a consumer loan, property insurance, savings account, overdraft, or wallet insurance. The share of consumer loans sales made completely through digital channels has risen to 27% in nine months of 2021 compared to 11% in 2019. Moreover, 17% of MůjÚčet accounts were opened digitally, up from 4% in 2019, and some 14% of frameworks for investments in mutual funds were agreed fully online in the same period.

In order to procure new revenue sources, KB has been building an ecosystem of complementary financial services by a combination of internal development, co-operation with start-up as well as established providers, and even acquiring participations in fintech companies via its fully owned platform KB Smart Solutions. Among many examples, these include establishment of Finbricks, s.r.o., an aggregation platform for financial services under the PSD 2 Directive; increasing KB's stake in Upvest s.r.o., a crowdfunding platform for real estate projects; launch of digital identification services for government services by Bankovní identita, a.s.; and a joint offering with ČEZ ESCO for installation of photovoltaic plants on the roofs of residential houses as well as industrial factories.

KB is striving to reinforce its market leadership position in services for corporate clients. It has introduced *společne-udržitelne.cz* (Sustainably together), an advisory portal for sustainable development and transformation of businesses. Business clients have also appreciated a new Trade & Finance Online platform for administration of documentary payments, guarantees, and other services. In a year-over-year comparison, KB's market share in lending to businesses improved by some 0.6 percentage points to 17.4%.

Komerční banka intends to do its part to protect the climate by supporting a fair, environmentally friendly, and inclusive energy transition, even as it acknowledges that not all sources of energy are equivalent in their costs to consumers and that the energy sector represents thousands of jobs. The Bank is committed to limiting global warming and to reducing its direct emissions (scopes 1 and 2) in accordance with a 1.5°C scenario from the Paris Agreement. KB will contribute to carbon removal projects with a view to reaching carbon neutrality by 2026. In 2020, total emissions decreased by 35% year on year to 25,050 tonnes of CO<sub>2</sub> equivalent, 15.2 kilograms per client. Measurement is audited on a yearly basis by the non-profit Preferred by Nature. Over the past 12 months, the Bank provided CZK 3.2 billion in financing of projects with sustainable positive impact, and it has unveiled new products compatible with environmental and social targets, such as mutual funds investing in companies compliant with environmental, social, and governance (ESG) standards; advisory and financing of projects for energy savings and renewable energy sources; and payment cards made of recycled plastics. Furthermore, Komerční banka has committed to progressively reducing to zero by 2030 its exposure to projects actively associated with the coal sector. On this basis, the Bank is no longer providing new financial products to clients having more than 50% of their revenues linked to coal. For current clients who have more than 25% of their revenues linked to the thermal coal sector, KB refrains from providing new products or services unless there is a public, time-bound transition plan to exit this sector. In June, KB's membership was affirmed in the FTSE4Good index of companies demonstrating strong ESG practices.

As part of its risk management framework, KB has completed a review and update of its client data in order to ensure compliance with the latest regulations. KB has also further enhanced its capabilities in the areas of cyber security and fraud prevention. In the credit risk area, tools utilising machine learning algorithms have been implemented for identifying and assessing early warning signals regarding corporate exposures, thereby allowing analysts to save time on routine monitoring and to focus on more complicated cases. Deployment of new risk modules supports automation and digitization of loan granting activities.

The capacity to introduce product innovations and responsiveness to client requirements or alerts was supported by increase in the average frequency of software releases to 11 per year per product. Agile and effective collaboration and consistent target-setting was reinforced by implementation of the Objectives and Key Results (OKR) methodology across the Bank. In order to improve efficiency and strengthen its internal know-how, KB has also created several dozen new job positions for tasks that previously had been procured from external suppliers.

Along with centralisation of main support functions across KB Group, the head offices of all remaining subsidiaries are being moved to the Group's headquarters in Prague-Stodůlky, with the exception of ESSOX, which remains managed from České Budějovice. The average number of employees in nine months of 2021 decreased by 4.9% compared to the same period a year ago.

The plan's operational targets, which are formulated for the standalone bank, have been affirmed. KB aims to increase the level of client satisfaction as measured by Net Promoter Score in the retail clients and small and medium-sized enterprises segments while stabilising that satisfaction at the already very high level (above 50 points) within the large corporations segment. The measurements in retail segments during 2021 showed a gain in NPS among individual clients to 37 from 32 in 2019, and among small businesses to 34 from 32. At the time of this report's publication, Ipsos agency was still completing the NPS measurement in corporate segments. Based upon organic growth, the clients' seamless omnichannel experience should help the Bank to achieve its target of 1,850,000 clients by 2025. As of 30 September 2021, KB was serving 1,623,000 clients. The development in the past year was influenced by cancellation of several tens of thousands of client accounts when clients did not provide sufficient information to meet upgraded know-your-customer requirements.

The branch will remain an important contact point for clients, but, as the trend in providing services increasingly involves migration to digital channels, the Bank aims to have just 200 branches by the strategy's horizon. KB accelerated planned reduction of branch network to reflect the shift of client traffic from branches to digital channels during the pandemic. The current number of branches stands at 242, down from 342 as of 31 December 2019. Optimisation of operations through digitalisation, branch reduction and switching to cashless banking, automation of middle- and back-office and support functions, and robotics deployment will mean that the standalone bank's full operations and services will be handled by approximately 5,500 employees. This compares with 7,210 employees in the Bank as of 31 December 2019, and 6,754 as of 30 September 2021. The upgraded working and management methods will lead to employee empowerment and effective teamwork across the entity. Motivation, sense of importance, and recognition will improve, and effective leadership should help to achieve further gains in employee engagement levels as measured by a proprietary blended index to the level of 83 points from a strong 78 points in 2019. KB has introduced the Smart Office concept of hybrid work from office and home, launched the Mojevitallita programme promoting and supporting healthy life style, is offering legal and life counselling for all colleagues, and has implemented support measures for those populations most vulnerable to the pandemic threat. The employee engagement index's 2021 measurement stood at 76.5 points.

KB believes that pursuing sustainability in business and operations generates long-term benefits in delivering new business and value for shareholders as well as compliance with future Czech and European regulations. As a measure of maturity in the environmental, social, and governance areas, KB has selected the globally recognised FTSE4Good index of sustainably managed companies. Its target will be to exceed the level of 4 points. The Bank's index stood at 3.3 in 2021, the same level as a year earlier.

The financial targets have been set on a KB Group basis, and the management is confident about at least reaching these targets. Based upon organic growth, and after bottoming out due to the pandemic in 2021, the Group's revenues should record a dynamic average growth rate up to the 2025 horizon. Revenue growth will be driven mainly by rising business volumes, digital sales, the advisory model supported by data analytics, and new sources of revenues. The normalisation of interest rates, faster than initially assumed, should contribute positively towards fulfilment of the revenue target. Operating expenses will grow at a much slower pace than that for revenues, and also slower than inflation. These positive operating jaws will be powered by savings from simplification and decommissioning of old technologies and decrease in the numbers of branches and employees. The cost-to-income ratio is targeted to move below 40%, with significant improvement during 2024–25 driven by new revenues and savings from rolling out the new digital bank. With a view to reinforcing the scale of KB's existing business and thus optimising efficiency and competitiveness in high-potential business segments within the 2025 planning horizon, KB will consider to enhance its performance with non-organic growth elements. Implementation of any such ambition will be subject to further careful assessments and validations. The minimum ambition for the number of bank clients inclusive of the non-organic growth component has been set at 2,000,000. The targeted cost-to-income ratio below 40% is valid also for the scenario of non-organic growth. Upon successful implementation of non-organic growth components, and assuming normalisation in the cost of risk levels at 25 basis points, KB Group targets ROE above 15% for 2025.

## Selected achievements and initiatives in the third quarter 2021

In September, the Social Responsibility Association recognised projects best contributing to fulfilment of the United Nations' Sustainable Development Goals (SDGs) in Czechia. The expert jury selected Komerční banka in the Reporting category for its non-financial report, which clearly describes the Bank's comprehensive approach to sustainable development, including both its own sustainable activities as well as its important influence via financing.

The innovative inaugural issue of euro-denominated mortgage bonds from January brought KB several recognitions. The latest of these, coming in September, is the No. 1 ranking in the Best Debut Deal category of the 2021 Covered Bond Awards that are based upon a survey conducted among arranger banks, investors, and issuers of covered bonds by the renowned magazine GlobalCapital. This followed joining in April the Covered Bond Label, a designation emphasising the security and quality of covered bond programmes, and receiving in July a prestigious international award in the Pioneer category of The Covered Bond Report Awards for Excellence 2021 for the same issue.

In July, KB deployed a new OLEG omnichannel lead generation technology that supports consistent and clear communication with clients across channels, improved reactivity to client demands, and more effective targeting of the Bank's offer.

In August, via its KB Smart Solutions platform, KB established a partnership with the iÚčto cloud-based system, which makes accounting, tax and management reporting, invoicing, and stock evidence easier for small businesses. KB clients can automatically link the transactions on their bank accounts with invoices issued and received and recognise them in accounting.

In September, KB began offering authentication services via bank identity for commercial service providers. The service, which had already been used for access to government services, newly authenticates communication with energy providers, including ČEZ.

Also with ČEZ, Komerční banka concluded in October a strategic partnership for sustainability. The two companies will co-operate in reducing their own carbon footprint as well as the emissions generated by their clients. The first step is the model of photovoltaic rooftop installations as a service. KB also began purchasing energy from renewable sources from ČEZ ESCO.

Also in October, Komerční pojišťovna was named The Best Life Insurer and scored second in the Most Client Friendly Life Insurer category of the 2021 Best Insurance Company Awards presented by the economic daily Hospodářské noviny.

## Developments in the client portfolio and distribution networks

|   | 30 Sep 2020 | 30 Sep 2021 | Change YoY |
|---|-------------|-------------|------------|
| KB Group's clients <sup>1), 2)</sup>          | 2,299,000   | 2,237,000   | (62,000)   |
| Komerční banka <sup>1)</sup>                  | 1,651,000   | 1,623,000   | (27,000)   |
| – individual clients <sup>1)</sup>            | 1,397,000   | 1,380,000   | (17,000)   |
| – internet banking clients                    | 1,440,000   | 1,457,000   | 17,000     |
| – mobile banking clients                      | 904,000     | 1,008,000   | 104,000    |
| Modrá pyramida                                | 480,000     | 484,000     | 4,000      |
| KB Penzijní společnost                        | 526,000     | 522,000     | (4,000)    |
| ESSOX (Group) <sup>2)</sup>                   | 154,000     | 138,000     | (16,000)   |
| KB branches (CZ)                              | 243         | 243         | 0          |
| Modrá pyramida points of sale                 | 201         | 201         | 0          |
| SGEF branches                                 | 9           | 9           | 0          |
| ATMs  | 802         | 856         | 54         |
| of which deposit-taking                       | 415         | 494         | 79         |
| of which contactless                          | 286         | 579         | 293        |
| Number of active debit cards                  | 1,411,000   | 1,415,000   | 4,000      |
| Number of active credit cards                 | 182,000     | 183,000     | 2,000      |
| Number of cards virtualized into payment apps | 252,000     | 359,000     | 107,000    |
| KB key authentication users                   | 740,000     | 935,000     | 194,000    |

<sup>1)</sup> Year on year decline affected by termination of accounts as a result of Know-Your-Client remediation process.

<sup>2)</sup> Year on year decline influenced by termination of non-active credit card relationships.



## Comments on business and financial results

The financial data published below are from unaudited consolidated results compiled under IFRS (International Financial Reporting Standards). Unless stated otherwise, the data are as of 30 September 2021.

## BUSINESS PERFORMANCE

### Loans to customers

Total **gross volume of lending to clients** rose by 4.7% year on year to CZK 724.8 billion.<sup>1)</sup>

In lending to individuals, the overall volume of housing loans grew by 8.9% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 6.8% to CZK 258.3 billion. Modrá pyramida's loan portfolio grew by a strong 17.4% to CZK 72.5 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was down (1.0%), at CZK 33.1 billion.

The total volume of **loans to businesses** and other lending provided by KB Group was up by 1.6% year on year, at CZK 361.0 billion. Lending to small businesses grew by 4.5% to CZK 47.7 billion. The overall CZK volume of credit granted by KB to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia<sup>2)</sup> improved by 1.3% year on year to CZK 282.7 billion. At CZK 30.6 billion, the total credit and leasing amounts outstanding at SGEF were up by 0.1% year over year.

### Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group rose by 12.1% year on year to CZK 1,043.1 billion.<sup>3)</sup> Deposits at Komerční banka from individual clients grew by 15.6% from the year earlier to CZK 357.8 billion. The deposit book at Modrá pyramida increased by 0.6% to CZK 60.4 billion. Total deposits from businesses and other corporations climbed by 11.8% to CZK 613.6 billion.

Client assets managed by KB Penzijní společnost were 7.1% greater, at CZK 70.3 billion. Technical reserves in life insurance at Komerční pojišťovna were up by 1.7% year on year, at CZK 50.5 billion. The volumes in mutual funds held by KB Group clients grew by 8.2% to CZK 78.7 billion.

The Group's liquidity as measured by the ratio of net loans<sup>4)</sup> to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 68.1%. The Group's liquidity coverage ratio stood at 200%, well above the regulatory limit of 100%.

## FINANCIAL PERFORMANCE

### Income statement

Komerční banka's **revenues (net operating income)** for the first nine months of 2021 increased by 1.3% year on year to reach CZK 22,628 million. This increase was driven by net fees and commissions and net gains from financial operations. Despite increased volumes of loans and deposits, net interest income was lower year on year due to the drop in interest rates after the first pandemic outbreak.

**Net interest and similar income** was down by (4.7%), at CZK 15,347 million. Although loan and deposit volumes were growing, average market interest rates were significantly lower year on year, thus affecting the yields from reinvesting deposits and the Bank's own funds. The net interest margin for the first nine months of 2021, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 1.7%. That compares to 2.0% a year earlier.

**Net fee and commission income** increased by 8.0% to CZK 4,167 million. Clients' transaction activity began to recover in the second quarter after the partial lockdown of the economy had been lifted. The deposit product fees were stable. Fees from cross-selling were up due to income from mutual funds and life insurance products. Income from loan services was down year over year, affected by commissions paid for guarantees provided in COVID programmes. KB recorded higher income from specialised financial services, mainly due to strong activity in issuance of debt instruments by clients, loan syndication, and related advisory activities.

<sup>1)</sup> Excluding volatile reverse repo operations with clients but including debt securities issued by KB's corporate clients. If reverse repo operations are included, gross lending increased by 4.2% to CZK 724.8 billion.

<sup>2)</sup> Inclusive of factor finance outstanding at Factoring KB and merchant and car dealers' financing from ESSOX Group.

<sup>3)</sup> Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' increased by 13.2% to CZK 1,093.9 billion.

<sup>4)</sup> Gross volume of loans reduced by the volume of provisions for loan losses.

**Net profit from financial operations** improved by 33.2% to CZK 2,954 million. Clients' activity in IR and FX hedging increased, driven by evolving expectations about future CZK exchange and interest rates and KB's appropriate offer of hedging solutions. The Bank also played leading roles in several important capital market deals of its clients and often provided financial hedging to such deals. Traded volumes of government bonds increased along with a larger supply. A partial recovery in travel and related currency conversions were reflected in improved FX gains from payments compared to 2020's low base.

**Dividend and other income** declined by (5.3%) to CZK 160 million. This line item primarily comprises revenues from property rental and ancillary services.

**Operating expenditures** were reduced by (0.7%) to CZK 11,354 million. Personnel expenses declined by (3.7%) to CZK 5,600 million, reflecting decrease in the number of employees by (4.9%) to 7,705.<sup>1)</sup> KB also agreed with the trade unions on maintaining stable base salaries in 2021. General administrative expenses (not including contributions to the regulatory funds) were down by (4.1%), at CZK 2,611 million, as higher expenses related to IT and marketing were offset by lower real estate and telecommunications costs. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 1,036 million, up 10.6% year on year. The CNB adjusted the target volume of the Resolution Fund for 2024 and boosted the aggregate annual contribution from Czech banks by 15.1% year on year. Depreciation and amortisation grew by 7.6% to CZK 2,107 million, driven mainly by new and upgraded software and IT equipment acquired in pursuit of KB's digitalisation strategy.

The sum of profit before allowances for loan losses, provisions for other risk, profit on subsidiaries, and income tax (**operating profit**) increased by 3.3% to CZK 11,274 million.

**Cost of risk** reached CZK 719 million, lower by (78.9%) in comparison with the three quarters of 2020. The provisions creation related mainly to corporate portfolios, where it was concentrated in a small number of client situations. The Group also booked portfolio provisions for selected Covid-sensitive sectors, and it is reporting limited reversals on IFRS 9 provisioning model reserves. The Group was able to slightly decrease the volume of provisions related to retail portfolio. That was in accord with the good recovery performance and contained risk profile of terminated moratorium portfolios. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during the nine months of 2021 came to 14 basis points. That compares with 68 basis points for the same period a year ago.

**Income from shares in associated undertakings** (i.e. Komerční pojišťovna) was down (12.5%) year on year, at CZK 168 million, influenced by the development of yields and increased creation of technical reserves at KP.

**Profit attributable to exclusion of companies from consolidation** totalled CZK 25 million, and it included decrease in KB's participation in Bankovní identita, a.s.

**Net profits on other assets** reached CZK 28 million, which amount was linked mainly to sales of buildings and finished leases of buildings. In the previous year, this result had been CZK (5) million.

**Income tax** was higher by 36.6%, at CZK 2,015 million.

KB Group's consolidated **net profit** for the first nine months of 2021 reached CZK 8,760 million, up by 41.8% in comparison with a year earlier. Of this total, CZK 203 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (versus CZK 95 million a year earlier).

Reported **net profit attributable to the Group's equity holders** totalled CZK 8,557 million, which is 40.7% more year on year.

**Other comprehensive income**, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK 1,298 million, driven by lower credit spreads mainly on Czech government bond holdings.

**Consolidated comprehensive income** for the first nine months of 2021 totalled CZK 10,058 million, of which CZK 199 million was attributable to owners of non-controlling stakes.

### Statement of financial position

*Unless indicated otherwise, the following text provides a comparison of the balance sheet values as of 30 September 2021 with the values from the statement of financial position as of 31 December 2020.*

#### Assets

As of 30 September 2021, KB Group's total assets had grown by 18.1% year to date to CZK 1,378.9 billion.

<sup>1)</sup> Recalculated to a full-time equivalent number.

Cash and current balances with central banks were up 235.8%, at CZK 79.1 billion. This line item is volatile because it is influenced by liquidity management and fulfilment of the mandatory minimum reserves requirement. Financial assets at fair value through profit or loss (trading securities and derivatives) increased by 22.5% to CZK 31.4 billion. The fair value of hedging financial derivatives diminished by (37.9%) to CZK 8.3 billion.

Year to date, there was a (6.0%) decline in financial assets at fair value through other comprehensive income totalling CZK 37.8 billion. This item consisted mainly of public debt securities.

Financial assets at amortised cost grew by 15.4% to CZK 1,194.3 billion. The largest portion of this item consisted of (net) loans and advances to customers, which summed year to date 4.4% to CZK 709.8 billion. A 97.3% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.7% of the loans were classified in Stage 3 (non-performing). The volume of loss allowances created for amounts due from customers came to CZK 13.7 billion. Loans and advances to banks increased by 42.7% to CZK 374.8 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 18.2% and reached CZK 109.8 billion at the end of 2021's third quarter.

Revaluation differences on portfolio hedge items totalled a negative CZK (0.1) billion. Current and deferred tax assets stood at CZK 0.3 billion. Other assets and accrued accounts, which include receivables from securities trading and settlement balances, increased overall by 10.3% to CZK 5.6 billion. Assets held for sale rose by 35.5% to CZK 0.2 billion.

Investments in subsidiaries and associates declined by (6.9%) to CZK 1.5 billion.

The net book value of tangible assets declined by (4.2%) to CZK 9.4 billion. Intangible assets grew by 8.5% to reach CZK 7.5 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF, and ESSOX, remained unchanged at CZK 3.8 billion.

#### Liabilities

Total liabilities were 19.2% higher in comparison to the end of 2020 and stood at CZK 1,251.8 billion.

Financial liabilities at amortised cost went up by 20.5% to CZK 1,200.9 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 20.7% to CZK 1,093.9 billion. This total included CZK 50.8 billion of liabilities from repo operations with clients and CZK 6.6 billion of other payables to customers. Amounts due to banks increased in the third quarter of 2021 by 4.4% to CZK 90.4 billion.

The volume of outstanding securities issued expanded significantly to CZK 14.0 billion. That reflected the successful EUR 500 million placement of a first tranche of euro-denominated mortgage covered bonds under the newly opened EUR covered bond programme in the first quarter of 2021.

Revaluation differences on portfolios hedge items were negative CZK (18.5) billion. Current and deferred tax liabilities rose to CZK 1.1 billion. Other liabilities and accruals, which include payables from securities trading and settlement balances, increased by 63.1% to CZK 18.6 billion.

The provisions balance was lower by (22.2%), at CZK 1.6 billion. Provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise those for ongoing contracted contingent commitments, legal disputes, self-insurance, and the retirement benefits plan.

Subordinated debt, at CZK 2.6 billion, was down (2.9%) year to date. Because that debt is issued in euro, the change reflects appreciation of the Czech crown over the same period.

#### Equity

Total equity grew year to date by 8.6% to CZK 127.2 billion. The value of non-controlling interests reached CZK 3.4 billion. As of 30 September 2021, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

### **Regulatory capital and requirements**

Total **regulatory capital** for the capital adequacy calculation came to CZK 108.4 billion as of 30 September 2021. **Capital adequacy** stood at 23.0%. Core Tier 1 capital amounted to CZK 106.1 billion, and the Core Tier 1 ratio stood at 22.5%. Tier 2 capital totalled CZK 2.3 billion, which was 0.5% of risk-weighted assets.

As of 30 September 2021, Komerční banka's overall capital requirements (OCR) came to approximately 16.2% in relation to the consolidated volume of risk-weighted assets. The minimum Core Tier 1 capital level was around 12.2%, and the minimum Tier 1 capital ratio stood at about 14.2%. The regulatory requirements decreased temporarily on 1 October 2021, from which date Komerční banka is required to maintain a capital buffer for other systemically important institutions (so-called O-SII) at 2.0% of the consolidated volume of risk-weighted assets. Meanwhile, the requirement to maintain a capital buffer for systemic risk, which had been set at 3.0% since 3 August 2016, was cancelled.

Komerční banka will continue in its capital planning to apply prudent assumptions about the future development of regulatory capital requirements. The OCR will increase by 0.5% from July 2022 and by an additional 0.5% from October 2022 due to increases in the countercyclical buffer requirement on Czech exposures announced by the Czech National Bank in May 2021 and in August 2021, respectively.

KB Group's Liquidity Coverage Ratio reached 200% as of 30 September 2021. The applicable regulatory minimum is 100%.

## Developments in corporate governance and in KB Group (in the third quarter 2021)

The Extraordinary General Meeting of KB, held per rollam between 18 October and 2 November 2021, approved distribution of retained earnings in the amount of CZK 4.5 billion, which represents CZK 23.86 per share before taxation. The record date for the dividend is 11 November 2021 and the payment date is 3 December 2021.

In August, Michael Pupala became Chairman of the Management Board and Chief Executive Officer of Modrá Pyramida. Mr. Pupala replaced Pavel Jiráček in this post.

**ANNEX: Consolidated results as of 30 September 2021 under International Financial Reporting Standards (IFRS)**

| Profit and Loss Statement<br>(CZK million, unaudited)                   | Reported        |                 |                | Recurring       |                 |                |
|---|-----------------|-----------------|----------------|-----------------|-----------------|----------------|
|   | 9M 2020         | 9M 2021         | Change YoY     | 9M 2020         | 9M 2021         | Change YoY     |
| Net interest income   | 16,099          | 15,347          | (4.7%)         | 16,099          | 15,347          | (4.7%)         |
| Net fee and commission income   | 3,860           | 4,167           | 8.0%           | 3,860           | 4,167           | 8.0%           |
| Net profit on financial operations                                      | 2,218           | 2,954           | 33.2%          | 2,218           | 2,954           | 33.2%          |
| Dividend and other income   | 169             | 160             | (5.3%)         | 169             | 160             | (5.3%)         |
| <b>Net banking income</b>   | <b>22,346</b>   | <b>22,628</b>   | <b>1.3%</b>    | <b>22,346</b>   | <b>22,628</b>   | <b>1.3%</b>    |
| Personnel expenses  | (5,814)         | (5,600)         | (3.7%)         | (5,814)         | (5,600)         | (3.7%)         |
| General admin. expenses (excl. regulatory funds)                        | (2,722)         | (2,611)         | (4.1%)         | (2,722)         | (2,611)         | (4.1%)         |
| Resolution and similar funds  | (937)           | (1,036)         | 10.6%          | (937)           | (1,036)         | 10.6%          |
| Depreciation, amortisation and impairment of operating assets           | (1,959)         | (2,107)         | 7.6%           | (1,959)         | (2,107)         | 7.6%           |
| <b>Total operating expenses</b>   | <b>(11,433)</b> | <b>(11,354)</b> | <b>(0.7%)</b>  | <b>(11,433)</b> | <b>(11,354)</b> | <b>(0.7%)</b>  |
| <b>Operating profit</b>   | <b>10,913</b>   | <b>11,274</b>   | <b>3.3%</b>    | <b>10,913</b>   | <b>11,274</b>   | <b>3.3%</b>    |
| Impairment losses   | (3,524)         | (754)           | (70.2%)        | (3,524)         | (754)           | (70.2%)        |
| Net gain from loans and advances transferred and written off            | 117             | 35              | (70.2%)        | 117             | 35              | (70.2%)        |
| <b>Cost of risk</b>   | <b>(3,407)</b>  | <b>(719)</b>    | <b>(78.9%)</b> | <b>(3,407)</b>  | <b>(719)</b>    | <b>(78.9%)</b> |
| <b>Net operating income</b>   | <b>7,506</b>    | <b>10,554</b>   | <b>40.6%</b>   | <b>7,506</b>    | <b>10,554</b>   | <b>40.6%</b>   |
| Income from share of associated companies                               | 192             | 168             | (12.5%)        | 192             | 168             | (12.5%)        |
| Profit/(loss) attributable to exclusion of companies from consolidation | (41)            | 25              | +/-            | (41)            | 25              | +/-            |
| Net profits on other assets   | (5)             | 28              | +/-            | (5)             | 28              | +/-            |
| <b>Profit before income taxes</b>                                       | <b>7,652</b>    | <b>10,776</b>   | <b>40.8%</b>   | <b>7,652</b>    | <b>10,776</b>   | <b>40.8%</b>   |
| Income taxes  | (1,475)         | (2,015)         | 36.6%          | (1,475)         | (2,015)         | 36.6%          |
| <b>Net profit for the period</b>  | <b>6,177</b>    | <b>8,760</b>    | <b>41.8%</b>   | <b>6,177</b>    | <b>8,760</b>    | <b>41.8%</b>   |
| Profit attributable to the Non-controlling owners                       | 95              | 203             | >100%          | 95              | 203             | >100%          |
| <b>Profit attributable to the Group's equity holders</b>                | <b>6,082</b>    | <b>8,557</b>    | <b>40.7%</b>   | <b>6,082</b>    | <b>8,557</b>    | <b>40.7%</b>   |

| Statement of financial position<br>(CZK million, unaudited) | 31 Dec 2020      | 30 Sep 2021      | Ytd          |
|---|------------------|------------------|--------------|
| <b>Assets</b>   | <b>1,167,131</b> | <b>1,378,937</b> | <b>18.1%</b> |
| Cash and current balances with central bank                 | 23,547           | 79,070           | 235.8%       |
| Loans and advances to banks                                 | 262,606          | 374,771          | 42.7%        |
| Loans and advances to customers (net)                       | 679,956          | 709,811          | 4.4%         |
| Securities and trading derivatives                          | 158,916          | 178,914          | 12.6%        |
| Other assets  | 42,106           | 36,371           | (13.6%)      |
| <b>Liabilities and shareholders' equity</b>                 | <b>1,167,131</b> | <b>1,378,937</b> | <b>18.1%</b> |
| Amounts due to banks  | 86,572           | 90,385           | 4.4%         |
| Amounts due to customers                                    | 906,217          | 1,093,858        | 20.7%        |
| Securities issued   | 1,148            | 14,017           | 1,121.0%     |
| Subordinated debt   | 2,629            | 2,554            | (2.9%)       |
| Other liabilities   | 53,507           | 50,951           | (4.8%)       |
| Total equity  | 117,058          | 127,173          | 8.6%         |

| Key ratios and indicators  | 30 Sep 2020 | 30 Sep 2021 | Change year on year |
|--|-------------|-------------|---------------------|
| Capital adequacy (CNB)   | 21.6%       | 23.0%       | ▲                   |
| Tier 1 ratio (CNB)   | 20.9%       | 22.5%       | ▲                   |
| Total risk-weighted assets (CZK billion)                                   | 446.7       | 471.1       | 5.5%                |
| Risk-weighted assets for credit risk (CZK billion)                         | 375.2       | 388.9       | 3.6%                |
| Net interest margin (NII / average interest-bearing assets) <sup>iii</sup> | 2.0%        | 1.7%        | ▼                   |
| Loans (net) / deposits ratio <sup>iv</sup>                                 | 73.2%       | 68.1%       | ▼                   |
| Cost / income ratio <sup>v</sup>   | 51.2%       | 50.2%       | ▼                   |
| Return on average equity (ROAE) <sup>vi</sup>                              | 7.5%        | 9.6%        | ▲                   |
| Return on average Tier 1 capital <sup>vii</sup>                            | 9.1%        | 11.2%       | ▲                   |
| Return on average assets (ROAA) <sup>viii</sup>                            | 0.7%        | 0.9%        | ▲                   |
| Earnings per share (CZK) <sup>x</sup>                                      | 43          | 60          | 40.7%               |
| Average number of employees during the period                              | 8,099       | 7,705       | (4.9%)              |

| Business performance in retail segment – overview                       | 30-Sep-21 | Change year on year |
|---|-----------|---------------------|
| CZK bil.  |           |                     |
| Mortgages to individuals – volume of loans outstanding                  | 258.3     | 6.8%                |
| Building savings loans (MPSS) – volume of loans outstanding             | 72.5      | 17.4%               |
| Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding | 33.1      | (1.0%)              |
| Small business loans – volume of loans outstanding                      | 47.7      | 4.5%                |
| Insurance premiums written (KP)   | 6.4       | 4.7%                |

### Financial calendar:

|                  |                        |
|------------------|------------------------|
| 10 February 2022 | FY and Q4 2021 results |
| 5 May 2022       | Q1 2022 results        |
| 3 August 2022    | H1 and Q2 2022 results |
| 4 November 2022  | 9M and Q3 2022 results |

## Definitions of the performance indicators mentioned herein:

- I. **Housing loans:** mortgages to individuals provided by KB + loans to clients provided by Modrá pyramida;
- II. **Cost of risk in relative terms:** annualised 'Allowances for loan losses' divided by the average of 'Gross amount of client loans and advances', year to date;
- III. **Net interest margin (NIM):** 'Net interest income' divided by average interest-earning assets (IEA) year to date (IEA comprise 'Cash and current balances with central banks' ['Current balances with central banks' only], 'Loans and advances to banks', 'Loans and advances to customers', 'Financial assets held for trading at fair value through profit or loss' [debt securities only], 'Non-trading financial assets at fair value through profit or loss' [debt securities only], 'Financial assets at fair value through other comprehensive income' [debt securities only], and 'Debt securities');
- IV. **Net loans to deposits:** ('Net loans and advances to customers' inclusive of debt securities held by KB and issued by the Bank's clients less 'reverse repo operations with clients') divided by the quantity ('Amounts due to customers' less 'repo operations with clients');
- V. **Cost to income ratio:** 'Operating costs' divided by 'Net operating income';
- VI. **Return on average equity (ROAE):** annualised 'Net profit attributable to the Group's equity holders' divided by the quantity (average group 'Shareholders' equity' less 'Minority equity'), year to date;
- VII. **Return on average Tier 1 capital:** annualised 'Net profit attributable to the Group's equity holders' divided by average group 'Tier 1 capital', year to date;
- VIII. **Return on average assets (ROAA):** annualised 'Net profit attributable to the Group's equity holders' divided by average 'Total assets', year to date;
- IX. **Earnings per share:** annualised 'Net profit attributable to the Group's equity holders' divided by the quantity (average number of shares issued minus average number of own shares in treasury).

### Reconciliation of 'Net interest margin' calculation, (CZK million, consolidated, unaudited):

| (source: Profit and Loss Statement)             | 9M 2021       | 9M 2020       |
|---|---------------|---------------|
| <b>Net interest income income, year-to-date</b> | <b>15,347</b> | <b>16,099</b> |
| Of which:                                       |               |               |
| Loans and advances at amortised cost            | 13,944        | 15,324        |
| Debt securities at amortised cost               | 1,524         | 1,288         |
| Other debt securities                           | 518           | 517           |
| Financial liabilities at amortised cost         | (1,410)       | (2,220)       |
| Hedging financial derivatives – income          | 7,526         | 11,689        |
| Hedging financial derivatives – expense         | (6,754)       | (10,499)      |

| (source: Balance Sheet)  | 30-Sep-21        | 31-Dec-20        | 30-Sep-20        | 31-Dec-19        |
|--|------------------|------------------|------------------|------------------|
| Cash and current balances with central banks/ Current balances with central banks          | 69,952           | 15,050           | 38,699           | 7,737            |
| Loans and advances to banks  | 374,771          | 262,606          | 314,422          | 244,561          |
| Loans and advances to customers  | 709,811          | 679,956          | 683,684          | 647,259          |
| Financial assets held for trading at fair value through profit or loss/ Debt securities    | 10,244           | 3,342            | 9,066            | 4,112            |
| Non-trading financial assets at fair value through profit or loss/ Debt securities         | 0                | 279              | 0                | 0                |
| Financial asset at fair value through other comprehensive income (FV OCI)/ Debt securities | 37,730           | 40,151           | 41,159           | 35,682           |
| Debt securities  | 109,760          | 92,839           | 89,387           | 71,581           |
| <b>Interest-bearing assets (end of period)</b>   | <b>1,312,268</b> | <b>1,094,223</b> | <b>1,176,417</b> | <b>1,010,932</b> |
| <b>Average interest-bearing assets, year-to-date</b>                                       | <b>1,203,246</b> |                  | <b>1,093,675</b> |                  |
| <b>NIM year-to-date, annualised</b>  | <b>1.70%</b>     |                  | <b>1.96%</b>     |                  |