Komerční banka, a.s.

RESULTS

FY 2020

Regulatory information

Komerční banka, a.s.

Komerční banka in 2020: managing pandemic challenges, developing sustainable business for the future

"The pandemic and the related economic hardships have changed a number of economic sectors, as well as people's habits and requirements. Komerční banka has continued to deliver its services to clients in a secure and convenient way. We have also completed the first part of our transformation, and we have even begun implementing the new strategic programme until 2025, which will make KB a leader in the new era of banking," remarked Jan Juchelka, KB's Chairman of the Board of Directors and Chief Executive Officer.

"The next steps are highlighting our focus on digital and sustainable banking," he added. "We have committed to becoming carbon neutral by 2026, and we have set up construction of the new digital bank with the Temenos Transact platform at its core. Komerční banka will remain a trustworthy and reliable partner for our clients, employees, and other stakeholders."

- **KB maintains a robust capital base with total capital adequacy at 22.3%, not including profit generated in 2020. That is significantly above the applicable regulatory minimum of 16.2%. The Bank expects discussion with the CNB on the dividend proposal to begin in March, upon finalising audited financial statements.**

- **Overall volume of standard client deposits within KB Group increased by 9.4% to CZK 893.0 billion. The volume of net loans granted corresponds to 76.1% of the client deposit base.**

- **Total volume of the Group's lending to customers expanded by 5.7% year on year to CZK 691.4 billion. Lending grew in both retail and corporate client segments.**

- **KB has clearly led the market in lending to clients under Covid guarantee programmes. Within the COVID III programme, KB approved 1,700 client applications totalling CZK 12 billion, thereby achieving 53% market share by approved volume (59% by volume drawn). The Bank applies its standard risk assessment and underwriting process for these loans.**

- **Quality of assets remained very good. All payment moratoria expired by the end of October and the vast majority of clients returned to standard repayment schedules.**

- **Financial performance remains resilient despite major economic decline caused by the pandemic. The Group reported a (8.9%) decline in revenues and 0.4% increase in operating expenditures, affected by higher regulatory charges. Net creation of credit risk provisions reached CZK 4.6 billion, reflecting impacts of the Covid-19 crisis. Net profit attributable to shareholders decreased by (45.3%) to CZK 8.2 billion.**

- **With the Temenos Transact platform at its core, Komerční banka has begun building its new digital bank.**

- **KB has committed to make its operations carbon neutral by 2026. It also has acceded to the European Diversity Charter, pledging to promote diversity and equal opportunities for its employees.**

Prague, 10 February 2021 – Komerční banka reported today its unaudited consolidated results for the year 2020.

The results for the year 2020 were significantly affected by the coronavirus pandemic. Komerční banka has met its responsibilities as a part of the Czech Republic's critical infrastructure. The KB Group companies have maintained the full scope of the services offer to clients, including financing, throughout the state of emergency. The Group promptly switched to a protected mode of operations, and prudently managed all risks. KB also honoured all its commitments to employees and deepened the sustainability of its businesses. The remaining steps of the KB Change 2020 transformation programme were implemented, and the Bank launched a new strategic programme with the horizon until 2025. In the circumstances, business performance was good. The financial performance was affected by sharp deterioration in economic conditions relating to the Covid-19 global pandemic.

KB reported extraordinarily strong capital adequacy, at 22.3%, in the context of European banking, even before inclusion of 2020's profit. The Bank's liquidity remains exceptional, too, as net loans represent just 76.1% of the client deposit base.

Total revenues decreased by (8.9%) to CZK 29.7 billion. Net interest income was down by (9.5%), at CZK 21.4 billion, mainly due to significant decline in market interest rates that negatively affect yields from reinvested deposits. Net fee and commission income diminished by (12.9%) to CZK 5.2 billion, mainly because of reduced transaction and sales activity but also reflecting impacts from new regulation of fees for cross-border payments. Net profit on financial operations increased by 2.9% to CZK 2.9 billion, as greater demand for hedging of financial risks in the uncertain environment was offset by a drop in foreign currency conversions and transactions.

Operating expenses were up by 0.4%, at CZK 15.0 billion, driven mainly by greater contribution to the Resolution and Deposit insurance funds and increase in amortisation charges connected to investments in digitalising the Bank and its services. Personnel expenses were lower, as the average number of employees decreased by (1.3%) to 8,062. General administrative costs diminished due to savings in travel, marketing, and events costs, in spite of higher expenses related to IT, telecommunications, and purchase of protective equipment.

Cost of risk for 2020 totalled CZK 4.6 billion, compared to a net release of credit risk provisions booked in 2019. The creation of provisions was predominantly induced by economic hardship ensuing from the coronavirus pandemic. These consisted of a charge for expected losses based on macroeconomic scenarios as envisaged in the IFRS 9 accounting standard, impact from reviews of the risk profile of non-defaulted portfolios, and provisions for newly defaulted exposures in mainly corporate segments. The full transmission of crisis impacts into the risk profile was delayed by various government support programmes, including payment moratoria.

The reported attributable net profit was down (45.3%), at CZK 8.2 billion.

Lending to clients increased by 5.7% to CZK 691.4 billion.[1)] Within this total, financing of housing from KB and Modrá pyramida expanded by 8.3% and consumer lending from KB and ESSOX declined by (1.2%). Lending to businesses and other clients (provided by KB, SGEF, Factoring KB, and ESSOX) was up by 4.3%.

Deposits from clients climbed by 9.4% year on year to CZK 893.0 billion.[2)] The volume of KB Group clients' assets in mutual funds, pension savings, and life insurance expanded by 2.8% to CZK 188.9 billion. The liquidity coverage ratio was at 200%, significantly above the regulatory minimum of 100%.

The capital adequacy ratio reached a strong 22.3%, not including profit generated in 2020, in comparison to a required minimum of 16.2%, and Core Tier 1 capital stood at 21.7%, compared to the 12.2% required by regulation. KB's total capital adequacy is even significantly over the target range for capital ratio of 50 – 200 bps above the regulatory minimum.

The CNB has announced that it is setting the profit distribution restrictions in co-ordination with other regulators within the ESRB.[3)] The CNB has recommended that KB refrain from making any dividend distribution from its profits unless mutual consensus is reached through prior joint discussion between KB and the supervisory authority. The Board of Directors has decided to propose to the Supervisory Board and the Annual General Meeting to accept the recommendation of the CNB and not to distribute any dividend until the mutual consensus between CNB and KB is reached. For the year 2021, the Board of Directors approved the dividend policy of 0-100% pay-out (i.e. applicable solely to the result of 2021).

The Board of Directors intends, as soon as the regulators allow, to return to shareholders the capital surplus exceeding the volume needed in accordance with the outlook for organic and inorganic growth in risk-weighted assets (as envisaged in the KB Change 2025 strategic plan) and for capital requirements. The Board of Directors declares its readiness to call an extraordinary general meeting during 2021.

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1) 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 5.3% year over year to CZK 691.4 billion.

2) Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 10.3% to CZK 906.2 billion.

3) https://www.cnb.cz/en/cnb-news/press-releases/CNB-standpoint-on-the-extension-of-dividend-payment-restrictions/

The Bank had 57,001 shareholders as of 31 December 2020 (up by 6,539 year on year), of which 51,444 were private individuals from the Czech Republic (greater by 6,084 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.

Fulfilment of goals set for 2020

The development of the economic environment in the Czech Republic during 2020 was significantly different than the Bank had assumed in its outlook for business development and financial performance, first presented to investors on 6 February 2020. This outlook had been noted as being under review in KB's annual report published on 23 March, due to the rapidly evolving global pandemic situation caused by outbreaks of the Covid-19 disease.

External environment changed significantly compared to original assumptions

As seen in other European countries, the Czech government proclaimed a state of emergency from 12 March 2020 and introduced a range of measures directed to containing the spread of the SARS CoV-2 coronavirus, including significant restrictions on cross-border travel to and from the Czech Republic; on hospitality services; on sales of non-essential products in retail shops; on social, cultural, and sports gatherings; on school attendance; and on personal access to some government services. At an extraordinary monetary policy meeting on 16 March, the Czech National Bank lowered its main policy rate by 75 bps to 1.5% and a further cut (by 50 bps to 1%) came at its regular meeting on 26 March. Several major industrial producers in the automotive and other sectors have interrupted their production in order to protect their employees, but also due to ensuing disruptions to global supply chains caused by the pandemic. The first state of emergency was lifted on 17 May 2020 following a temporary improvement in the epidemic situation and restrictive measures were partially relaxed. The state of emergency was reintroduced from 5 October, and it has extended into 2021, with restrictive measures generally being tightened in response to increasing numbers of infected people and worsening burden on the country's health care system.

KB maintained full scope of services to clients, switched operations to protected mode

Komerční banka has met its responsibilities as a part of the Czech Republic's critical infrastructure. The KB Group companies have maintained operations throughout the state of emergency announced by the government, and they have maintained the full scope of the services offer to clients, including financing. KB has followed its business continuity plan as updated for the specifics of the current pandemic situation, and it has rapidly taken measures to protect its employees and clients. Most branches have remained open. At the peak of the country's lockdown as of 31 March 2020, KB had 224 branches open and 108 branches were temporarily closed.

Members of staff within the branch network and in certain operational functions have been working from their standard workplaces or from activated backup workplaces in a rotational mode, thereby limiting the risk of mutual infection. They have been provided with protective respirators, face masks, and gloves. The contact points and workplaces had been equipped with glass partitions and disinfectants.

More than 5,000 employees began working from home. To enable this, the Bank has purchased additional notebook computers and activated a virtual desktop infrastructure. The Bank has also expanded the capacity of its VPN (virtual private network) solutions and data lines. Thereby, it has smoothly absorbed the increased number of concurrent users.

Financial performance affected by pandemic

Due to the negative economic consequences of the Covid-19 pandemic and restrictive measures implemented to contain spread of the coronavirus, the financial performance assumed for 2020 at the beginning of the year, as well a the ambitions of the KB Change 2020 plan presented in 2018, could be delivered only in part. A sharp drop in market interest rates linked to decrease in the Czech National Bank's monetary policy rates negatively affected net interest income. The subdued economic activity in the country was reflected in smaller fee income. Net gains from financial operations absorbed a negative contribution from a drop in numbers of currency conversions linked to diminished foreign trade volumes along with reduced tourism and business travel. This was offset by additional demand from some clients for hedging of financial risks in the environment of greater volatility and uncertainty.

Operating expenditures were managed in accordance with the approved budget, even though KB incurred additional costs linked to facilitating working from home for the vast majority of employees and increased hygienic precautions on its premises. This negative effect of the crisis on costs was mitigated by lower travel, event, and marketing expenses.

The Group recorded a strong impact from the pandemic on the cost of risk. During 2020, KB implemented statutory recalibration of IFRS 9 provisioning models to reflect the ongoing macroeconomic downturn. It has also prudently provisioned the most sensitive parts of the portfolio under moratoria in the retail and corporate segments. Furthermore, the Group created provisions for newly defaulted corporate clients and increased provisions on existing default situations.

In spite of the adverse market conditions, KB achieved even in 2020 a healthy level of profitability and maintained its robust capital adequacy and strong liquidity.

KB achieved good business results

Growth of the Group's loan portfolio reached the level assumed in its initially published outlook, even though clients' borrowing demand was influenced by the crisis to various extents within different loan categories. The prevailing uncertainty affected mainly unsecured consumer lending and, in business segments, clients were limiting or postponing their investment projects and thus demanded less long-term financing. On the other hand, demand for mortgages remained strong, underpinned by low interest rates and perception of housing as an asset providing safety. Financing of working capital needs expanded and business lending was underpinned also by the state guarantee programmes launched as a part of the government's counter-crisis measures. Komerční banka improved its market share on the Czech loan market, both in lending to individuals, as well in financing of non-financial corporations.

Growth in deposits surpassed even the budgeted level. That growth was strong in both retail and corporate segments, attesting to the high level of clients' confidence in Komerční banka also in uncertain times. KB increased its overall market share on the deposit market, as deposits in the Bank from non-financial corporations grew faster than the rate of the overall market. The expansion in deposits from individual clients was dynamic, but still a bit slower than on the market as a whole. In the uncertainty surrounding the pandemic situation, clients reduced their purchases of mutual funds.

KB Group companies also were able during the year to introduce a range of innovative, convenient, and useful financial products and services, developed internally or in cooperation with external partners. Loan products with state guarantee under Covid programmes, digital authentication services, including establishment of the Bank ID joint venture of banks, additions to the services available through mobile and internet banking, and various offers developed on the KB SmartSolutions platform are examples of those innovations most appreciated by clients.

Acting as a responsible corporate citizen

Komerční banka has moved sustainability into the core of its business. In 2020, KB developed and began implementing strategic programmes in support of the sustainable activities of our clients, both in retail and corporate segments. This included allocation of dedicated funds for financing at preferential terms projects with sustainable positive impact, developing advisory capabilities to help clients in their environmentally friendly activities, and launching new products helping to address environmental challenges.

The Bank has formally announced its aim to become carbon neutral by 2026. It had an independent agency measure its carbon footprint and continued to diminish energy consumption and waste production from its own operations. KB has also acceded to the European Diversity Charter, promoting diversity, inclusion, and fair opportunities for all employees.

Employees of the KB and ESSOX call centres have been helping health authorities to trace epidemiologically significant contacts of people infected with Covid-19, thus limiting spread of the disease. The companies have also provided their technical infrastructure and equipment for this tracing. KB Group has also contributed directly or via KB Jistota Foundation to various activities addressing the pandemic situation, as well as some longer-term issues in society. The KB Group companies have not utilised direct financial support from the state, even when eligible to do so under conditions of individual support programmes, as KB Group prefers to leave the limited public resources to those most in need.

KB has been evaluated within renowned global assessments of environmental, social, and governance (ESG) aspects of the business. It received an A rating from MSCI ESG ratings, designed to measure companies' resilience to long-term, industry-material ESG risks. KB was also included into the FTSE4Good Index series (with ESG score 3.3 out of 5), designed to identify companies that demonstrate strong ESG practices measured against international standards.

Prudently managing risks, assuring compliance

All risks have been managed in accordance with the approved Risk Appetite Statement. Although the quality of the loan portfolio and the cost of risk were affected by the sharp economic downturn caused by the pandemic, these remained firmly under control as the Group benefited from its historically prudent underwriting standards, dynamic portfolio monitoring supported by advanced risk indicators and tools, as well as avoidance of excessive concentration in sensitive sectors. Among many measures adopted in the credit risk area, KB modernised its retail collection setup and adequately calibrated the size and seniority of expert teams dedicated to recovery activities. The Instalment Moratorium Law continued to have a significant influence on development of the overall risk profile. After all moratoria had ended by October 2020, default rates for loans that had exited the moratoria remained still low, benefitting also from the state support to employment as well as the other state support measures.

In the area of compliance, KB has implemented several projects affecting important operational and business processes. It has reiterated its zero tolerance policy towards potential misconduct. Among other activities, KB has thoroughly reviewed its portfolio of clients in order to prevent misuse of its services for illegal activities, and it also has reinforced its controls assuring that its suppliers respect human rights and environmental and other regulations.

During the pandemic, KB activated its business continuity plan and adapted it to the new circumstances. In order to maintain strong oversight of the internal control system, KB has implemented a strict validation process and vigilant monitoring for all necessary changes in its processes. To mitigate an increased level of cyber security risk during the emergency period, the Bank has reinforced several security measures, including to implement two-factor authentication for employees (employing KB Key), enhance data leakage prevention capabilities, and heighten Security Operating Centre detection capabilities and capacities.

Fulfilling commitments to employees

KB's strategic vision in managing human resources is to create a professional relationship with employees based on trust, respect, mutual communication, equal opportunities, and the offer of interesting professional and career growth. Partnerships with employees are based on four basic values or principles of behaviour, which are team spirit, innovation, commitment, and responsibility. Together, they form the basis of the corporate culture upon which KB is building its future.

During 2020, the KB Group companies met all their obligations to employees implied by international and national regulations, the collective agreement with the trade unions, and internal commitments. During the pandemic, the Group took measures protecting the health of its employees to the maximum possible extent, and especially the most vulnerable, such as the chronically ill, pregnant women, single parents, and employees over 60 years of age.

The Bank regularly determines employees' opinions, satisfaction, and engagement, and it adopts corresponding measures. One of the goals of the KB Change 2020 transformation programme was to increase employee engagement, as measured by a composite index from results of the KB Puls employee survey (covering the five topical areas effective teamwork, meaning and importance, motivation, recognition, and leadership) to 80% from 72% in 2018. This goal was achieved.

Strategic transformation implemented, new strategic programme prepared and launched

During 2020, KB successfully concluded implementation of the KB Change 2020 strategic transformation programme, introduced in spring 2018. The transformation ensuing from the KB Change 2020 plan is visible in significant simplification, digitalisation, and acceleration of key customer and operational processes. The organisational structure has been delayered both at headquarters and across the distribution network. Following the changes, almost half of central functions are developed and delivered by cross-functional teams employing agile working methods. Products and services increasingly are provided via digital channels, much to the satisfaction of clients. The offer has been further expanded in partnerships with start-up and fintech companies.

KB Group has been able to provide quality financial services and best-in-class advisory in a safe, reliable, and convenient manner. This is reflected in improving client satisfaction during 2018–2020 within all main client segments as measured by Net Promoter Score. The financial targets of the KB Change 2020 plan were not achieved, however, as a direct consequence of the global coronavirus pandemic and its economic impacts.

Based on experience with changed customer behaviour in the emergency state caused by the Covid-19 outbreak, KB's management decided in spring 2020 to accelerate optimisation of the branch network. By September 2020, the number of branches operated by Komerční banka in the Czech Republic had decreased to 242 from 342 branches as of 31 December 2019. The Bank has also rolled out the Smart Office, a flexible and agile workplace organisation based on three pillars: sharing of workplaces + remote working + rotation, whereby the office premises are allocated to teams rather than to individual team members. The Smart Office concept provides more flexibility to employees while achieving cost savings related to operating work premises and reducing carbon footprint from the Bank's operations. All employees retain the option to work from KB's offices.

Komerční banka had prepared and presented on 5 November 2020 its updated strategic directions for the period until the year 2025 as articulated in the KB Change 2025 plan. In the plan document, KB formulates its mission to build, together with its clients, a better and sustainable future through responsible and innovative financial solutions. Within the planning horizon to 2025, KB aims to be a leader in the new era of banking for 2 million active clients. The strategy builds on the pillars of helpfulness, growth, and responsibility, with specific objectives set in ten topical areas, including building a digital bank, data-driven company, agile and effective organisation, fully digital sales and services, one mortgage factory, assuring market leadership for corporate services, upgrading risk management, adopting a new generation of corporate social responsibility, finding new revenues resources, and reaffirming leading operational efficiency. KB began implementing first pillars of the KB Change 2025 strategy already in 2020.

Corporate social responsibility (in fourth quarter 2020)

Komerční banka Group implemented in the final quarter of 2020 additional acitivities reflecting the responsibility aspects of its business.

In November, KB adopted the Corporate Climate Protection Policy accepting the Bank's responsibility for its operational practices and setting out concrete measures to mitigate climate change. In that document, KB announced its target to become carbon neutral by 2026.

In October, Komerční banka acceded to the European Diversity Charter, formally committing itself to promoting diversity and equal opportunities for the staff in accordance with the strategy of KB Group.

Employees of the KB and ESSOX call centres have continued in helping health authorities to trace epidemiologically significant contacts of people infected with Covid-19, thus limiting spread of the disease. The companies have also provided their technical infrastructure and equipment for this tracing. KB has also donated respirators to the Psychiatric hospital in Prague - Bohnice.

Following upon its last call for requests in the year 2020, KB Jistota Foundation has supported three initiatives focused on improving employment opportunities for handicapped people. The project of ERGO Activ provides specific training and assistance to people with brain damage. One of the activities of Slezska diakonie helps young people with mental health issues to transition from school to adult life. Maturus operates a training facility developing computer and graphical skills of physically disabled people.

Market environment (in fourth quarter 2020)[1)]

The fourth quarter of 2020 was fully impacted by yet another countrywide lockdown as a consequence of the Covid-19 pandemic's again heightened dynamics.[2)] Despite the lockdown during the fourth quarter, the economy demonstrated remarkable resilience, growing 0.3% quarter on quarter (–5.0% year on year) as per the flash estimate. That built upon the positive outcome from the third quarter (+6.9% quarter on quarter, –5.0% year on year). Although tight labour market conditions had started to ease from the beginning of 2020, in the third quarter alone wage inflation picked up to +5.1% year on year (1.7% in real terms), but this might be attributed to a more favourable epidemiological situation in this particular quarter and not the underlying trend. Unemployment rate gradually picked up but remained at the lowest level seen anywhere within the EU (standing at 3.1% in December, according to the Eurostat methodology after seasonal adjustment).[3)] More recent data from the Czech labour ministry shows further moderate deterioration in the unemployment rate.[4)]

The economic landscape changed greatly with outbreak of the Covid-19 epidemic in the Czech Republic. For the period from January to November 2020, industry lost -8.5% of output year on year, construction -5.8%, retail -5.5%, and services -11.4%. The external trade surplus in November, however, exceeded the level of the previous year, as imports sunk faster than exports. Industrial producer prices stagnated year on year, and consumer price pressures eased in the last months as these effects pass through. December's CPI, at 2.3% year on year, turned down towards the Czech National Bank's 2% inflation target inflation tolerance band, but the annual average inflation was still above the upper band, at 3.2%. The full-year number reflects the previously solid income situation among households together with firms' temporarily higher costs amid the coronavirus crisis. Nevertheless, December's dynamics mirror the weak economic situation and consumers' reduced willingness and ability to spend amid the continuing epidemic, often preferring instead to create a cushion of additional savings.

After a rapid monetary policy reaction in March 2020, the CNB added another rate cut in May. The remainder of the year brought no further changes in monetary policy rates. During the last quarter of 2020, three-month PRIBOR remained close to 0.35%, closing at 0.36% (182 bps lower year to date). Longer tenors of the interbank money market yield curve increased more (by low single digits) than did those at the short end. The 10-year interest rate swap moved to 1.28% at year end, significantly higher than the level recorded at the beginning of the fourth quarter (80 bps) but still 44 bps lower than at the beginning of 2020. Yields on 10-year Czech government bonds picked up similarly, gaining 45 bps during the fourth quarter (finishing the year at 1.30%), but were down by 33 bps year on year.

The Czech crown's exchange rate vis-à-vis the euro was more or less stable during October above the level of CZK 27 per euro. Positive sentiment on the financial markets towards emerging markets prompted the Czech crown to trend upward and the exchange rate against the euro appreciated during November to a level close to CZK 26 per euro. The CZK/EUR closed the year 2020 at CZK 26.25 per euro, stronger by 3.5% quarter over quarter but weaker by -3.3% year on year.

[1)] Data sources for this section: Czech Statistical Office, Czech National Bank, KB Economic Research, unless stated otherwise. Comparisons are year on year.

[2)] After the calm summer holiday months of July and August, the situation started to worsen with the start of September and infection rates began to quicken, culminating at the end of October. Premature easing of measures in November brought a third wave with the beginning of December and a renewed lockdown after Christmas.

[3)] Source: https://ec.europa.eu/eurostat/documents/portlet_file_entry/2995521/3-01022021-AP-EN.pdf/db860f10-65e3-a1a6-e526-9d4db80904b9 Data up to December 2020.

[4)] Source: https://www.mpsv.cz/web/cz/mesicni. Data as available up to December 2020.

Growth in prices of residential real estate accelerated yet again in year-on-year terms during 2020's third quarter. Prices paid in the third quarter for previously owned flats were up 11.2% year on year, but prices obtained for new flats (in Prague only) were higher by 9.7% from the year earlier.[1)]

Total bank lending for the overall market (excluding repo operations) grew by 4.3% year on year through the end of December 2020. [2)]Lending growth was faster in retail banking (6.9% year on year), with mortgage growth proving its resilience despite the Covid-19 disease's outbreak and consumer lending being more affected by the economic change. Growth in lending to businesses and corporations came to 1.8% year on year at the end of December 2020. Lending to private business declined slightly, by 0.7% year on year. Lending to public sector entities grew by 9.7% year on year with support from all subsegments.

Valid as of 31 December 2020, the CNB reported Czech banks had approved CZK 47.4 billion in guaranteed loans, of which CZK 41.5 billion had already been drawn: CZK 14.1 billion in Covid II loans (of which CZK 12.9 billion drawn), CZK 1.5 billion in Covid Prague (CZK 1.4 billion drawn), CZK 22.3 billion in Covid III (CZK 19.1 billion drawn), and CZK 9.5 billion in Covid EGAP (CZK 8.1 billion drawn). Legal mandatory loan moratoria were all ended by 31 October 2020, and banks have since been resolving problem situations with clients on individual bases.

The volume of client deposits in Czech banks had expanded by 8.9% year over year as of December. Deposits from individuals had grown by 12.2% while the composition had changed significantly, with term deposits shrinking by -23.6% year on year and non-term deposits growing by 18.4%. Business deposits gained 4.9%, with deposits by private non-financial corporations (13.9% growth) being the main driver as deposits from the public sector decreased by -2.2%.

Selected innovations and achievements (in fourth quarter 2020)

Product innovations introduced in the fourth quarter of 2020 included the SWIFT GPI (Global Payments Innovation) service, which makes international payments faster and more transparent because the parties can follow every phase of a transaction from sending the payment instruction until crediting the receiver's account. In order to support business clients' energy savings projects, KB launched jointly with the state's Czech–Moravian Guarantee and Development Bank and European Investment Bank the "Optimise greenly / Optimalizujte zeleně" programme for financing of such projects. It offers a subsidised interest rate and a further subsidy from CMZRB for making an energy assessment.

ESSOX has won two tenders for 3 years to become the exclusive captive financing partner for Hyundai and KIA. This is a unique opportunity for ESSOX to become number one on the Czech market in financing of new passenger cars, as the two brands, with their more than 100 points of sale, together make up almost 11% of the new cars market in the country. ESSOX has been partnering with PSA Group (Peugeot, Citroen) already since 2016.

Komerční banka has selected Temenos Transacta as the core banking platform for its newly built digital bank, as envisaged in the KB Change 2025 strategic programme. Syncordis will implement the system.

In an inaugural issue unique in its features on the Czech market, KB has in early January successfully placed an EUR 500 million mortgage-covered bond. It was issued under the newly established EUR 5 billion mortgage-covered bonds programme. The bonds are rated at the highest possible AAA level by Fitch Ratings, with a 5-year tenor and a soft bullet maturity (1-year extension). They were priced at the mid-swap rate +12 basis points, corresponding to a reoffer yield of –0.315%.

1) Source: https://www.czso.cz/csu/czso/real-estate-prices. Publication code 014007-20, released 14 December 2020

2) Source of data on banking market developments: ARAD statistics of the CNB, www.cnb.cz.

Developments in the client portfolio and distribution networks

	31 Dec 2019	31 Dec 2020	Change YoY
KB Group's clients*	2,361,000	2,293,000	(68,000)
Komerční banka	1,664,000	1,641,000	(23,000)
– individual clients	1,407,000	1,389,000	(18,000)
– internet banking clients	1,423,000	1,443,000	20,000
– mobile banking clients	786,000	932,000	146,000
Modrá pyramida	490,000	485,000	(5,000)
KB Penzijní společnost	531,000	524,000	(7,000)
ESSOX (Group)**	202,000	151,000	(51,000)
KB branches (CZ)	342	242	(100)
Modrá pyramida points of sale	205	201	(4)
SGEF branches	9	9	0
ATMs	796	809	13
of which deposit-taking	389	429	40
of which contacless	241	304	63
Number of active debit cards	1,402,000	1,407,000	5,000
Number of active credit cards	180,000	181,000	1,000
Number of cards virtualized into payment apps	178,000	283,000	105,000
KB key authentication users	477,000	812,000	335,000

* Calculation methodology updated during Q3-20, decline influenced by termination of non-active credit card relationships
**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). The data are as of 31 December 2020, unless indicated otherwise.

Loans to customers

Total **gross volume of lending to clients** rose by 5.7% year on year to CZK 691.4 billion.[1)]

In lending to individuals, the overall volume of housing loans grew by 8.3% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 7.0% to CZK 245.5 billion. Modrá pyramida's loan portfolio grew by a strong 13.7% to CZK 63.9 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was down (1.2%), at CZK 38.8 billion.

The total volume of **loans to businesses** and other lending provided by KB Group climbed by 4.3% year on year to CZK 343.2 billion. Lending to small businesses grew by 8.5% to CZK 39.8 billion. The overall CZK volume of credit granted by KB, Factoring KB, and ESSOX to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia[2)] increased by 3.7% year on year to CZK 273.1 billion. At CZK 30.3 billion, the total credit and leasing amounts outstanding at SGEF were 4.7% greater year over year. The growth rate of lending to businesses was influenced also by depreciation of the Czech crown during the pandemic (by 3.3% year over year vis-à-vis the euro as of 31 December) because a part of loans to businesses is provided in euro.

Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group rose by 9.4% year on year to CZK 893.0 billion.[3)]

Deposits at Komerční banka from individual clients grew by 12.7% from the year earlier to CZK 322.0 billion. The deposit book at Modrá pyramida diminished by (1.7%) to CZK 60.8 billion. Total deposits from businesses and other corporations climbed by 9.1% to CZK 504.3 billion.

[1)] 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 5.3% to CZK 691.4 billion.

[2)] Inclusive of factor finance outstanding at Factoring KB and merchant and car dealers' financing from ESSOX Group.

[3)] Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' increased by 10.3% to CZK 906.2 billion.

Client assets managed by KB Penzijní společnost were 7.5% greater, at CZK 67.1 billion. Technical reserves in life insurance at Komerční pojišťovna were up by 3.9% year on year, at CZK 49.8 billion. The volumes in mutual funds held by KB Group clients decreased by (2.0%) to CZK 72.0 billion, as sales of mutual funds dropped during the emergency.

The Group's **liquidity** as measured by the ratio of net loans[1] to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 76.1%. The Group's liquidity coverage ratio stood at 200%, well above the regulatory limit of 100%.

FINANCIAL PERFORMANCE OF KB GROUP

Income statement
Komerční banka's **revenues (net banking income)** for the full year of 2020 deteriorated by (8.9%) year on year to reach CZK 29,664 million. This decline was mainly driven by net interest income, affected as it was by the sharp drop in market interest rates that pressed down yields from reinvestment of deposits, and by net fees and commissions, which were impacted by a drop in client activity during the lockdown and by the new caps on fees for payments within the Single European Payments Area (SEPA). Net gains from financial operations improved slightly, with increased clients' demand for hedging of financial risks being offset by lower volume of foreign currency transactions and conversions due to reduced international travel.

Net interest income was down by (9.5%), at CZK 21,360 million. This was caused mainly by the sharp drop in market interest rates since March 2020, which negatively impacted the yields from reinvestment of deposits and the Bank's own funds. KB also recorded a modification loss of CZK 177 million from postponement of instalment payments under the loan moratorium. The net interest margin for the year 2020, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.0%. That compares to 2.4% a year earlier.

Net fee and commission income diminished by (12.9%) to CZK 5,210 million. The drop was related to decline in transaction activity. In comparison with 2019, the number of transactions submitted at branches and cash transactions diminished significantly. Meanwhile, the number of non-cash transactions and card payments increased only slightly. All of these were significantly influenced by the repeated lockdowns. Transaction fees were also hit by the new regulation of charges for euro-denominated payments within SEPA. The maintenance fee income decreased marginally, reflecting lower prices for some account packages. KB recorded less income from specialised financial services, as loan syndication activity weakened and fees for custody and depository services declined somewhat, too. On the other hand, income from bank guarantees improved year on year. Fees from cross-selling were up due to income from life insurance and mutual funds, but new sales of mutual funds deteriorated during the pandemic.

Net profit on financial operations improved by 2.9% to CZK 2,884 million. Clients' demand for hedging of financial risks was gradually moderating after an initial boost in the first half of the year. This reflected somewhat decreased volatility and weaker underlying activity, such as long-term lending for investment projects. A decrease in inbound and outbound travel and related currency conversions and foreign transactions also weighed negatively on the result.

Dividend and other income declined by 7.7% to CZK 210 million. This line item primarily comprises revenues from property rental and ancillary services.

Operating expenses were up by a slight 0.4%, at CZK 14,995 million. Personnel expenses declined by (1.7%) to CZK 7,650 million, as the average number of employees diminished by (1.3%) to 8,062.[2] General administrative expenses (not including contributions to the regulatory funds) were lower by (4.3%), at CZK 3,674 million, as expenses on marketing, events, and travel were lower. This was offset in part by higher costs of IT equipment and support, telecommunications, and, of course, protective equipment. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 941 million, up 10.2% year on year, because the CNB adjusted the 2024 target volume of the Resolution Fund and boosted the aggregate annual contribution from Czech banks to this fund by 9.2% year on year. Depreciation and amortisation grew by 11.1% to CZK 2,730 million, driven mainly by new and upgraded software and IT equipment, as well as some charges related to closed branches and decommissioning of some software.

Operating profit was down by (16.8%), at CZK 14,669 million.

Cost of risk reached CZK 4,578 million (net creation of provisions) in comparison with a negative CZK (572) million (net release of provisions) in the full year 2019. The creation of provisions was predominantly induced by the economic hardship ensuing from the coronavirus pandemic. It consisted of a charge for expected losses based on macroeconomic scenarios as envisaged in the IFRS 9 accounting standard, impact from reviews of the risk profile of non-defaulted portfolios, and provisions for newly defaulted exposures (mainly in corporate segments). The full transmission of crisis impacts into the risk profile was delayed by various government support

[1] Gross volume of loans reduced by the volume of provisions for loan losses.

[2] Recalculated to a full-time equivalent number.

programmes, including payment moratoria. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during 2020 came to 68 basis points. That compares to (9) basis points for the previous year.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was down by (19.0%) year on year, at CZK 248 million, reflecting mainly lower yields from reinvestment of insurance reserves, and an impairment of the investment in My Smart Living real estate portal.

Net profits on other assets reached CZK (15) million, which amount was linked to sales of buildings in the held-for-sale portfolio, charges related to early termination of leases for some premises, disposal of some assets from the closed branches, and a loss from disposal of certain internal IT projects. In the previous year, this result had been CZK 17 million.

Income taxes were lower by (41.9%), at CZK 1,985 million.

KB Group's consolidated **net profit** for the full year of 2020 reached CZK 8,299 million, which was down by (45.3%) in comparison with the year earlier. Of this total, CZK 143 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (down by (47.2%) year on year).

Reported **profit attributable to the Group's equity holders** totalled CZK 8,156 million, which is (45.3%) less year on year. **Other comprehensive income,** which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK (212) million. **Consolidated comprehensive income** for 2020 totalled CZK 8,088 million, of which CZK 146 million was attributable to owners of non-controlling stakes.

Statement of financial position

Assets

As of 31 December 2020, KB Group's total assets had risen by 8.3% year on year to CZK 1,167.1 billion.

Cash and current balances with central banks were up 32.7%, at CZK 23.5 billion. Financial and other assets held for trading at fair value through profit or loss (trading securities and derivatives) increased by 9.4% to CZK 25.6 billion. Positive fair value of hedging financial derivatives grew by 33.2% to CZK 13.3 billion.

Year on year, there was an 11.0% rise in financial assets at fair value through other comprehensive income totalling CZK 40.2 billion. This consisted mainly of public debt securities.

Financial assets at amortised cost grew by 7.5% to CZK 1,035.4 billion. The largest portion of this consisted of (net) loans and advances to customers, which rose by 5.1% to CZK 680.0 billion. A 97.4% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.6% of the loans were classified in Stage 3 (non-performing loans). The volume of loss allowances created for amounts due from customers came to CZK 13.0 billion. Loans and advances to banks increased by 7.4% to CZK 262.6 billion. The value held in debt securities was up by 29.7% and reached CZK 92.8 billion at the end of December.

Revaluation differences on portfolio hedge items totalled CZK 0.3 billion. Current and deferred tax assets stood at CZK 1.3 billion. Prepayments, accrued income, and other assets, which include receivables from securities trading and settlement balances, decreased overall by (1.4%) to CZK 5.1 billion. Assets held for sale increased by 8.1% to CZK 0.1 billion.

Investments in associates rose by 26.5% to CZK 1.6 billion.

The net book value of tangible assets declined by (7.3%) to CZK 9.8 billion. Intangible assets grew by 14.6% to reach CZK 6.9 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 8.4% higher in comparison to the end of 2019 and stood at CZK 1,050.1 billion.

Financial liabilities at amortised costs were 8.1% greater, at CZK 996.6 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 10.3% to CZK 906.2 billion. This total included CZK 13.2 billion of liabilities from repo operations with clients and CZK 6.3 billion of other payables to customers. Amounts due to banks decreased in 2020 by (7.5%) to CZK 86.6 billion. The volume of outstanding securities issued was down by (68.3%), at CZK 1.1 billion.

Revaluation differences on portfolios hedge items expanded to CZK 2.7 billion. Current and deferred tax liabilities diminished by (37.0%) to CZK 0.8 billion. Accruals and other liabilities, which include payables from securities trading and settlement balances, decreased by (4.7%) to CZK 11.4 billion.

Provisions were 50.7% higher, at CZK 2.0 billion. The 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 up 3.3% year to date. Because that debt is issued in euro, the change reflects the Czech crown's depreciation over the same period.

Equity
Total equity grew year to date by 7.8% to CZK 117.1 billion. The value of non-controlling interests reached CZK 3.2 billion. As of 31 December 2020, 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 100.7 billion as of 31 December 2020, up 16.3% year on year. **Capital adequacy** stood at 22.3%. The Core Tier 1 capital totalled CZK 97.9 billion (16.5% higher year to date), and the Core Tier 1 ratio stood at 21.7%. Tier 2 capital totalled CZK 2.8 billion, which was 0.6% of risk-weighted assets.

In December 2020, Komerční banka received information from the Czech National Bank on the minimum level of the capital ratio set for KB by joint decision of the College of Supervisors of the Société Générale Group.

According to this decision, Komerční banka is required to maintain a capital ratio on a consolidated basis at the minimum level of 10.2% (TSCR – Total SREP Capital Ratio) effective from 1 January 2021, unchanged from the ratio required in 2020. This requirement includes:

1. Minimum capital requirement according to Article 92 (1) of the EU regulation on prudential requirements for credit institutions and investment firms (i.e. maintaining a Tier 1 core capital ratio of 4.5%, a Tier 1 capital ratio of 6%, and a capital ratio of 8%), and

2. Additional requirement of 2.2% set in Pillar 2 above the aforementioned requirements. This additional requirement must be covered fully by Tier 1 capital and at least 75% of this requirement must be covered by Core Tier 1 capital.

In accordance with its previous communication on its regulatory approach to the Czech banking sector in the context of the ongoing pandemic crisis and significant uncertainty regarding the future economic development, the Czech National Bank also stated in the letter its recommendation that Komerční banka refrain from any dividend distributions from its profits until reaching a mutual agreement with the Czech National Bank.

Moreover, credit institutions in the Czech Republic are simultaneously subject to the combined capital requirements, which are additive to the TSCR requirement set in the aforementioned joint decision. As of 1 January 2021, KB is required to maintain a combined capital buffer comprising, in the case of Komerční banka, the capital conservation buffer at 2.5%, the countercyclical buffer set for exposures in particular countries (in the Czech Republic at 0.5% as of 1 January 2021), and the capital systemic buffer at 3.0%.

Thus, Komerční banka's overall capital requirements reach approximately 16.2% in relation to the consolidated volume of risk-weighted assets. The minimum Core Tier 1 capital level is approximately 12.2% and the minimum Tier 1 capital ratio stands at approximately 14.2%.

Changes in KB Group structure

In October, KB acquired an 11% stake in the Czech start-up company MonkeyData s.r.o., which, via its subsidiary Lemonero, has launched a digital platform employing big data and artificial intelligence to provide funding for small and medium-sized e-shops.

In December, KB acquired a 25% participation in a fintech company named Platební instituce Roger offering a digital factoring solution.

Expected development and main risks to that development in 2021

In its baseline macroeconomic scenario for 2021, valid as of today, KB expects that the Czech economy should return to growth this year with the help of widespread vaccination and economic policy stimulus. On the whole, the Czech Republic is expected to grow at a rate of 2.6% in 2021. The growth should be mainly driven by recovering household consumption, while fixed investments, net exports, and inventories should contribute slightly to the growth as well. Nevertheless, it should be said that last year's non-economic shock has disrupted settled economic linkages and led to much greater forecasting uncertainty.

Given the high level of uncertainty surrounding the pandemic situation in addition to the usual risks related to projecting future business results, investors should exercise caution and judgement before making their investment decisions while considering these forward-looking estimates and targets.

The average inflation rate in 2021 should fall below 2% due to lower-cost food, weaker demand, and lower import prices. After a cumulative 200 bps cut in monetary policy rates in 2020, KB assumes that the Czech National Bank will maintain its policy interest rates stable at least until the last quarter of 2021, when the first hike may be implemented, based on the prospect of gradual vaccinations and a return of the economy to normal. In conjunction with the expansionary fiscal policy and a record supply of government bonds, a continued moderate growth in Czech government bond yields and market interest rates is expected.

The regulatory environment may see a reversal of some measures adopted in reaction to the coronavirus crisis. The Czech National Bank, in alignment with the other members of the European Systemic Risk Board, is expected to lift its prohibition on payment of dividends and buyback of shares. On the other hand, the CNB may return to a stricter regulation of mortgage lending, which had been relaxed as a part of counter-crisis measures in the first half of 2020. KB has already implemented most important requirements from the EU's Regulation 2019/518 on certain charges on cross-border payments in the Union and currency conversion charges. In 2021, KB will begin gradually taking loans from Société Générale in order to meet the regulatory requirements for own funds and eligible liabilities (MREL) from the EU's banks recovery and resolution directive, as the concept of Single Point of Entry is applied within the SG Group.

The banking market will be positively influenced by the recovering economy, but it will still reflect weakened confidence among consumers and businesses. Total lending on the market should increase at a mid-single-digit percentage rate. Housing loans will continue to expand, albeit at a slower pace than in 2020. Consumer credit should accelerate to a mid-single-digit pace as the pandemic subsides. Loans to corporations should start to rise only after companies gain more confidence and visibility into the future, probably around the middle of the year. Deposits of clients in banks should grow more slowly than in 2020, but still faster than lending, in both retail and corporate segments.

Komerční banka will continue implementing the changes in accordance with its KB Change 2025 programme that had been announced in November 2020. Building up of the new digital bank will be among the most important projects. As the Bank already announced in January 2021, KB will reduce the number of employees (recalculated to full-time equivalent number) by approximately 3.5% during the first half of 2021 in order to reinforce its operational efficiency and economic resilience. KB will also continue in digitalisation of its processes, transformation of IT infrastructure, and identification of new revenue opportunities.

In this context, KB management expects that the Group's loan portfolio will record an upper-mid-single-digit growth rate in 2021, in both retail and corporate lending. Growth in total deposit balances should reach a high-single-digit pace, except that there will be flattish development at Modrá pyramida, influenced by adjustment of deposit remuneration to the current market conditions.

KB Group's total net banking income for 2021 should reach a similar level as in 2020. Net interest income will be under pressure stemming from year-on-year lower market interest rates affecting reinvestment yields. Net fees and commissions should rebound by mid-single digits upon improved economic activity and cross-selling. The net profit from financial operations should improve by a high-single-digit figure on the back of recovery in long-term lending for investment projects and return of travel-related currency flows.

Operating expenditures will remain under tight control and continue more or less stable year on year. The number of employees will be lower year on year and the Bank has agreed with the trade unions to keep basic salaries stable in 2021. KB will book higher expenses related to digital transformation, which effect will be mitigated by the simplification and optimisation implemented at the headquarters and in the branch network. KB expects that increase in the mandatory contribution to the Resolution Fund prescribed by the CNB will in the end be smaller than was the jump announced in 2020.

Cost of risk will still be absorbing effects of the pandemic economic downturn on clients' repayment capacity. In the central scenario of modest economic recovery, however, the cost of risk in 2021 should decline in comparison with the level recorded in the previous year.

Among the key risks to the expectations described above is the potential for insufficient benefit from the vaccination programmes, leading to an unresolved pandemic situation in the Czech Republic and recurring lockdown of important parts of the economy. The open Czech economy would also be sensitive to a worsening external economic environment, such as, in particular, further recession in the eurozone. Given the significantly heightened role of government in the economy during the pandemic crisis, an abrupt change from the current expansionary fiscal policy or a withdrawal of the fiscal stimuli, or even a low transmission of the recent tax cuts to increasing household demand would negatively affect the economic outlook and thus demand for banking services, and particularly loans. A risk specific to the Czech banking sector consists in further marked decline in interest yields on Czech crown-denominated financial assets.

The management expects that KB's operations will remain profitable in 2021, and it intends to resume dividend payments during this year.

ANNEX: Consolidated results as of 31 December 2020 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement	Reported			Recurring		
	FY 2019	FY 2020	Change YoY	FY 2019	FY 2020	Change YoY
(CZK million, unaudited)						
Net interest income	23,591	21,360	(9.5%)	23,591	21,360	(9.5%)
Net fee and commission income	5,983	5,210	(12.9%)	5,983	5,210	(12.9%)
Net profit on financial operations	2,804	2,884	2.9%	2,804	2,884	2.9%
Dividend and other income	195	210	7.7%	195	210	7.7%
Net banking income	**32,573**	**29,664**	**(8.9%)**	**32,573**	**29,664**	**(8.9%)**
Personnel expenses	(7,781)	(7,650)	(1.7%)	(7,781)	(7,650)	(1.7%)
General admin. expenses (excl. regulatory funds)	(3,839)	(3,674)	(4.3%)	(3,839)	(3,674)	(4.3%)
Resolution and similar funds	(854)	(941)	10.2%	(854)	(941)	10.2%
Depreciation, amortisation and impairment of operating assets	(2,458)	(2,730)	11.1%	(2,458)	(2,730)	11.1%
Total operating expenses	**(14,932)**	**(14,995)**	**0.4%**	**(14,932)**	**(14,995)**	**0.4%**
Operating profit	**17,641**	**14,669**	**(16.8%)**	**17,641**	**14,669**	**(16.8%)**
Impairment losses	53	(4,701)	(76.4%)	53	(4,701)	(76.4%)
Net gain from loans and advances transferred and written off	519	123	(76.4%)	519	123	(76.4%)
Náklady na riziko	**572**	**(4,578)**	**+/-**	**572**	**(4,578)**	**+/-**
Net operating income	**18,212**	**10,091**	**(44.6%)**	**18,213**	**10,091**	**(44.6%)**
Income from share of associated companies	306	248	(19.0%)	306	248	(19.0%)
Profit/(loss) attributable to exclusion of companies from consolidation	55	(40)	+/-	0	(40)	n.a.
Net profits on other assets	17	(15)	+/-	17	(15)	+/-
Profit before income taxes	**18,591**	**10,284**	**(44.7%)**	**18,536**	**10,284**	**(44.5%)**
Income taxes	(3,419)	(1,985)	(41.9%)	(3,419)	(1,985)	(41.9%)
Net profit for the period	**15,172**	**8,299**	**(45.3%)**	**15,117**	**8,299**	**(45.1%)**
Profit attributable to the Non-controlling owners	271	143	(47.2%)	271	143	(47.2%)
Profit attributable to the Group's equity holders	**14,901**	**8,156**	**(45.3%)**	**14,846**	**8,156**	**(45.1%)**

One-off items:

- 2019: Settlement of the sale price for Komerční pojišťovna sold in 2006 (CZK 55 million in Profit attributable to exclusion of companies from consolidation)
- 2020: None

Statement of financial position	31 Dec 2019	31 Dec 2020	Ytd
(CZK million, unaudited)			
Assets	**1,077,334**	**1,167,131**	**8.3%**
Cash and current balances with central bank	17,744	23,547	32.7%
Loans and advances to banks	244,561	262,606	7.4%
Loans and advances to customers (net)	647,259	679,955	5.1%
Securities and trading derivatives	131,184	158,916	21.1%
Other assets	36,587	42,106	15.1%
Liabilities and shareholders' equity	**1,077,334**	**1,167,131**	**8.3%**
Amounts due to banks	93,581	86,572	(7.5%)
Amounts due to customers	821,506	906,217	10.3%
Securities issued	3,621	1,148	(68.3%)
Subordinated debt	2,546	2,629	3.3%
Other liabilities	47,445	53,507	12.8%
Total equity	108,635	117,058	7.8%

Key ratios and indicators	31 Dec 2019	31 Dec 2020	Change year on year
Capital adequacy (CNB)	19.7%	22.3%	▲
Tier 1 ratio (CNB)	19.1%	21.7%	▲
Total risk-weighted assets (CZK billion)	439.2	450.6	2.6%
Risk-weighted assets for credit risk (CZK billion)	367.6	375.9	2.3%
Net interest margin (NII / average interest-bearing assets)[III]	2.4%	2.0%	▼
Loans (net) / deposits ratio[IV]	79.0%	76.1%	▼
Cost / income ratio[V]	45.8%	50.5%	▲
Return on average equity (ROAE)[VI]	14.5%	7.4%	▼
Return on average Tier 1 capital[VII]	18.1%	9.0%	▼
Return on average assets (ROAA)[VIII]	1.4%	0.7%	▼
Earnings per share (CZK)[IX]	79	43	(45.3%)
Average number of employees during the period	8,167	8,062	(1.3%)

Business performance in retail segment – overview	31-Dec-20	Change year on year
CZK bil.		
Mortgages to individuals – volume of loans outstanding	245.5	7.0%
Building savings loans (MPSS) – volume of loans outstanding	63.9	13.7%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	38.8	(1.2%)
Small business loans – volume of loans outstanding	39.8	8.5%
Insurance premiums written (KP)	7.5	(9.7%)

Financial calendar:

6 May 2021 – 1Q 2021 results
3 Aug 2021 – 1H 2021 and 2Q 2021 results
4 Nov 2021 – 9M 2021 and 3Q 2021 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 ''Cost of risk' divided by the average of 'Gross amount of client loans and advances'; Average of Gross amount of client loans and advances: ('Gross amount of client loans and advances' as of the quarter end X-1 plus 'Gross amount of client loans and advances' as of the quarter end X-2 plus 'Gross amount of client loans and advances' as of the quarter end X-3 plus 'Gross amount of client loans and advances' as of the quarter end X-4) divided by 4;

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:** 'Total operating expenses' divided by 'Net banking income';

VI. **Return on average equity (ROAE):** annualised 'Profit attributable to the Group's equity holders' divided by the quantity average group 'Total equity' less 'Non-controlling interest', year to date;

VII. **Return on average Tier 1 capital**: annualised '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 'Profit attributable to the Group's equity holders' divided by average 'Total assets', year to date;

IX. **Earnings per share:** annualised '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)	FY 2020	FY 2019
Net interest income income, year-to-date	**21,360**	**23,591**
Of which:		
Loans and advances at amortised cost	19,855	24,270
Debt securities at amortised cost	1,707	1,746
Other debt securities	683	587
Financial liabilities at amortised cost	(2,630)	(4,193)
Hedging financial derivatives – income	14,240	17,402
Hedging financial derivatives – expense	(12,495)	(16,222)

(source: Balance Sheet)	31-Dec-20	31-Dec-19	31-Dec-18
Cash and current balances with central banks/ Current balances with central banks	15,050	7,737	16,347
Loans and advances to banks	262,606	244,561	256,268
Loans and advances to customers	679,955	647,259	624,954
Financial assets held for trading at fair value through profit or loss/ Debt securities	3,342	4,112	3,248
Non-trading financial assets at fair value through profit or loss/ Debt securities	279	0	0
Financial asset at fair value through other comprehensive income (FV OCI)/ Debt securities	40,151	35,682	24,909
Debt securities	92,839	71,581	69,881
Interest-bearing assets (end of period)	**1,094,222**	**1,010,932**	**995,608**
Average interest-bearing assets, year-to-date	**1,052,577**	**1,003,270**	
NIM year-to-date, annualised	**2.03%**	**2.35%**	