Komerční banka, a.s.

RESULTS

H1 2021

KB

Regulatory information

Komerční banka, a.s.

Komerční banka reports accelerating loan growth, robust deposits expansion, improving revenue trends, and resilient asset quality

"The results just published confirm Komerční banka's dynamic business activity, consistent cost discipline, prudent risk management, and fortress capital base. This reflects positively on the decisions we have taken in the recent past to make KB more agile and attentive to client expectations," remarked Jan Juchelka, KB's Chairman of the Board of Directors and Chief Executive Officer.

"We are also proud to be a responsible corporate citizen in the Czech Republic and Slovakia that is developing a sustainable business, helping those in need, and demonstrating leadership in shaping the banking industry's necessary response to the climate challenge," added Jan Juchelka.

- **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 11.0%, with strong growth in the retail as well as corporate segments. The volume of non-bank assets under management leapt up by 4.3% .**

- **For its innovative mortgage bond issue, KB was recognised with The Pioneer Award for Excellence from the Covered Bond Report. Via its KB Smart Solutions, the Bank increased its participation in the upvest real estate crowdfunding platform to 31.06%.**

- **The number of clients with KB Mobile Banking climbed by 112,000 year on year to 980,000, representing 60% of 1,621,000 customers of the Bank. KB Group was serving 2,244,000 clients. The KB Klíč (KB Key) authentication application for accessing banking services was being used by 904,000 clients, some 234,000 more than a year earlier.**

- **Consolidated revenues for the first half declined by (1.8%) due to interest income's absorbing a sharp drop in interest rates year on year, even as fee income rebounded on recovering economic activity and better cross-selling. Moreover, gains from financial operations got a boost from large deals for clients on debt capital markets and greater demand for financial hedging.**

- **Total operating expenditures declined by (1.5%) in spite of increased regulatory levies. Net creation of credit risk provisions reached CZK 0.7 billion, attesting to the sound quality of the portfolio. Net profit attributable to shareholders improved by 15.5% to CZK 5.1 billion.**

- **In comparison with a regulatory minimum of 16.2%, KB Group's capital adequacy ratio reached 23.3%. The liquidity coverage ratio stood at 203% while a minimum of 100% is required.**

- **Komerční banka is taking action to mitigate climate change. It has committed to reducing its direct emissions (scopes 1 and 2) in accordance with the 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, the Bank shrunk its carbon footprint by 35% year on year.**

- **The Board of Directors intends to call an extraordinary shareholders' meeting in the fourth quarter of this year to decide upon an interim dividend distribution of earnings from 2019 and 2020, retained due to pandemic-related regulatory restrictions. The volume of an interim dividend is subject to validation by the regulator, expected by September.**

Prague, 3 August 2021 – Komerční banka reported today its unaudited consolidated results for the first half of 2021.

Total revenues decreased by (1.8%) to CZK 14.8 billion. Despite increase in the volumes of both loans and deposits, net interest income was down by (8.2%), at CZK 10.0 billion, because of the sharp drop in interest rates in the first half of last year. Net fee and commission income improved by 6.3% to CZK 2.8 billion, boosted by recovering economic activity and income from cross-selling. Net profit on financial operations grew by 29.6% to CZK 2.0 billion, supported by strong demand from clients for hedging of financial risks linked to issuance of new debt and by market volatility.

Operating expenses were down by (1.5%), at CZK 7.8 billion, in spite of a 10.4% 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 7,748. Reflecting investments in digitalisation, amortisation charges were higher year on year.

Net creation of provisions for the first half of 2021 totalled CZK 0.7 billion, down by (61.4%) . 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 good recovery performance levels in retail.

The reported attributable net profit improved by 15.5%, to CZK 5.1 billion.

Lending to clients gained by 4.7% to CZK 708.1 billion.[1)] 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 (0.6%). Lending to businesses and other clients was up by 1.6%, driven year over year mainly by working capital financing but more recently showing also some signs of recovery in financing investments. A negative contribution of approximately 0.7 percentage points to the total reported value of loans stemmed from 4.7% year-on-year appreciation of the Czech crown vis-à-vis the euro. That affected the crown value of euro-denominated loans, provided predominantly to corporations.

Deposits from clients climbed by 11.0% year on year to CZK 996.9 billion.[2)] The growth in deposits from individual clients was faster. The volume of KB Group clients' assets in mutual funds, pension savings, and life insurance expanded by 4.3% to CZK 193.5 billion.

The capital adequacy ratio reached a strong 23.3%, and Core Tier 1 capital stood at 22.7%. The liquidity coverage ratio was 203%, significantly above the regulatory minimum of 100%.

The Czech National Bank informed KB in March that it had set quantitative limits for the maximum volume of dividends that can be paid from profits generated in 2019 and 2020. The limits are applicable for all banks under the CNB's supervision. Among the announced limits, the lowest and thus most relevant for Komerční banka is the value equal to 100 basis points of the total risk-weighted assets as of 31 December 2020. That corresponds to approximately CZK 4.5 billion or CZK 23.86 per share. In a following step, the CNB assesses on an individual basis the risk profiles of the institutions, their business models, and other relevant factors. The evaluation and review process may lead to further decrease from the generally applicable limits. The CNB expected that it would be ready during the third quarter of 2021 to communicate to institutions the results of its assessing their proposals for dividend payments. Once the payment of dividends is validated by the regulator, Komerční banka's Board of Directors intends to call a general shareholders' meeting in the fourth quarter.

The Bank had 57,851 shareholders as of 30 June 2021 (up by 1,664 year on year), of which 52,146 were private individuals from the Czech Republic (greater by 1,502 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.

[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 4.1% year over year to CZK 708.1 billion.

[2)] Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 10.6% to CZK 1,032.8 billion.

Market environment (in second quarter 2021)[1)]

The second quarter was marked by a continuous and substantial retreat of the Covid-19 pandemic in Czechia that had begun already in March. From the peak of 16,799 daily new infections reported on 2 March, the number moved down to the level of 100 newly diagnosed per day in the second half of June. At the same time, vaccination was progressing at an accelerating pace. As of 30 June 2021, some 30% of the population was already fully vaccinated, with 47% of the population having received at least one shot and some 15% of Czechs officially having recovered from Covid-19.

This favourable pandemic situation allowed the government to start the easing process. On 12 April, the state of emergency was lifted, and schools for lower elementary students were opened for classroom instruction on a rotational basis. At the same time, retail shops with non-essential goods were reopened. Gradually, services including personal care services as well as restaurants and hospitality services could operate normally. Therefore, as from June, only an I-N-R rule (inoculation, negative test, or recovered from Covid-19 positivity within less than 180 days) was applied, along with some capacity restrictions for sport or cultural events. Retail stores with essential goods and industrial premises were not shut down during the spring lockdown. Offices were not closed, either, although remote working for appropriate positions was strongly encouraged. Workers as well as school pupils were subject to regular testing every several days.

The gradual reopening of society created a solid basis for economic rebound in the second quarter of 2021 after the economy had still been affected by the pandemic restrictions in the first quarter (0.6% quarter over quarter, 7.8% year over year due to base effect when the economy was paralyzed last year due to Covid-19 outbreak). The Czech economy slumped by –5.8% for the whole of 2020. The tight labour market conditions did not ease much during the pandemic. In the first quarter alone wage inflation was +3.2% year on year (1.0% in real terms). At the same time, the unemployment rate was rather steady during 2021 at just above 3%. Unemployment remained at one of the lowest national rates within the EU (standing at 3.3% in May according to the Eurostat methodology after seasonal adjustment).[2)] More recent data from the Czech labour ministry has shown at least temporary stability of the unemployment rate.[3)]

The dynamics of industrial producer prices averaged 5.3% year on year in 2021's second quarter. Pressure from the primary price categories together with robust wage cost dynamics transmitted through to consumer price inflation, which hovered just below the 3% upper bound of the national bank's inflation target tolerance band during the second quarter. Meanwhile, the Czech crown appreciated by 2.5% quarter on quarter against the euro through the second quarter, reaching CZK 25.49 per euro. The crown was stronger by 2.9% in a year-to-date comparison.

Despite the crown's strengthening against the euro, heightened inflationary pressures on the monetary policy horizon lead the CNB to begin its rate hiking cycle. The national bank raised its 2W repo rate by 25 bps to 0.5% at the end of June 2021. Three-month PRIBOR accordingly moved up to 0.66% by the end of June. The 10Y swap rate climbed to 1.85% from the 1.28% at 31 December 2020 (+57 bps year to date). CZK-denominated 10Y Czech government bond yields increased by 45 bps during H1 to 1.75%, with a major part of the rise from the 1.30% as of 31 December 2020 occurring in Q1.

Growth in prices of residential real estate further accelerated, influenced by deployment of excess savings accumulated due to pandemic restrictions, expectation of further price growth, and increased disposable incomes from tax changes implemented at the beginning of 2021. Prices paid in first quarter 2021 for previously owned flats in Czechia were up 15.1% year on year and higher by 14.2% year on year in Prague. Prices obtained for new flats (in Prague only) were 10.4% greater than a year earlier.[4)]

Total bank lending for the overall market (excluding repo operations) grew by 3.0% year on year in the first half.[5)] Lending growth was faster in retail banking, with mortgage growth continuing apace and consumer lending accelerating its year on year dynamics following the economic reopening. Outstanding business loans were lower in year on year terms, as some companies were still hesitating with their investment plans, and 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 8.2% year on year as of June.[6)] Deposits from individuals continued growing dynamically and were up 11.1% year on year. Within the corporate segments (5.1% year on year), deposits from non-financial corporations 12.3% while public sector deposits and deposits from financial institutions declined year over year.

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

2) https://ec.europa.eu/eurostat/documents/2995521/11563151/3-01072021-AP-EN.pdf/a99763ae-8bcf-33cb-0be8-adb9943cb9ca Data up to May 2021.

3) https://www.mpsv.cz/web/cz/mesicni. Data as available up to June 2021.

4) Source: https://www.czso.cz/csu/czso/house-price-index-1-quarter-of-2021 Publication code 014005-21, released 29 June 2021.

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

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

Komerční banka taking steps for the climate and environment

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 the energy sector represents thousands of jobs.

The Bank has been 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.

Furthermore, Komerční banka has committed to progressively reduce 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.

As part of its risk management framework, KB has implemented an environmental and social risks management (ESRM) system that begins by identifying these risks in the financing of corporate clients. The system also takes into account requirements of the Equator Principles for assessing larger projects and evaluates specific climate vulnerability indicators.

Komerční banka's sustainable and responsible finance offer consists of Sustainable and Positive Impact Finance (SPIF), Sustainable Positive Impact Investments (SPII), and advisory services focused on sustainability. Recently added products protecting climate include discounted loans for household photovoltaic installations; environmental, social, and corporate governance (ESG) oriented mutual funds; preferential rates for loans with sustainable positive impact; solar energy as a service, and more.

In summer, KB launched a „O CO_2 jde" (What CO_2 is about) web and outdoor communication campaign promoting open discussion about sustainability, related risks, costs, and solutions, as well as the role of banks in this area. KB also runs a new Společně udržitelně (Sustainably Together) web portal that provides examples of good practices and advice on transition to more sustainable business. KB supported the making of the time-lapse documentary film Be Water. The film introduces the S.A.W.E.R. (Solar Air Water Earth Resource) system for transforming desert into a green landscape using water extracted from the air and solar energy. Developed by the University Centre for Energy Efficient Buildings of the Czech Technical University, this technology will also be the Czech Republic's flagship presentation at the EXPO 2021 world exhibition in Dubai.

The KB Jistota Foundation has started new long-term co-operation with INCIEN (Institute for the Circular Economy) focused on developing the circular economy. Along with scores of the Group's employees, the Jistota Foundation has also contributed to mitigating damages caused by the tornado that struck Southern Moravia at the beginning of July. Komerční banka has been chairing the Sustainable Finance Committee at the Czech Banking Association, and thus it is contributing significantly to the creation of ESG standards for the Czech banking sector.

In June, KB's inclusion was affirmed in the FTSE4Good Index series, designed to identify companies that demonstrate strong ESG practices as measured against international standards.

Updated information on impact of Covid-19 during the first half of 2021

During the year's first half, KB's operations and performance continued to be affected by the Covid-19 pandemic and related restrictive measures, including by the impacts on confidence and preferences of consumers and businesses. The Czech Republic was in a state of emergency from 5 October 2020 until 12 April 2021, with tight restrictive measures being adopted in response to the high numbers of infected people and severe burdens on the country's health care system. These included strict limitations on the gathering of people and their mobility, closure of non-essential shops and services, distance learning for pupils and students, mandatory preference for working from home, and others. The economic impacts on citizens and businesses were mitigated by programmes of new lending with guarantees extended by state agencies, and an extensive set of government support measures, comprising wage subsidies, caretaker benefits, compensations to the self-employed, subsidies to businesses from affected sectors, and waivers on advance payments of some taxes and fees. The Czech National Bank maintained most measures adopted just after the first outbreak of the pandemic in March 2020, including to keep the two-week policy repo rate at 0.25% (until 23 June 2021), relaxing macroprudential limits for mortgage lending, and prohibiting banks from paying dividends.

The KB Group companies maintained operations throughout the state of emergency declared by the government, and they maintained the full scope of the services offer to clients, including financing. The branches remained open, with measures adopted to protect clients and employees, such as installation of glass partitions and use of respirators and disinfectants. A model of remote client service utilising digital identity verified by KB Key was introduced. Most members of staff were working from home at least on a rotational basis, which required significant investment in purchasing IT equipment. The Bank was providing for preventive testing of employees by health professionals even before testing was required by the authorities and for vaccinating a part of key operational staff. Capacities of office premises and canteens were reduced in order to meet heightened sanitary standards.

The financial performance continued to be affected also in the first half of 2021, as detailed in a later section. In particular, a sharp drop in market interest rates linked to decrease in the Czech National Bank's monetary policy rates negatively affected net interest income due to lower yields from reinvestment of liquidity and capital. The subdued economic activity in the country was reflected in smaller fee income. Net gains from financial operations offset a negative contribution from a drop in numbers of currency conversions linked to diminished foreign trade volumes along with reduced tourism and business travel. These gains came from additional demand among 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. The majority of the pandemic's impact on the cost of risk was recorded already in 2020. During 2021, KB Group benefited from the resilient quality of its loan portfolio and a solid recovery performance. In spite of the challenging market environment and continued pandemic context, KB achieved even in the first half of 2021 a healthy level of profitability and maintained its robust capital adequacy and strong liquidity.

The crisis influenced clients' borrowing demand 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 bolstered also by the state guarantee programmes launched as a part of the government's counter-crisis measures. Growth in deposits was strong from both retail and business clients, as deposits absorbed also what can be termed “forced savings” from limited spending opportunities during the lockdown and postponement of some preplanned investment projects. Increased volatility and the effects of central banks' monetary policy reaction led more clients to invest in mutual funds focused on equity instruments.

All risks have been managed in accordance with the approved Risk Appetite Statement. Although quality of the loan portfolio and 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. In the area of compliance, KB has reiterated its zero-tolerance policy towards potential misconduct. Among other activities, KB has continued its thorough review of its portfolio of clients in order to meet the highest risk standards in the customer profiles. This process has led to cancellation of several tens of thousands of accounts of those clients who did not provide the Bank with necessary information.

Selected achievements and initiatives in the second quarter 2021

In May, Komerční banka started accepting applications for new Covid Invest investment loans with guarantee from the Bohemian–Moravian Guarantee and Development Bank (ČMZRB). Companies with a maximum of 500 employees can obtain financing for new investments in tangible and intangible assets. Also in May, Modrá pyramida opened the possibility of drawing a Quick Loan (Rychloúvěr) or Hypo Loan (Hypo úvěr) for housing via the MP Home mobile application. Within the application, one not only can submit the loan application itself but also upload all the necessary documents. Komerční banka launched a new service for its clients that will help them with investments while at the same time saving them the trip to the branch. Known as “Investment Specialist via Skype for the Living Room”, it is intended primarily for clients who want to know the possibilities for growing or securing their savings in Komerční banka, and it is as simple as making a video call.

Following its inaugural issue of euro-denominated mortgage bonds in January, Komerční banka joined in April the Covered Bond Label, a designation emphasising the security and quality of covered bond programmes. KB is the first bank in the Czech Republic to receive this international certification of issuers undertaking to uphold standards of transparency in relation to international investors in covered bonds. In July, Komerční banka received a prestigious international award in the Pioneer category of The Covered Bond Report Awards for Excellence 2021 for the same issue. According to this specialised online publication, the issue was one of the best in class and contributed to the market's development by its difference from standard deals.

In the MasterCard Awards 2020 for the Czech Republic, the 4U credit card from KB was named “The Fastest Growing Card”. The KB SmartPay joint venture with Worldline received an “Advisors' Special Mention” from MasterCard for the ‘Czechia pays by card' project during the pandemic.

Developments in the client portfolio and distribution networks

	30 Jun 2020	30 Jun 2021	Change YoY
KB Group's clients[1), 2)]	2,312,000	2,244,000	(68,000)
Komerční banka[1)]	1,657,000	1,621,000	(36,000)
– individual clients[1)]	1,402,000	1,378,000	(24,000)
– internet banking clients	1,433,000	1,447,000	15,000
– mobile banking clients	868,000	980,000	112,000
Modrá pyramida	483,000	487,000	4,000
KB Penzijní společnost	527,000	523,000	(4,000)
ESSOX (Group)[2)]	159,000	142,000	(17,000)
KB branches (CZ)	275	243	(32)
Modrá pyramida points of sale	200	200	0
SGEF branches	9	9	0
ATMs	802	846	44
of which deposit-taking	406	477	71
of which contactless	268	552	284
Number of active debit cards	1,406,000	1,408,000	2,000
Number of active credit cards	181,000	183,000	1,000
Number of cards virtualized into payment apps	226,000	329,000	103,000
KB key authentication users	670,000	904,000	234,000

1) Year on year decline affected by termination of accounts as a result of Know-Your-Client remediation process.
2) 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 June 2021.

BUSINESS PERFORMANCE

Loans to customers
Total **gross volume of lending to clients** rose by 4.7% year on year to CZK 708.1 billion.[1)]

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 7.0% to CZK 253.0 billion. Modrá pyramida's loan portfolio grew by a strong 16.2% to CZK 69.0 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was down (0.6%), at CZK 32.9 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 353.2 billion. Lending to small businesses grew by 6.3% to CZK 47.0 billion. The overall CZK volume of credit granted by KB to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia[2)] improved by 1.0% year on year to CZK 275.7 billion. At CZK 30.5 billion, the total credit and leasing amounts outstanding at SGEF were up by 0.9% year over year.

Amounts due to customers and assets under management
The **volume of standard client deposits** within KB Group rose by 11.0% year on year to CZK 996.9 billion.[3)] Deposits at Komerční banka from individual clients grew by 15.6% from the year earlier to CZK 349.7 billion. The deposit book at Modrá pyramida increased by 0.3% to CZK 60.5 billion. Total deposits from businesses and other corporations climbed by 7.4% to CZK 568.3 billion.

Client assets managed by KB Penzijní společnost were 7.4% greater, at CZK 69.3 billion. Technical reserves in life insurance at Komerční pojišťovna were up by 2.9% year on year, at CZK 50.8 billion. The volumes in mutual funds held by KB Group clients grew by 2.5% to CZK 73.3 billion.

The Group's liquidity as measured by the ratio of net loans[4)] to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 69.5%. The Group's liquidity coverage ratio stood at 203%, well above the regulatory limit of 100%.

FINANCIAL PERFORMANCE

Income statement
Komerční banka's **revenues (net operating income)** for the first half of 2021 decreased by (1.8%) year on year to reach CZK 14,805 million. This decline was driven by lower net interest income due to a significant year-on-year drop in market interest rates related to economic impacts of the pandemic crisis, including decrease in the Czech National Bank's basic monetary rate to 0.25% from 2.25% between March and May 2020. The CNB only started to renormalise its policy rates on 23 June 2021. Income from fees and commissions increased thanks to improved customer activity since April, higher revenues from services provided to clients on capital markets (such as bond issuance and loan syndications), and higher income from cross-selling. Net gains from financial operations improved because of clients' greater demand for hedging of financial risks linked to volatility of both interest and exchange rates, as well as new financing deals executed by KB for its clients and correct inventory positioning.

Net interest and similar income was down by (8.2%), at CZK 9,956 million. Although loan and deposit volumes were growing, average market interest rates decreased significantly year on year, thus affecting the yields from reinvesting deposits and the Bank's own funds. The net interest margin for the first half 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 6.3% to CZK 2,792 million. Clients' transaction activity began to recover only 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,

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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 4.1% to CZK 708.1 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 10.6% to CZK 1,032.8 billion.

4) Gross volume of loans reduced by the volume of provisions for loan losses.

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.

Net profit from financial operations improved by 29.6% to CZK 1,955 million. Clients' demand for hedging of financial risks was driven by expectations of rising interest rates and exchange rates volatility. KB played leading roles in several important capital market deals of its clients and often provided financial hedging to such deals. Trading volumes in government bonds increased along with larger supply. Although net gains on FX payment transactions for the first half remained lower year on year due to constraints on international travel and a drop in related payments, the Bank did record a certain rebound in the second quarter.

Dividend and other income declined by (3.8%) to CZK 102 million. This line item primarily comprises revenues from property rental and ancillary services.

Operating expenditures were reduced by (1.5%) to CZK 7,832 million. Personnel expenses declined by (5.7%) to CZK 3,667 million, reflecting decrease in the number of employees by (4.9%) to 7,748.[1)] 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 (5.7%), at CZK 1,739 million, as the base from the previous year included a CZK 95 million provision for transformation costs. Underlying administrative costs were stable, as higher expenses related to IT and marketing were offset by lower real estate costs. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 1,031 million, up 10.4% 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 8.6% to CZK 1,395 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)** was down by (2.2%), at CZK 6,973 million.

Cost of risk reached CZK 668 million, lower by (61.4%)in comparison with the first half of 2020. The provisions creation mainly related 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 is reporting limited reversals on IFRS 9 provisioning model reserves. The cost of risk on the retail portfolio was low, in accordance with the 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 first half of 2021 came to 19 basis points. That compares with 52 basis points for the same period a year ago.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was down (25.9%) year on year, at CZK 106 million, influenced by the development of yields and increase 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 25 million, which amount was linked mainly to sales of buildings in the held-for-sale portfolio. In the previous year, this result had been CZK 2 million.

Income tax was higher by 12.4%, at CZK 1,203 million.

KB Group's consolidated **net profit** for the first half of 2021 reached CZK 5,258 million, up by 17.4% in comparison with a year earlier. Of this total, CZK 132 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (from CZK 42 million a year earlier).

Reported **net profit attributable to the Group's equity holders** totalled CZK 5,126 million, which is 15.5% more year on year.

Other comprehensive income, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK 503 million. **Consolidated comprehensive income** for the first half of 2021 totalled CZK 5,761 million, of which CZK 129 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 June 2021 with the values from the statement of financial position as of 31 December 2020.

Assets

As of 30 June 2021, KB Group's total assets had grown by 13.0% year to date to CZK 1,318.6 billion.

[1)] Recalculated to a full-time equivalent number.

Cash and current balances with central banks were up 3.1%, at CZK 24.3 billion. Financial assets at fair value through profit or loss (trading securities and derivatives) increased by 15.9% to CZK 29.7 billion. The fair value of hedging financial derivatives diminished by (45.1%) to CZK 7.3 billion.

Year to date, there was a (3.7%) decline in financial assets at fair value through other comprehensive income totalling CZK 38.7 billion. This item consisted mainly of public debt securities.

Financial assets at amortised cost grew by 14.9% to CZK 1,189.7 billion. The largest portion of this consisted of (net) loans and advances to customers, which summed year to date 1.9% to CZK 692.8 billion. A 97.1% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.9% of the loans were classified in Stage 3 (non-performing). The volume of loss allowances created for amounts due from customers came to CZK 13.8 billion. Loans and advances to banks increased by 43.9% to CZK 377.8 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 28.2% and reached CZK 119.0 billion at the end of 2021's first half.

Revaluation differences on portfolio hedge items totalled CZK 0.0 billion. Current and deferred tax assets stood at CZK 1.8 billion. Other assets and accrued accounts, which include receivables from securities trading and settlement balances, decreased overall by (8.0%) to CZK 4.7 billion. Assets held for sale diminished by (32.5%) to CZK 0.1 billion.

Investments in subsidiaries and associates rose by 3.8% to CZK 1.6 billion.

The net book value of tangible assets declined by (1.6%) to CZK 9.6 billion. Intangible assets grew by 6.0% to reach CZK 7.3 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF, and ESSOX, remained unchanged at CZK 3.8 billion.

<u>Liabilities</u>
Total liabilities were 13.9% higher in comparison to the end of 2020 and stood at CZK 1,195.7 billion.

Financial liabilities at amortised cost went up by 15.2% to CZK 1,148.2 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 14.0% to CZK 1,032.8 billion. This total included CZK 35.9 billion of liabilities from repo operations with clients and CZK 7.6 billion of other payables to customers. Amounts due to banks increased in the first half of 2021 by 14.0% to CZK 98.7 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 (8.5) billion. Current and deferred tax liabilities rose to CZK 0.9 billion. Other liabilities and accruals, which include payables from securities trading and settlement balances, increased by 62.3% to CZK 18.5 billion.

The provisions balance was lower by (22.5%), 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.

<u>Equity</u>
Total equity grew year to date by 5.0% to CZK 122.9 billion. The value of non-controlling interests reached CZK 3.4 billion. As of 30 June 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 108.8 billion as of 30 June 2021. **Capital adequacy** stood at 23.3%. Core Tier 1 capital amounted to CZK 106.3 billion, and the Core Tier 1 ratio stood at 22.7%. Tier 2 capital totalled CZK 2.5 billion, which was 0.5% of risk-weighted assets.

As from 1 January 2021, Komerční banka's overall capital requirements come to approximately 16.2% in relation to the consolidated volume of risk-weighted assets. The minimum Core Tier 1 capital level is around 12.2%, and the minimum Tier 1 capital ratio stands at about 14.2%. The regulatory requirements will increase by 0.5% from July 2022 due to a rise in the countercyclical buffer requirement on Czech exposures announced by the Czech National Bank in May 2021.

KB Group's Liquidity Coverage Ratio reached 203% as of 30 June 2021. The applicable regulatory minimum is 100%.

Developments in corporate governance and in KB Group (in first half 2021)

In March, KB SmartSolutions established Finbricks, s.r.o., a wholly owned subsidiary with registered capital of CZK 1.5 million. Finbricks operates an aggregation platform for financial services offered under the PSD 2 directive.

The Annual General Meeting held on 21 April 2021 approved retention of the whole net profit of Komerční banka, a.s. (the parent bank of KB Group) for the year 2020 in the amount of CZK 6,928,610,374.90. That is in accordance with the recommendation of the Czech National Bank to all banks under its supervision due to persisting uncertainty regarding economic impacts of the ongoing Covid-19 pandemic. The general meeting further approved the Board of Directors' report on the Bank's business activity and state of its assets for the year 2020, separate as well as consolidated financial statements of Komerční banka, a.s. for the year 2020, and the report on remuneration. It also approved amendments to the Articles of Association in the wording submitted by the Board of Directors. The general meeting elected Mr Petr Dvořák, Mr Alvaro Huete Gomez, Mr Giovanni Luca Soma, and Ms Jarmila Špůrová as members of the Supervisory Board. Mr Giovanni Luca Soma was elected also as a member of the Audit Committee.

In accordance with the initial strategy, Komerční banka reduced its ownership stake in Bankovní identita, a.s. to 17%, thus enabling other banks to enter this national platform for the provision of digital identification services.

In June, KB SmartSolutions s.r.o. increased its stake in upvest s.r.o. from the previous 18.9% to 31.06%.

Expected development and main risks to that development in 2021

Komerční banka presented its initial outlook for KB's business and financial results in 2021 along with its announcement of the full-year 2020 results on 10 February 2021. The following text updates that outlook according to recent developments in the economic conditions and business performance as well as in view of current expectations concerning the pandemic, economic, regulatory, and competitive situation.

Given the high level of uncertainty surrounding the pandemic situation that is 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.

In its updated baseline macroeconomic scenario for 2021, valid as of today, KB expects that the Czech economy will grow by approximately 4% in 2021. The growth should be mainly driven by recovering household consumption, while fixed investments should contribute as well. The average inflation rate in 2021 is expected to reach 2.8%, due mainly to higher oil prices and relatively slower deceleration of core inflation. KB assumes that the Czech National Bank will continue its process of normalising monetary policy commenced in June. Two further rate hikes are expected in 2021.

The Czech National Bank informed KB in March that it has set quantitative limits for maximum volume of dividends from profits generated in the years 2019 and 2020. The limits are applicable for all banks under the CNB's supervision. Among the announced limits, the lowest and thus most relevant for Komerční banka is the value equal to 100 basis points of the total risk weighted assets as of 31 December 2020. That corresponds to approximately CZK 4.5 billion or CZK 23.71 per share. In a following step, the CNB will assess on an individual basis the risk profiles of the institutions, their business models, and other relevant factors. The evaluation and review process may lead to further decrease from the generally applicable limits. The CNB expected that it would be ready during the third quarter of 2021 to communicate to institutions the results of its assessing their proposals for dividend payments. Komerční banka's Board of Directors intends to call a general shareholders' meeting in the fourth quarter once the payment of dividends is validated by the regulator.

On 27 May, the CNB Bank Board decided to increase to 1% the countercyclical capital buffer rate (i.e. the rate covering the usual level of risks) with effect from 1 July 2022. The CNB also informed in its Financial Stability Report that, in view of the still limited extent of systemic risk, it decided to keep the loan-to-value limit regarding mortgages unchanged at 90%, with the option of applying a 5% volume exemption. The CNB Bank Board did not deem it necessary to set debt-to-income and debt service-to-income limits or to tighten the other parameters of the existing recommendations regarding mortgage lending. It nevertheless pointed out to lenders that it considered credit standards to be as relaxed as could be acceptable.

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.

Although the banking market will be positively influenced by the recovering economy, it will still reflect distortions in economic life caused by the pandemic. Total lending on the market should increase at a mid-single-digit percentage rate. Housing loans will continue to expand even relatively faster. Consumer credit and business lending is expected to grow at a slower pace, with a possible acceleration later in the year after consumers and companies gain more confidence and visibility into the future. Clients' bank deposits will probably continue to grow strongly – albeit faster than lending – in both retail and corporate segments.

Komerční banka will continue implementing 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. KB will also continue in digitalisation of its processes, transformation of IT infrastructure, and identification of new revenue opportunities. Furthermore, KB will finalise during the second half of 2021 its process for remediating the client portfolio for upgraded know-your-customer guidelines. This may lead to further decrease in the number of accounts among those clients who do not supply the required information.

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

KB Group's total net banking income for 2021 should reach a level similar to that in 2020. Net interest income for the year will be lower year-on-year due to lower market interest rates that affect 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 figure in the low teens on the back of solid demand for hedging of financial risks and, somewhat later, expected 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 simplification and optimisation implemented at headquarters and in the branch network. The guidance for operating expenditures in 2021 thus remains unchanged despite that the CNB's prescribed increase in the mandatory contribution of banks to the Resolution Fund is larger than expected.

Given the expected economic recovery and effects of the large-scale government support programmes for businesses, cost of risk will significantly decline in 2021 in comparison with the level recorded in the previous year.

Among the key risks to the expectations described above is the potential for an unresolved pandemic situation in the Czech Republic that would require reinstating restrictions on people's mobility and certain economic activities. The open Czech economy will also be sensitive to a worsening external economic environment or major disruptions in supply chains caused by lack of important input materials and components, such as semiconductors. 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 would negatively affect the economic outlook and thus demand for banking services, 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 in the amount allowed by the CNB, as discussed above.

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

	Reported			Recurring		
Profit and Loss Statement	**1H 2020**	**1H 2021**	**Change YoY**	**1H 2020**	**1H 2021**	**Change YoY**
(CZK million, unaudited)						
Net interest income	10,843	9,956	(8.2%)	10,843	9,956	(8.2%)
Net fee and commission income	2,626	2,792	6.3%	2,626	2,792	6.3%
Net profit on financial operations	1,508	1,955	29.6%	1,508	1,955	29.6%
Dividend and other income	106	102	(3.8%)	106	102	(3.8%)
Net banking income	**15,083**	**14,805**	**(1.8%)**	**15,083**	**14,805**	**(1.8%)**
Personnel expenses	(3,887)	(3,667)	(5.7%)	(3,887)	(3,667)	(5.7%)
General admin. expenses (excl. regulatory funds)	(1,844)	(1,739)	(5.7%)	(1,844)	(1,739)	(5.7%)
Resolution and similar funds	(934)	(1,031)	10.4%	(934)	(1,031)	10.4%
Depreciation, amortisation and impairment of operating assets	(1,284)	(1,395)	8.6%	(1,284)	(1,395)	8.6%
Total operating expenses	**(7,950)**	**(7,832)**	**(1.5%)**	**(7,950)**	**(7,832)**	**(1.5%)**
Operating profit	**7,133**	**6,973**	**(2.2%)**	**7,133**	**6,973**	**(2.2%)**
Impairment losses	(1,830)	(693)	(75.0%)	(1,830)	(693)	(75.0%)
Net gain from loans and advances transferred and written off	101	25	(75.0%)	101	25	(75.0%)
Cost of risk	**(1,729)**	**(668)**	**(61.4%)**	**(1,729)**	**(668)**	**(61.4%)**
Net operating income	**5,404**	**6,305**	**16.7%**	**5,404**	**6,305**	**16.7%**
Income from share of associated companies	143	106	(25.9%)	143	106	(25.9%)
Profit/(loss) attributable to exclusion of companies from consolidation	0	25	n.a.	0	25	n.a.
Net profits on other assets	2	25	>100%	2	25	>100%
Profit before income taxes	**5,549**	**6,461**	**16.4%**	**5,549**	**6,461**	**16.4%**
Income taxes	(1,070)	(1,203)	12.4%	(1,070)	(1,203)	12.4%
Net profit for the period	**4,479**	**5,258**	**17.4%**	**4,479**	**5,258**	**17.4%**
Profit attributable to the Non-controlling owners	42	132	>100%	42	132	>100%
Profit attributable to the Group's equity holders	**4,437**	**5,126**	**15.5%**	**4,437**	**5,126**	**15.5%**

Statement of financial position	**31 Dec 2020**	**30 Jun 2021**	**Ytd**
(CZK million, unaudited)			
Assets	**1,167,131**	**1,318,604**	**13.0%**
Cash and current balances with central bank	23,547	24,279	3.1%
Loans and advances to banks	262,606	377,834	43.9%
Loans and advances to customers (net)	679,956	692,813	1.9%
Securities and trading derivatives	158,916	187,423	17.9%
Other assets	42,106	36,255	(13.9%)
Liabilities and shareholders' equity	**1,167,131**	**1,318,604**	**13.0%**
Amounts due to banks	86,572	98,706	14.0%
Amounts due to customers	906,217	1,032,789	14.0%
Securities issued	1,148	14,014	1,120.7%
Subordinated debt	2,629	2,553	(2.9%)
Other liabilities	53,507	47,673	(10.9%)
Total equity	117,058	122,870	5.0%

Key ratios and indicators	30 Jun 2020	30 Jun 2021	Change year on year
Capital adequacy (CNB)	21.9%	23.3%	▲
Tier 1 ratio (CNB)	21.3%	22.7%	▲
Total risk-weighted assets (CZK billion)	446.7	467.3	4.6%
Risk-weighted assets for credit risk (CZK billion)	368.5	387.6	5.2%
Net interest margin (NII / average interest-bearing assets)[III]	2.0%	1.7%	▼
Loans (net) / deposits ratio[IV]	74.3%	69.5%	▼
Cost / income ratio[V]	52.7%	52.9%	▲
Return on average equity (ROAE)[VI]	8.2%	8.8%	▲
Return on average Tier 1 capital[VII]	9.9%	10.0%	▲
Return on average assets (ROAA)[VIII]	0.8%	0.8%	▲
Earnings per share (CZK)[IX]	47	54	15.5%
Average number of employees during the period	8,150	7,748	(4.9%)

Business performance in retail segment – overview	30-Jun-21	Change year on year
CZK bil.		
Mortgages to individuals – volume of loans outstanding	253.0	7.0%
Building savings loans (MPSS) – volume of loans outstanding	69.0	16.2%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	32.9	(0.6%)
Small business loans – volume of loans outstanding	47.0	6.3%
Insurance premiums written (KP)	5.2	9.1%

Financial calendar:

4 November 2021 – 9M and 3Q 2021 results
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)	1H 2021	1H 2020
Net interest income income, year-to-date	**9,956**	**10,843**
Of which:		
Loans and advances at amortised cost	8,862	10,904
Debt securities at amortised cost	961	851
Other debt securities	349	338
Financial liabilities at amortised cost	(828)	(1,777)
Hedging financial derivatives – income	4,792	8,800
Hedging financial derivatives – expense	(4,180)	(8,273)

(source: Balance Sheet)	30-Jun-21	31-Dec-20	30-Jun-20	31-Dec-19
Cash and current balances with central banks/ Current balances with central banks	14,284	15,050	18,983	7,737
Loans and advances to banks	377,834	262,606	319,222	244,561
Loans and advances to customers	692,813	679,956	671,698	647,259
Financial assets held for trading at fair value through profit or loss/ Debt securities	12,311	3,342	16,628	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	38,670	40,151	44,526	35,682
Debt securities	119,024	92,839	88,632	71,581
Interest-bearing assets (end of period)	**1,254,936**	**1,094,223**	**1,159,690**	**1,010,932**
Average interest-bearing assets, year-to-date	**1,174,579**		**1,085,311**	
NIM year-to-date, annualised	**1.70%**		**2.00%**	