

Komerční banka, a.s.

# RESULTS

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# Q1 2021



Regulatory information

Komerční banka, a.s.

## Komerční banka reports resilient revenues, rigorous cost control, and good asset quality in the challenging context

*“In spite of obvious impacts from the pandemic environment, Komerční banka’s overall results were satisfactory and some areas, such as lending for housing purposes or assisting our clients with their debt capital market activities, performed above expectations. We have been working hard in preparation for serving our clients even in a changed banking world beyond the pandemic. Our people have been able to focus in the challenging environment on the needs of our clients and to progress further on delivering our 2025 strategic plan,”* remarked Jan Juchelka, KB’s Chairman of the Board of Directors and Chief Executive Officer.

- | **The total volume of KB Group’s lending to customers expanded by 4.0% year on year, mainly driven by lending for housing purposes. The overall volume of standard client deposits within KB Group was up by 10.1%, with strong growth reported in retail as well as corporate segments. The volume of non-bank assets under management leapt up by 5.9%.**
- | **The number of clients with KB Mobile Banking climbed by 124,000 year on year to 959,000, representing 58% of all KB 1,641,000 customers. The KB Klíč (KB Key) authentication application for accessing banking services was being used by 867,000 clients, some 298,000 more than a year ago.**
- | **In a quarter influenced by significant restrictions on people’s mobility and on some business activities, KB reported a (5.3%) decline in revenues and (1.5%) lower operating expenditures. Net creation of credit risk provisions reached CZK 0.6 billion. Net profit attributable to shareholders decreased by (24.9%) to CZK 2.0 billion.**
- | **Indicators of KB Group’s capital adequacy and liquidity significantly exceed the applicable regulatory requirements. Capital adequacy reached 22.5% and the ratio of net loans to deposits 68.9%.**
- | **Further to its strategic steps with a view to reach carbon neutrality in its own operations by 2026, Komerční banka announced it is committed also to reduce progressively its exposure to projects actively associated with the coal sector.**
- | **The Annual General Meeting consented once again to retain the full 2020 profit in accordance with Czech National Bank instructions. The Board of Directors intends to call an extraordinary shareholders’ meeting in the fourth quarter of this year to decide upon dividend distribution in the volume as cleared by the regulator.**

Prague, 6 May 2021 – Komerční banka reported today its unaudited consolidated results for the first quarter of 2021.

Total revenues decreased by (5.3%) to CZK 7.4 billion. Net interest income was down by (14.4%), at CZK 5.0 billion, despite increase in the volumes of both loans and deposits, because market interest rates had been significantly higher in the first quarter of last year. Net fee and commission income improved by 1.6% to CZK 1.4 billion due to strong activity among corporate clients on capital markets and better income from mutual funds. Net profit on financial operations increased by 70.1% to CZK 1.0 billion, boosted by strong demand from clients for hedging of financial risks linked to issuance of new debt and volatility.

Operating expenses were down by (1.5%), at CZK 4.3 billion, in spite of a 7.1% 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 (4.3%) to 7,820. Reflecting investments in digitalisation, amortisation charges were higher year on year.

Net creation of provisions for the first quarter of 2021 totalled CZK 0.6 billion. The provisioning consisted mainly of charges for increasing coverage on exposures to corporate clients affected by the restrictive pandemic measures.

The reported attributable net profit was down by (24.9%), at CZK 2.0 billion.

Lending to clients increased by 4.0% to CZK 694.7 billion.<sup>1)</sup> This growth was driven mainly by financing of housing from KB and Modrá pyramida, which expanded by 8.7%. Reflecting the market situation, consumer lending by KB and ESSOX declined by (1.8%). Lending to businesses and other clients was up by 0.6%. The Czech crown value of EUR-denominated loans was influenced by 4.3% YoY appreciation of CZK. Short-term working capital financing was relatively stronger as companies were still postponing their investments. KB recorded a strong activity in structured lending.

Deposits from clients climbed by 10.1% year on year to CZK 985.7 billion.<sup>2)</sup> The volume of KB Group clients' assets in mutual funds, pension savings, and life insurance rose by 5.9% to CZK 190.4 billion.

The capital adequacy ratio reached a strong 22.5%, and Core Tier 1 capital stood at 21.8%. The liquidity coverage ratio was at 204%, significantly above the regulatory minimum of 100%.

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 of 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 expects that it will be ready during the third quarter of 2021 to communicate to the institutions the results of its assessing their proposals for dividend payments. Komerční banka's Board of Directors intends to call in the fourth quarter a general shareholders' meeting once the payment of dividends is validated by the regulator.

The Bank had 57,305 shareholders as of 31 March 2021 (up by 3,362 year on year), of which 51,754 were private individuals from the Czech Republic 51,754 (greater by 3,315 from the year earlier). Strategic shareholder Société Générale maintained its 60.4% stake while minority shareholders owned 39.0% and KB held 0.6% of the registered capital in treasury.

<sup>1)</sup> Excluding volatile reverse repo operations with clients but including debt securities issued by KB's clients and held by the Bank. Inclusive of repo operations, lending rose by 3.6% year over year to CZK 695.4 billion.

<sup>2)</sup> Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 9.6% to CZK 1,012.5 billion.

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

Economic and social life was significantly impacted in the first quarter of 2021 by the further waves of Covid-19 infection and significant restrictions imposed by the government to contain its spread. These included, among other things, a prohibition on people gathering and intra-country travel, continued distance learning for children, and lockdowns of hospitality and non-essential retail sectors. The pace of vaccination began to pick up and the number of new infections started to sink in April. The state of emergency was officially lifted on 12 April 2021, but the restrictive measures remained largely in place and a plan for gradual reopening was being discussed. As of 30 April 2021, 9% of the Czech population was fully vaccinated, 20% of the population had received at least one inoculation shot, and some 15% were officially reported to have recovered from Covid-19.

Despite the lockdown during the first quarter, the economy demonstrated remarkable resilience, declining only by -0.3% quarter over quarter (-2.1% year over year), as per the flash estimate. That built upon the positive outcome from the fourth quarter (+0.6% quarter over quarter, -4.8% year over year), totalling to -5.6% for the whole of 2020. Although tight labour market conditions had started to ease already in early 2020 due to the pandemic outbreak, in the fourth quarter alone wage inflation picked up to +6.5% year on year (3.8% in real terms). At the same time, the unemployment rate is still rising only very slowly and has remained one of the lowest within the EU (standing at 3.2% in February, according to the Eurostat methodology after seasonal adjustment).<sup>2)</sup> More recent data from the Czech labour ministry shows at least temporary stability of the unemployment rate.<sup>3)</sup>

Dynamics of industrial producer prices reached an average of 1.5% yoy in 2021's first quarter. Pressure from the primary price categories together with robust wage cost dynamics transmitted to consumer price inflation, which accelerated at the end of the first quarter. It reached 2.3%, which again was above the upper bound of the Czech National Bank's inflation target tolerance band. Although this was due mainly to rising fuel prices, core inflation also remains at elevated levels. Meanwhile, the Czech crown's exchange rate appreciated through the end of March against the euro by slight 0.4%, reaching CZK 26.15 per euro versus the CZK 26.25 per euro in December. The crown was quite volatile during the quarter, reaching CZK 25.68 per euro in mid-February, but it also stood at CZK 26.42 per euro at the beginning of March.

Since the CNB last cut its 2W repo rate to 0.25% in May 2020, three-month PRIBOR has moved up only 2 bps and throughout 2021 remained anchored at 0.36%. The 10Y interest rate swap, however, climbed to 1.83% from the 1.28% at 31 December 2020 (+55 bps year to date). Similarly, yields on 10-year Czech government bonds increased by 71 bps during the first quarter to 2.01%, up from 1.30% as of 31 December 2020.

Growth in prices of residential real estate kept up its momentum as measured year on year. The rise in already high real estate prices is being fuelled by income tax reform and continuing general price increases and despite an uncertain outlook and slowing wage dynamics. Prices paid in the fourth quarter for previously owned flats were up 12.6% year on year while prices obtained for new flats (in Prague only) were higher by 9.2% from the year earlier.<sup>4)</sup>

Total bank lending for the overall market (excluding repo operations) grew 2.2% year on year in the first quarter.<sup>5)</sup> Lending growth was faster in retail banking, with mortgage growth continuing apace but consumer lending muted as a consequence of the pandemic. Businesses lending has decreased in year on year terms by -2.5% in March 2021 reflecting heightened uncertainty.

The volume of client deposits in Czech banks had expanded by 11.3% year over year as of March.<sup>6)</sup> Deposits from individuals had grown by 12.9% while the business deposit market grew by 9.5%, with deposits growing. Within the corporate segments, deposits expanded in the public sector as well as from non-financial corporations, but deposits from financial institutions declined year over year.

## Selected achievements and initiatives in the first quarter 2021

During the first quarter, KB launched electronic authentication based on banking identity for access to public services. The method, which uses the KB Key digital tool, was immediately used by scores of clients for their participation in the 2021 national census, submitting tax returns, checking driver's records, and other official services.

KB Group products have gained several recognitions. KB's personal loan was awarded 1st place in the unsecured consumer loan category of the Financial Product of the Year award organised by the specialised web portal Finparada.cz. In the building savings category of the same contest, Modrá pyramida's Wise saving product won 3rd place. In the MasterCard Awards 2020 for the Czech

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

<sup>2)</sup> <https://ec.europa.eu/eurostat/documents/2995521/11563007/3-06042021-AP-EN.pdf/15bf6b6d-2b36-cfb9-c833-d8efe89b881d?t=1617669574756> Data up to February 2021.

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

<sup>4)</sup> Source: <https://www.czso.cz/csu/czso/house-price-index-4th-quarter-of-2020> Publication code 014005-20, released 31 March 2021.

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

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

Republic, the 4U credit card from KB was named “The Fastest Growing Card”. And the KB SmartPay joint venture with Worldline received an “Advisors Special Mention” by MasterCard for the ‘Czechia pays by card’ project during the pandemic. As an employer, KB won first place in the banking and investments category of the “Top Employer” survey among university students organised by the Students and Graduates Association and conducted by GfK.

In addition to its strategic steps with a view to reach carbon neutrality in its own operations by 2026, Komerční banka has committed to progressively reduce to zero by 2030 its exposure to projects actively associated with the coal sector. On this basis, Komerční banka is no longer providing new financial products to clients who have more than 50% of their revenue linked to coal. For current clients who have more than 25% of their revenue 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.

KB Group and its employees continued their philanthropic and volunteering activities, including the annual Uklidíme Česko (Tidy up Czechia) campaign. KB launched a new [Společně udržitelně](#) (Sustainably together) web portal that provides examples of good practice and advice on transition to more sustainable business undertakings. The KB Jistota foundation started new long-term cooperation with INCIEN (Institute for circular economy) focused on development of circular economy. The foundation also launched campaign for support of single parents in difficult life and health situations.

## Developments in the client portfolio and distribution networks

	31 Mar 2020	31 Mar 2021	Change YoY
KB Group's clients*	2,350,000	2,286,000	(64,000)
Komerční banka	1,663,000	1,641,000	(23,000)
– individual clients	1,407,000	1,391,000	(16,000)
– internet banking clients	1,431,000	1,450,000	19,000
– mobile banking clients	836,000	959,000	124,000
Modrá pyramida	488,000	486,000	(2,000)
KB Penzijní společnost	530,000	525,000	(5,000)
ESSOX (Group)*	195,000	145,000	(50,000)
KB branches (CZ)	332	242	(90)
Modrá pyramida points of sale	202	199	(3)
SGEF branches	9	9	0
ATMs	800	823	23
of which deposit-taking	395	449	54
of which contactless	253	421	168
Number of active debit cards	1,403,000	1,413,000	9,000
Number of active credit cards	181,000	182,000	1,000
Number of cards virtualized into payment apps	204,000	306,000	102,000
KB key authentication users	568,000	867,000	298,000

\* 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 31 March 2021.

## BUSINESS PERFORMANCE

### Loans to customers

Total **gross volume of lending to clients** rose by 4.0% year on year to CZK 694.7 billion.<sup>1)</sup>

In lending to individuals, the overall volume of housing loans grew by 8.7% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 7.2% to CZK 248.7 billion. Modrá pyramida's loan portfolio grew by a strong 14.9% to CZK 66.1 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was down (1.8%), at CZK 38.4 billion.

The total volume of **loans to businesses** and other lending provided by KB Group was up by 0.6% year on year to CZK 341.5 billion. Lending to small businesses grew by 7.4% to CZK 39.8 billion. The overall CZK volume of credit granted by KB to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia<sup>2)</sup> contracted by (0.4%) year on year to CZK 271.8 billion. At CZK 30.0 billion, the total credit and leasing amounts outstanding at SGEF were up by 0.4% year over year.

### Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group rose by 10.1% year on year to CZK 985.7 billion.<sup>3)</sup> Deposits at Komerční banka from individual clients grew by 15.7% from the year earlier to CZK 339.4 billion. The deposit book at Modrá pyramida decreased by (0.5%) to CZK 60.5 billion. Total deposits from businesses and other corporations climbed by 7.5% to CZK 568.3 billion.

Client assets managed by KB Penzijní společnost were 8.3% greater, at CZK 68.2 billion. Technical reserves in life insurance at Komerční pojišťovna were up by 5.5% year on year, at CZK 50.4 billion. The volumes in mutual funds held by KB Group clients grew by 4.0% to CZK 71.8 billion.

The Group's liquidity as measured by the ratio of net loans<sup>4)</sup> to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 68.9%. The Group's liquidity coverage ratio stood at 204%, well above the regulatory limit of 100%.

## FINANCIAL PERFORMANCE

### Income statement

Komerční banka's **revenues (net operating income)** for the first quarter of 2021 decreased by (5.3%) year on year to reach CZK 7,422 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. Despite lower fees from transactions, income from fees and commissions increased slightly thanks to improved revenues from services provided to clients on capital markets (such as bond issuance and loan syndications) and higher income from mutual funds. 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.

**Net interest and similar income** was down by (14.4%), at CZK 5,004 million. Although loan and deposit volumes were growing, 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 quarter 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 2.2% a year earlier.

**Net fee and commission income** increased by 1.6% to CZK 1,374 million. Clients' transaction activity in the first quarter 2021 was significantly reduced due to partial lockdown of the economy. The maintenance fee improved slightly, underpinned by clients upgrading their account packages. Fees from cross-selling were up due to income from mutual funds. Income from loan services was down year over year, because fees from consumer loans and financing of small businesses diminished while commission paid for

<sup>1)</sup> Excluding volatile reverse repo operations with clients but including debt securities issued by KB's corporate clients. If reverse repo operations are included, gross lending increased by 3.6% to CZK 695.4 billion.

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

<sup>3)</sup> Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' increased by 9.6% to CZK 1,012.5 billion.

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

intermediation of mortgages increased. KB recorded higher income from specialised financial services, mainly due to exceptionally strong activity in issuance of debt instruments by clients and in loan syndication.

**Net profit from financial operations** improved by 70.1% to CZK 1,002 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. Volume of trades with government bonds increased along with larger supply. On the other hand, net gains on FX payment transactions were still lower due to constraints on international travel and a drop in related payments.

**Dividend and other income** declined by (21.8%) to CZK 43 million. This line item primarily comprises revenues from property rental and ancillary services.

Operating expenditures were lower by (1.5%) to CZK 4,341 million. Personnel expenses decreased by (6.0%) to CZK 1,824 million, when the average number of employees diminished by (4.3%) to 7,820.<sup>1)</sup> KB 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 (8.5%), at CZK 816 million, as the Group achieved savings across all main cost categories comprising this line, and seasonal and temporal effects contributed positively in this year's first quarter. The estimated full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 1,009 million, up 7.1% 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 9.7% to CZK 692 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 (10.3%), at CZK 3,081 million.

**Cost of risk** reached CZK 586 million (net creation of provisions) in comparison with CZK 154 million in the first quarter of 2020. The creation of provisions mainly related to corporate portfolios, where provision creation concentrated on a small number of client situations. The Group also booked preventive creations on weakened credit profiles within performing portfolios, and it reported limited reversals on IFRS 9 provisioning model reserves. The cost of risk on retail portfolio was low, in accordance with 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 quarter of 2021 came to 34 basis points. That compares with 9 basis points for the same period a year ago.

**Income from shares in associated undertakings** (i.e. Komerční pojišťovna) was down (26.9%) year on year, at CZK 57 million, due to a timing of creation and utilisation of insurance reserves at KP.

**Net profits on other assets** reached CZK 5 million, which amount was linked to sales of buildings in the held-for-sale portfolio. In the previous year, this result had been CZK 15 million.

**Income tax** was lower by (23.8%), at CZK 492 million.

KB Group's consolidated **net profit** for the first quarter of 2021 reached CZK 2,064 million, which was down by (24.3%) in comparison with a year earlier. Of this total, CZK 67 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (down by (4.3%) year on year).

Reported **net profit attributable to the Group's equity holders** totalled CZK 1,997 million, which is (24.9%) less year on year.

**Other comprehensive income**, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK 1 million. **Consolidated comprehensive income** for the first quarter of 2021 totalled CZK 2,065 million, of which CZK 67 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 31 March 2021 with the values from the statement of financial position as of 31 December 2020.*

### Assets

As of 31 March 2021, KB Group's total assets had grown by 10.0% year to date to CZK 1,283.5 billion.

Cash and current balances with central banks were up 0.3%, at CZK 23.6 billion. Financial assets at fair value through profit or loss (trading securities and derivatives) increased by 15.5% to CZK 29.6 billion. The fair value of hedging financial derivatives declined by (36.8%) to CZK 8.4 billion.

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

Year to date, there was a (0.4%) decline in financial assets at fair value through other comprehensive income totalling CZK 40.0 billion. This item consisted mainly of public debt securities.

Financial assets at amortised cost grew by 11.3% to CZK 1,152.3 billion. The largest portion of this consisted of (net) loans and advances to customers, which remained almost stable year to date (0.1%) at CZK 679.5 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 loans). The volume of loss allowances created for amounts due from customers came to CZK 13.6 billion. Loans and advances to banks increased by 40.2% to CZK 368.3 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 12.6% and reached CZK 104.5 billion at the end of the first quarter.

Revaluation differences on portfolio hedge items totalled CZK 0.2 billion. Current and deferred tax assets stood at CZK 1.6 billion. Other assets and accrued accounts, which include receivables from securities trading and settlement balances, increased overall by 7.4% to CZK 5.5 billion. Assets held for sale diminished by (13.0%) to CZK 0.1 billion.

Investments in subsidiaries and associates rose by 0.7% to CZK 1.6 billion.

The net book value of tangible assets declined by (0.2%) to CZK 9.7 billion. Intangible assets grew by 2.9% to reach CZK 7.1 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 10.9% higher in comparison to the end of 2020 and stood at CZK 1,164.4 billion.

Financial liabilities at amortised costs went up by 11.9% to CZK 1,115.4 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 11.7% to CZK 1,012.5 billion. This total included CZK 26.8 billion of liabilities from repo operations with clients and CZK 7.8 billion of other payables to customers. Amounts due to banks decreased in the first quarter of 2021 by (0.8%) to CZK 85.9 billion.

The volume of outstanding securities issued expanded significantly to CZK 14.4 billion, due to successful placement of a first tranche of euro-denominated mortgage covered bonds of EUR 500 million under the newly opened EUR covered bond programme.

Revaluation differences on portfolios hedge items were negative CZK (7.6) billion. Current and deferred tax liabilities were steady at CZK 0.8 billion. Other liabilities and accruals, which include payables from securities trading and settlement balances, increased by 47.3% to CZK 16.8 billion.

The provisions balance was (3.1%) lower, at CZK 2.0 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 (0.4%) year to date. Because that debt is issued in euro, the change reflects appreciation of the Czech crown over the same period.

### Equity

Total equity grew year to date by 1.8% to CZK 119.1 billion. The value of non-controlling interests reached CZK 3.3 billion. As of 31 March 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 100.5 billion as of 31 March 2021. **Capital adequacy** stood at 22.5%. The Core Tier 1 capital amounted to CZK 97.7 billion, and the Core Tier 1 ratio stood at 21.8%. Tier 2 capital totalled CZK 2.8 billion, which was 0.6% 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 approximately 12.2%, and the minimum Tier 1 capital ratio stands at about 14.2%.

KB Group's Liquidity Coverage Ratio reached 204% as of 31 March 2021. The applicable regulatory minimum is 100%.

## Developments in corporate governance (in first quarter 2021)

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 adopted for 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.

**ANNEX: Consolidated results as of 31 March 2021 under International Financial Reporting Standards (IFRS)**

Profit and Loss Statement	Reported			Recurring		
	1Q 2020	1Q 2021	Change YoY	1Q 2020	1Q 2021	Change YoY
(CZK million, unaudited)						
Net interest income	5,845	5,004	(14.4%)	5,845	5,004	(14.4%)
Net fee and commission income	1,353	1,374	1.6%	1,353	1,374	1.6%
Net profit on financial operations	589	1,002	70.1%	589	1,002	70.1%
Dividend and other income	55	43	(21.8%)	55	43	(21.8%)
<b>Net banking income</b>	<b>7,841</b>	<b>7,422</b>	<b>(5.3%)</b>	<b>7,841</b>	<b>7,422</b>	<b>(5.3%)</b>
Personnel expenses	(1,940)	(1,824)	(6.0%)	(1,940)	(1,824)	(6.0%)
General admin. expenses (excl. regulatory funds)	(892)	(816)	(8.5%)	(892)	(816)	(8.5%)
Resolution and similar funds	(942)	(1,009)	7.1%	(942)	(1,009)	7.1%
Depreciation, amortisation and impairment of operating assets	(631)	(692)	9.7%	(631)	(692)	9.7%
<b>Total operating expenses</b>	<b>(4,406)</b>	<b>(4,341)</b>	<b>(1.5%)</b>	<b>(4,406)</b>	<b>(4,342)</b>	<b>(1.5%)</b>
<b>Operating profit</b>	<b>3,435</b>	<b>3,081</b>	<b>(10.3%)</b>	<b>3,435</b>	<b>3,080</b>	<b>(10.3%)</b>
Impairment losses	(235)	(598)	(85.6%)	(235)	(598)	(85.6%)
Net gain from loans and advances transferred and written off	81	12	(85.6%)	81	12	(85.6%)
<b>Cost of risk</b>	<b>(154)</b>	<b>(586)</b>	<b>&gt;100%</b>	<b>(154)</b>	<b>(586)</b>	<b>&gt;100%</b>
<b>Net operating income</b>	<b>3,281</b>	<b>2,495</b>	<b>(24.0%)</b>	<b>3,281</b>	<b>2,494</b>	<b>(24.0%)</b>
Income from share of associated companies	78	57	(26.9%)	78	57	(26.9%)
Profit/(loss) attributable to exclusion of companies from consolidation	0	0	n.a.	0	0	n.a.
Net profits on other assets	15	5	(66.7%)	15	5	(66.7%)
<b>Profit before income taxes</b>	<b>3,374</b>	<b>2,556</b>	<b>(24.2%)</b>	<b>3,374</b>	<b>2,556</b>	<b>(24.2%)</b>
Income taxes	(646)	(492)	(23.8%)	(646)	(492)	(23.8%)
<b>Net profit for the period</b>	<b>2,728</b>	<b>2,064</b>	<b>(24.3%)</b>	<b>2,728</b>	<b>2,064</b>	<b>(24.3%)</b>
Profit attributable to the Non-controlling owners	70	67	(4.3%)	70	67	(4.3%)
<b>Profit attributable to the Group's equity holders</b>	<b>2,658</b>	<b>1,997</b>	<b>(24.9%)</b>	<b>2,658</b>	<b>1,997</b>	<b>(24.9%)</b>

Statement of financial position	31 Dec 2020	31 Mar 2021	Ytd
(CZK million, unaudited)			
<b>Assets</b>	<b>1,167,131</b>	<b>1,283,490</b>	<b>10.0%</b>
Cash and current balances with central bank	23,547	23,612	0.3%
Loans and advances to banks	262,606	368,290	40.2%
Loans and advances to customers (net)	679,956	679,531	(0.1%)
Securities and trading derivatives	158,916	174,085	9.5%
Other assets	42,106	37,973	(9.8%)
<b>Liabilities and shareholders' equity</b>	<b>1,167,131</b>	<b>1,283,490</b>	<b>10.0%</b>
Amounts due to banks	86,572	85,892	(0.8%)
Amounts due to customers	906,217	1,012,479	11.7%
Securities issued	1,148	14,353	1,150.3%
Subordinated debt	2,629	2,619	(0.4%)
Other liabilities	53,507	49,020	(8.4%)
Total equity	117,058	119,129	1.8%

Key ratios and indicators	31 Mar 2020	31 Mar 2021	Change year on year
Capital adequacy (CNB)	20.8%	22.5%	▲
Tier 1 ratio (CNB)	20.2%	21.8%	▲
Total risk-weighted assets (CZK billion)	455.6	447.7	(1.7%)
Risk-weighted assets for credit risk (CZK billion)	376.6	374.3	(0.6%)
Net interest margin (NII / average interest-bearing assets) <sup>iii</sup>	2.2%	1.7%	▼
Loans (net) / deposits ratio <sup>iv</sup>	73.6%	68.9%	▼
Cost / income ratio <sup>v</sup>	56.2%	58.5%	▲
Return on average equity (ROAE) <sup>vi</sup>	10.0%	7.0%	▼
Return on average Tier 1 capital <sup>vii</sup>	12.1%	8.2%	▼
Return on average assets (ROAA) <sup>viii</sup>	0.9%	0.7%	▼
Earnings per share (CZK) <sup>x</sup>	56	42	(24.9%)
Average number of employees during the period	8,173	7,820	(4.3%)

Business performance in retail segment – overview (CZK billion)	31 Mar 21	Change year on year
Mortgages to individuals – volume of loans outstanding	248.7	7.2%
Building savings loans (MPSS) – volume of loans outstanding	66.1	14.9%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	38.4	(1.8%)
Small business loans – volume of loans outstanding	39.8	7.4%
Insurance premiums written (KP)	2.7	25.9%

### Financial calendar:

3 August 2021 – 1H and 2Q 2021 results  
4 November 2021 – 9M 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 '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)	1Q 2021	1Q 2020
<b>Net interest income income, year-to-date</b>	<b>5,004</b>	<b>5,845</b>
Of which:		
Loans and advances at amortised cost	4,418	6,199
Debt securities at amortised cost	443	418
Other debt securities	179	164
Financial liabilities at amortised cost	(404)	(1,103)
Hedging financial derivatives – income	2,408	4,817
Hedging financial derivatives – expense	(2,040)	(4,649)

(source: Balance Sheet)	31 Mar 21	31 Dec 20	31 Mar 20	31 Dec 19
Cash and current balances with central banks/ Current balances with central banks	16,003	15,050	19,597	7,737
Loans and advances to banks	368,290	262,606	342,931	244,561
Loans and advances to customers	679,531	679,956	661,387	647,259
Financial assets held for trading at fair value through profit or loss/ Debt securities	10,757	3,342	5,858	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	39,981	40,151	36,986	35,682
Debt securities	104,495	92,839	79,239	71,581
<b>Interest-bearing assets (end of period)</b>	<b>1,219,056</b>	<b>1,094,223</b>	<b>1,145,999</b>	<b>1,010,932</b>
<b>Average interest-bearing assets, year-to-date</b>	<b>1,156,640</b>		<b>1,078,466</b>	
<b>NIM year-to-date, annualised</b>	<b>1.73%</b>		<b>2.17%</b>	