

Komerční banka, a.s.

# RESULTS

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# H1 2020



**KB**

Regulatory information

Komerční banka, a.s.

## Komerční banka contributing to solution of the crisis, continuing to build a sustainable future

### Results for 2020's first half attest to KB's strong position and resilience in the face of a major shock

- | The Komerční banka Group has deployed its resources to help the country overcome social and economic impacts of the global Covid-19 pandemic and to build a sustainable and resilient model for the future by supporting economic recovery, contributing to the country's fiscal capacity, protecting clients' financial security and well-being, maintaining high employee assurance, promoting digital transformation, building a sustainable banking, and maintaining high security of banking services.
- | KB maintains a robust capital base with total capital adequacy at 21.9%, not including profit of the current year, significantly above the applicable regulatory minimum of 16.2%.
- | With its ample liquidity based upon customer deposits, KB does not rely upon wholesale funding. The overall volume of standard client deposits within KB Group increased by 7.1%. The volume of net loans granted corresponds to 74.3% of the client deposit base.
- | KB Group continues in providing new loans to its clients. The total volume of the Group's lending to customers expanded by 4.9% year on year to CZK 676.3 billion. Lending expanded in retail as well as corporate client segments.
- | As of 17 July, KB has granted CZK 5.3 billion in new loans to 1,061 clients through the guarantee programmes launched by the Czech Republic. Of this, 34% was financing provided to those economic sectors most sensitive to the current crisis.
- | Since mid-March, KB Group has been offering repayment holidays for up to six months to its clients affected by the crisis. As of 22 July, KB Group companies had postponed instalments on loans of 46,364 clients totalling CZK 65.6 billion, including CZK 27.8 billion in relation to mortgages, CZK 3.1 billion to consumer loans, and CZK 34.7 billion to financing of businesses.
- | KB has been rapidly expanding its offer of services available online, whether developed internally or in co-operation with various fintech companies. It is elaborating its strategic plan for the future that will address the long-term challenges stemming from rapidly developing client expectations, advancing technologies, and the changing competitive and regulatory environment.
- | The financial performance remains resilient in the context of the major economic shock brought about by the pandemic. The Group reported a (6.7%) decline in revenues and 3.1% increase in operating expenditures, affected by higher regulatory charges and restructuring reserve. Net creation of credit risk provisions reached CZK 1.7 billion, reflecting the first impacts of the Covid-19 crisis. Net profit attributable to shareholders decreased by (38.5%) to CZK 4.4 billion. Recurring net profit attributable to shareholders was down by (37.0%), at CZK 4.5 billion.

Prague, 3 August 2020 – Komerční banka reported today its unaudited consolidated results for the first half of 2020.

KB reported an extraordinarily strong capital adequacy in the context of European banking, of 21.9%, even before inclusion of current year's profit. The liquidity of the Bank remains exceptional too, as net loans represent only 74.3% of the client deposit base. The financial performance was affected by sharp deterioration in economic conditions relating to the Covid-19 global pandemic, measures taken by authorities to contain its spread, and overall weakening in consumer and business confidence. Total revenues decreased by (6.7%) to CZK 15.1 billion. Net interest income was down by (7.8%), at CZK 10.8 billion, mainly due to significant decline in market interest rates that negatively affect yields from reinvested deposits. Net fee and commission income diminished by (11.3%) to CZK 2.6 billion, mainly due to reduced transaction and sales activity but also reflecting impacts from new regulation of fees for cross-border payments. Net profit on financial operations increased by 12.6% to CZK 1.5 billion, boosted by stronger demand from clients for hedging of financial risks in the volatile environment.

Operating expenses were up by 3.1%, at CZK 8.0 billion, driven mainly by greater contribution to the Resolution and Deposit insurance funds and increase in amortisation charges connected to investments in digitalising the Bank and its services. The average number of employees rose by 0.1% to 8,150. KB also has booked a restructuring provision for acceleration of structural changes based on Covid-19 experience (with a net impact on operating expenses of CZK -94 million). Operating expenses adjusted for this one-off provision were higher by 1.9%, at CZK 7.9 billion.

Net creation of provisions for the first half of 2020 totalled CZK 1.7 billion. This amount already includes the first impacts of economic hardship ensuing from the coronavirus pandemic, albeit thus far mainly on an expected-loss basis as envisaged in the IFRS 9 accounting standard, because actual defaulting of clients on their obligations has generally been prevented by implementing payment moratoria.

The reported attributable net profit was down (38.5%), at CZK 4.4 billion. Excluding the one-off items<sup>1)</sup>, attributable net profit was lower by (37.0%), at CZK 4.5 billion.

Lending to clients increased by 4.9% to CZK 676.3 billion.<sup>2)</sup> Within this total, financing of housing from KB and Modrá pyramida expanded by 6.2% and consumer lending from KB and ESSOX grew by 0.9%. Lending to businesses and other clients was up by 4.3%.

Deposits from clients climbed by 7.1% year on year to CZK 898.4 billion.<sup>3)</sup> The volume of KB Group clients' assets in mutual funds, pension savings, and life insurance expanded by 4.9% to CZK 185.4 billion.

The capital adequacy ratio reached a strong 21.9%, and Core Tier 1 capital stood at 21.3%. The liquidity coverage ratio was at 232%, significantly above the regulatory minimum of 100%.

*"Komerční banka has honoured its responsibility to be a reliable pillar of the Czech banking system and economy even in difficult times. We have been standing by our clients, and we will contribute our share to the economic recovery. This has been made possible by KB's strong financial standing and efficiency, and along with its reliable governance and risk management setup. The fact that we have been so well prepared can be attributed also to the transformational steps taken in the recent past,"* remarked Jan Juchelka, KB's Chairman of the Board of Directors and Chief Executive Officer.

*"We perceive the ongoing crisis as an opportunity to accelerate our steps towards digital banking. We are preparing a strategic plan that will let us - together with our clients - build a better and sustainable future through responsible and innovative financial solutions,"* added Mr Juchelka.

The Bank had 56,187 shareholders as of 30 June 2020 (up by 7,353 year on year), of which 50,644 were private individuals from the Czech Republic (greater by 7,193 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.

## KB contributing to solution of the crisis

The KB Group has deployed its resources to help the country in overcoming the social and economic impacts of the global Covid-19 pandemic and to build a sustainable and resilient model for the future.

<sup>1)</sup> One-off items: 1H 2019: Settlement of the sale price for Komerční pojišťovna sold in 2006 (CZK 55 million in Profit attributable to exclusion of companies from consolidation) 1H 2020: Restructuring provision for Acceleration of structural changes based on COVID19 experience partly offset by release of residual provision for "KB Change 2020" (CZK -94 mil. in OPEX, o/w CZK 1 mil. in personnel expenses and CZK -95 mil. in GAE, CZK 18 mil. in Income tax)

<sup>2)</sup> Excluding volatile reverse repo operations with clients but including debt securities issued by KB's clients and held by the Bank. Inclusive of repo operations, lending rose by 4.4% year over year to CZK 680.4 billion.

<sup>3)</sup> Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 4.6% to CZK 933.6 billion.

#### - Supporting economic recovery

KB has continued financing the needs of its clients across all client segments. It has been instrumental as a member of the Czech Banking Association in the preparation of guarantee programmes directed to helping Czech businesses obtain funding necessary for their operations. As of 17 July, Komerční banka had approved CZK 5.3 billion in lending to 1,061 clients guaranteed within the Covid programmes operated by the government's ČMZRB and EGAP institutions.

#### - Strong contribution to the country's fiscal capacity

Despite temporary closure of a number of its branches, Komerční banka has committed to not use the partial unemployment scheme available in the Czech Republic as well as the mechanisms for deferring social and tax charges. The objective is to avoid burdening the national budget and allow the state to focus its help on those enterprises that need it most. During the first half, KB Group continued in contributing significantly to the public budgets, including to pay CZK 1.6 billion during the first half in corporate income taxes, CZK 0.9 billion in contributions to the Resolution and Deposit Insurance funds, CZK 1.0 billion in employer's payments of health and social insurance, and further payments of withholding tax, value added tax, and other levies.

#### - Protecting client financial security and satisfaction

KB maintained all its services throughout the state of emergency. In peer surveys conducted by independent agencies, KB ranked in top positions for helpfulness of its staff, effectiveness of all contact channels, as well as transparent and supportive communication. The Net Promoter Score measure of client satisfaction was at a similar good level (at 30) in June for individual clients as it had been at the end of 2019. It was slightly lower, but at a still solid value of 24, in the segment consisting of small businesses, reflecting their relatively worsened financial conditions as well as impressions from the announced reduction in the branch network.

Komerční banka Group stands by its clients. From mid-March, Group companies began offering voluntarily credit moratoria to clients affected by the pandemic and containment measures. The Group immediately implemented the legally mandated instalment moratorium in April. As of 17 July, KB Group had postponed instalments on loans of 46,364 clients totalling CZK 65.6 billion, including CZK 27.8 billion in relation to mortgages, CZK 3.1 billion to consumer loans, and CZK 34.7 billion to financing of businesses.

#### - Confirmed high employee assurance

The Bank has facilitated working from home for almost all its employees, and it has equipped its operational premises with protective equipment for both employees and clients. It has maintained regular and open communication about the current situation and necessary steps. According to a survey conducted in June by the independent polling institute BVA across the Société Générale Group, the average overall mood of employees in the Czech Republic was scored at 7.7 points on a 10-point scale. In the survey, some 48% of the Czech employees said the decision making is faster (slower according to 13% of staff), work meetings are more effective for 40% of colleagues (less effective for 20%), and relationships with colleagues and managers have improved for some 24% of staff (worsened for 7%). Fully 77% of respondents from the Czech Republic said that after the crisis passes they would like to do more remote working than before the lock-down. This was well noted and taken into consideration when discussing introduction of the Smart Office concept in KB.

Smart Office is a flexible and agile workplace organisation that is being rolled out across Komerční banka. It is based on three pillars: sharing of workplaces + remote working + rotation. The office premises are allocated to teams rather than individual team members. The rules applied to each position are then calibrated by managers based on the specific conditions of each job and team. The Smart Office concept benefits from experiences gained during the lock-down, and it provides more flexibility to employees while achieving cost savings related to operating work premises. All employees will retain the option to work from KB's offices.

#### - Developing a sustainable banking

KB Group supports a responsible and proactive energy transition through gradual reduction of its exposure to fossil energy sources and increase in its support of renewable energy. KB has allocated CZK 10 billion in funding sources at preferential rates for projects with sustainable positive impact. The Bank has been implementing steps to progressively shrink the carbon footprint from its operations, including by implementing the Smart Office concept.

Komerční banka has been recognised in international rankings for its ambition to be a leader in responsible finance. In June, FTSE Russell, the index provider that is a part of the London Stock Exchange Group, confirmed KB's membership in the FTSE4Good Index Series designed to identify companies that demonstrate strong environmental, social, and governance practices as measured against globally recognised standards.<sup>1)</sup>

<sup>1)</sup> <https://www.ftserussell.com/products/indices/ftse4good>

## - High security of banking services

In the first half, Komerční banka observed an increase in the number of attempted frauds, mainly targeted at revealing and then abusing the credentials of banking clients or payment cardholders. KB teams have been updating its procedures and remained very successful in preventing the vast majority of such attempts and protecting clients' assets. To mitigate the overall higher level of cyber security risk during the emergency period, KB has reinforced several security measures, including to implement two-factor authentication for employees (utilising KB Key), enhance data leakage prevention capabilities, and heighten the Security Operating Centre's detection capabilities and capacities.

Also during the first half, KB further reinforced its controls in the areas of anti-money-laundering (AML), know-your-client (KYC), know-your-supplier (KYS), and measures against corruption and bribery, as well as for protection of personal and confidential data. The ongoing exercise to reinforce client data quality (KYC) has paid off in, among other ways, the Bank's ability to effectively and quickly meet the strict verification and disclosure requirements concerning beneficial owners imposed within the Covid guarantee programmes. All changes have been governed within a strict validation process and under vigilant monitoring in order to maintain strong oversight of the internal control system.

## - Accelerating digital transformation

Mainly relating to agile transformation, KB has implemented key business changes that are delivering significant improvements in service to clients as well as strengthened internal efficiency and improved operational resilience. Utilising its flexible platform for working with start-up and fintech ventures, KB has expanded co-operation with several fintech companies on effective development of services relevant for clients' evolving needs. In return for their fresh ideas and willingness to take on risks, KB may offer start-ups support of its vast expertise and other resources, as well as access to its priceless client portfolio. In addition to providing co-operation, KB's fully owned subsidiary KB Smart Solutions has acquired minority participation in the Czech start-up fintech company Upvest, which operates an online crowdfunding platform for real estate development projects. Through its collaboration with Upvest, KB intends gradually to develop its presence on the crowdfunding market.

To maintain its leading position in financial services, Komerční banka recognises it must continuously optimise the operating model while focusing on better meeting customer needs and improving efficiency, pursue strategic collaborations, and upgrade its technological infrastructure.

Citing KB's advanced digital transformation, the Lafferty Group's digital magazine The Statement has named Komerční banka the best bank in the Czech Republic and at the same time one of the 100 best banking institutions in the world. The ranking is based upon evaluating the quality of banks in 21 categories, such as financial performance, relationships with clients and employees, approach to the environment, and benefits for shareholders.

## Philanthropy (in second quarter 2020)

Again in the second quarter, KB Group contributed to various activities addressing the difficult current situation as well as some longer-term issues.

KB Jistota Foundation has provided money grants to six organisations providing mobile hospice care in order to expand their capacities to help people in the last days of their lives to stay at home with their loved ones. The Foundation has also launched a special call for projects helping single parents in distress, families affected by domestic violence, and vulnerable seniors. Personal participation of KB's employees is a requisite in this call for projects. The Foundation's spring Group fundraising, which collects contributions from Komerční banka subsidiaries, has generated funding to support eight programmes focused on intergenerational learning and improving quality of life for seniors across the Czech Republic.

"Together with one voice" was a charity music project that distributed protective equipment and food packages to senior homes and hospices, as well as to people on the front lines against Covid-19. Komerční banka was pleased to be the General Partner of that event.

Prague Zoo and Komerční banka mark 15 years of partnership during 2020. Ostrava Zoo, meanwhile, is newly partnering with KB. The Bank remains a general partner of the traditional Rock for People music festival, although this year it has been converted into the Rock for People Home Live Jukebox hybrid event while combining a range of smaller concerts with live streaming.

## Market environment (in second quarter 2020)<sup>1)</sup>

The second quarter of 2020 was fully impacted by the country's lock-down as a consequence of the Covid-19 pandemic.<sup>2)3)</sup> It is presumed that decline of the Czech economy during the second quarter was again driven mainly by reduced investment but also lower exports. Private consumption is expected to have slipped as well. Conditions on the labour market had started to ease even prior to the Covid-19 outbreak in March, as wage inflation had moderated to +5% year on year (1.4% in real terms) in the first quarter. Unemployment rose somewhat but still remained at the lowest level seen anywhere within the EU (standing at 2.4% in May, according to the Eurostat methodology after seasonal adjustment).<sup>4)</sup> More recent data from the Czech labour ministry shows further modest increase in the unemployment rate.<sup>5)</sup>

The economic landscape changed greatly with outbreak of the Covid-19 epidemic in the Czech Republic. Among other factors in play, the dynamics of industrial producer prices turned negative in 2020's second quarter (–0.6% year on year) as especially export-oriented sectors are facing weak demand. Consequently, consumer price pressures will ease in coming months as these effects pass through. Nevertheless, June's CPI inflation again came in well above the upper bound of the Czech National Bank's inflation tolerance band, at 3.3% year on year. This reflects the previously solid income situation among households together with firms' temporarily higher costs amid the coronavirus crisis. The Czech crown's depreciating exchange rate had its effect, as well. These factors will fade through the course of the year and weakening pressures in primary price categories together with easing wage pressures and expected economic slowdown will further press consumer inflation to lower levels.

After twice cutting its 2-week repo rate (by 75 bps and by 50 bps to 1%) in the first quarter, the CNB thus decided to lower the policy rate still further (by 75 bps to 0.25%) at its regular meeting on 7 May 2020. At the beginning of the second quarter, 3-month PRIBOR had been hovering around 1% and with a tendency then further to decrease slowly. After the CNB made its last cut, 3-month PRIBOR slid to 0.34% (184 bps lower year to date). The 10-year interest rate swap moved to 0.67% (105 bps lower year to date). The yield curve recovered its positive slope, as the longer-term swap rates were again above money market rates. Yields on 10-year Czech government bonds declined by 82 bps from the beginning of the year to the level of 0.81%.

Due to a global flight to safety and out of emerging market currencies, the Czech crown was relatively more volatile against the euro around the CZK 27.25/EUR level during the second quarter until the end of May, but it appreciated again in June and then hovered around CZK 26.7/EUR. As of 30 June 2020, the crown stood at 26.74 per euro, stronger by 2.1% quarter over quarter but weaker by –5.1% year over year. The crown was 4.3% stronger quarter over quarter against the US dollar (that rate being CZK 23.88/USD at the end of June versus CZK 24.94/USD at the end of March 2020). The crown was also –5.9% weaker year over year vis-à-vis the dollar (CZK 22.36/USD at the end of June 2019).

Growth in prices of residential real estate picked up somewhat in year-on-year terms during 2020's first quarter. Generally speaking, though, real estate prices were at levels scarcely acceptable to many potential buyers, and especially in view of the economic hits from the pandemics and slowing wage dynamics already before the crisis. Prices paid in the first quarter for previously owned flats were up 10.6% year on year, but prices obtained for new flats (in Prague only) were higher by 10.8% from the year earlier.<sup>6)</sup>

Total bank lending for the overall market (excluding repo operations) grew by 5.5% year on year in June 2020.<sup>7)</sup> Lending growth was faster in retail banking, with mortgage growth proving its resilience during the Covid-19 disease's outbreak and consumer lending being more affected by the economic change. Growth in lending to businesses and corporations had been slowing throughout second quarter. The lending to private business thus grew by 4.6% year on year in June. Public sector borrowing had held at a strengthening level.

The volume of client deposits in Czech banks had expanded by 9.3% year over year as of June.<sup>8)</sup> Deposits from individuals had grown by 9.9% while the rise in deposits from private non-financial corporations had been somewhat smaller (8.6%). Among the business sectors the public entities were the most dynamic.

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

<sup>2)</sup> The first three covid-19 cases were identified in the Czech Republic on 1 March 2020. The first anti-epidemic measures were imposed on 4 March (e.g. prohibiting flights to northern Italy and Korea). On 10 March, schools of all types were closed. A state of emergency was declared on 12 March. From 14 March, restaurants and non-essential stores (e.g. excluding groceries and pharmacies) were closed. As of 16 March, with some exceptions, the Czech Republic's borders were closed, essentially putting the country in lock-down.

<sup>3)</sup> Phasing out of the quarantine began on 20 April 2020 when certain special shops were allowed to open. The two most important relaxation steps came on 11 May, when cultural and sports events of up to 100 people were allowed to be organised and shopping malls were opened. On 25 May, then, all food service operations and accommodation services were allowed to reopen and teaching of elementary school children restarted provisionally. Easing of the quarantine continued up until 1 July, when night life was revived and wearing of masks in public was no longer required.

<sup>4)</sup> Source: <https://ec.europa.eu/eurostat/documents/2995521/11054062/3-02072020-AP-EN.pdf/ce573d1a-04a5-6762-5b56-cb322cbdc5ac>. Data up to May 2020.

<sup>5)</sup> Source: <https://www.mpsv.cz/web/cz/mesicni>. Data as available up to June 2020.

<sup>6)</sup> Source: <https://www.czso.cz/csu/czso/real-estate-prices>. Publication code 014007-20, released 15 June 2020

<sup>7)</sup> Source of data on banking market developments: ARAD statistics of the CNB, [www.cnb.cz](http://www.cnb.cz).

<sup>8)</sup> Source of data on banking market developments: ARAD statistics of the CNB, [www.cnb.cz](http://www.cnb.cz).



## Selected new client services (in second quarter 2020)

During the second quarter, KB brought additional new and convenient service options to its clients, and it won several acknowledgements for its achievements.

In addition to important new offers of loan repayment moratoria and of credit guaranteed within the state guarantee programmes, KB has speeded up processing of cross-border SEPA payments so that instructions received in the morning are credited to the receiving bank on the same working day. Responding quickly to many clients' changed travel plans, Komerční pojišťovna expanded the coverage of its travel insurance policies, which comprises insurance against liability, injury, and trip cancellation, also to domestic journeys. The Bank has also launched a new portal, KB Rádce,<sup>1)</sup> providing advisory and tips for consumers and entrepreneurs.

Many of the new offers were prepared in partnerships with fintech companies on the KB Smart Solutions platform. The company Zakladači provides legal establishment of new limited liability companies with no additional charges beyond regulatory fees, while KB supplies the new entrepreneurs with a Profi account package that includes a business payment card. In partnership with Trivi, KB's internet banking offers a unique set of services for small businesses, including online accounting, regulatory reporting, and payroll assistance. With Zaplacenoz, KB was the first bank on the Czech market to introduce an effective payment solution for e-commerce and fintech companies using the so-called indirect payment order (PISP) enabled by the European PSD2 directive. KB has been developing further innovative e-commerce activities with Webmium (for development of web presentations), Shoptet (for construction of eshops), and Alza.cz with Expando (for connecting eshops with the marketplace via API). From July, KB is participating also in the Czech fintech start-up Upvest, which operates an online crowdfunding platform for real estate development projects.

According to a review of banking applications by the Bizkids consultancy, Mobilní banka was the best banking app on the Czech market for the first quarter of 2020. The ranking is based on each competing app's range and usefulness of features. KB also scored the silver spot in the daily newspaper Hospodářské noviny's Banking Innovator award for its offer of payments by smartphone or watch using Apple Pay, Google Pay, Fitbit Pay, and Garmin Pay applications. Furthermore, the consultancy Salt Edge named KB an "open-bank hero" for integration within 5 days of third-party banking solutions via API according to the EU's PSD2 directive. The website of Modrá pyramida won the Site of the Year global competition, hosted by Kentico, for the best financial services website.

## Developments in the client portfolio and distribution networks

	30 Jun 2019	30 Jun 2020	Change YoY
KB Group's clients*	2,376,000	2,315,000	(61,000)
Komerční banka	1,662,000	1,657,000	(5,000)
– individual clients	1,406,000	1,402,000	(4,000)
– internet banking clients	1,405,000	1,433,000	28,000
– mobile banking clients	699,000	868,000	169,000
Modrá pyramida	489,000	483,000	(6,000)
KB Penzijní společnost	532,000	527,000	(5,000)
ESSOX (Group)*	208,000	159,000	(49,000)
KB Retail branches	344	275	(69)
KB Business centres	10	10	0
KB Corporate divisions	5	5	0
Modrá pyramida points of sale	200	200	0
SGEF branches	9	9	0
ESSOX Group points of sale	1,045	1,003	(42)
ATMs	786	802	16
of which deposit-taking	359	406	47
of which contactless	0	268	268
Number of active debit cards	1,391,000	1,406,000	15,000
Number of active credit cards	179,000	181,000	2,000
Number of cards virtualized into payment apps	112,000	226,000	114,000
KB key authentication users	260,000	670,000	410,000

\* Influenced by termination of non-active credit card relationships

<sup>1)</sup> <https://www.kb.cz/cs/kb-radce>

## Comments on business and financial results

The financial data published below are from unaudited consolidated results compiled under IFRS (International Financial Reporting Standards). The data are as of 30 June 2020, unless indicated otherwise.

### Loans to customers

Total **gross volume of lending to clients** rose by 4.9% year on year to CZK 676.3 billion.<sup>1)</sup>

In lending to individuals, the overall volume of housing loans grew by 6.2% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 5.0% to CZK 236.4 billion. Modrá pyramida's loan portfolio grew by a strong 10.9% to CZK 59.4 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up 0.9%, at CZK 39.1 billion.

The total volume of **loans to businesses** and other lending provided by KB Group climbed by 4.3% year on year to CZK 341.5 billion. Lending to small businesses grew by 6.1% to CZK 38.3 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> increased by 3.8% year on year to CZK 273.0 billion. At CZK 30.2 billion, the total credit and leasing amounts outstanding at SGEF were 6.3% greater year over year. The growth rate of lending to businesses was influenced also by depreciation of the Czech crown during the pandemic (by 5.1% year over year vis-à-vis the euro as of 30 June) because a part of loans to businesses is provided in euro.

### Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group rose by 7.1% year on year to CZK 898.4 billion.<sup>3)</sup>

Deposits at Komerční banka from individual clients grew by 7.5% from the year earlier to CZK 302.5 billion. The deposit book at Modrá pyramida diminished by (2.1%) to CZK 60.3 billion. Total deposits from businesses and other corporations climbed by 8.8% to CZK 528.7 billion.

Client assets managed by KB Penzijní společnost were 7.5% greater, at CZK 64.5 billion. Technical reserves in life insurance at Komerční pojišťovna were up by 3.6% year on year, at CZK 49.4 billion. The volumes in mutual funds held by KB Group clients grew by 3.5% to CZK 71.5 billion, although sales of mutual funds dropped during the emergency.

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 74.3%. The Group's liquidity coverage ratio stood at 232%, well above the regulatory limit of 100%.

## FINANCIAL PERFORMANCE OF KB GROUP

### Income statement

Komerční banka's **revenues (net operating income)** for the first six months of 2020 deteriorated by (6.7%) year on year to reach CZK 15,083 million. This decline was driven lower by net interest income, affected by the sharp drop in market interest rates that pressed down yields from reinvestment of deposits and by net fees and commissions, which were impacted by a drop in client activity during the lock-down and by the new caps on fees for payments within the Single European Payments Area (SEPA). Net gains from financial operations improved because of clients' increased demand for hedging of financial risks.

**Net interest and similar income** was down by (7.8%), at CZK 10,844 million. This was caused mainly by the sharp drop in market interest rates since March 2020, which negatively impacted the yields from reinvestment of deposits and the Bank's own funds. In the second quarter, KB also recorded a modification loss of CZK 161 million from postponement of instalment payments under the loan moratorium. The net interest margin for the first half of 2020, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.0%. That compares to 2.2% a year earlier.

**Net fee and commission income** diminished by (11.3%) to CZK 2,625 million. The drop was related to decline in transaction activity, as in the first half cash transactions sunk by more than one-third year over year, non-cash transactions were stable, and only the number of card transactions increased by 5% year on year. Transaction fees were also hit by the new regulation of charges for euro-denominated payments within SEPA. The maintenance fee income was stable. KB recorded lower income from specialised financial services, as issuance and syndication activity weakened after a strong first quarter. Income from bank guarantees and income from

<sup>1)</sup> Excluding volatile reverse repo operations with clients but including debt securities issued by KB's corporate clients.  
If reverse repo operations are included, gross lending increased by 4.4% to CZK 680.4 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 4.6% to CZK 933.6 billion.

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



private banking services slightly improved for the six months. Fees from cross-selling were up due to income from mutual funds and life insurance, but new sales of mutual funds deteriorated during the pandemic.

**Net profit on financial operations** improved by 12.6% to CZK 1,507 million. Clients' demand for hedging of financial risks grew with the uncertainty and volatility of interest and exchange rates. On the other hand, the value of certain derivative positions has decreased due to a need to recognise higher credit value adjustments to account for counterparty credit risk. Net gains on FX payment transactions were lower year on year, reflecting smaller numbers and volume of these transactions.

**Dividend and other income** declined by (7.0%) to CZK 106 million. This line item primarily comprises revenues from property rental and ancillary services.

**Operating expenses** were up by 3.1%, at CZK 7,950 million. Operating expenses adjusted for one-off items were higher by 1.9%, at CZK 7,855 million. Personnel expenses rose by 1.1% to CZK 3,887 million, as the average number of employees increased by 0.1% to 8,150.<sup>1)</sup> General administrative expenses (not including contributions to the regulatory funds) were up by 0.5%, at CZK 1,844 million. KB recorded in the second quarter booked a restructuring provision for acceleration of structural changes based on Covid-19 experience, which was partly offset by release of residual provision for "KB Change 2020" (with a net impact on operating expenses of CZK -94 million). Adjusted for this one-off cost, general administrative expenses would decline by (4.7%) to CZK 1,749 million, as expenses on marketing and travel were lower. On the other hand, there were offsetting costs for protective and IT equipment. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 934 million, up 10.3% year on year. The CNB adjusted the 2024 target volume of the Resolution Fund and increased the aggregate annual contribution from Czech banks by 9.2% year on year. Depreciation and amortisation grew by 8.3% to CZK 1,285 million, driven mainly by new and upgraded software and IT equipment.

The sum of profit before allowances for loan losses, provisions for other risk, profit on subsidiaries, and income tax (**gross operating income**) was down by (15.7%), at CZK 7,133 million. Adjusted for the aforementioned one-off items, this sum would be (14.6%) lower, at CZK 7,227 million.

**Cost of risk** reached CZK 1,729 million (net creation of provisions) in comparison with a negative CZK (354) million (net release of provisions) in the first half of 2019. The Group recorded a strong impact from the statutory recalibration of IFRS 9 provisioning models to reflect the ongoing macroeconomic downturn. That impact on cost of risk was CZK 1,287 million, or 39 bps. The underlying level for cost of risk remained at a low 13 basis points, reflecting (i) transfer of a limited number of large corporate exposures into default, (iii) a resilient retail collection performance, and (iii) the neutralizing effect on cost of risk from the Loan Instalment Moratorium law.

**Income from shares in associated undertakings** (i.e. Komerční pojišťovna) was up by a slight 0.7% year on year, at CZK 143 million.

**Net profits on other assets** reached CZK 2 million, which amount was linked to sales of buildings in the held-for-sale portfolio and a loss from disposal of certain internal IT projects. In the previous year, this result had been CZK 14 million.

**Income tax** was lower by (35.1%), at CZK 1,070 million.

KB Group's consolidated **net profit** for the first half of 2020 reached CZK 4,479 million, which was down by (39.3%) in comparison with a year ago. Of this total, CZK 42 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (down by (74.7%) year on year). Net profit adjusted for one-off items would slip by (37.8%) to CZK 4,555 million.

Reported **net profit attributable to the Group's equity holders** totalled CZK 4,437 million, which is (38.5%) less year on year. Recurring **net profit attributable to the Group's equity holders declined by (37.0%) to CZK 4,513 million. Other comprehensive income**, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK (321) million. **Consolidated comprehensive income** for the first half of 2020 totalled CZK 4,157 million, of which CZK 48 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 2020 with the values from the statement of financial position as of 31 December 2019.*

### Assets

As of 30 June 2020, KB Group's total assets had risen by 15.7% year to date to CZK 1,246.6 billion.

Cash and current balances with central banks were up 55.0%, at CZK 27.5 billion. Financial assets at fair value through profit or loss (trading securities and derivatives) increased by 89.8% to CZK 44.4 billion. The fair value of hedging financial derivatives grew by 127.3% to CZK 22.7 billion.

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

Year to date, there was a 24.5% rise in financial assets at fair value through other comprehensive income totalling CZK 45.1 billion. This consisted mainly of public debt securities.

Financial assets at amortised cost grew by 12.1% to CZK 1,079.6 billion. The largest portion of this consisted of (net) loans and advances to customers, which rose by 3.8% to CZK 671.7 billion. A 97.8% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.2% 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 10.9 billion. Loans and advances to banks increased by 30.5% to CZK 319.2 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 23.8% and reached CZK 88.6 billion at the end of June.

Revaluation differences on portfolio hedge items totalled CZK 0.5 billion. Current and deferred tax assets stood at CZK 0.4 billion. Other assets and accrued accounts, which include receivables from securities trading and settlement balances, decreased overall by (11.3%) to CZK 4.6 billion. Assets held for sale diminished by (19.9%) to CZK 0.1 billion.

Investments in subsidiaries and associates rose by 16.3% to CZK 1.5 billion.

The net book value of tangible assets declined by (2.7%) to CZK 10.2 billion. Intangible assets grew by 5.3% to reach CZK 6.3 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 17.0% higher in comparison to the end of 2019 and stood at CZK 1,133.8 billion.

Financial liabilities at amortised costs were 15.1% greater, at CZK 1,061.2 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 13.6% to CZK 933.6 billion. This total included CZK 35.3 billion of liabilities from repo operations with clients and CZK 7.4 billion of other payables to customers. Amounts due to banks increased in the second quarter of 2020 by 30.4% to CZK 122.0 billion.

The volume of outstanding securities issued was down by (28.7%), at CZK 2.6 billion.

Revaluation differences on portfolios hedge items expanded to CZK 14.9 billion. Current and deferred tax liabilities diminished by (35.3%) to CZK 0.8 billion. Other liabilities and accruals, which include payables from securities trading and settlement balances, increased by 23.7% to CZK 14.8 billion.

The provisions balance was 27.6% higher, at CZK 1.7 billion. The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise those for ongoing contracted contingent commitments, legal disputes, self-insurance, and the retirement benefits plan.

Subordinated debt, at CZK 2.7 billion, was up 5.3% year to date. Because that debt is issued in euro, the change reflects the Czech crown's depreciation over the same period.

#### Equity

Total equity grew year to date by 3.8% to CZK 112.8 billion. The value of non-controlling interests reached CZK 3.1 billion. As of 30 June 2020, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

#### **Regulatory capital and requirements**

Total **regulatory capital** for the capital adequacy calculation came to CZK 97.9 billion as of 30 June 2020, up 13.0% year to date.

**Capital adequacy** stood at 21.9%. The Core Tier 1 capital totalled CZK 95.2 billion (13.2% higher year to date), and the Core Tier 1 ratio stood at 21.3%. Tier 2 capital totalled CZK 2.7 billion, which was 0.6% of risk-weighted assets.

Komerční banka is required to maintain the total SREP (Supervisory Review and Evaluation Process) capital ratio at the minimum level of 10.2% with effect from 1 January 2020. This total SREP capital ratio, known as TSCR, consists of the following:

1. A minimum capital requirement according to Article 92 (1) of the EU regulation on prudential requirements for credit institutions and investment firms (i.e. maintaining a Tier 1 core capital ratio of 4.5%, a Tier 1 capital ratio of 6%, and a capital ratio of 8%), and
2. An additional requirement of 2.2% established in Pillar 2 above the aforementioned requirements. This additional requirement must be covered fully by Tier 1 capital, and at least 75% of this requirement must be covered by Core Tier 1 capital.

Moreover, credit institutions in the Czech Republic are simultaneously subject to the combined capital requirements, which are in addition to the TSCR requirement.

As of 30 June 2020, KB was required to maintain a combined capital buffer comprising, in the case of Komerční banka, the capital conservation buffer at 2.5%, the countercyclical buffer set for exposures in particular countries (in the Czech Republic at 1.75%

from 1 January 2020, cut to 1.00% with effect from 1 April 2020, and further reduced to 0.50% with effect from 1 July 2020), and the systemic risk buffer at 3.00%.

Thus, Komerční banka's overall capital requirements as of 30 June 2020 reached approximately 16.7% in relation to the consolidated volume of risk-weighted assets. The minimum Core Tier 1 capital level was approximately 12.6% and the minimum Tier 1 capital ratio requirement stood at approximately 14.6%. As from 1 July 2020, the overall capital requirements decreased to approximately 16.2%, the minimum Core Tier 1 capital level to about 12.1%, and the minimum Tier 1 capital ratio to approximately 14.1%.

The Bank received information from the CNB on the minimum requirements for own funds and eligible liabilities (MREL), according to which it shall comply with individual MREL on a sub-consolidated basis at the level of 8.58% of total liabilities and own funds (19.2% of Total Risk Exposure Amount). This should be met with subordinated instruments and shall be reached by 31 December 2023. From that date, the requirement shall be met at all times.

KB Group's Liquidity Coverage Ratio reached 232% as of 30 June 2020, and is thus significantly above the regulatory minimum of 100%.

With effect from 1 July 2020, the CNB has further relaxed its recommendation for the assessment of new mortgages, having applied some loosening already from April. The limit on the LTV ratio (loan size relative to the value of the pledged property) is now at 90% (up from 80% prior to April). The change to the LTV ratio does not apply to "investment" mortgages. The limit on the DSTI ratio (total debt service relative to net disposable monthly income) and the limit on the DTI ratio (debt relative to net income) have been eliminated.

## Changes in corporate governance (in second quarter 2020)

Following a vote of the Supervisory Board on 18 March 2020, Ms Jitka Haubová became a new member of Komerční banka's Board of Directors with effect from 4 June. In her new role, Ms Haubová is responsible for the Transaction and Payment Services, Support Services, Investment Banking Services, and Legal departments, as well as for the Payment Methods and Customer tribes. Ms Haubová replaced Mr Vladimír Jeřábek, whose term ended on 3 June 2020.

Due to limitations caused by the Covid-19 epidemic and in accordance with applicable laws, Komerční banka conducted its annual general meeting while utilising remote decision-making and communication arrangements. Voting and questioning took place in the period from 9 to 29 June. Komerční banka's shareholders approved the reported financial results and retention of the profit from 2019. The General Meeting also approved the Board of Directors' report on the Bank's business activities and the state of its assets for the year 2019, the consolidated financial statements, and the annual financial statements for 2019. Upon the Nomination Committee's proposal, the General Meeting elected Ms Maylis Coupet a member of the Supervisory Board. The General Meeting also approved the remuneration policy.

## Expected development and main risks to that development in 2020

Komerční banka presented its initial outlook for KB's business and financial results in 2020 along with its announcement of the full-year 2019 results on 6 February 2020. On 23 March 2020, KB advised investors not to rely on that outlook due to the significant negative economic consequences of measures being adopted to contain the spread of the Covid-19 disease, and on 6 May 2020 the Bank provided an updated outlook.

The text below describes management's updated baseline expectations for KB's performance in 2020 as of mid-year 2020. It is founded on assumptions about the public health and economic development in the Czech Republic. Given the high level of uncertainty surrounding the pandemic situation in addition to the usual risks related to projecting future business results, investors should apply caution and judgement before making their investment decisions while considering these forward-looking estimates and targets.

In its baseline macroeconomic expectations valid as of today, Komerční banka expects the Czech economy will record a full-year GDP drop of approximately 5% in 2020. In comparison to the GDP decline in the first and second quarters, slow recovery is expected in the third quarter, to be followed by a stronger recovery in the year's final quarter. Uncertainty remains high, however. A sharp slide in fixed investments is expected while the foreign trade surplus will diminish and household consumption will decline more modestly.

Average inflation for the year is expected to reach around 3% and gradually decelerate. The Czech National Bank cut interest rates three times between March and May by a cumulative 200 bps in total. The projection of KB's interest income shown below assumes stability in the CNB's repo rate through the rest of the year at the current level of 25 bps.

Developments in the remainder of 2020 will be influenced by regulatory changes adopted before the pandemic as well as in response to it. The year's fee income will absorb the full impact from the cap on fees charged for cross-border payments within the Single European Payments Area effective from 15 December 2019. KB will continue its preparations for meeting the new minimum requirements for own funds and eligible liabilities (MREL). The CNB has reduced the countercyclical capital buffer requirement with

effect from July 2020 to 0.50%, but that capital is temporarily locked in the Bank as it is compliant with CNB's recommendation from 16 March not to pay dividends or conduct buybacks until the consequences of the covid-19 outbreak fade away. Lending for housing purposes may benefit from a certain relief due to relaxation of the limits for assessing new mortgages in two steps with effect from April and from July.

The banking market will reflect the changing levels of confidence among consumers and businesses. Its development will be supported, too, by the guarantee programmes launched by the state, which enable bank financing even of such sectors or social activities that have been put at risk due to consequences of the Covid-19 pandemic. It thus is assumed that the loan market should grow at a mid-single-digit pace, and the pace of growth in bank client deposits should be even somewhat faster.

Komerční banka has implemented the organisational changes and optimisations envisaged until 2020 in its KB Change programme that had been announced in May 2018. In 2020, KB is preparing a strategic plan for the subsequent period. It will set out important steps for the Bank, including further digitalisation of processes, transformation of IT infrastructure, and identification of new revenue opportunities.

In this context, KB management expects that the Group's loan portfolio will record a mid-single-digit growth rate in 2020. Lending to small businesses may even aim for faster growth if the economy gets onto a recovery path as the SME segment receives assistance in the form of state guarantees. Growth in total deposit balances will reach a mid-single-digit pace, influenced also by adjustment of deposit remuneration to the current market conditions.

KB Group's total net operating income for 2020 should record a high-single-digit decline in comparison with 2019. Net interest income will be pressed down by the low interest rate environment. Net fees and commissions will drop, reflecting the combination of decreased economic activity and the impact from implementing the cap on fees for euro-denominated payments within the Single European Payment Area. The net profit from financial operations may even improve compared to the previous year, as it is in large measure driven by the volume of financial hedging provided to corporate clients. Increased volatility and uncertainty may generate additional demand for hedging of financial risks.

Operating expenditures will remain under tight control and continue stable year on year. The Bank has agreed with the trade unions to 3.6% growth in average remuneration for 2020. At the same time, KB is continuing its optimisation, simplification, and digitalisation. The first quarter saw an increase in the mandatory contributions to regulatory funds and also higher costs to facilitate working from home and reinforcing hygienic protections. Through the remainder of the year, the Bank will record certain savings in expenditures related to travel, office supplies, and operations of the branch network. KB's management has decided to accelerate optimisation of the branch network. Komerční banka expects to operate 241 branches as of August 2020. The Bank is also rolling out the Smart Office concept of shared workplaces, which will begin to generate cost savings from 2021.

Cost of risk will rise above the normalised rate of 30 to 40 basis points as a result of the economic downturn on clients' repayment capacity. The Covid-19 crisis will transmit only with delay to KB's risk profile thanks to support measures of the Czech government and the loan repayment moratorium. The impact on provisions will be spread across 2020 and 2021, but the cost of risk for 2020 is expected to be contained below 70 basis points under the Bank's IFRS 9 macroeconomic scenario from the second quarter, which implies a model recalibration impact of approximately 20 bps in 2020 and underlying cost of risk at the level of 40–50 bps for the year 2020.

Among the key risks to the expectations described above is the potential for a worsening pandemic situation in the Czech Republic that is connected with a further lock-down of important parts of the economy and a sharper economic downturn. A scenario involving significant disruption of foreign trade caused either by direct measures to contain the disease or due to its indirect consequences would hurt the open Czech economy significantly. Recovery of the crucial automotive industry may be hampered if producers do not succeed in meeting the prescribed emission limits. The Czech banking sector would suffer if interest yields on Czech crown-denominated financial assets would decrease markedly further.

The management expects that KB's operations will remain profitable in 2020.

**ANNEX: Consolidated results as of 30 June 2020 under International Financial Reporting Standards (IFRS)**

Profit and Loss Statement	Reported			Recurring		
	1H 2019	1H 2020	Change YoY	1H 2019	1H 2020	Change YoY
(CZK million, unaudited)						
Net interest income and similar income	11,759	10,844	(7.8%)	11,759	10,844	(7.8%)
Net fee & commission income	2,961	2,625	(11.3%)	2,961	2,625	(11.3%)
Net profit of financial operations	1,338	1,507	12.6%	1,338	1,507	12.6%
Dividend and other income	114	106	(7.0%)	114	106	(7.0%)
<b>Net banking income</b>	<b>16,172</b>	<b>15,083</b>	<b>(6.7%)</b>	<b>16,172</b>	<b>15,082</b>	<b>(6.7%)</b>
Personnel expenses	(3,844)	(3,887)	1.1%	(3,844)	(3,888)	1.1%
General admin. expenses (excl. regulatory funds)	(1,835)	(1,844)	0.5%	(1,835)	(1,749)	(4.7%)
Resolution and similar funds	(847)	(934)	10.3%	(847)	(934)	10.3%
Depreciation, amortisation and impairment of operating assets	(1,186)	(1,285)	8.3%	(1,186)	(1,285)	8.3%
<b>Total operating expenses</b>	<b>(7,712)</b>	<b>(7,950)</b>	<b>3.1%</b>	<b>(7,712)</b>	<b>(7,855)</b>	<b>1.9%</b>
<b>Gross operating income</b>	<b>8,460</b>	<b>7,133</b>	<b>(15.7%)</b>	<b>8,460</b>	<b>7,227</b>	<b>(14.6%)</b>
Cost of risk	354	(1,729)	+/-	354	(1,729)	+/-
<b>Net operating income</b>	<b>8,815</b>	<b>5,404</b>	<b>(38.7%)</b>	<b>8,815</b>	<b>5,498</b>	<b>(37.6%)</b>
Income from share of associated companies	142	143	0.7%	142	143	0.7%
Profit/(loss) attributable to exclusion of companies from consolidation	55	0	n.a.	0	0	n.a.
Net profits on other assets	14	2	(85.7%)	14	2	(85.7%)
<b>Profit before income taxes</b>	<b>9,026</b>	<b>5,549</b>	<b>(38.5%)</b>	<b>8,971</b>	<b>5,643</b>	<b>(37.1%)</b>
Income taxes	(1,648)	(1,070)	(35.1%)	(1,648)	(1,088)	(34.0%)
<b>Net profit</b>	<b>7,378</b>	<b>4,479</b>	<b>(39.3%)</b>	<b>7,323</b>	<b>4,555</b>	<b>(37.8%)</b>
Profit attributable to the Non-controlling owners	166	42	(74.7%)	166	42	(74.7%)
<b>Profit attributable to the Group's equity holders</b>	<b>7,213</b>	<b>4,437</b>	<b>(38.5%)</b>	<b>7,158</b>	<b>4,513</b>	<b>(37.0%)</b>

**One-off items:**

- 1H 2019: Settlement of the sale price for Komerční pojišťovna sold in 2006 (CZK 55 million in Profit attributable to exclusion of companies from consolidation)
- 1H 2020: Restructuring provision for Acceleration of structural changes based on COVID19 experience partly offset by release of residual provision for "KB Change 2020" (CZK -94 mil. in OPEX, o/w CZK 1 mil. in personnel expenses and CZK -95 mil. in GAE, CZK 18 mil. in Income tax)

Statement of financial position	31 Dec 2019	30 Jun 2020	Ytd
(CZK million, unaudited)			
<b>Assets</b>	<b>1,077,334</b>	<b>1,246,614</b>	<b>15.7%</b>
Cash and current balances with central bank	17,744	27,510	55.0%
Loans and advances to banks	244,561	319,222	30.5%
Loans and advances to customers (net)	647,258	671,698	3.8%
Securities and trading derivatives	131,184	178,116	35.8%
Other assets	36,587	50,068	36.8%
<b>Liabilities and shareholders' equity</b>	<b>1,077,334</b>	<b>1,246,614</b>	<b>15.7%</b>
Amounts due to banks	93,581	122,004	30.4%
Amounts due to customers	821,506	933,635	13.6%
Securities issued	3,621	2,583	(28.7%)
Subordinated debt	2,546	2,680	5.3%
Other liabilities	47,445	72,903	53.7%
Total equity	108,635	112,810	3.8%

Key ratios and indicators	30 Jun 2019	30 Jun 2020	Change year on year
Capital adequacy (CNB)	19.0%	21.9%	▲
Tier 1 ratio (CNB)	18.4%	21.3%	▲
Total risk-weighted assets (CZK billion)	451.8	446.7	(1.1%)
Risk-weighted assets for credit risk (CZK billion)	373.5	368.5	(1.3%)
Net interest margin (NII / average interest-bearing assets) <sup>iii</sup>	2.2%	2.0%	▼
Loans (net) / deposits ratio <sup>iv</sup>	75.7%	74.3%	▼
Cost / income ratio <sup>v</sup>	47.7%	52.7%	▲
Return on average equity (ROAE) <sup>vi</sup>	14.6%	8.2%	▼
Return on average Tier 1 capital <sup>vii</sup>	17.6%	9.9%	▼
Return on average assets (ROAA) <sup>viii</sup>	1.3%	0.8%	▼
Earnings per share (CZK) <sup>ix</sup>	76	47	(38.5%)
Average number of employees during the period	8,144	8,150	0.1%

Business performance in retail segment – overview	30-Jun-20	Change year on year
CZK bil.		
Mortgages to individuals – volume of loans outstanding	236.4	5.0%
Building savings loans (MPSS) – volume of loans outstanding	59.4	10.9%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	39.1	0.9%
Small business loans – volume of loans outstanding	38.3	6.1%
Insurance premiums written (KP)	4.8	(2.4%)

## Financial calendar:

5 November 2020 – 9M and 3Q results



## Definitions of the performance indicators mentioned herein:

- I. **Housing loans:** mortgages to individuals provided by KB + loans to clients provided by Modrá pyramida;
- II. **Cost of risk in relative terms:** annualised “Cost of risk” divided by the average of ‘Gross amount of client loans and advances’;  
Average of Gross amount of client loans and advances: (‘Gross amount of client loans and advances’ as of the quarter end X-1 plus ‘Gross amount of client loans and advances’ as of the quarter end X-2 plus ‘Gross amount of client loans and advances’ as of the quarter end X-3 plus ‘Gross amount of client loans and advances’ as of the quarter end X-4) divided by 4;
- III. **Net interest margin (NIM):** ‘Net interest income’ divided by average interest-earning assets (IEA) year to date (IEA comprise ‘Cash and current balances with central banks’ [Current balances with central banks only], ‘Loans and advances to banks’, ‘Loans and advances to customers’, ‘Financial assets at fair value through profit or loss’ [debt securities only], ‘Financial assets at fair value through profit or loss – non SPPI’ [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 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 equity holders’ divided by average group ‘Tier 1 capital’, year to date;
- VIII. **Return on average assets (ROAA):** annualised ‘Net profit attributable to equity holders’ divided by average ‘Total assets’, year to date;
- IX. **Earnings per share:** annualised ‘Net profit attributable to 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 2020	1H 2019
<b>Net interest income income, year-to-date</b>	<b>10,844</b>	<b>5,892</b>
Of which:		
Loans and advances at amortised cost	10,904	5,795
Debt securities at amortised cost	851	475
Other debt securities	338	122
Financial liabilities at amortised cost	(1,777)	(858)
Hedging financial derivatives – income	8,800	3,971
Hedging financial derivatives – expense	(8,273)	(3,613)

(source: Balance Sheet)	30-Jun-20	31-Dec-19	30-Jun-19	31-Dec-18
Cash and current balances with central banks/ Current balances with central banks	18,983	7,737	14,058	16,347
Loans and advances to banks	319,222	244,561	349,218	256,268
Loans and advances to customers	671,699	647,259	641,514	624,954
Financial assets at fair value through profit of loss/ Debt securities	16,628	4,112	6,426	3,248
Financial asset at fair value through other comprehensive income (FV OCI)/ Debt securities	44,526	35,682	31,799	24,909
Debt securities	88,632	71,581	73,137	69,881
<b>Interest-bearing assets (end of period)</b>	<b>1,159,690</b>	<b>1,010,931</b>	<b>1,116,152</b>	<b>995,608</b>
<b>Average interest-bearing assets, year-to-date</b>	<b>1,085,310</b>		<b>1,055,880</b>	
<b>NIM year-to-date, annualised</b>	<b>2.00%</b>		<b>2.23%</b>	