

Komerční banka, a.s.

RESULTS

FY 2022



Regulatory information

Komerční banka, a.s.

Komerční banka's consolidated results for the full year 2022

Recovery in revenues, excellent cost discipline, resilient asset quality

"In spite of the many challenges brought by the year 2022 - mainly the war in Ukraine and the related energy crisis and high inflation - Komerční banka proved again it is a reliable partner for its clients. The strong financial and business results were supported by dynamic recovery in activity among households and businesses after two years of pandemic restrictions. The environment will undoubtedly pose many challenges again in 2023, as inflation, increasing costs of deposits, and effects of the economic slowdown will influence the results of this year. Komerční banka will stand by its clients and perform well even in a downturn," remarked Jan Juchelka, KB's Chairman of the Board of Directors and Chief Executive Officer.

"In 2023, we are fully focused on implementing further steps of our strategy. Komerční banka Group will proceed in its transformation to make itself a Czech leader in the new era of banking. We will introduce to our clients and the Czech public a new value proposition built in the currently largest digital project in Czechia. Even in this year, Komerční banka will build, together with its clients, a better and sustainable future," added Jan Juchelka.

- | **KB Group's lending to customers up by 6.2% year on year to CZK 784.9 billion.**
- | **Deposits from clients decreased by (3.4%) year on year, to CZK 916.8 billion.**
- | **Volume of non-bank assets under management (mutual funds, pension funds, life insurance) leapt by 6.4% to CZK 216.6 billion.**
- | **KB Group was serving 2,240,000 clients. Standalone Komerční banka had 1,652,000 customers, up by 27,000 year on year.**
- | **Full year 2022 vis-à-vis 2021: Total revenues rose by 23.2% to CZK 38.6 billion. Operating expenditures were higher by 6.1%, at CZK 16.0 billion. Cost of risk (net creation of provisions for credit risk) increased by 61.6% to CZK 1.2 billion. Profit attributable to the Group's equity holders, at CZK 17.6 billion, was better by 37.9% year on year. Income taxes rose to CZK 4.0 billion, growing by 32.0%.**
- | **Fourth quarter 2022 versus 4Q 2021: Total revenues were up by 10.4%, at CZK 9.6 billion. Operating expenditures were higher by 5.1%, at CZK 3.9 billion. Cost of risk (net creation of provisions for credit risk) in the quarter was small. Profit attributable to the Group's equity holders, at CZK 4.6 billion, was better by 11.0% year on year. Income taxes climbed to CZK 1.1 billion, higher by 5.4%.**
- | **Volume of regulatory capital reached CZK 101.7 billion, capital adequacy stood at 19.5%, and the Core Tier 1 ratio was 18.9%.**
- | **The Board of Directors will propose a dividend of CZK 60.42 per share, totalling CZK 11.5 billion. Shareholders will vote on the proposal at the General Meeting set for 20 April 2023.**
- | **KB had 69,034 shareholders (greater by 10,590 year on year), of which 63,050 were private individuals from the Czech Republic.**
- | **Komerční banka was named Bank of the Year, Corporate Bank of the Year, and Bank without Barriers in the MasterCard Bank of the Year contest. KB also received Banking Innovator recognition in VISA's Best Bank 2022 survey.**

Prague, 8 February 2023 – Komerční banka reported today its unaudited consolidated results for the full year 2022.

Financial and business performance

Total revenues reached CZK 38.6 billion, an improvement by 23.2% compared to the year 2021 that had been affected by pandemic lockdowns and extraordinarily low interest rates. The growth in revenues was mainly driven by net interest income, which benefitted from expanding business volumes and higher yields from reinvestment of liabilities and capital. Net fee and commission income was also up thanks to greater transaction activity, clients' increased investments in mutual funds, and heightened demand among corporations for some services, such as for guarantees. Net profit on financial operations remained very strong, driven by recovery in travel-related currency conversions and demand from clients for hedging of financial risks in the volatile and uncertain environment.

Operating expenses were up by 6.1%, at CZK 16.0 billion, even as they absorbed an boost in the regulatory levy to the Resolution Fund by almost a quarter. Administrative costs rose much less than did inflation. Greater depreciation and amortisation charges reflected the ongoing investments into digitalisation. Personnel expenses were higher by 2.6%, as the increase in average salaries was partly offset by lower average number of employees.

Net creation of provisions for credit risks (cost of risk) totalled CZK 1.2 billion, up by 61.6% year on year. The new provisioning mainly related to anticipated future impacts of high inflation on the credit profile. The level of new defaults remained relatively low across all client segments.

Faster growth of revenues compared to operating costs combined with a well-controlled risk profile to drive improvement in reported net profit attributable to shareholders by 37.9% to CZK 17.6 billion. Income taxes climbed by 32.0% to CZK 4.0 billion.

Through the full year 2022, KB Group paid into public budgets CZK 3.6 billion in income taxes, CZK 1.3 billion into the Resolution and Deposit Insurance regulatory funds, CZK 2.0 billion for social and health insurance, CZK 1.9 billion in withholding tax from interest and dividends, and further substantial amounts in other charges, such as VAT. The employees paid an additional CZK 0.6 billion in income tax and CZK 0.6 billion in social and health insurance.

Lending to clients went up by 6.2% to CZK 784.9 billion.¹⁾ The growth in the volume of housing loans outstanding slowed, as new production of these loans decreased by almost two thirds on the Czech market. The growth in consumer lending was moderate, too, influenced by weaker levels of consumer confidence in the economy. Lending to businesses, and mainly to larger corporations, was thus the main motor propelling overall loan portfolio expansion at KB Group. Volumes of working capital financing as well as investment loans increased. The business lending growth was concentrated in euro rather than crowns. The volume of loans denominated in euros expanded by 43.1% year on year, and these loans represented 21.6% of the overall portfolio.

Deposits from clients decreased by (3.4%) year on year to CZK 916.8 billion.²⁾ On the other hand, the volume of KB Group clients' assets in mutual funds, pension savings, and life insurance rose by 6.4% to CZK 216.6 billion. The clients were looking for greater returns on their money in saving and term accounts and in mutual funds. In the higher interest rate environment, the competition for deposits on the market intensified.

Shareholders, capital, and dividends

KB's capital adequacy ratio reached a strong 19.5%, and Core Tier 1 capital stood at 18.9%. The liquidity coverage ratio was 160%, significantly above the regulatory minimum of 100%.

In view of KB's 2022 result, strong capital position, outlook for growth in risk-weighted assets, and capital requirements, as well as in accordance with KB's standard dividend policy of paying out between 60–70% of the net profit generated, Komerční banka's Board of Directors has decided to propose to the Annual General Meeting a dividend payment of CZK 11.5 billion. That would come to CZK 60.42 per share and put the payout ratio at 65% of KB Group's attributable consolidated net profit. The corresponding gross dividend yield based on 2022's closing share price is 9.2%.

The proposed dividend is in line with the long-term capital management plan, which maintains capital adequacy at a level appropriate to the risks assumed under the given economic conditions in the Czech Republic and with respect to the Bank's business opportunities. The proposal also maintains adequate scope for Komerční banka Group's future business growth and, in the opinion of the Board of Directors, provides shareholders with a fair share of profits. Considering the current state of affairs, KB's management intends for 2023 to propose distributing as dividends 65% of attributable consolidated net profit earned in the year.

As of 31 December 2022, Komerční banka had 69,034 shareholders (up by 10,590 year on year), of which 63,050 (greater by 10,227 from the year earlier) were private individuals from the Czech Republic. Strategic shareholder Société Générale maintained its 60.4% stake while minority shareholders owned 39.0% and KB held 0.6% of the registered capital in treasury.

¹⁾ Including debt securities issued by KB's corporate clients. The volume of reverse repo operations with clients as of 31 December 2022 as well as of 31 December 2021 was nil.

²⁾ Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved down by 0.7% to CZK 950.7 billion.

Achievements and awards (in fourth quarter 2022)

KB Group continued in implementing its strategic KB2025 programme, announced in November 2020. During the fourth quarter, KB switched successfully to a new payment card platform – TSYS Prime – after 26 years of operating the previous system. The change has improved security and efficiency of card payments processing and it offers new options for cards administration.

In a vote of economists, analysts, and business experts, Komerční banka was named winner in the 21st year of the prestigious MasterCard Bank of the Year survey. In addition to the main prize, it also won first place for Corporate Bank of the Year and Bank without Barriers, as well as second place for Mortgage of the Year, Private Bank of the Year, and Responsible Bank of the Year.

KB also was awarded the Banking Innovator title in VISA's Best Bank recognition, especially for its shared ATM network project, improving access to financial services, sustainability, and efficiency of operations. In the parallel awards for insurers, KB Pojišťovna was named Best Life Insurer. It clearly led competitors in the assessment of quality and scope of services.

KB was rated AA in the MSCI ESG global measurement of how companies manage financially relevant Environmental, Social and Governance (ESG) risks and opportunities. The AA rating is reserved for companies leading their respective industries. KB also improved to 3.7 out of 5 its score in FTSE4Good index measuring the performance of companies demonstrating ESG practices.

Market environment (in fourth quarter 2022)¹⁾

Life in 2022's fourth quarter was still mostly influenced by energy prices and the inflationary environment generally, which were biting mainly into household budgets. The global market environment was marked by rising interest rates. The direct consequences and amplification of existing economic obstacles (mainly related to supply chain disruptions) from the Russian military's invasion of Ukraine had already been reduced to limited importance in the fourth quarter.

The Czech economy continued to slow during the fourth quarter, with the growth rate remaining negative, at (0.3%), quarter on quarter (+0.4% year on year), as per the flash estimate. In the third quarter, economic output had been down (0.2%) quarter on quarter but was higher by +1.5% year on year, as per final numbers. The manufacturing sector saw stable development, driven mainly by the important automotive sector that had gained further momentum since summer. Car production for 2022 was up by 10.2% year over year. Labour market conditions remained tight, but nominal wage growth did not keep up with rising consumer prices.²⁾ The unemployment rate remains one of the lowest within the EU, standing at just 2.3% in December (according to the Eurostat methodology after seasonal adjustment).³⁾ The Czech labour ministry reported a slight tick up in the unemployment rate in December.⁴⁾

Strong pressure from the primary price categories continued. In the fourth quarter, dynamics of industrial producer prices averaged 21.8% year on year and 0.3% quarter on quarter, agricultural producer prices 28.1% year on year (down (2.3%) quarter on quarter), and construction work prices 12.0% (1.2% quarter on quarter). Pressure from the primary price categories together with wage cost dynamics as well as energy prices are transmitting through to consumer price inflation. The consumer price climb did decelerate in December to 15.8% year on year due to weaker growth in transport costs, but the year-on-year rise was driven mainly by housing, water, and energy costs and to a similar extent also by prices of food and non-alcoholic beverages. Dynamics of core inflation slowed to 13.3% in December from 14.6% in October.⁵⁾

The CNB had left the main 2W repo monetary policy rate on hold at 7% since 23 June. Subsequently, as of 31 December, 3M PRIBOR reached 7.26% (+318 bps year to date, +1 bps quarter on quarter) and the 10Y interest rate swap hit 4.79% (+153 bps year to date, (30) bps quarter on quarter). Meanwhile, the interest rate swap curve remained inverted (5Y at 5.23%, +138 bps year to date, (31) bps quarter on quarter) and yields on 10-year Czech government bonds grew to 5.02% (+229 bps year to date, (22) bps quarter on quarter).

By the end of December, the Czech crown had appreciated against the euro by 1.8% quarter over quarter and by 3.0% year on year, reaching CZK 24.1 per euro. The CNB's support of the crown exchange rate via interventions on the FX market to neutralise the depreciating mood on this market faded away in fourth quarter 2022 as compared to the third quarter.

Information on development in residential real estate prices is available for the third quarter. Prices growth was still positive in that period, but the dynamics slowed significantly for older flats and most visibly for newly developed flats in Prague. In this segment, even the quarter-on-quarter change was negative for the first time since the last quarter of 2017. Prices paid in 2022's third quarter for previously owned flats were up 23.4% year on year across Czechia and by 15.7% year on year in Prague. Prices obtained for new flats (in Prague only) were 13.7% greater than a year earlier.⁶⁾ Quarter-on-quarter as well as the year-on-year dynamics slowed, too, as documented by the European house price index.⁷⁾

Total bank lending for the overall market (excluding repo operations) grew by 5.8% year on year through the end of 2022.⁸⁾ Lending expansion was somewhat slower in retail banking (5.0% year over year), with housing loans growth in single-digit territory as new mortgage production has decreased significantly due to rising interest rates, stricter borrowing conditions as per CNB regulations, and high property prices. Lending to businesses increased year on year by 6.8% in December 2022 due to the dynamics of all main segments, including non-financial corporates, the public sector, and the financial institutions segment. Business lending growth occurred mainly in euro-denominated loans.

The volume of client deposits in Czech banks expanded by 6.5% year over year as of December.⁹⁾ Deposits from individuals had grown in total by 4.8% while the business deposit market grew by 8.6% year over year. A clear switch from current to term and saving deposits was observed, as individual term deposits were higher year on year by 143.7%. Business term deposits added 96.6% over the previous year. Non-term deposits declined in both segments: by (4.6%) year over year in the segment of individuals and (9.8%) in the business segment.

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

²⁾ The latest available data for the third quarter showed wage inflation picking up to +6.1% year on year (down by (9.8%) in real terms).

³⁾ <https://ec.europa.eu/eurostat/documents/2995521/15893630/3-01022023-BP-EN.pdf/e907214e-5496-dfa0-cd00-2d68dbf62f2b?version=1.0&t=1675170911446> Data as of December 2022.

⁴⁾ <https://www.mpsv.cz/web/cz/mesicni>. Data as of December 2022.

⁵⁾ Source: ARAD statistics of the CNB, www.cnb.cz.

⁶⁾ Source: <https://www.czso.cz/csu/czso/indices-of-realized-flat-prices-3-quarter-of-2022> Publication code 014007-22, released 14 December 2022.

⁷⁾ Source: https://ec.europa.eu/eurostat/databrowser/view/prc_hpi_q/default/table?lang=en

⁸⁾ Source of data on banking market developments: ARAD statistics of the CNB, www.cnb.cz.

⁹⁾ Source of data on banking market developments: ARAD statistics of the CNB, www.cnb.cz.

Developments in the client portfolio and distribution networks

	31 Dec 2021	31 Dec 2022	Change YoY
KB Group's clients	2,251,000	2,240,000	(11,000)
Komerční banka	1,625,000	1,652,000	27,000
– individual clients	1,383,000	1,408,000	26,000
– internet banking clients	1,465,000	1,515,000	50,000
– mobile banking clients	1,034,000	1,145,000	111,000
Modrá pyramida	485,000	461,000	(25,000)
KB Penzijní společnost	520,000	505,000	(15,000)
ESSOX (Group)	137,000	132,000	(5,000)
KB branches (CZ)	242	218	(24)
Modrá pyramida points of sale	202	198	(4)
SGEF branches	9	9	0
ATMs (KB network)	860	850	(10)
– of which deposit-taking	502	521	19
– of which contactless	604	645	41
ATMs (Total shared network)	860	1,412	552
– of which deposit-taking	502	708	206
Number of active debit cards	1,420,000	1,473,000	53,000
Number of active credit cards	184,000	194,000	10,000
Number of cards virtualized into payment apps	390,000	497,000	107,000
KB key authentication users	963,000	1,089,000	126,000

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 December 2022.

BUSINESS PERFORMANCE

Loans to customers

Total **gross volume of lending to clients** rose by 6.2% year on year to CZK 784.9 billion.¹⁾

In **lending to individuals**, the overall volume of housing loans grew by 4.5% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 2.3% to CZK 268.7 billion. Modrá pyramida's loan portfolio swelled by a strong 12.1% to CZK 85.3 billion. The growth in the outstanding volume slowed because new production of housing loans in 2022 decreased by (64.6%) year on year from the extraordinarily high levels of the previous year to CZK 38.5 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up by 4.6%, at CZK 34.8 billion. This growth pace was also affected by weakening confidence levels among consumers in the Czech economy.

The total volume of **loans to businesses** and other lending provided by KB Group was greater by 8.0% year on year, at CZK 396.1 billion. Expansion was faster in euro-denominated loans, available to businesses with revenues in the European currency. Lending to small businesses declined by (2.4%) to CZK 46.8 billion. In the environment of higher interest rates, some small business clients decided to use their excess money to repay loans. The overall CZK volume of credit granted by KB to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia²⁾ climbed by 10.3% year on year to CZK 317.9 billion. At CZK 31.5 billion, the total credit and leasing amounts outstanding at SGEF were up by 2.7% year over year.

¹⁾ Including debt securities issued by KB's corporate clients. There were no reverse repo operations with clients to report as of 31 December 2022 or 31 December 2021.

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

Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group decreased by (3.4%) year on year to CZK 916.8 billion.¹⁾ This development was influenced by clients shifting some of their savings to mutual funds or even utilising them to cover the mounting costs of living. The competition for deposits on the market has intensified. Moreover, clients often have been switching their deposits from current accounts to better-yielding term and savings accounts. Deposits at Komerční banka from individual clients were down by (7.6%) from the year earlier, at CZK 327.8 billion. The deposit book at Modrá pyramida diminished by (8.1%) to CZK 56.0 billion. Total deposits from businesses and other corporations were smaller by (0.1%), at CZK 526.3 billion.

The volumes in mutual funds held by KB Group clients grew by 18.5% to CZK 98.3 billion. Client assets managed by KB Penzijní společnost were 2.2% greater, at CZK 73.0 billion. Technical reserves in life insurance at Komerční pojišťovna were lower by (7.9%) year on year, at CZK 45.3 billion.

The Group's liquidity as measured by the ratio of net loans²⁾ to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 85.2%. The Group's liquidity coverage ratio ended the year at 160%, well above the regulatory limit of 100%.

FINANCIAL PERFORMANCE

Income statement

Komerční banka's **revenues (net operating income)** reached CZK 38,632 million, better by 23.2% compared to the year 2021 that had been affected by pandemic lockdowns and extraordinarily low interest rates. The revenues growth was mainly driven by net interest income, which benefitted from expanding business volumes and higher yields from reinvestment of liabilities and capital. Net fee and commission income was also up thanks to greater transaction activity, clients' increased investments in mutual funds, and heightened demand among corporations for some services, such as for guarantees. Net profit on financial operations remained very strong, driven by recovery in travel-related currency conversions and demand from clients for hedging of financial risks in the volatile and uncertain environment.

Net interest income was up by 31.4%, at CZK 28,632 million, from the low base of the year 2021. The volume of assets increased and market interest rates rose significantly year on year, thus supporting the yields from reinvesting deposits and the Bank's own funds. Net interest income, however, retreated somewhat in the last quarter of the year, a reflection of the increasing costs of deposits. The net interest margin for the whole of 2022, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.4%. That compares to 1.9% a year earlier and a level similar to that in pre-pandemic 2019.

Net fee and commission income grew by 7.2% to CZK 6,121 million. Transaction fees contributed most to this growth, as clients' transaction activity recovered across all transaction types compared to the time of the economy's partial lockdown a year earlier. In particular, payments by card gained significantly in popularity. Deposit product fees were almost stable in line with the numbers of clients. Fees from cross-selling were up notably, driven mainly by clients' rising investments in mutual funds and sales of insurance products. Income from loan services was down marginally year over year due to lower fees for loans to small businesses, consumer loans, overdrafts, and credit cards, while fees for factoring services and credit lines improved year on year. KB recorded also an increase in income from specialised financial services, primarily due to greater issuance of bank guarantees.

Net profit on financial operations improved slightly, by 1.0% to CZK 3,666 million. This excellent result was driven by solid demand from clients for hedging of financial risks in the volatile environment, as well as by recovery in currency conversions related to return of international travel. KB was successful with its offer of tailored hedging strategies for SME clients, particularly those based on currency options.

Dividend and other income was up by 1.4% to CZK 213 million. This line item primarily comprises revenues from property rental and ancillary services.

Operating expenses rose by 6.1% to CZK 16,014 million. Contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) constituted the fastest growing component, expanding by 24.1% year on year to CZK 1,292 million. Personnel expenses increased by 2.6% to CZK 7,734 million, as the rise in average salaries was partly offset by a decrease in the average number of employees by (2.4%) to CZK 7,503.³⁾ General and administrative expenses (not including contributions to the regulatory funds) were up by 6.7%, at CZK 3,965 million, with the costs rising in most categories but remaining below the level of inflation. Relatively faster increase was recorded in costs related to training, recruiting, and travel. Depreciation, amortisation, and impairment of operating assets grew by 7.8% to CZK 3,023 million, driven mainly by new and upgraded software acquired in pursuit of KB's digitalisation strategy.

¹⁾ Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' decreased by 0.7 year on year to CZK 950.7 billion.

²⁾ Gross volume of loans reduced by the volume of provisions for loan losses.

³⁾ Recalculated to a full-time equivalent number.

The sum of profit before allowances for loan losses, provisions for other risk, profit on subsidiaries, and income tax (**operating profit**) was up by 39.2%, at CZK 22,618 million.

Cost of risk (impairment losses and provisions for loans and net result from transferred and written-off loans) reached CZK 1,181 million, higher by 61.6% in comparison with the year 2021. The new provisioning mainly related to anticipated future impacts of high inflation on the credit profile, which is in line with the forward-looking principles of the IFRS 9 accounting standard. The Group also released remaining provisions for risks related to the Covid-19 pandemic, as well as others to reflect several successful resolutions in the corporate client segment. The level of new defaults remained relatively low across all client segments. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during the year 2022 came to 15 basis points. That compares with 10 basis points for the same period a year earlier.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was down (32.1%) year on year, at CZK 150 million, influenced by interest rate developments and the insurance reserves creation and utilisation at Komerční pojišťovna.

Net profit on subsidiaries and associates increased by 192.0% to CZK 73, as it included a gain from revaluation of a stake in a subsidiary.

Net profits on other assets reached CZK 111 million, mainly due to gains from sales of buildings that were partly offset by accelerated depreciation of technical improvements in leased branches that had been closed. In the previous year, net profit on other assets had been CZK 258 million.

Income tax was higher by 32.0%, at CZK 3,998 million.

KB Group's consolidated **net profit** for 2022 reached CZK 17,773 million, which was higher by 36.8% in comparison with the year earlier. Of this total, CZK 217 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (down by (18.1%) year on year).

Reported **net profit attributable to the Group's equity holders** totalled CZK 17,556 million, which is 37.9% more year on year.

Other comprehensive income, deriving mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, as well as from effects of changed interest rates on the value of equity participation in an associated company, reached CZK (2,153) million. **Consolidated comprehensive income** for the full year 2022 totalled CZK 15,620 million, of which CZK 213 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 December 2022 with the values from the statement of financial position as of 31 December 2021.

Assets

As of 31 December 2022, KB Group's total assets had grown by 4.8% year to date to CZK 1,304.1 billion.

Cash and current balances with central banks were down (52.6%), at CZK 14.2 billion. Financial assets held for trading at fair value through profit or loss (trading securities and derivatives) increased by 39.2% to CZK 57.3 billion. The fair value of hedging financial derivatives climbed by 50.8% to CZK 21.6 billion.

Year to date, there was a (15.2%) decline in financial assets at fair value through other comprehensive income totalling CZK 30.2 billion. This item consisted mainly of debt securities issued by government institutions.

Financial assets at amortised cost grew by 5.3% to CZK 1,154.1 billion. The largest portion of this consisted of (net) loans and advances to customers, which increased year to date by 7.8% to CZK 781.5 billion. A 97.6% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.4% 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 13.9 billion. Loans and advances to banks declined by (9.3%) to CZK 233.4 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 22.1% and reached CZK 139.3 billion at the end of December 2022.

Revaluation differences on portfolio hedge items totalled CZK (2.6) billion, larger by 305.1%. Current and deferred tax assets stood at CZK 0.3 billion. Prepayments, accrued income, and other assets, which include receivables from securities trading and settlement balances, decreased overall by (0.1%) to CZK 5.8 billion. Assets held for sale diminished by (86.6%) to CZK 0.1 billion.

Investments in associates rose by 79.6% to CZK 1.4 billion.

The net book value of tangible assets declined by (2.5%) to CZK 8.8 billion. Intangible assets grew by 14.6% to reach CZK 9.0 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 5.6% higher in comparison to the end of 2021 and stood at CZK 1,180.6 billion.

Financial liabilities at amortised cost went down by (0.6%) to CZK 1,050.3 billion. Amounts due to customers comprise the largest proportion of this total, and these declined by (0.7%) to CZK 950.7 billion. This total included CZK 33.9 billion of liabilities from repo operations with clients and CZK 7.5 billion of other payables to customers. Amounts due to banks increased through the year 2022 by 2.2% to CZK 85.2 billion.

Revaluation differences on portfolios hedge items were CZK (52.7) billion. Current and deferred tax liabilities were at CZK 2.6 billion, up by 66.2%. Accruals and other liabilities, which include payables from securities trading and settlement balances, grew by 34.5% to CZK 16.8 billion.

The provisions balance was (14.2%) lower, at CZK 1.2 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 and senior non-preferred debt, at CZK 38.7 billion, was up 1,453.9% year to date, influenced by issuances of loans in order to meet regulatory minimum requirements for own funds and eligible liabilities (MREL). Because those debts are issued in euro, the CZK value of this debt reflects also changes in the Czech crown exchange rate.

Equity

Total equity declined year to date by (2.6%) to CZK 123.4 billion, as it was driven upwards by the volume of net profit generated during the year but downwards by the volume of both tranches of dividends paid in 2022. The Group also recognised a reduction in the value of retained earnings related to Komerční pojišťovna. The value of non-controlling interests reached CZK 3.2 billion. As of 31 December 2022, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

Regulatory capital and other regulatory requirements

Total **regulatory capital** for the capital adequacy calculation came to CZK 101.7 billion as of 31 December 2022. **Capital adequacy** stood at 19.5%. Core Tier 1 (CET1) capital totalled CZK 98.6 billion and the Core Tier 1 ratio was 18.9%. Tier 2 capital summed to CZK 3.1 billion, which was 0.6% of risk-weighted assets. On 10 October, KB exercised a call option and repaid the subordinated debt of EUR 100 million from 2017. At the same time, it took on a new subordinated debt of EUR 100 million with a maturity of 10 years and an option to repay after 5 years. The interest rate of this loan is stipulated at 3M EURIBOR plus 3.79%, using the actual/360 day count convention.

As of 1 January 2023, Komerční banka's overall capital requirements (OCR) come to approximately 17.4%. The minimum required level of CET1 is 12.6%, and the minimum Tier 1 capital ratio stands at 14.7%.

The CNB announced an additional hike in the countercyclical buffer requirement, by 50 bps with effect from April 2023, to 2.5%. Assuming no further changes, as from 1 April 2023, the minimum OCR will reach approximately 17.9%, the minimum CET1 ratio 13.1%, and the minimum Tier 1 ratio 15.2%.

KB Group's Liquidity Coverage Ratio came to 160% as of 31 December 2022. The applicable regulatory minimum is 100%.

Effective from 1 January 2022, KB Group is required to comply with a minimum requirement for own funds and eligible liabilities (MREL) equal to 14.4% of the consolidated total risk exposure and 4.46% of the consolidated total exposure. Based on the CNB general approach,¹⁾ MREL is expected to reach 21.2% of the consolidated total risk exposure and 5.91% of the consolidated total exposure with effect as of 1 January 2024. The MREL requirement is defined as a sum of the amount of loss absorption and recapitalisation. In addition to the MREL, expressed as a percentage of risk-weighted assets, the Group must also fulfil the combined capital buffer. According to current regulations and the criteria from the supervisor, this requirement stands at 6.50% as of 1 January 2023.

In the so-called "single point of entry" resolution strategy, KB intends to fulfil its MREL requirements by accepting senior non-preferred loans from Société Générale S.A. As of 31 December, KB accepted such loans in a total principal volume of EUR 1.5 billion.²⁾

¹⁾ <https://www.cnb.cz/en/resolution/general-approach-of-the-czech-national-bank-to-setting-a-minimum-requirement-for-own-funds-and-eligible-liabilities-mrel/>

²⁾ An overview of senior non-preferred tranches to meet the MREL requirements is in the Annex.

Expected development and main risks to that development in 2023

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

KB Group is continuously monitoring and evaluating potential influences upon its activities and upon its clients of the current crisis caused by Russia's invasion of Ukraine launched on 24 February 2022. Although its direct exposure to Russia and Ukraine is limited, the Group is also evaluating indirect impacts (e.g. dependency on energy resources and raw materials, supply chain disruptions). As may be necessary and appropriate, the Group will respond to the changing situation by adjusting its policies (e.g. risk, operational, accounting), including possible adjustments to provisions and reserves in accordance with the IFRS 9 standard.

After the Czech economy had probably overcome a shallow recession in the second half of 2022, it is expected to grow marginally in 2023. Household consumption, affected by the decline in real wages, will remain weak. On the other hand, fixed investments should expand somewhat, supported by the energy transition and by utilisation of funds of the European Union.

Although inflation will decelerate, its average rate during the year will still be exceeding 10%. Unemployment is expected to increase just slightly and the labour market will remain tight. The growth in nominal wages will accelerate, albeit not enough to match the rise in consumer prices.

The Czech National Bank is likely to keep interest rates at their current levels (7% repo rate) until the second half of the year, when it could start to reduce them gradually.

The CNB has announced that it would boost the requirement for countercyclical capital buffer on Czech exposures of banks to the maximum level of 2.5%, effective from April 2023. During 2023, the increase comes in two steps, in January and April, by 50 basis points in each case. KB will also continue gradually taking loans from Société Générale in order to meet the regulatory requirements for own funds and eligible liabilities (MREL) from the EU's banks recovery and resolution directive (as the concept of single point of entry is applied within the SG Group).

In December 2022, the Parliament approved a bill introducing a new tax impacting several banks, including Komerční banka. This so-called "windfall tax" will be applied to profits of selected banks generated in the years 2023, 2024, and 2025. The windfall tax rate of 60% is constructed as a surcharge on top of the standard 19% tax rate, which means that the effective tax rate for the "windfall" part of the profit is 79%. Windfall is defined as a difference between the income tax base (profit before tax) of the respective year and the average profit before tax in the four years 2018–2021, increased by 20%. The windfall tax is imposed on (standalone) banks with net interest income that had exceeded CZK 6 billion in 2021. Within KB Group, it applies to standalone Komerční banka. Given the income tax base of standalone KB in 2018, 2019, 2020, and 2021, the windfall tax base comes to CZK 15.8 billion. According to the projections for the financial results detailed below, the new tax's impact in 2023 should be limited.

The banking market for loans will absorb a combination of effects, including quite dynamic nominal indicators but rather sluggish real growth rates. Total lending on the market should decelerate to a mid-single-digit year-on-year percentage rate. The outstanding volumes of housing loans are expected to record only marginal gains as the production of new housing loans dropped significantly during 2022. Consumer credit expansion should slow slightly to a mid-single-digit pace, as the burden from weak consumer confidence levels will be offset by the still favourable labour market situation. Lending to businesses and other corporations should rise at a mid-single-digit pace, driven by investment activity and supported even by partial return of clients to banking loans from debt capital markets.

Growth in the volume of deposits on the market will hover around mid-single digits in total. The pace of expansion in deposits from individuals will be slower, as some households continue to tap their reserves to cover increased costs of living. Businesses, on the other hand, have mostly been able to protect their profitability margins and ability to generate cash. Several players on the market for deposits have adopted aggressive pricing policies, mainly during the second half of 2022. This situation may last as long as the market interest rates stay very high.

Komerční banka will continue implementing the changes in accordance with its KB2025 programme that had been announced in November 2020. An introduction to clients of the new value proposition embodied in KB's new digital bank will constitute a crucial milestone along the transformation journey.

In this context, KB management expects that the Group's loan portfolio will record a mid-single-digit growth rate for 2023. The outstanding volume of housing loans should still expand slightly, and the volume of new sales of these loans should not fall further in comparison with 2022. Consumer lending should grow faster, with expected return of consumer confidence and improvements in the offer and the sales process. The corporate loan book should grow at a mid-single-digit pace, as KB aims to confirm the gains recently achieved in its market share of business loans.

Total deposit balances are expected to expand at an upper-mid-single-digit pace, slightly faster than do the loans. Deposits of corporate clients may grow somewhat faster than do volumes in the retail segments. The growth in term deposits will probably still outpace that in current accounts by a large margin.

Following a recovery from the pandemic lows in 2022, KB Group's total net operating income for 2023 should reach a level similar to that in the previous year. Net interest income will probably retreat somewhat, mainly due to higher average costs of deposits. Net fees and commissions should improve by mid-single digits, driven mainly by dynamic development of the volumes in mutual funds. The net profit on financial operations will likely grow meaningfully, propelled by gains from currency conversions related to travelling and hedging of financial risks for clients, but also due to a shifting allocation of trading gains from interest income to financial operations, which reflects movements in interest rates in different currencies.

As ever, operating expenses remain under tight control and the figure for the full year will rise at an upper mid-single-digit pace, thus by much less than the rate of inflation. The Group will continue its transformation, which consists in investing into building the new digital infrastructure, overall simplification, and decreasing the numbers of employees and premises in use. The management has agreed with the trade unions on increasing wages by an average 5% from April 2023 on a constant staff basis. Depreciation and amortisation charges will be growing at a high-single-digit pace, in reflection of the investments in digital transformation. Regulatory levies for the Resolution and Deposit insurance funds will be decided by the CNB, but they should reflect the recently decelerated dynamics of deposits in the banking system. Other administrative costs will be offsetting the effects of the high inflation by the ongoing optimisation of operations.

Cost of risk will be influenced by several factors, including in particular the still-high inflation and energy costs, slower economic growth, and higher interest rates. Certain impacts from such environment had already been anticipated in provisioning during 2022. Reflecting the resilient credit profile of KB's asset portfolio, the cost of risk in 2023 should not exceed the estimated normalised level of around 30 basis points across the whole business cycle.

The key risks to the expectations described above consist in further escalation of the war in Ukraine and its economic repercussions, as well as rapid decline in consumption. Generally, the open Czech economy would be sensitive to a worsening external economic environment, as well as to abrupt changes to relevant exchange and interest rates or to monetary or fiscal policies. The possible disruption of gas supplies remains a risk, but its significance has diminished.

Management expects that KB's operations will generate sufficient profit in 2023 to cover the Group's capital needs ensuing from its growing volume of assets as well as to pay out dividends.

ANNEX: Consolidated results as of 31 December 2022 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement	Reported			Recurring		
	FY 2021	FY 2022	Change YoY	FY 2021	FY 2022	Change YoY
(CZK million, unaudited)						
Net interest income	21,795	28,632	31.4%	21,795	28,632	31.4%
Net fee and commission income	5,711	6,121	7.2%	5,711	6,121	7.2%
Net profit on financial operations	3,630	3,666	1.0%	3,630	3,666	1.0%
Dividend and other income	210	213	1.4%	210	213	1.4%
Net banking income	31,346	38,632	23.2%	31,346	38,632	23.2%
Personnel expenses	(7,539)	(7,734)	2.6%	(7,539)	(7,734)	2.6%
General admin. expenses (excl. regulatory funds)	(3,715)	(3,965)	6.7%	(3,715)	(3,965)	6.7%
Resolution and similar funds	(1,041)	(1,292)	24.1%	(1,041)	(1,292)	24.1%
Depreciation, amortisation and impairment of operating assets	(2,803)	(3,023)	7.8%	(2,803)	(3,023)	7.8%
Total operating expenses	(15,099)	(16,014)	6.1%	(15,099)	(16,014)	6.1%
Operating profit	16,247	22,618	39.2%	16,247	22,618	39.2%
Impairment losses	(775)	(1,109)	+/-	(775)	(1,109)	+/-
Net gain from loans and advances transferred and written off	44	(72)	+/-	44	(72)	+/-
Cost of risk	(731)	(1,181)	61.6%	(731)	(1,181)	61.6%
Net operating income	15,516	21,437	38.2%	15,516	21,437	38.2%
Income from share of associated companies	221	150	(32.1%)	221	150	(32.1%)
Net profit/(loss) on subsidiaries and associates	25	73	>100%	25	73	>100%
Net profits on other assets	258	111	(57.0%)	258	111	(57.0%)
Profit before income taxes	16,020	21,771	35.9%	16,020	21,771	35.9%
Income taxes	(3,028)	(3,998)	32.0%	(3,028)	(3,998)	32.0%
Net profit for the period	12,992	17,773	36.8%	12,992	17,773	36.8%
Profit attributable to the Non-controlling owners	265	217	(18.1%)	265	217	(18.1%)
Profit attributable to the Group's equity holders	12,727	17,556	37.9%	12,727	17,556	37.9%

Statement of financial position	31 Dec 2021	31 Dec 2022	Ytd
(CZK million, unaudited)			
Assets	1,244,353	1,304,063	4.8%
Cash and current balances with central bank	29,947	14,190	(52.6%)
Loans and advances to banks	257,196	233,398	(9.3%)
Loans and advances to customers (net)	724,587	781,463	7.8%
Securities and trading derivatives	190,924	226,848	18.8%
Other assets	41,699	48,164	15.5%
Liabilities and shareholders' equity	1,244,353	1,304,063	4.8%
Amounts due to banks	83,372	85,176	2.2%
Amounts due to customers	956,929	950,692	(0.7%)
Securities issued	13,666	12,156	(11.0%)
Subordinated and senior non preferred debt	2,490	38,694	>100%
Other liabilities	61,114	93,910	53.7%
Total equity	126,782	123,435	(2.6%)

Key ratios and indicators	31 Dec 2021	31 Dec 2022	Change year on year
Capital adequacy (CNB)	21.3%	19.5%	▼
Tier 1 ratio (CNB)	20.9%	18.9%	▼
Total risk-weighted assets (CZK billion)	484.4	523.0	8.0%
Risk-weighted assets for credit risk (CZK billion)	400.2	430.8	7.7%
Net interest margin (NII / average interest-bearing assets) ⁱⁱⁱ	1.9%	2.4%	▲
Loans (net) / deposits ratio ^{iv}	76.4%	85.2%	▲
Cost / income ratio ^v	48.2%	41.5%	▼
Return on average equity (ROAE) ^{vi}	10.7%	14.4%	▲
Return on average Tier 1 capital ^{vii}	12.8%	17.6%	▲
Return on average assets (ROAA) ^{viii}	1.1%	1.4%	▲
Earnings per share (CZK) ^x	67.4	93.0	37.9%
Average number of employees during the period	7,687	7,503	(2.4%)

Business performance in retail segment – overview	31-Dec-22	Change year on year
CZK bil.		
Mortgages to individuals – volume of loans outstanding	268.7	2.3%
Building savings loans (MPSS) – volume of loans outstanding	85.3	12.1%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	34.8	4.6%
Small business loans – volume of loans outstanding	46.8	(2.4%)
Insurance premiums written (KP)	6.9	(5.7%)

Senior non-preferred loans as of 31 December 2022:

Issue	Principal	Call option date*	Interest rate (ACT/360)
27 Jun 2022	EUR 250m	28 Jun 2027	3M Euribor + 2.05%
21 Sep 2022	EUR 250m	21 Jun 2026	1M Euribor + 1.82%
21 Sep 2022	EUR 250m	21 Sep 2029	1M Euribor + 2.13%
9 Nov 2022	EUR 250m	9 Nov 2025	1M Euribor + 2.05%
9 Nov 2022	EUR 250m	9 Nov 2027	1M Euribor + 2.23%
9 Nov 2022	EUR 250m	9 Nov 2028	3M Euribor + 2.28%

* Maturity date is one year after the call option excise date.

Subordinated debt as of 31 December 2022:

Issue	Principal	Call option date*	Interest rate (ACT/360)
10 Oct 2022	EUR 100m	11 Oct 2027	3M Euribor + 3.79%

* Maturity date is one year after the call option excise date.

Financial calendar:

12 May 2023	1Q 2023 results
3 August 2023	1H and 2Q 2023 results
3 November 2023	9M and 3Q 2023 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)	FY 2022	FY 2021
Net interest income income, year-to-date	28,632	21,795
Of which:		
Loans and advances at amortised cost	51,842	20,713
Debt securities at amortised cost	3,187	2,065
Other debt securities	559	681
Financial liabilities at amortised cost	(22,194)	(2,288)
Hedging financial derivatives – income	37,176	11,697
Hedging financial derivatives – expense	(41,938)	(11,074)

(source: Balance Sheet)	31-Dec-22	31-Dec-21	31-Dec-21	31-Dec-20
Cash and current balances with central banks / Current balances with central banks	6,167	21,455	21,455	15,050
Loans and advances to banks	233,398	257,196	257,196	262,606
Loans and advances to customers	781,463	724,587	724,587	679,956
Financial assets held for trading at fair value through profit or loss / Debt securities	9,968	8,696	8,696	3,342
Non-trading financial assets at fair value through profit or loss / Debt securities	132	135	135	279
Financial asset at fair value through other comprehensive income (FV OCI) / Debt securities	30,119	35,509	35,509	40,151
Debt securities	139,276	114,078	114,078	92,839
Interest-bearing assets (end of period)	1,200,524	1,161,656	1,161,656	1,094,223
Average interest-bearing assets, year-to-date	1,181,090		1,127,939	
NIM year-to-date, annualised	2.42%		1.93%	