

Komerční banka, a.s.

RESULTS

FY 2021



Regulatory information

Komerční banka, a.s.

Komerční banka's 2021 results: solid growth in business volumes and revenues, stable costs, strong asset quality, progress in transformation

"In a year full of challenges, Komerční banka achieved excellent results. We have recorded very solid growth in the volume of our business with clients, and this has underpinned an increase in revenues. In spite of the spiking inflation and higher regulatory levies, we have kept the operating expenditures stable. The credit profile of the loan portfolio remains very strong, even though the current environment is tough for many businesses," remarked Jan Juchelka, KB's Chairman of the Board of Directors and Chief Executive Officer.

"In the second pandemic year, these successes were made possible by all those working within KB Group. They also have put great efforts into implementing the KB Change 2025 transformation plan. I want to thank all the employees, as well as our clients, shareholders, and other partners for their trust in Komerční banka," Jan Juchelka added.

- | **The KB Group as a whole was serving 2,251,000 clients. The standalone Bank had 1,625,000 customers. The number of clients with KB Mobile Banking climbed by 102,000 year on year to 1,034,000. Clients' average satisfaction levels as measured by Net Promoter Score improved to 39 points among individual clients, 41 points for small businesses, and 45 points among corporate customers.**
- | **Transformation in accordance with the KB Change 2025 plan is proceeding quickly: KB is testing the new digital bank and streamlining its operations. The employee engagement index reached 77 points in 2021.**
- | **KB Group's lending to customers expanded by 6.9% year on year to CZK 738.9 billion, growing in retail as well as corporate segments. The volume of housing loans provided by KB and Modrá pyramida swelled by 9.5%, to CZK 338.7 billion, as new sales of housing loans leapt by 66.3% in 2021 to CZK 109.0 billion.**
- | **Client deposits were up by 6.2%, at CZK 948.6 billion. The volume of non-bank assets under management increased by 7.0%.**
- | **Fourth quarter 2021 (v. 4Q 2020)**
Consolidated revenues for 4Q 2021 were up 19.1% year on year, at CZK 8.7 billion, driven by net interest and fee income. Total operating expenditures climbed by 5.1% to CZK 3.7 billion. Cost of risk in the quarter was immaterial, reflecting KB's strong credit profile. Net profit attributable to shareholders doubled year on year to CZK 4.2 billion, driving a similar pace of growth in income taxes, which reached CZK 1.0 billion.
- | **Full year 2021 (v. FY 2020)**
Consolidated revenues for 2021 improved by 5.7% year on year to CZK 31.3 billion. All main revenue categories contributed to this gain. Total operating expenditures rose marginally by 0.7% to CZK 15.1 billion. Net creation of credit risk provisions (cost of risk) reached CZK 0.7 billion, lower by (84.0%) year on year. Net profit attributable to shareholders improved by 56.0% to CZK 12.7 billion. Income taxes increased by 52.5% to CZK 3.0 billion.
- | **KB Group's capital adequacy ratio reached 21.3%. The liquidity coverage ratio stood at 148%.**
- | **The Board of Directors will propose a dividend of CZK 43.80 per share, totalling CZK 8.3 billion. This proposal will be subject to a vote by the General Meeting of KB and also validation by the CNB upon its receipt of the audited financial statements for 2021. Additional steps in returning excess capital to shareholders will be considered in the second half of 2022 after completing the regulatory stress test exercise.**
- | **The international magazine The Banker has named Komerční banka Bank of the Year 2021 in the Czech Republic.**

Prague, 10 February 2022 – Komerční banka reported today its unaudited consolidated results for the year 2021.

Total revenues improved by 5.7% to CZK 31.3 billion. Driven by increase in the volumes of both loans and deposits, and later in the year also by normalising market interest rates, net interest income was up by 2.0%, at CZK 21.8 billion. Net fee and commission income grew by 9.6% to CZK 5.7 billion, underpinned by a broad base of contributing factors, including clients' greater transaction activity, growth in the volume of mutual fund investments, and demand from corporations for debt capital markets and advisory services. Net profit on financial operations grew by 25.9% to CZK 3.6 billion, driven by strong demand from clients for hedging of financial risks in the volatile environment.

Operating expenses continued to be managed tightly in spite of the spike in inflation and increase in regulatory levies, particularly for the Resolution Fund. Total operating expenditures were higher by 0.7%, at CZK 15.1 billion. Personnel costs decreased slightly and administrative expenses were almost flat. The average number of employees declined by (4.6%) to 7,687. Reflecting investments in digitalisation, depreciation and amortisation charges were higher year on year. These were partly offset by a shrinking buildings portfolio.

Net creation of provisions for 2021 totalled CZK 0.7 billion, down by (84.0%). The provisions creation related to the corporate portfolios, as KB was able to slightly decrease the volume of provisions associated with the retail portfolio. That was in accord with the good repayment discipline of clients and successful recovery performance in all client segments. The Group also recorded limited reversals reflecting statutory recalibrations of models in accordance with IFRS 9.

The reported attributable net profit improved by 56.0% to CZK 12.7 billion. and income taxes were up by 52.5% , at CZK 3.0 billion.

Lending to clients gained by 6.9% to CZK 738.9 billion.¹⁾ Within that total, financing of housing from KB and Modrá pyramida expanded by 9.5%. Consumer lending by KB and ESSOX added 1.9%. Lending to businesses and other clients was higher by 5.0%. A negative contribution of approximately 0.9 percentage point to the total reported value of loans stemmed from 5.3% year-on-year appreciation of the Czech crown vis-à-vis the euro. That affected the crown value of euro-denominated loans, provided almost solely to corporations.

Deposits from clients climbed by 6.2% year on year to CZK 948.6 billion.²⁾ The growth in deposits was stronger in retail segments, except for Modrá pyramida. The volume of KB Group clients' assets in mutual funds, pension savings, and life insurance expanded by 7.0% to CZK 203.6 billion.

The capital adequacy ratio reached a strong 21.3%, and Core Tier 1 capital stood at 20.9%. The liquidity coverage ratio was 148%, above the regulatory minimum of 100%.

With a view to the Czech National Bank's announcement from September 2021 that it would no longer restrict the amount of bank dividends across the board, KB's Board of Directors intends to propose to the General Meeting of Komerční banka, to be held in April, payment of dividends in the volume of CZK 8.3 billion (CZK 43.80 per share). That would constitute 65% of the 2021 net profit. This proposal is conditioned upon consent from the CNB after submitting the audited financial statements for 2021.

Additional steps in releasing the excess equity accumulated due to the general pandemic dividend restrictions in 2020 and 2021 will be considered in the second half of 2022 upon finalisation of the annual regulatory stress test exercise.

Further away, KB's Board of Directors intends to resume its standard dividend policy of paying out 60–70% of net profit generated in the preceding year. The policy had been suspended in accordance with restrictions applicable for all Czech banks adopted by the CNB in March 2020 in response to outbreak of the Covid-19 pandemic. For the year 2022, the Board of Directors approved a dividend policy (expected dividend payout ratio) of paying out 65% of consolidated net profit attributable to KB's shareholders to be generated in 2022.

The Bank had 58,444 shareholders as of 31 December 2021 (up by 1,443 year on year), of which 52,823 were private individuals from the Czech Republic (greater by 1,379 from the year earlier). Strategic shareholder Société Générale maintained its 60.4% stake while minority shareholders owned 39.0% and KB held 0.6% of the registered capital in treasury.

¹⁾ Excluding volatile reverse repo operations with clients but including debt securities issued by KB's clients and held by the Bank. Because the volume of reverse repo operations was nil as of both 31 December 2020 and 31 December 2021, the figures remain unchanged inclusive of reverse repo operations.

²⁾ Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 5.6% to CZK 956.9 billion.

Market environment (in fourth quarter 2021)¹⁾

The fourth quarter was marked by another pandemic wave that was by far the highest to date in terms of incidence (reaching a 7-day rolling average at the end of November of 1,750 per million people) and prevalence (peaking at 2% of the population being sick during the first days of December). Nevertheless, this wave did not surpass the previous waves (spring 2021 and autumn 2020) in terms of hospitalisations. Vaccination reached 62.3% (fully vaccinated) and 22.5% of the population had received a booster jab by the end of December. Consequently, the fourth quarter brought no nationwide lockdown or school closures, although quarantines strongly affected face-to-face schooling and worker absences. Sport and cultural events were restricted in terms of numbers in attendance. Restaurants, bars, and the like were required to shut at 10 pm between 26 November and 26 December. Several restrictions regarding numbers of people at certain events and hygienic conditions to be followed in public places were still in place.

Release of economic restrictions created a solid basis for good economic performance in 2021's fourth quarter (GDP grew by 0.9% quarter over quarter and 3.6% year on year, according to the initial flash estimate of the Czech Statistical Office). Tight labour market conditions continue to prevail with no signs of easing. In the third quarter alone, wage inflation was 5.7% year on year (1.5% in real terms), driven mainly by public sector increases. During the fourth quarter, the unemployment rate declined further. Unemployment remained at one of the lowest national rates within the EU (standing at 2.1% in December according to the Eurostat methodology after seasonal adjustment).²⁾ More recent data from the Czech labour ministry was showing a slight upside risk for unemployment rate at the end of the year.³⁾

The dynamics of industrial producer prices averaged a weighty 12.8% year on year in 2021's fourth quarter. Pressure from the primary price categories together with continuous tight labour market conditions transmitted through to consumer price inflation, which jumped to as high as 6.6% year on year in December. That was well above the upper bound of the national bank's inflation target tolerance band. Meanwhile, the Czech crown appreciated as a result of tightening monetary policy, thereby contributing to taming of inflationary pressures. In quarter-on-quarter terms, the Czech crown was 2.5% stronger against the euro, ending 2021 at CZK 24.9 per euro. The crown was 5.3% stronger in a year-on-year comparison.

Continued expectations for creeping inflation on the monetary policy horizon and mounting headline as well as core inflation due to domestic factors, further supported by imported inflation from the global economy, led the CNB to accelerate its rate-hiking cycle. The national bank raised its two-week repo rate at the beginning of November by 125 bps and again before Christmas by 100 bps. That put the 2W repo rate at 3.75% by the end of 2021. This brought three-month PRIBOR accordingly to 4.08% by the end of December (+372 bps year on year). The 10Y swap rate climbed to 3.26% from the 1.28% as of 31 December 2020 (+198 bps year to date), and the IRS curve inverted again (5Y at 3.85%, +273 bps year to date). CZK-denominated 10Y Czech government bond yields gained 143 bps through 2021 to reach 2.73%.

Growth in prices of residential real estate continued apace, influenced by expectations for further price and interest rate increases, deployment of excess savings accumulated due to pandemic restrictions, and rising building material prices. Prices of new development were especially affected. Prices paid in 2021's third quarter for previously owned flats were up 21% year on year across Czechia and higher by 15.5% year on year in Prague. Prices obtained for new flats (in Prague only) were 9.7% greater than a year earlier.⁴⁾

Total bank lending for the overall market (excluding repo operations) grew by 6.9% year on year through the end of December.⁵⁾ Lending growth was faster in retail banking, with housing loan growth continuing to be brisk and improving dynamics of consumer lending, supported by relatively stable household incomes as the tight labour market favoured the position of workers. Business loans outstanding were higher by 3.2% year on year, as some companies were still postponing their investment plans and year on year appreciation of the Czech crown technically diminished the reported value of loans denominated in euros.

The volume of client deposits in Czech banks expanded by 6.6% year on year as of December.⁶⁾ Deposits from individuals continued to grow substantially and were up 6.9% year on year. Within the corporate segments (up 6.2% year on year overall), deposits from most reported categories recorded positive single-digit growth dynamics in year-on-year terms.

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

²⁾ <https://ec.europa.eu/eurostat/documents/2995521/14233878/3-01022022-AP-EN.pdf/cfe71acd-ef6c-b52b-085f-838598dd9a88> Data up to December 2021

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

⁴⁾ Source: <https://www.czso.cz/csu/czso/house-price-index-3-quarter-of-2021> Publication code 014005-21, released 29 December 2021.

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

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

Selected achievements and initiatives in the fourth quarter 2021

In October, the building of the new digital bank with the Temenos Transact system at its core reached an important phase, wherein a functional bank with basic features is being tested by some 500 clients from among the Bank's own employees. KB has concluded with ČEZ a strategic partnership for sustainability. The two groups will co-operate in reducing their own carbon footprints as well as the emissions generated by their clients. The first step is the offer of photovoltaic rooftop installations as a service and purchasing energy for Komerční banka from renewable sources from ČEZ ESCO. KB has also launched pilot operation of the Remote Service Centre, where clients meet with their bankers online or by telephone. Modrá pyramida opened the possibility of arranging a Quick Loan (Rychlůjvěr) for housing via the MP Home mobile application.

In November, Komerční banka launched the BankID Sign service for guaranteed signing of documents using the bank identity. ESSOX introduced an online deferred payment service for e-shop customers. KB, together with Visa, Heureka, and the Association of Social Responsibility, presented the "Sustainable e-shop" project to support and motivate sustainable e-shop business.

Also in November, Komerční banka and its subsidiaries Modrá pyramida and ESSOX voluntarily joined the Merciful Summer initiative, which aims to help people in distraint as a result of non-repayment of their loans. Thus, by the end of January 2022, their clients could repay their defaulted obligations without additional penalty and costs related to distraint procedure.

The international magazine The Banker named Komerční banka Bank of the Year 2021 in the Czech Republic. The jury had focused upon how banks helped out customers and the economy in the past year, their abilities to innovate continuously, and also their approaches to sustainable business.

Among MasterCard Bank of the Year awards for 2021, Komerční banka won first place in the Corporate Bank of the Year category and in the Sustainable Bank of the Year category.

Komerční pojišťovna was named the Best Life Insurance Company of the Year 2021 by the daily Hospodářské noviny.

Komerční banka's Private Banking received the Best Performing Private Bank in Central and Eastern Europe award, given as part of the Global Private Banking Awards from The Banker and Professional Wealth Management magazines, both members of the Financial Times publishing house.

Jan Juchelka, CEO and Chairman of the Board of Directors, received the Best Manager in the Czech Republic in 2019 award from the National Evaluation Committee of the Czech Management Association of the Czech Republic.

Developments in the client portfolio and distribution networks

	31 Dec 2020	31 Dec 2021	Change YoY
KB Group's clients ^{1), 2)}	2,293,000	2,251,000	(43,000)
Komerční banka ¹⁾	1,641,000	1,625,000	(17,000)
– individual clients ¹⁾	1,389,000	1,383,000	(7,000)
– internet banking clients	1,443,000	1,465,000	22,000
– mobile banking clients	932,000	1,034,000	102,000
Modrá pyramida	485,000	485,000	0
KB Penzijní společnost	525,000	520,000	(5,000)
ESSOX (Group) ²⁾	151,000	137,000	(14,000)
KB branches (CZ)	242	242	0
Modrá pyramida points of sale	201	202	1
SGEF branches	9	9	0
ATMs	809	860	51
of which deposit-taking	429	502	73
of which contactless	304	604	300
Number of active debit cards	1,407,000	1,420,000	13,000
Number of active credit cards	181,000	184,000	3,000
Number of cards virtualized into payment apps	283,000	390,000	108,000
KB key authentication users	812,000	963,000	151,000

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

²⁾ Year on year decline influenced by termination of non-active credit card relationships.

COMMENTS ON BUSINESS AND FINANCIAL RESULTS

The financial data published below are from unaudited consolidated results compiled under IFRS (International Financial Reporting Standards). Unless stated otherwise, the data are as of 31 December 2021.

Business performance

Loans to customers

Total **gross volume of lending to clients** rose by 6.9% year on year to CZK 738.9 billion.¹⁾

In lending to individuals, the overall volume of housing loans grew by 9.5% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 7.0% to CZK 262.7 billion. Modrá pyramida's loan portfolio grew by a strong 18.9% to CZK 76.0 billion. Sales of housing loans moderated at the end of the year as mortgage pricing was on the rise and reflected sharp growth in market interest rates. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up 1.9%, at CZK 33.3 billion.

The total volume of **loans to businesses** and other lending provided by KB Group was higher by 5.0% year on year, at CZK 366.9 billion. Lending to small businesses increased by 4.3% to CZK 47.9 billion. The overall CZK volume of credit granted by KB to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia²⁾ improved by 5.6% year on year to CZK 288.3 billion. At CZK 30.7 billion, the total credit and leasing amounts outstanding at SGEF were up by 1.1% year over year.

Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group rose by 6.2% year on year to CZK 948.6 billion.³⁾ Deposits at Komerční banka from individual clients grew by 10.2% from the year earlier to CZK 354.9 billion. The deposit book at Modrá pyramida expanded by 0.2% to CZK 60.9 billion. Total deposits from businesses and other corporations climbed by 4.4% to CZK 527.1 billion.

Client assets managed by KB Penzijní společnost were 6.5% greater, at CZK 71.5 billion. Technical reserves in life insurance at Komerční pojišťovna were down by (1.3%) year on year, at CZK 49.2 billion. The volumes in mutual funds held by KB Group clients grew by 13.0% to CZK 83.0 billion, and this growth predominantly occurred in equity and balanced funds.

The Group's liquidity as measured by the ratio of net loans⁴⁾ to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 76.4%. The Group's liquidity coverage ratio was 148%, well above the regulatory limit of 100%.

Financial performance

Income statement

Komerční banka's **revenues (net operating income)** for the year 2021 increased by 5.7% year on year to reach CZK 31,346 million. All main revenue categories contributed to this growth.

Net interest income for the full year was higher by 2.0%, at CZK 21,795 million, thus rising less than the volumes of loans and deposits, although the trend in interest income did take a pretty sharp turn during the year. It had been declining in the first half of the year as a consequence of the extremely low interest rate environment, but interest income turned dynamically upward in the second half, supported both by growth in volumes and quickly normalising market interest rates that underpinned yields from reinvesting deposits and the Bank's own funds. The net interest margin for the full year 2021, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 1.9%. That compares to 2.0% a year earlier.

Net fee and commission income rose by 9.6% to CZK 5,711 million, supported by a broad combination of contributing factors. The clients stepped up their investments into mutual funds and were switching from fixed income to equity-linked and balanced products. The clients were also embracing the account packages comprising a wider selection of services, in particular the MůjÚčet Plus bundle. The number of transactions executed by cards and by digital channels climbed strongly, partly offset by continuing drop in cash and in-branch transactions. The higher income for specialised financial services to corporate clients was mainly due to strong activity in issuance of debt instruments for clients, loan syndications, and advisory activities, as well as issuing of bank guarantees. The net fee income for loan services decreased due to lower fees from credit cards and loans to small businesses.

¹⁾ Excluding volatile reverse repo operations with clients but including debt securities issued by KB's clients and held by the Bank. Because the volume of reverse repo operations was nil as of both 31 December 2020 and 31 December 2021, the figures remain unchanged inclusive of reverse repo operations.

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

³⁾ Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' rose by 5.6% to CZK 956.9 billion.

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

Net profit from financial operations improved by 25.9% to CZK 3,630 million. Demand for hedging of FX risks was strong throughout 2021, while already in the last months of 2021 interest rate risk hedging activity was affected by the sharp rate increases, which made the available options less attractive. Mainly during the first three quarters, the Bank also played leading roles in several important capital market deals of its corporate clients and often provided financial hedging to such transactions. Clients even from among small and medium-sized businesses increasingly were using the eTrading online platform as well as value-added hedging solutions based on financial derivatives. A partial recovery in travel and related currency conversions supported FX gains from payments compared to 2020's low base.

Dividend and other income remained stable (0.0%) at CZK 210 million. This line item primarily comprises revenues from property rental and ancillary services.

Operating expenses rose by a slight 0.7% to CZK 15,099 million. Personnel expenses declined by (1.5%) to CZK 7,539 million, reflecting decrease in the number of employees by (4.6%) to 7,687.¹⁾ KB had also agreed with the trade unions on maintaining stable base salaries in 2021. General and administrative expenses (not including contributions to the regulatory funds) were up by 1.1%, at CZK 3,715 million, as lower real estate and telecommunications costs were offset by higher expenses related to IT and marketing. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 1,041 million, up 10.6% year on year. The CNB had adjusted the target volume of the Resolution Fund for 2024 and boosted the aggregate annual contribution from Czech banks by 15.1% year on year. Depreciation, amortisation, and impairment of operating assets grew by 2.7% to CZK 2,803 million, driven mainly by new and upgraded software and IT equipment acquired in pursuit of KB's digitalisation strategy, partly offset by lower depreciation and rights-of-use of buildings.

The profit before allowances for loan losses, provisions for other risk, profit on subsidiaries, and income tax (**operating profit**) increased by 10.8% to CZK 16,247 million.

Cost of risk reached CZK 731 million, lower by (84.0%) in comparison with the full year 2020. The provisions creation related to corporate portfolios, where it was concentrated in a small number of client situations, and it also reflected updates to certain provisioning models and adjustments of buffers for certain credit exposures, such as terminated moratorium portfolios, loans provided under Covid guarantee schemes or for selected Covid-sensitive sectors. The Group was able to slightly reduce the volume of provisions related to the retail portfolio. That was in accord with the good repayment discipline of clients and successful recovery performance. The Group recorded limited net releases of reserves reflecting statutory recalibration of models in accordance with IFRS 9. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during 2021 came to 10 basis points. That compares with 68 basis points for the previous year.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was down (10.9%) year on year, at CZK 221 million, influenced by the development of yields.

Profit attributable to exclusion of companies from consolidation totalled CZK 25 million, and it included KB's decreased participation in Bankovní identita, a.s.

Net profits on other assets reached CZK 258 million, which result was mainly due to a release of provisions for buildings in the held-for-sale portfolio and sales of buildings and finished leases of premises. In the previous year, this result had been CZK (15) million.

Income tax was higher by 52.5%, at CZK 3,028 million.

KB Group's consolidated **net profit** for 2021 reached CZK 12,992 million, up by 56.5% in comparison with the year earlier. Of this total, CZK 265 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (versus CZK 143 million a year earlier).

Reported **net profit attributable to the Group's equity holders** totalled CZK 12,727 million, which is 56.0% more year on year.

Other comprehensive income, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK 1,078 million, driven by effects of changed interest rates on revaluation of cash flow hedging instruments and on the value of equity participation in an associated company. **Consolidated comprehensive income** for 2021 totalled CZK 14,070 million, of which CZK 259 million was attributable to owners of non-controlling stakes.

¹⁾ Recalculated to a full-time equivalent number.

Statement of financial position

Unless indicated otherwise, the following text provides a comparison of the balance sheet values as of 31 December 2021 with the values from the statement of financial position as of 31 December 2020.

Assets

As of 31 December 2021, KB Group's total assets had grown by 6.6% year on year to CZK 1,244.4 billion.

Cash and current balances with central banks were up 27.2%, at CZK 29.9 billion. This line item is volatile because it is influenced by liquidity management and fulfilment of the mandatory minimum reserves requirement. Financial assets at fair value through profit or loss (trading securities and derivatives) increased by 60.7% to CZK 41.1 billion. The fair value of hedging financial derivatives gained 7.5% to reach CZK 14.3 billion.

Year on year, there was an (11.5%) decline in financial assets at fair value through other comprehensive income totalling CZK 35.6 billion. This item consisted mainly of public debt securities.

Financial assets at amortised cost grew by 5.8% to CZK 1,095.9 billion. The largest portion of this item consisted of (net) loans and advances to customers, which summed year on year 6.6% to CZK 724.6 billion. A 97.5% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.5% of the loans were classified in Stage 3 (non-performing). The volume of loss allowances created for amounts due from customers came to CZK 13.3 billion. Loans and advances to banks decreased by (2.1%) to CZK 257.2 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 22.9% and reached CZK 114.1 billion at the end of 2021.

Revaluation differences on portfolio hedge items totalled a negative CZK (0.6) billion. Current and deferred tax assets stood at CZK 0.1 billion. Other assets and accrued accounts, which include receivables from securities trading and settlement balances, increased overall by 13.8% to CZK 5.8 billion. Assets held for sale rose by 375.3% to CZK 0.7 billion, due to a transfer of buildings from operating assets and mainly due to a release of allowances for certain buildings.

Investments in subsidiaries and associates declined by (50.5%) to CZK 0.8 billion, reflecting decreased equity of Komerční pojišťovna due to revaluation of the bond portfolio and deferred taxes.

The net book value of tangible assets fell by (7.9%) to CZK 9.0 billion. Due to software acquisition, intangible assets grew by 14.2% to reach CZK 7.9 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF, and ESSOX, remained unchanged at CZK 3.8 billion.

Liabilities

Total liabilities were 6.4% higher in comparison to the end of 2020 and stood at CZK 1,117.6 billion.

Financial liabilities at amortised cost went up by 6.0% to CZK 1,056.5 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 5.6% to CZK 956.9 billion. This sum included CZK 8.3 billion of liabilities from repo operations with clients and CZK 6.2 billion of other payables to customers. Amounts due to banks decreased year on year by (3.7%) to CZK 83.4 billion.

The volume of outstanding securities issued expanded significantly to CZK 13.7 billion. That reflected the successful EUR 500 million placement of a first tranche of euro-denominated mortgage covered bonds under the EUR covered bond programme newly opened in the first quarter of 2021.

Revaluation differences on portfolios hedge items were negative CZK (31.7) billion. Current and deferred tax liabilities rose to CZK 1.6 billion. Other liabilities and accruals, which include payables from securities trading and settlement balances, increased by 9.6% to CZK 12.5 billion.

The provisions balance was lower by (33.8%), at CZK 1.3 billion. Provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise those for ongoing contracted contingent commitments, legal disputes, self-insurance, and the retirement benefits plan.

Subordinated debt, at CZK 2.5 billion, was down (5.3%) year on year. Because that debt is issued in euro, the change reflects appreciation of the Czech crown over the same period.

Equity

Total equity grew year on year by 8.3% to CZK 126.8 billion due to profit generated and because the volume of dividends paid was limited by CNB restrictions. The value of non-controlling interests reached CZK 3.3 billion. As of 31 December 2021, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

Regulatory capital and requirements

Total **regulatory capital** for the capital adequacy calculation came to CZK 103.2 billion as of 31 December 2021. **Capital adequacy** stood at 21.3%. Core Tier 1 capital amounted to CZK 101.1 billion, and the Core Tier 1 ratio reached 20.9%. Tier 2 capital totalled CZK 2.1 billion, which was 0.4% of risk-weighted assets.

As of today, Komerční banka's overall capital requirements (OCR) come to approximately 15.2% in relation to the consolidated volume of risk-weighted assets. The minimum Core Tier 1 capital level is around 11.2%, and the minimum Tier 1 capital ratio stands at about 13.2%. The regulatory requirements decreased temporarily on 1 October 2021, from which date Komerční banka is required to maintain a capital buffer for other systemically important institutions (so-called O-SII) at 2.0% of the consolidated volume of risk-weighted assets. Meanwhile, the requirement to maintain a capital buffer for systemic risk, which had been set at 3.0% since 3 August 2016, was cancelled.

Komerční banka has received information from the Czech National Bank on the minimum level of the capital ratio set for it by joint decision of the College of Supervisors of the Société Générale Group. According to this decision, Komerční banka is required to maintain a capital ratio on a consolidated basis at the minimum level of 10.6% (TSCR - Total SREP Capital Ratio) effective from 1 March 2022, representing an increase by 40 basis points in comparison with the ratio required today. This requirement includes:

1. Minimum capital requirement according to the Article 92 (1) of the EU Regulation on prudential requirements for credit institutions and investment firms, i.e. maintaining a Common Equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6% and a total capital ratio of 8%, and
2. Additional requirement of 2.6% set in Pillar 2 above the aforementioned requirements. This additional requirement must be covered at least from 56.25% by Common Equity Tier 1 capital and at least from 75% by Tier 1 capital.

The CNB also assessed a need to stipulate an instruction to maintain additional capital (so called Pillar 2 Guidance (P2G), mainly based on the supervisory stress testing. The need to determine P2G was identified at zero level for Komerční banka.

Moreover, credit institutions in the Czech Republic are simultaneously subject to the combined capital requirements, which are additive to the TSCR requirement set in the aforementioned joint decision. As of today, KB is required to maintain a combined capital buffer comprising the capital conservation buffer at 2.5%, the O-SII capital buffer at 2.0%, and the countercyclical buffer determined by competent authorities for exposures in particular country (in the Czech Republic currently at 0.5%). Thus, Komerční banka's overall capital requirement as of 1 March 2022 will be approximately 15.6% in relation to the volume of risk-weighted assets. The minimum Common Equity Tier 1 capital level will stand at approximately 10.96% and the minimum Tier 1 capital ratio at approximately 12.95%.

The CNB will increase further its requirement for countercyclical capital buffer on exposures in the Czech Republic by 50 basis points from July 2022, by a further 50 basis points from October 2022, and by an additional 50 basis points from January 2023 as the regulator announced in May 2021, in August 2021, and in November 2021, respectively.

Thus, assuming no further changes in capital requirements, Komerční banka's overall capital requirement as of 1 January 2023 would reach approximately 17.1% in relation to the volume of risk-weighted assets. The minimum Common Equity Tier 1 capital level would stand at approximately 12.46% and the minimum Tier 1 capital ratio at approximately 14.45%.

Komerční banka will continue to apply prudent assumptions about the future development of regulatory capital requirements in its capital planning.

KB Group's Liquidity Coverage Ratio reached 148% as of 31 December 2021. The applicable regulatory minimum is 100%.

Expected development and main risks to that development in 2022

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

In its baseline macroeconomic scenario for 2022, valid as of today, KB expects that the Czech economy should accelerate its growth to 4.9% in anticipation of an easing of supply chain disruptions as well as of pandemic restrictions and self-restraint affecting mainly parts of the service sector. The growth should be driven by recovery in net exports and fixed investments, while household consumption, too, should continue to contribute positively. The lack of free labour in the economy will remain a factor limiting the growth potential.

The average inflation rate in 2022 is expected to reach almost 9%, with year-on-year inflation rates probably peaking in the first half of the year in double-digit territory. The growth in prices is being driven by a combination of global as well as domestic factors, mostly related at least indirectly to the pandemic situation. Unemployment will remain very low, also fuelling inflation via wage demands.

In order to fight these inflation pressures, the Czech National Bank will probably continue in sharply raising monetary policy rates, as it had commenced to do in the middle of 2021. The two-week repo rate will likely peak visibly above 4% during 2022, and a reversal of this rate course (i.e. a first cut) could come as soon as the turn of 2022 and 2023. Short-term CZK interest rates, such as 3-month PRIBOR, will mirror closely the CNB's policy rate while long-term rates will rise more modestly, thereby resulting in an inverted yield curve.

The regulatory environment will see the effects of a reversal of some measures adopted in reaction to the coronavirus crisis. The CNB has returned to stricter regulation of mortgage lending, reinstating with effect from 1 April 2022 the limits on the ratios of debt-to-income and debt service-to-income as well as lowering the maximum loan-to-value ratio.¹⁾ It also decided on increase in the countercyclical capital buffer rate in two steps during 2022 and an additional step as of 1 January 2023, taking this rate to 2.0%. The national bank also announced in September 2021 that it would no longer restrict the amount of bank dividends across the board.²⁾ KB aims to begin gradually taking loans from Société Générale in order to meet the regulatory requirements for own funds and eligible liabilities (MREL) from the EU's banks recovery and resolution directive (as the concept of Single Point of Entry is applied within the SG Group) once the situation of surplus of capital accumulated during pandemic dividend restrictions is resolved. The banks will also be subject to some new reporting requirements, particularly in the field of sustainability.

The banking market will be positively influenced by the recovering economy. Total lending on the market should increase at a mid-single-digit percentage rate. The production of new housing loans will diminish in comparison with 2021 due to higher costs and regulatory limitations, but the outstanding volume of these loans should nevertheless expand modestly. Consumer credit should accelerate to a mid-single-digit pace as the pandemic subsides. Loans to corporations should rise once companies gain more confidence and visibility into the future. Clients' bank deposits should grow still faster than lending, in both retail and corporate segments, supported by higher nominal incomes.

Komerční banka will continue implementing the changes in accordance with its KB Change 2025 programme that had been announced in November 2020. The new digital bank will be developed in order to reach a marketable level of maturity in 2023. KB management also has decided on further steps in optimising the branch network during 2022. As of 1 April 2022, 25 branches will be closed and cash services will be provided only via ATMs. As of 1 July 2022, KB will simplify the management structure of the branch network, including to replace regional retail divisions with joint segment and line management of all distribution channels at headquarters level. The selection of branches for closing was based upon a long-term analysis of branch traffic, coverage and potential of locations, and changing clients behaviour with growing preference for remote sales and assisted services in the digital environment.

In this context, KB management expects that the Group's loan portfolio will record an upper-to-mid-single-digit growth rate in 2022, in both retail and corporate lending. Outstanding volume of housing loans should continue to record gains, even though the new sales of these loans are expected to diminish in comparison with the record level achieved in 2021. Growth in total deposit balances should reach a mid-single-digit pace, except that there will be slower development at Modrá pyramida. Clients are expected to be shifting their deposits to term accounts.

KB Group's total net operating income for 2022 should expand at a double-digit pace in comparison with 2021. Net interest income will grow at a double-digit pace, reflecting increase in market rates and business volumes. Net fees and commissions should improve by low-single digits, driven again by cross-selling. The net profit from financial operations will probably decrease somewhat after having reached an extraordinary level in the past year.

¹⁾ <https://www.cnb.cz/en/cnb-news/press-releases/CNB-to-reintroduce-LTV-DTI-and-DSTI-limits-on-mortgage-loans-and-increase-countercyclical-capital-buffer-rate-to-2/>

²⁾ <https://www.cnb.cz/en/cnb-news/press-releases/CNB-comments-on-banks-dividend-payout-plans/>

In spite of the elevated inflation and expectation for another significant increase in regulatory charges for the Resolution Fund, operating expenses will remain under tight control and will rise by 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, as described above. Average salary growth will not exceed 3%.

Cost of risk will be influenced by a mix of factors, including the economic recovery, higher interest rates, appreciation of the Czech crown, and the beginning of fiscal consolidation. In KB's central scenario, the cost of risk in 2022 should remain visibly below the estimated normalised level of 30–40 basis points across the whole business cycle.

The key risks to the expectations described above consist in further prolongation of the pandemic situation, with recurring lockdowns and shortages of key input materials for the Czech industry, a sudden and sharp shift from the government's previously expansionary fiscal policy, and a military escalation of the conflict in Eastern Europe. Generally, the open Czech economy would be sensitive to a worsening external economic environment, such as, in particular, further recession in the euro zone.

Management expects that KB's operations will generate sufficient profit in 2022 to cover the Group's capital needs ensuing from its growing volume of assets as well as to pay out dividends.

Developments in corporate governance (in the fourth quarter 2021)

The Extraordinary General Meeting of KB, held per rollam between 18 October and 2 November 2021, approved distribution of retained earnings in the amount of CZK 4.5 billion, representing CZK 23.86 per share before taxation. The dividend was paid on 3 December 2021.

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

Profit and Loss Statement	Reported			Recurring		
	FY 2020	FY 2021	Change YoY	FY 2020	FY 2021	Change YoY
(CZK million, unaudited)						
Net interest income	21,360	21,795	2.0%	21,360	21,795	2.0%
Net fee and commission income	5,210	5,711	9.6%	5,210	5,711	9.6%
Net profit on financial operations	2,884	3,630	25.9%	2,884	3,630	25.9%
Dividend and other income	210	210	0.0%	210	210	0.0%
Net operating income	29,664	31,346	5.7%	29,664	31,346	5.7%
Personnel expenses	(7,650)	(7,539)	(1.5%)	(7,650)	(7,539)	(1.5%)
General admin. expenses (excl. regulatory funds)	(3,674)	(3,715)	1.1%	(3,674)	(3,715)	1.1%
Resolution and similar funds	(941)	(1,041)	10.6%	(941)	(1,041)	10.6%
Depreciation, amortisation and impairment of operating assets	(2,730)	(2,803)	2.7%	(2,730)	(2,803)	2.7%
Total operating expenses	(14,995)	(15,099)	0.7%	(14,995)	(15,099)	0.7%
Operating profit	14,669	16,247	10.8%	14,669	16,247	10.8%
Impairment losses	(4,701)	(775)	(64.1%)	(4,701)	(775)	(64.1%)
Net gain from loans and advances transferred and written off	123	44	(64.1%)	123	44	(64.1%)
Cost of risk	(4,578)	(731)	(84.0%)	(4,578)	(731)	(84.0%)
Net operating income	10,091	15,516	53.8%	10,091	15,516	53.8%
Income from share of associated companies	248	221	(10.9%)	248	221	(10.9%)
Profit/(loss) attributable to exclusion of companies from consolidation	(40)	25	+/-	(40)	25	+/-
Net profits on other assets	(15)	258	+/-	(15)	258	+/-
Profit before income taxes	10,284	16,020	55.8%	10,284	16,020	55.8%
Income taxes	(1,985)	(3,028)	52.5%	(1,985)	(3,028)	52.5%
Net profit for the period	8,299	12,992	56.5%	8,299	12,992	56.5%
Profit attributable to the Non-controlling owners	143	265	85.3%	143	265	85.3%
Profit attributable to the Group's equity holders	8,156	12,727	56.0%	8,156	12,727	56.0%

Statement of financial position	31 Dec 2020	31 Dec 2021	Change YoY
(CZK million, unaudited)			
Assets	1,167,131	1,244,353	6.6%
Cash and current balances with central bank	23,547	29,947	27.2%
Loans and advances to banks	262,606	257,196	(2.1%)
Loans and advances to customers (net)	679,956	724,587	6.6%
Securities and trading derivatives	158,916	190,924	20.1%
Other assets	42,106	41,699	(1.0%)
Liabilities and shareholders' equity	1,167,131	1,244,353	6.6%
Amounts due to banks	86,572	83,372	(3.7%)
Amounts due to customers	906,217	956,929	5.6%
Securities issued	1,148	13,666	1,090.4%
Subordinated debt	2,629	2,490	(5.3%)
Other liabilities	53,507	61,114	14.2%
Total equity	117,058	126,782	8.3%

Key ratios and indicators	31 Dec 2020	31 Dec 2021	Change YoY
Capital adequacy (CNB)	22.3%	21.3%	▼
Tier 1 ratio (CNB)	21.7%	20.9%	▼
Total risk-weighted assets (CZK billion)	446.7	484.4	8.4%
Risk-weighted assets for credit risk (CZK billion)	375.9	400.2	6.5%
Net interest margin (NII / average interest-bearing assets) ⁱⁱⁱ	2.0%	1.9%	▼
Loans (net) / deposits ratio ^{iv}	76.1%	76.4%	▲
Cost / income ratio ^v	50.5%	48.2%	▼
Return on average equity (ROAE) ^{vi}	7.4%	10.7%	▲
Return on average Tier 1 capital ^{vii}	9.0%	12.8%	▲
Return on average assets (ROAA) ^{viii}	0.7%	1.1%	▲
Earnings per share (CZK) ^{ix}	43.2	67.4	56.0%
Average number of employees during the period	8,061	7,687	(4.6%)

Business performance in retail segment – overview	31-Dec-21	Change YoY
CZK bil.		
Mortgages to individuals – volume of loans outstanding	262.7	7.0%
Building savings loans (MPSS) – volume of loans outstanding	76.0	18.9%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	33.3	1.9%
Small business loans – volume of loans outstanding	47.9	4.3%
Insurance premiums written (KP)	7.3	(2.1%)

Financial calendar:

5 May 2022	Q1 2022 results
3 August 2022	H1 and Q2 2022 results
4 November 2022	9M and Q3 2022 results

Definitions of the performance indicators mentioned herein:

- I. **Housing loans:** mortgages to individuals provided by KB + loans to clients provided by Modrá pyramida;
- II. **Cost of risk in relative terms:** annualised 'Cost of risk' 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 2021	FY 2020
Net interest income income, year-to-date	21,795	21,360
Of which:		
Loans and advances at amortised cost	20,713	19,501
Debt securities at amortised cost	2,065	1,707
Other debt securities	681	683
Financial liabilities at amortised cost	(2,288)	(2,276)
Hedging financial derivatives – income	11,697	14,240
Hedging financial derivatives – expense	(11,074)	(12,495)

(source: Balance Sheet)	31-Dec-21	31-Dec-20	31-Dec-19
Cash and current balances with central banks/ Current balances with central banks	21,455	15,050	7,737
Loans and advances to banks	257,196	262,606	244,561
Loans and advances to customers	724,587	679,956	647,259
Financial assets held for trading at fair value through profit or loss/ Debt securities	8,696	3,342	4,112
Non-trading financial assets at fair value through profit or loss/ Debt securities	135	279	0
Financial asset at fair value through other comprehensive income (FV OCI)/ Debt securities	35,509	40,151	35,682
Debt securities	114,078	92,839	71,581
Interest-bearing assets (end of period)	1,161,656	1,094,223	1,010,932
Average interest-bearing assets, year-to-date	1,127,939	1,052,578	
NIM year-to-date, annualised	1.93%	2.03%	