

Komerční banka, a.s.

RESULTS

Q1 2023



Regulatory information

Komerční banka, a.s.

Entering its new era, Komerční banka reports solid results in the first quarter of 2023

“The activities in the first quarter of 2023 were directed towards an important step in implementing the KB2025 transformation strategy: opening of a new digital bank for new customers and beginning the migration of clients from the legacy infrastructure. We passed this milestone in April, and we continue transforming Komerční banka Group to be a leader in the new era of banking with emphasis on the simple, innovative, and sustainable while combining digital tools and physical presence in a way that is convenient for clients,” remarked Jan Juchelka, KB’s Chairman of the Board of Directors and Chief Executive Officer.

“The results from the first quarter,” he added, *“were affected by subdued levels of confidence among consumers and businesses, as well as by stiff competition in the banking market. The overall results were nevertheless solid, the clients have shown very good discipline in repaying their credits, and we even observed signs of improving demand for housing and consumer loans, hopefully marking an improvement in people’s optimism.”*

- | **KB Group’s lending to customers up by 5.1% year on year, at CZK 789.1 billion.**
- | **Deposits from clients decreased by (3.5%) year on year to CZK 979.5 billion.**
- | **Volume of non-bank assets (mutual funds, pension funds, life insurance) under management leapt by 9.8% to CZK 227.0 billion.**
- | **KB Group was serving 2,232,000 clients. Standalone Komerční banka had 1,656,000 customers, up by 20,000 year on year.**
- | **Total revenues were down by (5.5%), at CZK 9.0 billion. Operating expenditures rose by 5.0% to CZK 5.0 billion. The Group reported a CZK 0.4 billion net release of provisions for credit risk. Net profit attributable to the Group’s equity holders, at CZK 3.6 billion, was better by 1.4% year on year.**
- | **Volume of regulatory capital reached CZK 103.8 billion, capital adequacy stood at 19.8%, and the Core Tier 1 ratio was 19.2%.**
- | **KB had 71,447 shareholders (greater by 10,590 year on year), of which 65,147 were private individuals from the Czech Republic.**
- | **In April, Komerční banka unveiled to the market its new banking proposition based on state-of-the-art banking technologies and tools. KB’s new era of banking is simple, innovative, sustainable, and it combines digital tools and physical presence in a way that is convenient for the clients.**

Prague, 12 May 2023 – Komerční banka reported today its unaudited consolidated results for the first quarter of 2023.

Financial and business performance

Total revenues reached CZK 9.0 billion, lower by (5.5%) compared to the first quarter of the previous year. Net interest income declined, mainly due to increased average cost of deposits. Net fee and commission income was up modestly, reflecting especially clients' greater transaction activity with payment cards. Net profit on financial operations remained strong, despite that the slow economy and volatile financial conditions somewhat dampened clients' hedging and trading activity.

Operating expenses were up by 5.0%, at CZK 5.0 billion. Personnel expenses were higher by 3.9%, as the increase in average salaries was partly offset by year-on-year lower average number of employees. The estimated full-year levy to the regulatory funds decreased because the CNB adjusted down its target volume for the Resolution Fund and the aggregate contribution from Czech banks to this fund for 2023. Increase in administrative costs was driven by higher expenses related to real estate and software maintenance. Greater depreciation and amortisation charges reflected the ongoing investments into digitalisation.

Cost of risk reached a negative CZK (0.4) billion, i.e. a net release of credit risk allowances. This was possible thanks to generally low rates of default in corporate and retail segments and successful recovery on several larger corporate exposures.

Reported net profit attributable to shareholders for 2023's first quarter improved by 1.4% year on year to CZK 3.6 billion. Income taxes reached CZK 0.8 billion.

Lending to clients went up by 5.1% to CZK 789.1 billion.¹⁾ The volume of housing loans outstanding grew by 3.8%, with lending from Modrá pyramida building society expanding faster than did KB's mortgage portfolio. New production of housing loans recorded a certain rebound in March after a large decline in sales during 2022. The growth in consumer lending accelerated as KB improved its sales process and consumer confidence in the economy began improving from low levels. Lending to businesses, and mainly to larger corporations, continued to grow at a solid pace, although this expansion was still concentrated in euro rather than crowns.

Deposits from clients decreased by (3.5%) year on year to CZK 979.5 billion.²⁾ On the other hand, the volume of KB Group clients' assets in mutual funds, pension savings, and life insurance rose by 9.8% to CZK 227.0 billion. The clients were looking for greater returns on their money in saving and term accounts and in mutual funds. The competition for deposits on the market has remained intense.

Shareholders, capital, and dividends

KB's capital adequacy ratio reached a strong 19.8%, and Core Tier 1 capital stood at 19.2%. The liquidity coverage ratio was 162%, significantly above the regulatory minimum of 100%.

The Annual General Meeting held on 20 April approved a dividend payment of CZK 11.5 billion, or CZK 60.42 per share before tax. This represents 65% of attributable consolidated net profit generated by KB in 2022. The dividend can be claimed by every shareholder holding a Komerční banka share as of 2 May 2023. The dividend's payment date is 22 May 2023.

The approved dividend is in line with the long-term capital management plan, which calls for maintaining 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. It also maintains adequate scope for Komerční banka Group's future business growth. 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 71,447 shareholders (up by 10,590 year on year), of which 65,147 (greater by 9,995 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.

Achievements and awards

KB Group achieved an important milestone in implementing its strategic KB2025 programme, announced in November 2020. Over the last more than 2 years, KB has been developing a new banking infrastructure, including a new core banking system, the KB+ mobile application, internet banking, a card management system, and analytical tools allowing an upgraded client proposition.

By April 2023, the building of this new digital bank had reached such an advanced level as to allow introducing the "New era of banking written by KB" onto the Czech market, onboarding of new clients to the new platform, and the start of a gradual migration of clients from the old system. The migration that has commenced in the Individuals segment will be followed in subsequent years by small businesses and completed with corporate clients. This schedule is in accordance, too, with the development of new products and

¹⁾ Including debt securities issued by KB's corporate clients. The volume of reverse repo operations with clients as of 31 March 2023 as well as of 31 March 2022 was nil.

²⁾ Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 2.7% to CZK 1,079.8 billion.

services for the “New era of banking written by KB”. Completion of the migration will enable decommissioning of components making up KB’s existing infrastructure.

On 28 April, Komerční banka signed a referral agreement with BNP Paribas Personal Finance SA (BNPP PF) on re-contracting of selected deposit customers of the Czech BNPP PF franchise operating under the Hello bank! brand. The referral agreement does not concern credit products offered by Hello bank! As of 26 April 2023, Hello bank! registered some 39,000 customers in the Czech Republic, with 13,000 current accounts and 35,000 saving accounts. The volume of client deposits at Hello bank! totalled CZK 1.7 billion. The referral agreement with BNPP PF is in accordance with Komerční banka’s announced ambition to reinforce the scale of its existing business with non-organic growth elements.

Komerční banka positions itself as a green bank and sustainability leader in the Czech financial market and within Société Générale Group. KB was awarded the title #1 Sustainable Bank in the 2022 VISA Awards, especially recognising its project of supporting sustainable e-shops and for photovoltaic installations on the roof of its headquarters in Prague-Stodůlky.

Market environment (in first quarter 2023)¹⁾

Unsettling economic phenomena from last year were to a certain extent already tamed during first quarter 2023, as energy prices declined to near or at pre-invasion levels and therefore did not feed further into inflation pressures. That provided a bit of relief to tight household budgets. Hence, it eased pressures for further monetary policy tightening. The direct consequences of some supply chain disruptions from the Russian aggression towards Ukraine had already been downgraded to limited importance in previous quarters. The most important news during first quarter 2023, therefore, was fragility in the US banking sector, the consequences of which were visible in a European context, as well, albeit with no apparent spillovers to the real economy.

The Czech economy left behind the shallow recession that had occurred in the second half of 2022, as real GDP grew by 0.1% in first quarter 2023 but came in at (0.2%) smaller in year-on-year terms, as per the flash estimate. The manufacturing sector was slightly up on average as seen in monthly data, driven mainly by the important automotive sector that is further gaining momentum. Car production in 2023's first quarter was up by 31% year over year and by 16% quarter on quarter. 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 2.6% in March 2023 (according to the Eurostat methodology after seasonal adjustment).³⁾ The Czech labour ministry reported basically stagnation in the unemployment rate during March.⁴⁾

Pressure from the primary price categories was fading. In first quarter 2023, the growth dynamics of industrial producer prices averaged 15.1% year on year and 4.1% quarter on quarter due to increase of some prices at the beginning of the year. Agricultural producer prices were higher by 19.3% year on year (but down (2.6%) quarter on quarter), and construction work prices were up 10.4% (1.7% higher quarter on quarter). Fading pressure from the primary price categories together with only decent wage cost dynamics as well as retreating energy prices did not feed further consumer price inflation pressures. Consumer prices decelerated in March to 15.0% year on year. The year-over-year rise was driven especially by housing, water, and energy costs and also by prices of food and non-alcoholic beverages. The dynamics of core inflation slowed to 11.3% in March from 13.3% in December.⁵⁾

The CNB had left the main 2W monetary policy repo rate on hold at 7% since 23 June 2022. As of 31 March 2023, 3M PRIBOR reached 7.18% (+212 bps year on year, down (8) bps year to date) and the 10Y interest rate swap hit 4.46% (+59 bps year on year, down (32) bps year to date). The interest rate swap curve remained inverted, with the 5Y at 4.89% (+44 bps year on year but down (34) bps year to date) and yields on 10-year Czech government bonds stabilised at 4.68% (+96 bps year on year, down (35) bps year to date).

By the end of March, the Czech crown had appreciated against the euro by 2.6% year to date and 3.7% year on year, reaching CZK 23.5 per euro. In view of this market development, the CNB's support of the crown exchange rate via interventions on the FX market was not needed at all.

Information on development in residential real estate prices is now available for the fourth quarter. Prices growth slowed significantly and even turned negative in quarter-over-quarter terms. Price dynamics for second-hand homes in Prague slowed significantly to 0.4% quarter on quarter, 8.4% year on year. Second-hand flats in the rest of the country were down by (1.4%) quarter on quarter, 15.3% year on year. Prices of newly developed flats in Prague were down quarter on quarter for the second consecutive quarter, slipping by (4.3%) in fourth quarter 2022, but were higher by 2.9% from the same quarter one year earlier.⁶⁾ As documented by the European house price index, real estate prices fell quarter on quarter by (2.2%) and the year-on-year dynamics also slowed.⁷⁾

Total bank lending for the overall market (excluding repo operations) grew by 4.8% year on year as of 31 March 2023.⁸⁾ Lending expansion was somewhat slower in retail banking (3.7% year over year), with housing loans growing 3.4% year on year as new mortgage production did not yet recover from the drop in 2022, interest rates were up, and real estate prices starting to correct. Lending to businesses increased year on year by 6.0% in March 2023, as seen in the dynamics across all main segments, including non-financial corporates, the public sector, and financial institutions. Growth in business lending occurred mainly in euro-denominated loans.

The volume of client deposits in Czech banks expanded by 7.3% year over year as of March 2023.⁹⁾ Deposits from individuals had grown in total by 5.4% while the business deposit market grew by 9.3% year over year. A clear switch from current to term and saving deposits continued, as individual term deposits were in aggregate 87.3% larger year on year. Business term deposits added 44.6%

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 fourth quarter showed wage inflation picking up to +7.9% year on year (down by (6.7%) in real terms).

³⁾ https://ec.europa.eu/eurostat/databrowser/view/EI_LMHR_M/default/table?lang=en&category=euroind.ei_lm Data as of March 2022.

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

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

⁶⁾ Source: <https://www.czso.cz/csu/czso/indices-of-realized-flat-prices-4-quarter-of-2022> Publication code 014007-22, released 16 March 2023.

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.

over the previous year. Non-term deposits declined in both segments: by (2.4%) year over year in the individuals segment and (10.6%) in the business segment.

Developments in the client portfolio and distribution networks

	31 Mar 2022	31 Mar 2023	Change YoY
KB Group's clients	2,253,000	2,232,000	(21,000)
Komerční banka	1,636,000	1,656,000	20,000
– individual clients	1,393,000	1,412,000	20,000
– internet banking clients	1,484,000	1,523,000	39,000
– mobile banking clients	1,066,000	1,169,000	103,000
Modrá pyramida	478,000	451,000	(27,000)
KB Penzijní společnost	517,000	500,000	(17,000)
ESSOX (Group)	136,000	133,000	(3,000)
KB branches (CZ)	240	217	(23)
Modrá pyramida points of sale	203	201	(2)
SGEF branches	9	9	0
ATMs (KB network)	861	855	(6)
– of which deposit-taking	514	533	19
– of which contactless	626	662	36
ATMs (Total shared network)	861	2,052	1,191
Number of active debit cards	1,445,000	1,490,000	46,000
Number of active credit cards	186,000	202,000	17,000
Number of cards virtualized into payment apps	419,000	547,000	128,000
KB key authentication users	999,000	1,116,000	117,000

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 March 2023.

BUSINESS PERFORMANCE

Loans to customers

Total **gross volume of lending to clients** rose by 5.1% year on year to CZK 789.1 billion.¹⁾

In **lending to individuals**, the overall volume of housing loans grew by 3.8% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 2.0% to CZK 269.6 billion. Modrá pyramida's loan portfolio grew even faster, by 9.8% to CZK 86.5 billion. The growth in the outstanding volume was affected by a drop in new production of housing loans by (60.5%) year on year from the still-strong levels of 2022's first quarter, at CZK 6.4 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up by 6.6%, at CZK 35.9 billion. This growth pace was also influenced by improvements in the granting process and successful offer of loans consolidation.

The total volume of **loans to businesses** and other lending provided by KB Group was greater by 6.2% year on year, at CZK 397.0 billion. Expansion was faster in euro-denominated loans, available to businesses with revenues in the European currency. Lending to small businesses declined by (0.7%) 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 7.8% year on year to CZK 318.7 billion. At CZK 31.5 billion, the total credit and leasing amounts outstanding at SGEF were up by 1.7% year over year.

The volume of loans denominated in euro expanded by 31.2% year on year, and these loans represented 22.1% of the overall portfolio.

¹⁾ Including debt securities issued by KB's corporate clients. There were no reverse repo operations with clients to report as of 31 March 2023 or 31 March 2022.

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 (3.5%) year on year to CZK 979.5 billion.¹⁾ This development was influenced by clients shifting some of their savings to mutual funds. The competition in the market for deposits remained intense. 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 (9.0%) from the year earlier to CZK 320.3 billion. The deposit book at Modrá pyramida diminished by (8.1%) to CZK 54.2 billion. Total deposits from businesses and other corporations were up by 0.1% to CZK 597.8 billion.

The volumes in mutual funds held by KB Group clients grew by 23.6% to CZK 108.3 billion. Client assets managed by KB Penzijní společnost were 2.4% greater, at CZK 73.3 billion. Technical reserves in life insurance at Komerční pojišťovna were lower by (4.5%) year on year, at CZK 45.4 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 80.5%. The Group's liquidity coverage ratio ended the year at 162%, well above the regulatory limit of 100%.

FINANCIAL PERFORMANCE

Income statement

Komerční banka's revenues (net operating income) reached CZK 8,958 million, down by (5.5%) compared to the first quarter of 2022. Net interest income declined as the impact from higher average costs of deposits was not offset by expanding loan volumes. Net fee and commission income was up slightly, mainly thanks to greater transaction activity with payment cards. Net profit on financial operations remained very strong but still below the record-high level of last year's first quarter.

Net interest income was down by (7.4%), at CZK 6,349 million. The volume of loans expanded, but the average lending spreads declined in retail segments. Deposit volumes switching from current accounts to savings and term deposits, together with higher rates paid on deposit products, led to significantly higher average costs of deposits. Contribution to net interest income from investment banking activities diminished due to smaller differences between Czech crown interest rates and those in other currencies. Net interest margin for the first quarter of 2023, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.0%. That compares to 2.2% a year earlier.

Net fee and commission income grew by 1.5% to CZK 1,515 million. Transaction fees contributed most to this growth, as clients' transaction activity was greater for most transaction types but mainly in card payments. The exception was for cash and in-branch transactions, which were declining. Deposit product fees were up slightly as some clients were upgrading their account packages. Fees from cross-selling were down slightly, with smaller contribution from mutual and pension funds but better income from insurance products. Income from loan services improved mainly thanks to expanding consumer lending. Clients' activity on debt capital markets was smaller year on year, thus generating less income from the related services.

Net profit on financial operations decreased by (7.5%) from the record-high result of last year's first quarter to a still-strong CZK 1,000 million. The result was achieved in spite of challenging conditions inasmuch as client currency risk hedging activity was affected by the mostly appreciating Czech crown and subdued levels of business confidence. The slow economy and volatile financial conditions also limited the number of larger transactions concluded by corporate and institutional clients. Small and medium-sized corporate clients continued to appreciate tailored hedging strategies, and particularly those based on currency options. Gains from foreign exchange payments were stable year on year, as the number of transactions was growing, albeit with some negative seasonality after a strong end of year.

Dividend and other income was up by 97.9% to CZK 93 million. This line item primarily comprises revenues from property rental and ancillary services.

Operating expenses rose by 5.0% to CZK 5,007 million. Personnel expenses increased by 3.9% to CZK 1,944 million as the rise in average salaries was partly offset by a decrease in the average number of employees by (0.3%) to 7,541³⁾. General and administrative expenses (not including contributions to the regulatory funds) were up by 23.4%, at CZK 1,102 million. Growth in this category was driven mainly by software and IT maintenance, as well as costs related to real estate, including energies, and marketing. The Group estimated lower full-year charge to the regulatory funds (Deposit Insurance Fund, Resolution Fund), by (8.0%) year on year to CZK 1,166 million, because the CNB adjusted the target volume of the Resolution Fund and the Czech banks' aggregate contribution to the Fund in 2023. Depreciation, amortisation, and impairment of operating assets grew by 7.7% to CZK 795 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' increased by 2.7% year on year to CZK 1,079.8 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 down by (16.1%), at CZK 3,951 million.

Cost of risk (impairment losses, provisions for loans, and net result from transferred and written-off loans) reached CZK (432) million (i.e. a net release of provisions) compared to net provisions creation of CZK 278 million a year earlier. This was possible mainly due to improved situation or successful recovery relating to several exposures in the corporate client segment. The level of new defaults stayed relatively low across all client segments. Net provisioning in retail segments remained low. The Group also released a part of provisions created in the previous year for anticipated impacts of high inflation on the credit profile. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during the first quarter of 2023 came to (21) basis points. That compares with 15 basis points for the same period a year earlier.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was up by 29.2% year on year, at CZK 62 million, influenced by interest rate developments, creation and utilisation of the insurance reserves, and implementation of IFRS 17 accounting standard at Komerční pojišťovna.

Net profits on other assets reached CZK (1) million. In the previous year, net profit on other assets had been CZK (33) million.

Income tax was lower by (4.1%), at CZK 833 million.

KB Group's consolidated **net profit** for the first quarter of 2023 reached CZK 3,611 million, which was higher by 1.0% in comparison with the year earlier. Of this total, CZK 50 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (down by (21.9%) year on year).

Reported **net profit attributable to the Group's equity holders** totalled CZK 3,561 million, which is 1.4% more year on year.

Other comprehensive income reached CZK (45) million. This derived mainly from revaluation of some cash flow hedging positions. **Consolidated comprehensive income** for the first 3 months of 2023 totalled CZK 3,566 million, of which CZK 47 million was attributable to owners of non-controlling stakes.

Statement of financial position

Unless indicated otherwise, the following text provides a comparison of the balance sheet values as of 31 March 2023 with the values from the statement of financial position as of 31 December 2022.

Assets

As of 31 March 2023, KB Group's total assets had grown by 9.6% year to date to CZK 1,431.1 billion.

Cash and current balances with central banks were up by 19.6%, at CZK 17.0 billion. Financial assets held for trading at fair value through profit or loss (trading securities and derivatives) decreased by (3.2%) to CZK 55.4 billion. The fair value of hedging financial derivatives declined by (8.1%) to CZK 19.8 billion.

Year to date, there was a (4.3%) decline in financial assets at fair value through other comprehensive income totalling CZK 28.9 billion. This item consisted mainly of debt securities issued by government institutions.

Financial assets at amortised cost grew by 11.0% to CZK 1,281.0 billion. The largest portion of this consisted of (net) loans and advances to customers, which increased year to date by 0.9% to CZK 788.2 billion. A 97.8% share in the gross amount of client loans was classified in Stage 1 or Stage 2 while 2.2% of the loans were classified in Stage 3 (non-performing loans). The volume of loss allowances created for amounts due from customers came to CZK 13.4 billion. Loans and advances to banks climbed by 45.3% to CZK 339.1 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 10.4% and reached CZK 153.7 billion at the end of March 2023.

Revaluation differences on portfolio hedge items totalled CZK (2.1) billion, lower by (16.8%). Current and deferred tax assets stood at CZK 0.2 billion. Prepayments, accrued income, and other assets, which include receivables from securities trading and settlement balances, decreased overall by 5.2% to CZK 6.1 billion. Assets held for sale diminished by (14.2%) to CZK 0.1 billion.

Due to transition to the IFRS 17 standard by Komerční pojišťovna, investments in associates rose by 2.7% to CZK 2.7 billion compared to the 2022 year-end restated value of CZK 2.7 billion.

The net book value of tangible assets declined by (0.9%) to CZK 8.7 billion. Intangible assets grew by 3.6% to reach CZK 9.4 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF, and ESSOX, remained unchanged at CZK 3.8 billion.

Liabilities

Total liabilities were 10.3% higher in comparison to the end of 2022 and stood at CZK 1,302.8 billion.

Financial liabilities at amortised cost went up by 12.0% to CZK 1,176.0 billion. Amounts due to customers comprise the largest proportion of this total, and these climbed by 13.6% to CZK 1,079.8 billion. This total included CZK 100.3 billion of liabilities from repo operations with clients and CZK 7.6 billion of other payables to customers. Amounts due to banks decreased through 2022 by (3.6%) to CZK 82.1 billion.

Revaluation differences on portfolios hedge items were CZK (47.5) billion. Current and deferred tax liabilities ended at CZK 2.7 billion, up by 1.6%. Accruals and other liabilities, which include payables from securities trading and settlement balances, grew by 0.4% to CZK 16.9 billion.

The provisions balance was (18.2%) lower, at CZK 0.9 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 37.7 billion, was down (2.5%) year to date, as KB issued no new loans in first quarter 2023 to meet regulatory minimum requirements for own funds and eligible liabilities (MREL).

Equity

Total equity climbed year to date by 2.9% to CZK 128.2 billion, driven upwards by the volume of capital and reserve funds and retained earnings. Value of retained earnings as well as income from share of associated undertakings were restated as of the end of 2022 as a result of Komerční pojišťovna's adopting the IFRS 17 standard. The value of non-controlling interests reached CZK 3.3 billion. As of 31 March 2023, 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 103.8 billion as of 31 March 2023. **Capital adequacy** stood at 19.8%. Core Tier 1 (CET1) capital totalled CZK 100.9 billion and the Core Tier 1 ratio was 19.2%. Tier 2 capital summed to CZK 2.9 billion, which was 0.5% of risk-weighted assets.

As of 1 April 2023, Komerční banka's overall capital requirements (OCR) were at approximately 17.9%. The minimum required level of CET1 is 13.1%, and the minimum Tier 1 capital ratio stands at 15.2%.

KB Group's Liquidity Coverage Ratio came to 162% as of 31 March 2022. The applicable regulatory minimum is 100%.

Effective from 1 January 2023, KB Group is recommended to comply with a minimum requirement for own funds and eligible liabilities (MREL) equal to 17.4% of the consolidated total risk exposure and 5.18% 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 31 December 2023. 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 7.00% as of 1 April 2023.

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

Developments in corporate governance

The General Meeting held on 20 April 2023 approved the reported financial statements for 2022 and the proposal for distribution of profit, including dividend payment in the amount of CZK 11.5 billion. It also approved the consolidated financial statements for 2022 and the Remuneration Report for 2022. The General Meeting elected Ms. Marie Doucet and Ms. Petra Wendelová as members of the Supervisory Board. Ms. Wendelová was elected, too, as a member of the Audit Committee. The General Meeting also decided to appoint Deloitte Audit s.r.o. to perform the statutory audit for 2023.

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 provided in the Annex.

Expected development and main risks to that development in 2023

Note: This outlook updates and thus replaces the outlook presented on 8 February 2023 on the occasion of Komerční banka's announcing its results for the year 2022. 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.

After the Czech economy had probably overcome a shallow recession in the second half of 2022, it is expected to grow marginally in 2023, with positive contribution from net exports. Fixed investments should expand somewhat, too, supported by the energy transition and by utilisation of European Union funds. On the other hand, household consumption, affected by the decline in real wages, is expected again to contribute negatively to growth.

Although inflation will decelerate, its average rate during the year will still exceed 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.

KB is not aware of further changes in capital requirements during 2023 after the CNB boosted the requirement for countercyclical capital buffer on Czech exposures of banks to the maximum level of 2.5%, effective from April 2023. In May, the CNB announced increase in the levy for the Deposit Insurance Fund in 2023 to 5.9 basis points from 4.4 basis points relative to the volume of covered deposits. 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. Podle níže uvedených projekcí finančních výsledků by měl být dopad nové daně v roce 2023 omezený. The government of the Czech Republic intends to adopt measures focused on reduction of the deficit of public finance. The effects of such measures were not known at the time of preparation of this announcement.

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 reach 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 low- to mid-single-digit pace, affected by cooling demand for working capital financing (due to less need in industry to keep high inventories).

Growth in the volume of deposits on the market will reach mid- to high-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. This situation may last as long as the market interest rates stay high.

Komerční banka will continue implementing the changes in accordance with its KB2025 programme that had been announced in November 2020. Among other initiatives, it will continue a gradual migration of individual clients to the new digital bank, commenced in April 2023.

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 a mid-single-digit pace. 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.

KB Group's total net operating income for 2023 will probably decline slightly compared to the previous year. Net interest income will retreat at a high-single-digit pace, 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, a reflection of the investments in digital transformation. Total regulatory levies for the Resolution and Deposit insurance funds will likely decrease, as per the lower aggregate contribution required of Czech banks by the CNB in this year. Other administrative costs will be offsetting the effects of high inflation through 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 remain visibly below the estimated normalised level 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 aggregate consumption or significant changes in parameters of financial schemes supported by the state. 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.

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 March 2023 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement	Reported			Recurring		
	1Q 2022	1Q 2023	Change YoY	1Q 2022	1Q 2023	Change YoY
(CZK million, unaudited)						
Net interest income	6,856	6,349	(7.4%)	6,856	6,349	(7.4%)
Net fee and commission income	1,493	1,515	1.5%	1,493	1,515	1.5%
Net profit on financial operations	1,081	1,000	(7.5%)	1,081	1,000	(7.5%)
Dividend and other income	47	93	97.9%	47	93	97.9%
Net banking income	9,477	8,958	(5.5%)	9,477	8,958	(5.5%)
Personnel expenses	(1,871)	(1,944)	3.9%	(1,871)	(1,944)	3.9%
General admin. expenses (excl. regulatory funds)	(893)	(1,102)	23.4%	(893)	(1,102)	23.4%
Resolution and similar funds	(1,267)	(1,166)	(8.0%)	(1,267)	(1,166)	(8.0%)
Depreciation, amortisation and impairment of operating assets	(738)	(795)	7.7%	(738)	(795)	7.7%
Total operating expenses	(4,768)	(5,007)	5.0%	(4,768)	(5,007)	5.0%
Operating profit	4,709	3,951	(16.1%)	4,709	3,951	(16.1%)
Impairment losses	(158)	447	+/-	(158)	447	+/-
Net gain from loans and advances transferred and written off	(120)	(15)	(87.6%)	(120)	(15)	(87.6%)
Cost of risk	(278)	432	+/-	(278)	432	+/-
Net operating income	4,431	4,384	(1.1%)	4,431	4,384	(1.1%)
Income from share of associated companies	48	62	29.2%	48	62	29.2%
Net profit/(loss) on subsidiaries and associates	0	0	n.a.	0	0	n.a.
Net profits on other assets	(33)	(1)	(97.0%)	(33)	(1)	(97.0%)
Profit before income taxes	4,446	4,444	(0.0%)	4,446	4,444	(0.0%)
Income taxes	(869)	(833)	(4.1%)	(869)	(833)	(4.1%)
Net profit for the period	3,577	3,611	1.0%	3,577	3,611	1.0%
Profit attributable to the Non-controlling owners	64	50	(21.9%)	64	50	(21.9%)
Profit attributable to the Group's equity holders	3,513	3,561	1.4%	3,513	3,561	1.4%

Statement of financial position	31 Dec 2022	31 Mar 2023	Ytd
(CZK million, unaudited)			
Assets	1,305,304	1,431,062	9.6%
Cash and current balances with central bank	14,190	16,967	19.6%
Loans and advances to banks	233,398	339,065	45.3%
Loans and advances to customers (net)	781,463	788,248	0.9%
Securities and trading derivatives	226,848	238,118	5.0%
Other assets	49,404	48,664	(1.5%)
Liabilities and shareholders' equity	1,305,304	1,431,062	9.6%
Amounts due to banks	85,176	82,094	(3.6%)
Amounts due to customers	950,692	1,079,799	13.6%
Securities issued	12,156	11,832	(2.7%)
Subordinated and senior non preferred debt	38,694	37,713	(2.5%)
Other liabilities	93,910	91,378	(2.7%)
Total equity	124,676	128,246	2.9%

Key ratios and indicators	31 Mar 2022	31 Mar 2023	Change year on year
Capital adequacy (CNB)	20.2%	19.8%	▼
Tier 1 ratio (CNB)	19.8%	19.2%	▼
Total risk-weighted assets (CZK billion)	512.3	525.0	2.5%
Risk-weighted assets for credit risk (CZK billion)	425.8	429.1	0.8%
Net interest margin (NII / average interest-bearing assets) ⁱⁱⁱ	2.2%	2.0%	▼
Loans (net) / deposits ratio ^v	72.8%	80.5%	▲
Cost / income ratio ^v	50.3%	55.9%	▲
Return on average equity (ROAE) ^{vi}	11.2%	11.6%	▲
Return on average Tier 1 capital ^{vii}	13.9%	14.3%	▲
Return on average assets (ROAA) ^{viii}	1.1%	1.0%	▼
Earnings per share (CZK) ^x	74.4	75.4	1.4%
Average number of employees during the period	7,564	7,541	(0.3%)

Business performance in retail segment – overview	31-Mar-23	Change year on year
CZK bil.		
Mortgages to individuals – volume of loans outstanding	269.6	2.0%
Building savings loans (MPSS) – volume of loans outstanding	86.5	9.8%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	35.9	6.6%
Small business loans – volume of loans outstanding	46.8	(0.7%)
Insurance premiums written (KP)	2.1	(5.8%)

Senior non-preferred loans as of 31 March 2023:

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 Sep 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 exercise date.

Subordinated debt as of 31 March 2023:

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

* Maturity date is five years after the call option exercise date.

Financial calendar:

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)	1Q 2023	1Q 2022
Net interest income income, year-to-date	6,349	6,856
Of which:		
Loans and advances at amortised cost	14,472	9,438
Debt securities at amortised cost	1,045	658
Other debt securities	136	138
Financial liabilities at amortised cost	(7,842)	(2,458)
Hedging financial derivatives – income	11,533	6,499
Hedging financial derivatives – expense	(12,995)	(7,419)

(source: Balance Sheet)	31-Mar-23	31-Dec-22	31-Mar-22	31-Dec-21
Cash and current balances with central banks / Current balances with central banks	9,384	6,167	47,865	21,455
Loans and advances to banks	339,065	233,398	349,137	257,196
Loans and advances to customers	788,248	781,463	738,500	724,587
Financial assets held for trading at fair value through profit or loss / Debt securities	12,413	9,968	9,052	8,696
Non-trading financial assets at fair value through profit or loss / Debt securities	129	132	132	135
Financial asset at fair value through other comprehensive income (FV OCI) / Debt securities	28,826	30,119	33,368	35,509
Debt securities	153,700	139,276	131,481	114,078
Interest-bearing assets (end of period)	1,331,765	1,200,524	1,309,536	1,161,656
Average interest-bearing assets, year-to-date	1,266,144		1,235,596	
NIM year-to-date, annualised	2.01%		2.22%	

