

Komerční banka, a.s.

# RESULTS

---

# H1 2022



Regulatory information

Komerční banka, a.s.

## Komerční banka in first half of 2022: revenues recovering, costs growth tightly controlled

### Adequate provisioning and robust capital base address future uncertainties

*“The first half of 2022 brought an extraordinary level of uncertainty to the global as well as domestic economy, often in relation to effects of the war in Ukraine. Komerční banka has maintained its role as a reliable and trustworthy pillar of the financial system in the Czech Republic: supporting its clients in pursuing their plans and ambitions, contributing to fiscal stability as one of the largest taxpayers in the country, facilitating the economy’s transition to a more resilient and sustainable model. KB has continued its own transformation with an ambition to be a leader in the new era of digital banking. Predictability and stability in the economic environment greatly enhances confidence among consumers and businesses. Policymakers could contribute crucially to this by promoting consistent and well-informed policies that are long term in their orientation,”* remarked Jan Juchelka, KB’s Chairman of the Board of Directors and Chief Executive Officer.

- | **Total volume of KB Group’s lending to customers expanded by 8.7% year on year to CZK 769.4 billion. Growth was recorded in retail as well as corporate lending.**
- | **Overall volume of standard client deposits within KB Group was greater by 2.7%, at CZK 1,024.3 billion. Volume of non-bank assets under management leapt by 4.8% to CZK 205.6 billion.**
- | **KB Group as a whole was serving 2,256,000 clients. That is 12,000 more than a year earlier. Standalone Komerční banka had 1,650,000 customers, up by 29,000 year on year. The number of clients with KB Mobile Banking climbed by 119,000 year on year to 1,099,000 and represents 67% of all KB customers. KB Klíč (KB Key) authentication application for accessing banking services was being used by 1,036,000 clients, some 132,000 more than 1 year ago.**
- | **Compared with the first half of the previous year, when economic activity had been affected by pandemic restrictions, KB reported a 29.5% increase in revenues to CZK 19.2 billion.**
- | **Operating expenditures were higher by 7.5%, at CZK 8.4 billion.**
- | **Quality of the loan portfolio remained strong. Net creation of credit risk provisions decreased by (15.9%) to CZK 0.6 billion. Provisioning concentrated on corporate clients with different types of links to Russian market. Repayment discipline and recovery performance in retail lending remained excellent.**
- | **Net profit attributable to shareholders improved by 62.3% to CZK 8.3 billion. Income taxes rose by 64.6% to CZK 2.0 billion.**
- | **KB continued to report strong solvency indicators. Volume of regulatory capital reached CZK 108.5 billion, capital adequacy stood at 20.3%, and the Core Tier 1 ratio was 20.0%. The ratio of net loans to deposits reached 74.0%.**
- | **Komerční banka had 64,384 shareholders (up by 6,533 year on year), of which 58,349 were private individuals from the Czech Republic.**

Prague, 3 August 2022 – Komerční banka reported today its unaudited consolidated results for the first half of 2022.

Total revenues were up by 29.5%, at CZK 19.2 billion, as the comparative base of the first half of 2021 had been affected by pandemic lockdowns and extraordinarily low interest rates. Net interest income increased by 42.2% to CZK 14.2 billion, driven by growing business volumes and higher yields from reinvestment of liabilities and capital. Net fee and commission income improved by 6.3% to CZK 3.0 billion because of greater transaction activity, particularly due to card payments, clients' increased investments in mutual funds, and heightened demand among corporations for some services, such as for guarantees. Net profit on financial operations was almost stable (down by (0.5%) to CZK 1.9 billion), as there continued strong demand from clients for hedging of financial risks in the volatile and uncertain environment.

Operating expenses were up by 7.5%, at CZK 8.4 billion, mainly driven by a 24% increase in the regulatory levy to the Resolution Fund. Personnel expenses were higher by 3.3%, even as the average number of employees decreased by (2.9%) to 7,522 and salaries grew by an average 3% effective from April 2022. Accruals for variable remuneration had been reduced in the first half of last year, thus influencing the comparative base. Administrative costs rose by 7.3%, driven by marketing and IT support. Depreciation and amortisation charges were up by 6.8% year on year, reflecting the ongoing investments in digitalisation.

Net creation of provisions for the first half of 2022 totalled CZK 0.6 billion. The provisioning was concentrated mainly on corporate clients with relationships of various sorts to the Russian market. The Group also added some prudential provisions for estimated future impacts of the current high-inflation environment. The repayment discipline and recovery performance in retail segments remained excellent.

The reported net profit attributable to shareholders improved by 62.3% to CZK 8.3 billion. Income taxes climbed by 64.6% to CZK 2.0 billion.

Lending to clients went up by 8.7% to CZK 769.4 billion.<sup>1)</sup> The volume of housing loans outstanding from KB and Modrá pyramida expanded by 8.0%, even as new production of these loans in the first half decreased to less than half that of a year earlier. This was mainly because the drawing of loans for construction often extends over several months. Consumer lending by KB and ESSOX increased by 4.8%. Lending to businesses and other clients was up by 9.6%, with volumes of working capital financing as well as investment loans both increasing. Negative contribution from a 2.9% year-on-year appreciation of the Czech crown against the euro on the reported CZK value of EUR-denominated loans represented 0.5% of total lending.

Deposits from clients increased by 2.7% year on year to CZK 1,024.3 billion.<sup>2)</sup> Clients were often switching their deposits from current accounts to better yielding term and savings accounts or even to mutual funds. The volume of KB Group clients' assets in mutual funds, pension savings, and life insurance rose by 4.8% to CZK 205.6 billion.

The capital adequacy ratio reached a strong 20.3%, and Core Tier 1 capital stood at 20.0%. The liquidity coverage ratio was 174%, significantly above the regulatory minimum of 100%.

The Bank had 64,384 shareholders as of 30 June 2022 (up by 6,533 year on year), of which 58,349 (greater by 6,203 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.

<sup>1)</sup> Including debt securities issued by KB's corporate clients. There were no reverse repo operations with clients to report as of 30 June 2022 or 30 June 2021.

<sup>2)</sup> Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 6.9% to CZK 1,103.6 billion.

## Market environment (in second quarter 2022)<sup>1)</sup>

Economic and social life in 2022's second quarter was scarcely influenced by the Covid-19 disease, as the latest wave had culminated in late January and early February. Because that wave was not so serious as earlier waves had been in terms of the pressure it put on the health care system, no serious restrictive measures were introduced and life went on about as usual as it could after 2 years of pandemic. As of 19 July 2022, 65.4% of the Czech population was fully vaccinated, 40.4% of the population had received booster vaccine, and some 37% were officially reported to have recovered from Covid-19.

The consequences and amplification of existing economic obstacles (i.e. supply chain disruptions) from Russian army's invasion of Ukraine are ever more sizeable. Besides worsened economic uncertainty and market volatility, commodity prices surged and thus stimulated inflationary pressures and bites into corporate profits and household budgets.

During the second quarter, the Czech economy demonstrated resilience, adding +0.2% quarter over quarter (+3.6% year on year), as per the flash estimate. That built upon a positive outcome from the first quarter (+0.9% growth quarter on quarter, +4.9% year on year). The manufacturing sector, represented especially by car production, picked up speed in May and June. Final auto output in the first half of 2022 was down just (8.5%) year over year after declining by (20.0%) in April. Labour market conditions remain tight. In the first quarter, wage inflation picked up somewhat to +7.2% year on year (down by (3.6%) in real terms). The unemployment rate remains one of the lowest within the EU (standing at 2.5% in May, according to the Eurostat methodology after seasonal adjustment).<sup>2)</sup> More recent data from the Czech labour ministry show the unemployment rate continued slowly decreasing in June.<sup>3)</sup>

Weighty pressure from the primary price categories continued in the second quarter. Dynamics of industrial producer prices averaged 27.7% year on year, agricultural producer prices 39.0%, and construction work prices 13.1% in the quarter. Pressure from the primary price categories together with wage cost dynamics are transmitting through to consumer price inflation. It accelerated in June to 17.2% year on year, mainly due to housing, water, energy and fuel prices, as well as food prices. Dynamics of core inflation are gaining, too, reported at 14.6% in June 2022.

This inflationary environment and further deteriorating inflation expectations formed the basis for ongoing monetary policy tightening during the second quarter of this year (+75 bps in May and +125 bps at the end of June). That brought the main policy rate to 7% at the end of the quarter. Subsequently, as of 30 June, 3M PRIBOR reached 7.23% (+315 bps year to date) and the 10Y interest rate swap climbed to 5.15% (+189 bps year to date). Meanwhile, the interest rate swap curve remained inverted (5Y at 5.69%, +185 bps year to date) and yields on 10-year Czech government bonds grew to 4.79% (+206 bps year to date).

By the end of June, the Czech crown's exchange rate had depreciated against the euro by 1.5% quarter over quarter, reaching CZK 24.7 per euro. The crown exchange rate was being supported by CNB interventions on the FX market in order to neutralize the depreciating mood on this market and thereby to limit transmission of a weakened crown's influence to worsen CPI inflation in Czechia.

Information on development in residential real estate prices is available for the first quarter. Growth in the prices continued apace, influenced by expectations for further rise in interest rates and prices of building materials, as well as the deployment of excess savings accumulated due to pandemic restrictions. Prices paid in 2022's first quarter for previously owned flats were up 27.3% year on year across Czechia and by 19.0% year on year in Prague. Prices obtained for new flats (in Prague only) were 30.3% greater than a year earlier.<sup>4)</sup>

Total bank lending for the overall market (excluding repo operations) grew by 7.8% year on year through the end of 2022's first half.<sup>5)</sup> Lending expansion was faster in retail banking, with housing loans growth moving back to single-digit territory as new mortgage production has plummeted to levels observed in 2019 and 2020, due to rising interest rates, stricter borrowing conditions as per CNB regulations, and high property prices. Lending to businesses had increased year on year by 6.9% in June 2022, mainly due to dynamics of the public sector and financial institutions segment, although the dynamics of private business corporate loans also were in a positive territory, 4.9% year on year.

The volume of client deposits in Czech banks expanded by 8.3% year over year as of June.<sup>6)</sup> Individual term deposits more than doubled in year-on-year terms. Business term deposits added 72.2% over the previous year. Non-term deposits declined slightly in both segments. Deposits from individuals in total had grown by 3.8% while the business deposit market grew by 13.3% year over year.

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

<sup>2)</sup> <https://ec.europa.eu/eurostat/documents/2995521/14644611/3-30062022-AP-EN.pdf/25600168-6872-9590-d521-6cc783a7ccf2?t=1656526799665#:~:text=The%20EU%20unemployment%20rate%20was,office%20of%20the%20European%20Union>. Data up to May 2022.

<sup>3)</sup> <https://www.mpsv.cz/web/cz/mesicni>. Data as available up to June 2022.

<sup>4)</sup> Source: <https://www.czso.cz/csu/czso/indices-of-realized-flat-prices-1-quarter-of-2022> Publication code 014007-22, released 14 June 2022.

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

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

## Maintaining strong momentum in business transformation

During the second quarter of 2022, KB Group pursued several important initiatives in implementing the vision of the KB Change 2025 strategy.

KB agreed with Moneta Money Bank on sharing the two banks' ATM networks for clients. This was a first step in an initiative that will lead to clients having better access to financial services in less densely populated areas, as well as better sustainability and efficiency in operating the ATM networks of all participating banks.

On its KB SmartSolutions platform, the Group further developed its ecosystem of digital, simple, and convenient financial solutions. KB SmartSolutions boosted its stake in MonkeyData, operator of the Lemonero digital platform for B2B financing of e-commerce. The capital injection will facilitate expansion of that service employing advanced data analytics and artificial intelligence. In order to reinforce its leadership in advisory for energy transition, KB SmartSolutions also acquired full ownership in Enviros, a leading Czech energy and environment advisory providing its services to a number of important companies in Central Europe. Furthermore, KB SmartSolutions boosted its ownership stake in upvest, a digital platform for crowdfunding of real estate projects, to 96%.

In co-operation with Heureka, VISA, and Czech Social Responsibility Association, KB also supports the Udržitelný e-shop (Sustainable e-shop) project. Out of some 800 applicants, around 100 e-shops are entitled to use the label upon assessment of their environmental, social, and governance practices. Visibility of participating e-shops among clients of KB was also boosted by a campaign providing a cash-back incentive.

## Selected recognitions in the second quarter of 2022

During the second quarter of this year, KB Group was honoured with several recognitions.

In the Zlatá crown (Golden Crown) contest, KB's loan for sustainable technologies was awarded the Green Crown, KB Profi Auto received a Silver Crown in the SME Leasing category, the KB Profi loan won a Bronze Crown in the SME Lending category, and Roger's iPayment was awarded a Silver Crown in the Fintech category.

In the 2021 VISA Awards, dedicated to innovative solutions in the payments area, KB was recognised as the #1 sustainable bank, and KB's leader of the payment methods tribe, Monika Truchlíková, was named #1 woman in payment systems.

As in previous years, KB was again recognised by the Ministry of Finance among the Top 20 income taxpayers for 2021 in the Czech Republic. That is despite the fact that KB had prepaid a part of its tax charges due in 2021 already in 2020 in order to support the country's fiscal condition during the first year of the pandemic.

## Developments in the client portfolio and distribution networks

	30 Jun 2021	30 Jun 2022	Change YoY
KB Group's clients	2,244,000	2,256,000	12,000
Komerční banka	1,621,000	1,650,000	29,000
– individual clients	1,378,000	1,407,000	28,000
– internet banking clients	1,447,000	1,503,000	55,000
– mobile banking clients	980,000	1,099,000	119,000
Modrá pyramida	487,000	472,000	(16,000)
KB Penzijní společnost	523,000	512,000	(11,000)
ESSOX (Group)	142,000	135,000	(7,000)
KB branches (CZ)	243	218	(25)
Modrá pyramida points of sale	200	194	(6)
SGEF branches	9	9	0
ATMs	846	863	17
– of which deposit-taking	477	521	44
– of which contactless	552	641	89
Number of active debit cards	1,408,000	1,456,000	48,000
Number of active credit cards	183,000	188,000	6,000
Number of cards virtualized into payment apps	329,000	449,000	120,000
KB key authentication users	904,000	1,036,000	132,000

### 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 30 June 2022.

## BUSINESS PERFORMANCE

### Loans to customers

Total **gross volume of lending to clients** rose by 8.7% year on year to CZK 769.4 billion.<sup>1)</sup>

In lending to individuals, the overall volume of housing loans grew by 8.0% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 5.2% to CZK 266.2 billion. Modrá pyramida's loan portfolio grew by a strong 18.2% to CZK 81.5 billion. New production of housing loans in the first half decreased by (53.9%) year on year to CZK 26.2 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up by 4.8%, at CZK 34.5 billion.

The total volume of **loans to businesses** and other lending provided by KB Group was greater by 9.6% year on year, at CZK 387.2 billion. Lending to small businesses grew by 1.4% to CZK 47.7 billion. The overall CZK volume of credit granted by KB to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia<sup>2)</sup> climbed by 11.7% year on year to CZK 307.8 billion. At CZK 31.7 billion, the total credit and leasing amounts outstanding at SGEF were up by 4.0% year over year.

### Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group rose by 2.7% year on year to CZK 1,024.3 billion.<sup>3)</sup> Clients were tending to switch their funds from current accounts to better yielding term and saving deposits, as well as to mutual funds. Deposits at Komerční banka from individual clients were down by (0.8%) from the year earlier, at CZK 347.0 billion. The deposit book at Modrá pyramida diminished by (4.2%) to CZK 58.0 billion. Total deposits from businesses and other corporations climbed by 7.7% to CZK 612.1 billion.

<sup>1)</sup> Including debt securities issued by KB's corporate clients. There were no reverse repo operations with clients to report as of 30 June 2022 or 30 June 2021.

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

<sup>3)</sup> Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' increased by 6.9% year on year to CZK 1,103.6 billion.

Client assets managed by KB Penzijní společnost were 3.2% greater, at CZK 71.5 billion. Technical reserves in life insurance at Komerční pojišťovna were lower by (10.4%) year on year, at CZK 45.6 billion. The volumes in mutual funds held by KB Group clients grew by 16.3% to CZK 88.5 billion.

The Group's liquidity as measured by the ratio of net loans<sup>1)</sup> to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 74.0%. The Group's liquidity coverage ratio stood at 174%, well above the regulatory limit of 100%.

## FINANCIAL PERFORMANCE

### Income statement

Komerční banka's **revenues (net operating income)** for the first half of 2022 improved by 29.5% year on year to reach CZK 19,168 million. This growth was influenced by the facts that the comparative base from the same period of 2021 had been affected by the severe pandemic restrictions and that interest rates had previously been at extremely low levels. The increase in net interest income contributed most to the overall growth in revenues. Net fees and commissions also improved, and net gains from financial operations were stable year on year.

**Net interest and similar income** was up by 42.2%, at CZK 14,157 million, from the low base of 2021's first half. The loan and deposit volumes were growing and market interest rates rose significantly year on year, thus supporting the yields from reinvesting deposits and the Bank's own funds. The net interest margin for the first half of 2022, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.2%. That compares to 1.7% a year earlier, and the same 2.2% as in the prepandemic 2019's first half.

**Net fee and commission income** grew by 6.3% to CZK 2,969 million. Clients' transaction activity in the first half of 2022 recovered across all transaction types compared to the time of the economy's partial lockdown a year earlier. In particular, payments by card continued gaining popularity throughout the whole period. Deposit product fees were almost stable in line with the numbers of clients. Fees from cross-selling were up visibly, driven mainly by clients' rising investments in mutual funds and sales of insurance products. Income from loan services was down slightly year over year due to lower fees for loans to small businesses, consumer loans, and credit cards, while fees for factoring services and credit lines improved year on year. KB recorded a modest gain in income from specialised financial services, primarily due to greater issuance of bank guarantees.

**Net profit from financial operations** was almost stable (down by (0.5%) to CZK 1,946 million). Strong demand from clients for hedging of financial risks was driven by volatility of Czech crown exchange and interest rates. KB was also successful with its offer of tailored hedging strategies for SME clients, particularly those based on currency options. Increase in net gains on FX payment transactions was driven by the return of international travel and related payments and conversions.

**Dividend and other income** declined by (5.9%) to CZK 96 million. This line item primarily comprises revenues from property rental and ancillary services.

**Operating expenses** rose by 7.5% to CZK 8,423 million. Within that total, personnel expenses increased by 3.3% to CZK 3,787 million, as salaries increased by an average 3% effective from April 2022 and bonus accrual had been limited in the first half of last year. The average number of employees diminished by (2.9%) to CZK 7,522.<sup>2)</sup> General administrative expenses (not including contributions to the regulatory funds) were up by 7.3%, at CZK 1,866 million, with the higher costs related to marketing, consultancy, IT support, and other employee costs (such as training and recruiting) not fully offset by lower real estate costs. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 1,281 million, up 24.2% year on year. The CNB adjusted the target volume of the Resolution Fund for 2024 and boosted the aggregate annual contribution from Czech banks in 2022 by 16.2% year on year. Depreciation and amortisation grew by 6.8% to CZK 1,490 million, driven mainly by new and upgraded software acquired in pursuit of KB's digitalisation strategy.

The sum of profit before allowances for loan losses, provisions for other risk, profit on subsidiaries, and income tax (**operating profit**) was up by 54.1%, at CZK 10,745 million.

**Cost of risk** reached CZK 562 million, down by (15.9%) in comparison with the first half of 2022. The provisioning was concentrated mainly on corporate clients with relationships of various types to the Russian market. The Group also added some prudential provisions for estimated future impacts of the current high-inflation environment. The repayment discipline and recovery performance in retail segments remained excellent. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during 2022's first half came to 14 basis points. That compares with 19 basis points for the same period a year earlier.

<sup>1)</sup> Gross volume of loans reduced by the volume of provisions for loan losses.

<sup>2)</sup> Recalculated to a full-time equivalent number.



**Income from shares in associated undertakings** (i.e. Komerční pojišťovna) was down (2.8%) year on year, at CZK 103 million, influenced by interest rates development and the insurance reserves creation and utilisation at KP.

**Net profit on other assets** reached CZK 120 million, mainly due to gains from sales of buildings that were partly offset by accelerated depreciation of technical improvements in leased branches that were closed. In the previous year, net profit on other assets had been CZK 25 million.

**Income tax** was higher by 64.6%, at CZK 1,980 million.

KB Group's consolidated **net profit** for the first half of 2022 reached CZK 8,426 million, which was higher by 60.3% in comparison with a year earlier. Of this total, CZK 107 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (down by (18.9%) year on year).

Reported **net profit attributable to the Group's equity holders** totalled CZK 8,319 million, which is 62.3% more year on year.

**Other comprehensive income**, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, as well as from effects of changed interest rates on the value of equity participation in an associated company, reached CZK (1,415) million. **Consolidated comprehensive income** for the first half of 2022 totalled CZK 7,011 million, of which CZK 107 million was attributable to owners of non-controlling stakes.

### Statement of financial position

*Unless indicated otherwise, the following text provides a comparison of the balance sheet values as of 30 June 2022 with the values from the statement of financial position as of 31 December 2021.*

#### Assets

As of 30 June 2022, KB Group's total assets had grown by 19.7% year to date to CZK 1,489.0 billion.

Cash and current balances with central banks were down (28.6%), at CZK 21.4 billion. Financial assets at fair value through profit or loss (trading securities and derivatives) increased by 32.7% to CZK 54.6 billion. The fair value of hedging financial derivatives climbed by 57.6% to CZK 22.6 billion.

Year to date, there was a (12.7%) decline in financial assets at fair value through other comprehensive income totalling CZK 31.0 billion. This item consisted mainly of debt securities issued by government institutions.

Financial assets at amortised cost grew by 21.7% to CZK 1,333.9 billion. The largest portion of this consisted of (net) loans and advances to customers, which increased year to date by 4.5% to CZK 757.5 billion. A 97.6% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.4% of the loans were classified in Stage 3 (non-performing loans). The volume of loss allowances created for amounts due from customers came to CZK 13.5 billion. Loans and advances to banks grew by 77.0% to CZK 455.2 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 6.3% and reached CZK 121.2 billion at the end of the first half 2022.

Revaluation differences on portfolio hedge items totalled CZK (1.3) billion, larger by 108.5%. Current and deferred tax assets stood at CZK 0.2 billion. Other assets and accrued accounts, which include receivables from securities trading and settlement balances, decreased overall by (14.6%) to CZK 5.0 billion. Assets held for sale diminished by (86.2%) to CZK 0.1 billion.

Investments in subsidiaries and associates declined by (10.8%) to CZK 0.7 billion.

The net book value of tangible assets declined by (3.3%) to CZK 8.7 billion. Intangible assets grew by 5.8% to reach CZK 8.3 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF, and ESSOX, remained unchanged at CZK 3.8 billion.

#### Liabilities

Total liabilities were 22.0% higher in comparison to the end of 2021 and stood at CZK 1,363.7 billion.

Financial liabilities at amortised cost went up by 19.8% to CZK 1,266.0 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 15.3% to CZK 1,103.6 billion. This total included CZK 79.4 billion of liabilities from repo operations with clients and CZK 8.4 billion of other payables to customers. Amounts due to banks increased in the first half of 2022 by 76.6% to CZK 147.3 billion.

Revaluation differences on portfolios hedge items were negative CZK (55.5) billion. Current and deferred tax liabilities were steady at CZK 2.3 billion. Other liabilities and accruals, which include payables from securities trading and settlement balances, grew by 61.7% to CZK 20.2 billion.



The provisions balance was 4.4% higher, at CZK 1.4 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 8.7 billion, was up 248.0% year to date, influenced by issuance of loans in order to meet regulatory minimum requirements for own funds and eligible liabilities (MREL). Because that debt is issued in euro, the CZK value of this debt reflects also changes in the Czech crown exchange rate.

#### Equity

Total equity decreased year to date by (1.2%) to CZK 125.3 billion as the volume of dividends paid approximately matched the volume of net profit generated during the first half and the Group recognised a decrease in the value of retained earnings related to Komerční pojišťovna. The value of non-controlling interests reached CZK 3.1 billion. As of 30 June 2022, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

#### Regulatory capital and other regulatory requirements

Total **regulatory capital** for the capital adequacy calculation came to CZK 108.5 billion as of 30 June 2022. **Capital adequacy** stood at 20.3%. Core Tier 1 capital was CZK 106.4 billion, and the Core Tier 1 ratio stood at 20.0%. Tier 2 capital totalled CZK 2.0 billion, which was 0.4% of risk-weighted assets.

As from 1 July 2022, Komerční banka's overall capital requirements (OCR) come to approximately 16.1%. The minimum required level of CET 1 is 11.5%, and the minimum Tier 1 capital ratio stands at 13.5%.

The OCR will rise further by a cumulative 150 bps in three steps during October 2022, January 2023, and April 2023 due to pre-announced hikes in the countercyclical buffer requirement. Assuming no further changes, as from 1 April 2023, the minimum OCR will reach 17.6%, the minimum CET1 ratio 13.0%, and the minimum Tier 1 15.0%.

KB Group's Liquidity Coverage Ratio came to 174% as of 30 June 2022. The applicable regulatory minimum is 100%.

Effective as of 1 January 2022, KB Group is required to comply with a minimum requirement for own funds and eligible liabilities (MREL) equal to 14.4% of the consolidated total risk exposure and 4.46% of the consolidated total exposure. Based on the CNB general approach,<sup>1)</sup> MREL is expected to reach 21.2% of the consolidated total risk exposure and 5.91% of the consolidated total exposure effective as of 1 January 2024. The MREL requirement is defined as a sum of the amount of loss absorption and recapitalisation. In addition to the MREL, expressed as a percentage of risk-weighted assets, the Group must also fulfil the combined capital buffer. According to current regulations and the criteria from the supervisor, this requirement stands at 5.50% as of 1 July 2022.

With its considerable capital surplus, the Group fulfilled the interim target level valid from the beginning of 2022. In order to proceed gradually to meeting the ultimate MREL requirement, KB accepted on 27 June 2022 a senior non-preferred loan from Société Générale S.A. of EUR 250 million, with a maturity date of 27 June 2028 and a call option with exercise date on 27 June 2027. The interest rate of the loan is stipulated at 3M EURIBOR plus 2.05%, using the ACT/360 day count convention.

## Developments in the Group's structure

KB has further extended partnerships with fintech providers of value-added services via its fully owned KB SmartSolutions platform. In June, KB SmartSolutions increased its share from 11% to 24.989% in MonkeyData. MonkeyData fully owns a subsidiary, Lemonero, which provides financing to e-shops utilising an AI-powered scoring model. In July 2022, KB SmartSolutions acquired 96% of Enviros Group, which comprises the following four companies: Enviros Global Limited, ENVIROS, s.r.o. (CZ), ENVIROS, s.r.o. (SK), and ENVIROS d.o.o. Enviros Group provides services in energy and environmental advisory. In July, KB SmartSolutions increased its participation in the upvest real estate crowdfunding platform to 96%.

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/>

## Expected development and main risks to that development in 2022

Note: This outlook updates the outlook presented on 5 May 2022 upon release of Komerční banka's results for the first quarter of 2022.

KB Group is aware that sharp deterioration of the geopolitical situation caused by the Russian invasion of Ukraine launched on 24 February 2022 will significantly impact upon the economies of European countries. Nevertheless, due to heightened global uncertainty and the turbulent development, a full assessment and quantification of these impacts is not possible at the current stage. The Group is continuously monitoring and evaluating potential influences of the current crisis on its activities and on its clients. Although its direct exposure to Russia and Ukraine is limited, the Group is also evaluating indirect impacts (e.g. dependency on energy resources and raw materials, supply chain disruptions). As may be necessary and appropriate, the Group will respond to the changing situation by adjusting its policies (e.g. risk, operational, accounting), including possible adjustments to provisions and reserves in accordance with the IFRS 9 standard.

Given the high level of uncertainty surrounding the war in Ukraine and the global pandemic situation that are 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 updated baseline macroeconomic scenario for 2022, KB expects that, due to the war in Ukraine, shock in commodity prices, continued supply chain disruptions, and weakened economic confidence, the Czech economy's growth will slow to 2.5% from 3.5% a year earlier. Due to double-digit inflation, which dampens household consumption, as well as decreasing global demand for industrial goods, KB expects a mild recession in the Czech economy in the second half of 2022. Fixed investments should contribute positively to annual growth, while net exports will be a drag on economic expansion. Despite the slower economy, the lack of available labour in the economy will remain a factor limiting the growth potential. The average inflation rate in 2022 is expected to reach almost 17%, with year-on-year inflation rates probably peaking around 20% in the fourth quarter.

The Czech National Bank may continue raising monetary policy rates, as it had commenced to do in the middle of 2021. The terminal rate for the two-week repo rate is seen at 7.5%, to be reached towards the end of the year 2022. The CNB may need to continue intervening in order to prevent depreciation of the crown during this year.

In the regulatory environment, 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.<sup>1)</sup> It decided, too, on increasing the counter-cyclical capital buffer rate in two steps during 2022 followed by two additional steps as of 1 January and 1 April 2023. This will take that rate to 2.5%.<sup>2)</sup> The national bank also announced in September 2021 that it would no longer restrict the amount of bank dividends across the board.<sup>3)</sup> After the annual general meeting approved the dividend payment representing 65% of net profit generated in 2021, the management aims to address the matter of KB's surplus capital in the second half of the year and once the results of various regulatory tests will have been discussed with the regulator. During the second half, KB will 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).

The banking market for loans and deposits entered 2022 on a solid footing, but it will gradually absorb effects of the higher interest rates, slower-growing economy, heightened economic uncertainty, and worsened cost-of-living parameters. Total lending on the market should rise at a mid-single-digit year-on-year percentage rate. The production of new housing loans will diminish significantly in comparison with 2021 due to higher costs and regulatory limitations, but the outstanding volume of these loans should nevertheless expand modestly. Consumer credit expansion should reach a mid-single-digit pace, even as it will balance the favourable labour market situation and rising nominal incomes with increased cost of living and worsened consumer confidence. Lending to corporations should rise somewhat faster. Demand for working capital financing is strengthening as companies need to keep higher inventories of more-costly inputs. Investment lending will be driven by the developments in business confidence, but it also will be supported by the government's increased investment activity as supported by the funds established by the European Union. Growth in the volume of deposits will slow to mid-single digits, lagging the expansion in loan volumes as the financial situations of some households and businesses tighten.

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.

In this context, KB management expects that the Group's loan portfolio will record an upper mid-single-digit growth rate for 2022. Within the total, the corporate loan book will grow faster. The volume of housing loans outstanding should still increase at a low- to mid-single digit pace, even though new sales of these loans will drop in comparison with the record level achieved in 2021. Growth in

<sup>1)</sup> <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/>

<sup>2)</sup> <https://www.cnb.cz/en/cnb-news/press-releases/CNB-increases-countercyclical-capital-buffer-rate-to-2.5/>

<sup>3)</sup> <https://www.cnb.cz/en/cnb-news/press-releases/CNB-comments-on-banks-dividend-payout-plans/>

total deposit balances should reach a low single-digit pace, while clients are expected to be shifting their deposits to term accounts. The deposits at Modrá pyramida will probably record a decline in mid-single digits.

KB Group's total net operating income for 2022 should expand by more than 20% in comparison with the low base of 2021 that had been affected by the pandemic. The growth in revenues will be driven mainly by net interest income, reflecting increase in market rates and business volumes and larger share of the total margin from hedging services for clients booked in this accounting line. Net fees and commissions should improve by mid-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, even as demand for hedging of financial risks remains high in the uncertain environment.

In spite of the elevated inflation and significantly higher regulatory charges for the Resolution Fund, operating expenses remain under tight control and the figure for the full year will rise at an upper mid-single-digit pace, thus 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. After raising salaries by an average 3% effective from April 2022, the management agreed on an additional increase in average salary by 5% for most employees as from October 2022. KB management also has decided on further steps in optimising the branch network during 2022. As of 1 April 2022, 25 branches were closed and another 19 branches' cash services are newly provided only via ATMs. As of 1 July 2022, KB simplified 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 clients' changing behaviour reflecting growing preference for remote sales and assisted services in the digital environment.

Cost of risk will be influenced by several factors, including the slower economic growth, disruptions to global supply chains, and higher prices and interest rates. Reflecting the excellent quality of KB's asset portfolio, the cost of risk in 2022 should remain below the estimated normalised level of around 30 basis points across the whole business cycle.

The key risks to the expectations described above consist in further escalation of the war in Ukraine and its economic repercussions, prolonged or deepened shortages of fuels or key input materials for the Czech economy, and a return of pandemic restrictions and disruptions. 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 fiscal or monetary policy.

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.

**ANNEX: Consolidated results as of 30 June 2022 under International Financial Reporting Standards (IFRS)**

Profit and Loss Statement	Reported			Recurring		
	1H 2021	1H 2022	Change YoY	1H 2021	1H 2022	Change YoY
(CZK million, unaudited)						
Net interest income	9,956	14,157	42.2%	9,956	14,157	42.2%
Net fee and commission income	2,792	2,969	6.3%	2,792	2,969	6.3%
Net profit on financial operations	1,955	1,946	(0.5%)	1,955	1,946	(0.5%)
Dividend and other income	102	96	(5.9%)	102	96	(5.9%)
<b>Net banking income</b>	<b>14,805</b>	<b>19,168</b>	<b>29.5%</b>	<b>14,805</b>	<b>19,168</b>	<b>29.5%</b>
Personnel expenses	(3,667)	(3,787)	3.3%	(3,667)	(3,787)	3.3%
General admin. expenses (excl. regulatory funds)	(1,739)	(1,866)	7.3%	(1,739)	(1,866)	7.3%
Resolution and similar funds	(1,031)	(1,281)	24.2%	(1,031)	(1,281)	24.2%
Depreciation, amortisation and impairment of operating assets	(1,395)	(1,490)	6.8%	(1,395)	(1,490)	6.8%
<b>Total operating expenses</b>	<b>(7,832)</b>	<b>(8,423)</b>	<b>7.5%</b>	<b>(7,832)</b>	<b>(8,423)</b>	<b>7.5%</b>
<b>Operating profit</b>	<b>6,973</b>	<b>10,745</b>	<b>54.1%</b>	<b>6,973</b>	<b>10,745</b>	<b>54.1%</b>
Impairment losses	(693)	(486)	+/-	(693)	(486)	+/-
Net gain from loans and advances transferred and written off	25	(76)	+/-	25	(76)	+/-
<b>Cost of risk</b>	<b>(668)</b>	<b>(562)</b>	<b>(15.9%)</b>	<b>(668)</b>	<b>(562)</b>	<b>(15.9%)</b>
<b>Net operating income</b>	<b>6,305</b>	<b>10,183</b>	<b>61.5%</b>	<b>6,305</b>	<b>10,183</b>	<b>61.5%</b>
Income from share of associated companies	106	103	(2.8%)	106	103	(2.8%)
Profit/(loss) attributable to exclusion of companies from consolidation	25	0	n.a.	25	0	n.a.
Net profits on other assets	25	120	>100%	25	120	>100%
<b>Profit before income taxes</b>	<b>6,461</b>	<b>10,406</b>	<b>61.1%</b>	<b>6,461</b>	<b>10,406</b>	<b>61.1%</b>
Income taxes	(1,203)	(1,980)	64.6%	(1,203)	(1,980)	64.6%
<b>Net profit for the period</b>	<b>5,258</b>	<b>8,426</b>	<b>60.3%</b>	<b>5,258</b>	<b>8,426</b>	<b>60.3%</b>
Profit attributable to the Non-controlling owners	132	107	(18.9%)	132	107	(18.9%)
<b>Profit attributable to the Group's equity holders</b>	<b>5,126</b>	<b>8,319</b>	<b>62.3%</b>	<b>5,126</b>	<b>8,319</b>	<b>62.3%</b>

Statement of financial position	31 Dec 2021	30 Jun 2022	Ytd
(CZK million, unaudited)			
<b>Assets</b>	<b>1,244,353</b>	<b>1,489,019</b>	<b>19.7%</b>
Cash and current balances with central bank	29,947	21,383	(28.6%)
Loans and advances to banks	257,196	455,150	77.0%
Loans and advances to customers (net)	724,587	757,528	4.5%
Securities and trading derivatives	190,924	207,000	8.4%
Other assets	41,699	47,958	15.0%
<b>Liabilities and shareholders' equity</b>	<b>1,244,353</b>	<b>1,489,019</b>	<b>19.7%</b>
Amounts due to banks	83,372	147,266	76.6%
Amounts due to customers	956,929	1,103,643	15.3%
Securities issued	13,666	12,689	(7.1%)
Subordinated and senior non preferred debt	2,490	8,665	248.0%
Other liabilities	61,114	91,480	49.7%
Total equity	126,782	125,276	(1.2%)

Key ratios and indicators	30 Jun 2021	30 Jun 2022	Change year on year
Capital adequacy (CNB)	23.2%	20.3%	▼
Tier 1 ratio (CNB)	22.6%	20.0%	▼
Total risk-weighted assets (CZK billion)	446.7	484.4	8.4%
Risk-weighted assets for credit risk (CZK billion)	387.6	442.3	14.1%
Net interest margin (NII / average interest-bearing assets) <sup>iii</sup>	1.7%	2.2%	▲
Loans (net) / deposits ratio <sup>iv</sup>	69.5%	74.0%	▲
Cost / income ratio <sup>v</sup>	52.9%	43.9%	▼
Return on average equity (ROAE) <sup>vi</sup>	8.8%	13.5%	▲
Return on average Tier 1 capital <sup>vii</sup>	10.1%	16.0%	▲
Return on average assets (ROAA) <sup>viii</sup>	0.8%	1.2%	▲
Earnings per share (CZK) <sup>x</sup>	54.3	88.1	62.3%
Average number of employees during the period	7,748	7,522	(2.9%)

Business performance in retail segment – overview	30-Jun-22	Change year on year
CZK bil.		
Mortgages to individuals – volume of loans outstanding	266.2	5.2%
Building savings loans (MPSS) – volume of loans outstanding	81.5	18.2%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	34.5	4.8%
Small business loans – volume of loans outstanding	47.7	1.4%
Insurance premiums written (KP)	4.0	(23.1%)

### Financial calendar:

4 November 2022 – 9M and 3Q 2022 results

8 February 2023 – FY and 4Q 2022 results

12 May 2023 – 1Q 2023 results

3 August 2023 – H1 and Q2 2023

3 November 2023 – 9M and Q3 2023

## 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)	1H 2022	1H 2021
<b>Net interest income, year-to-date</b>	<b>14,157</b>	<b>9,956</b>
Of which:		
Loans and advances at amortised cost	21,995	8,688
Debt securities at amortised cost	1,466	961
Other debt securities	278	349
Financial liabilities at amortised cost	(7,477)	(653)
Hedging financial derivatives – income	15,034	4,792
Hedging financial derivatives – expense	(17,139)	(4,180)

(source: Balance Sheet)	30-Jun-22	31-Dec-21	30-Jun-21	31-Dec-20
Cash and current balances with central banks / Current balances with central banks	10,807	21,455	14,284	15,050
Loans and advances to banks	455,150	257,196	377,833	262,606
Loans and advances to customers	757,528	724,587	692,814	679,956
Financial assets held for trading at fair value through profit or loss / Debt securities	12,385	8,696	12,311	3,342
Non-trading financial assets at fair value through profit or loss / Debt securities	135	135	0	279
Financial asset at fair value through other comprehensive income (FV OCI) / Debt securities	31,004	35,509	38,670	40,151
Debt securities	121,237	114,078	119,024	92,839
<b>Interest-bearing assets (end of period)</b>	<b>1,388,246</b>	<b>1,161,656</b>	<b>1,254,936</b>	<b>1,094,223</b>
<b>Average interest-bearing assets, year-to-date</b>	<b>1,274,951</b>		<b>1,174,579</b>	
<b>NIM year-to-date, annualised</b>	<b>2.22%</b>		<b>1.70%</b>	