Komerční banka, a.s.

RESULTS

H1 2023

Regulatory information

Komerční banka, a.s.

First half of 2023: Successful launch of Komerční banka's New Era of Banking

"In April of this year, we opened a new chapter in the history of Komerční banka by launching the New Era of Banking. The new banking systems developed over the past three years have brought many changes to our clients: the new KB+ mobile app, new internet banking, new services for even better client experience and much more. The gradual migration of clients in retail and corporate banking to KB's wholly new service proposition will proceed apace right until 2026. Sustainability is key for us and an integral part of all our activities and I am very pleased that Komerční banka is a clear leader on the Czech banking market. In this New Era of Banking, we want to be a fully paperless company," remarked Jan Juchelka, KB's Chairman of the Board of Directors and Chief Executive Officer.

"The results from the first half demonstrated several positive trends in terms of business volumes and non-interest revenues. The excellent quality of the loan portfolio even allowed for a release of provisions, which of course we must look upon as an exceptional situation. Interest income normalised after a fading of tailwinds from the previous sharp rises in interest rates. I remain optimistic about Komerční banka's performance and that of the broader Czech economy in the months and years to come," Jan Juchelka adds.

- **KB Group's lending to customers up by 3.3% year on year, at CZK 794.6 billion.**
- **Deposits from clients decreased by (2.9%) from a year earlier to CZK 994.7 billion. Client deposits are up 8.5% year-to-date.**
- **Volume of non-bank assets (mutual funds, pension funds, life insurance) under management leapt by 14.6% to CZK 235.6 billion.**
- **KB Group was serving 2,227,000 clients. Standalone Komerční banka had 1,661,000 customers, up by 11,000 year on year.**
- **In April, Komerční banka unveiled to the market its new banking proposition based on state-of-the-art banking technologies and tools. By June, more than 22,000 clients had enrolled for KB's new digital bank.**
- **First half 2023: Total revenues were down by (5.6%) year on year to CZK 18.1 billion. Operating expenditures rose by 8.0% to CZK 9.1 billion. The Group reported a CZK (0.9) billion net release of provisions for credit risk. Net profit attributable to the Group's equity holders, at CZK 8.1 billion, was lower by (2.9%) year on year.**
- **Second quarter 2023: Total revenues were down by (5.7%) year on year to CZK 9.1 billion. Operating expenditures rose by 11.8% to CZK 4.1 billion. The Group reported a CZK (0.5) billion net release of provisions for credit risk. Net profit attributable to the Group's equity holders, at CZK 4.5 billion, was lower by (6.0%) year on year.**
- **Volume of regulatory capital reached CZK 104.9 billion, capital adequacy stood at 20.0%, and the Core Tier 1 ratio was 19.5%.**
- **KB had 72,303 shareholders (greater by 7,919 year on year), of which 66,179 were private individuals from the Czech Republic.**

Prague, 3 August 2023 – Komerční banka reported today its unaudited consolidated results for the first half of 2023.

Financial and business performance

Total revenues reached CZK 18.1 billion, lower by (5.6%) compared to the first half 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 and larger investments in mutual funds. Net profit on financial operations improved from the already strong levels of last year, driven by clients' robust hedging and trading activity.

Operating expenses were up by 8.0%, at CZK 9.1 billion. Personnel expenses were higher by 7.4%, driven mainly by the increase in average salaries even as the average number of employees grew marginally. The full-year levy to the regulatory funds was unchanged year on year because the CNB adjusted downwards the aggregate contribution from Czech banks to the Resolution Fund even as the charge for the Deposit insurance was greater due to last year's failure of Sberbank CZ. Increase in administrative costs was driven by higher expenses related to real estate, IT, maintenance, and marketing. Greater depreciation and amortisation charges reflected the ongoing investments into digitalisation.

Cost of risk reached a negative CZK (0.9) billion, reflecting 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 half decreased by (2.9%) year on year to CZK 8.1 billion. Income taxes reached CZK 1.8 billion.

Lending to clients went up by 3.3% to CZK 794.6 billion.[1)] The volume of housing loans outstanding grew by 3.4%, with lending from Modrá pyramida building society expanding faster than did KB's mortgage portfolio. New production of housing loans recorded a gradual rebound since 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 to improve from low levels. Growth in lending to businesses decelerated somewhat, influenced also by appreciation of the Czech crown as expansion of business lending has recently been concentrated in euro rather than crowns.

Deposits from clients decreased by (2.9%) year on year to CZK 994.7 billion.[2)] On the other hand, the volume of KB Group clients' assets in mutual funds, pension savings, and life insurance rose by 14.6% to CZK 235.6 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 20.0%, and Core Tier 1 capital stood at 19.5%. During 2023, the reported capital ratios include interim profit of the current year adjusted for the 'foreseeable dividend' at the level of 65% payout ratio.

The liquidity coverage ratio was 169%, 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 was 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 30 June 2023, Komerční banka had 72,303 shareholders (up by 7,919 year on year), of which 66,179 (greater by 7,830 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 in the second quarter of 2023

A major aspect of the strategic KB2025 programme announced in November 2020 has been Komerční banka's developing a new banking infrastructure that includes a new core banking system, the KB+ mobile application, internet banking, a card management system, and analytical tools allowing an upgraded client proposition.

[1)] Including debt securities issued by KB's corporate clients. The volume of reverse repo operations with clients as of 30 June 2023 as well as of 30 June 2022 was nil.

[2)] Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved down by -1.1% to CZK 1,091.7 billion.

By April 2023, the building of this new digital bank had reached such 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 legacy system.

By June 2023, some 22,000 clients had enrolled into the new digital bank. Of this total, more than 5,000 were new clients to KB. 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 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!

On 16 June, Jan Juchelka, Chairman of the Board of Directors and Chief Executive Officer of Komerční banka, was elected by the member banks as President of the Czech Banking Association. The CBA represents the banking industry vis-à-vis the public, governmental offices, and international bodies. Furthermore, it supports financial education, crime prevention, sustainability, and digitalisation of financial and public services. During his three-year mandate, Mr. Juchelka aims to promote further dialogue between the state, regulatory authorities, and private sector while focusing especially on digitalisation, innovations, sustainability, and investments directed to supporting the Czech Republic’s long-term prosperity.

Market environment (in second quarter 2023)[1)]

Certain challenges for the global economy from the recent past have eased as energy prices have declined to near pre-invasion levels and supply chain disruptions have been mostly resolved. Thus, the main focal point of macroeconomic discussion has been fiscal policy, the key issue being impact of the austerity (or consolidation) package presented by the Czech government in early May. The package has passed its first reading in the Lower House of the Parliament, but its material impacts are to be seen only in 2024.

Otherwise, the Czech economy stagnated in quarter-on-quarter terms in the first quarter. In the second quarter, then, real GDP grew by 0.1% but came in (0.6%) smaller in year-on-year terms, as per the flash estimate. The manufacturing sector shrunk slightly year on year, despite improving production in the important automotive sector. Car production in 2023's first half was up by 22% year on year. Labour market conditions remained tight and nominal wage growth did not keep up with rising consumer prices.[2)] The unemployment rate remains one of the lowest within the EU, standing at just 2.3% in May 2023 (according to the Eurostat methodology after seasonal adjustment).[3)] In June, the Czech labour ministry reported further decline in the unemployment rate.[4)]

Pressure from the primary price categories has been fading. In the second quarter of 2023, the growth dynamics of industrial producer prices averaged just 4.0% year on year, due in part to quarter-on-quarter decline by (2.6%). Agricultural producer prices were lower by (8.1%) year on year as well as on a quarter-on-quarter basis (9.1%). Prices of construction work continue to rise by an average 6.9% year on year (0.9% from the 1st quarter of 2023 to the second quarter of 2023). Fading pressure from the primary price categories together with only decent wage cost dynamics and retreating energy prices moderated consumer price pressures and the year-on-year price dynamics were most importantly influenced by the base effect. Hence, growth in consumer prices decelerated in June to 9.7% year on year. The rise year over year was driven especially by housing-related costs and by prices of food and non-alcoholic beverages. The dynamics of core inflation slowed to 7.5% in June.[5)]

The CNB had left the main 2W monetary policy repo rate on hold at 7% since 23 June 2022. As of 30 June 2023, 3M PRIBOR reached 7.13% (down (10) bps year on year and (13) bps year to date). The 10Y interest rate swap hit 4.13% (down (102) bps year on year and (66) bps year to date). The interest rate swap curve remained inverted, with the 5Y at 4.48% (down (122) bps year on year and (75) bps year to date) and yields on 10-year Czech government bonds having declined to 4.38% (down (41) bps year on year and (64) bps year to date). By the end of June, the Czech crown had appreciated against the euro by 1.6% year to date and 4.1% year on year, reaching CZK 23.7 per euro.

The latest information on developments in residential real estate prices, available for the first quarter of 2023, show significant slowing in growth and by some measure even decline in year-on-year terms.[6)] Prices for second-hand homes in Prague declined by (3.4%) quarter on quarter, nevertheless they were higher in year-on-year terms by 1.2%. Prices of second-hand flats in the rest of the country were down by (3.1%) quarter on quarter but were 4.3% higher year on year. Prices of newly developed flats in Prague were down quarter on quarter for the third consecutive quarter. They slipped by (1.2%) in the first quarter of 2023 and declined by (6.0%) from the same quarter a year earlier.[6)] As documented by the European house price index, real estate prices fell quarter on quarter by (1.1%) and the year-on-year dynamics slowed to 1% while the index for the EU was reported at 0.8%.[7)]

Total bank lending for the overall market (excluding repo operations) grew by 6.1% year on year as of June 2023.[8)] Lending to individuals reached 5.5%, with housing loans expanding 4.8% year on year as new mortgage production was slowly recovering from the drop in 2022, interest rates were at heightened levels, and real estate prices corrected slightly. Lending to businesses and other corporations increased year on year by 6.9% in June 2023, with growth recorded across all main segments, including non-financial corporates, the public sector, and the financial institutions segment. Growth in business lending occurred overwhelmingly in euro-denominated loans.

The volume of client deposits in Czech banks expanded by 9.1% year over year as of June 2023.[9)] Deposits from individuals had grown in total by 5.5% while the market deposits from businesses and other corporations grew by 13.5% year over year. A switch from current to term and saving deposits continued across all segments, as the volumes on current accounts were lower by 11.9% while the combined volume on term and saving accounts expanded by 34.2% year on year.

[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 first quarter showed wage inflation picking up to +8.6% 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 May 2023.

[4)] https://www.mpsv.cz/web/cz/mesicni. Data as of June 2023.

[5)] Source: http://www.cnb.cz/arad/#/en/display_link/single__SCPIMZM09YOYPECNA_, ARAD statistics of the CNB.

[6)] Source: https://www.czso.cz/csu/czso/indices-of-realized-flat-prices-1-quarter-of-2023 Publication code 014007-23, released 14 June 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.

Developments in the client portfolio and distribution networks

	30 Jun 2022	30 Jun 2023	Change YoY
KB Group's clients	2,256,000	2,227,000	(29,000)
Komerční banka	1,650,000	1,661,000	11,000
– individual clients	1,407,000	1,417,000	11,000
– internet banking clients	1,503,000	1,523,000	20,000
– mobile banking clients	1,099,000	1,185,000	85,000
Modrá pyramida	472,000	446,000	(26,000)
KB Penzijní společnost	512,000	491,000	(21,000)
ESSOX (Group)	135,000	133,000	(2,000)
KB branches (CZ)	218	215	(3)
Modrá pyramida points of sale	194	203	9
SGEF branches	9	9	0
ATMs (KB network)	863	852	(11)
– of which deposit-taking	521	536	15
– of which contactless	641	690	49
ATMs (Total shared network)	863	2,062	1,199
Number of active debit cards	1,456,000	1,487,000	31,000
Number of active credit cards	188,000	206,000	18,000
Number of cards virtualized into payment apps	449,000	589,000	141,000
KB key authentication users	1,036,000	1,140,000	104,000

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 2023.

BUSINESS PERFORMANCE

Loans to customers
Total **gross volume of lending to clients** rose by 3.3% year on year to CZK 794.6 billion.[1)]

In **lending to individuals,** the overall volume of housing loans grew by 3.4% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 1.9% to CZK 271.3 billion. Modrá pyramida's loan portfolio developed even faster, by 8.5% to CZK 88.5 billion. The new production of housing loans has been recovering since March of this year, but it nevertheless remained lower by (39.2%) year on year from the still-strong levels of 2022's first half, at CZK 16.0 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 36.8 billion. This growth pace was also influenced by improvements in the granting process and successful offer of flexible loans available online and at branches.

The total volume of **loans to businesses** and other lending provided by KB Group was greater by 2.8% year on year, at CZK 398.1 billion. Expansion was faster in euro-denominated loans, which are available to businesses with revenues in the European currency. Lending to small businesses declined by (0.7%) to CZK 47.4 billion. The overall CZK volume of credit granted by KB to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia[2)] climbed by 3.4% year on year to CZK 318.3 billion. At CZK 32.5 billion, the total credit and leasing amounts outstanding at SGEF were up by 2.5% year over year.

[1)] Including debt securities issued by KB's corporate clients. There were no reverse repo operations with clients to report as of 30 June 2023 or 30 June 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 (2.9%) year on year to CZK 994.7 billion.[1] Year to date, the volume grew by 8.5%. This development was influenced by clients shifting some of their savings to mutual funds. Competition in the deposits market has 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 (6.7%) from the year earlier to CZK 323.7 billion. The deposit book at Modrá pyramida diminished by (7.0%) to CZK 53.9 billion. Total deposits from businesses and other corporations were down by (0.2%) to CZK 610.9 billion.

The volumes in mutual funds held by KB Group clients grew by 31.5% to CZK 116.4 billion. Client assets managed by KB Penzijní společnost were 3.4% greater, at CZK 74.0 billion. Technical reserves in life insurance at Komerční pojišťovna were smaller by (0.7%) year on year, at CZK 45.3 billion.

The Group's liquidity as measured by the ratio of net loans[2] to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 80.2%. The Group's liquidity coverage ratio ended the year at 169%, well above the regulatory limit of 100%.

FINANCIAL PERFORMANCE

Income statement
Komerční banka's **revenues (net operating income)** reached CZK 18,099 million, down by (5.6%) compared to the first half 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 clients' larger investments in mutual funds and greater transaction activity. Net profit on financial operations improved from the already strong level of last year's first half.

Net interest income was down by (9.5%), at CZK 12,812 million. The volume of loans expanded, but the average lending spreads narrowed in retail segments. Switching of deposit volumes 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 half 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 2.7% to CZK 3,049 million. Transaction fees contributed to this development, as clients' transaction activity was greater, especially in card payments but also in other non-cash payments. Deposit product fees were up slightly, as the base from last year was influenced by a humanitarian allowance for war refugees from Ukraine. Fees from cross-selling improved as well, with better contribution from mutual funds and insurance products. Income from loan services was higher, mainly due to expanding consumer lending. Because clients' activity on debt capital markets was diminished year on year, less income was generated from the related services.

Net profit on financial operations increased by 6.0% year on year to a strong CZK 2,063 million. The result was achieved on the back of robust client activity in the currency and interest rate hedging and trading. A few larger transactions executed for corporate and institutional clients also contributed positively. 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 lower year on year, reflecting seasonality of travel, transaction activity of clients, and spreads adjustments. The result in the second quarter also included gain from sales of bonds reported on the banking book.

Dividend and other income was up by 82.3% to CZK 175 million. This line item primarily comprises revenues from property rental and ancillary services.

Operating expenses rose by 8.0% to CZK 9,093 million. Personnel expenses grew by 7.4% to CZK 4,069 million, reflecting a combined rise in average salaries and 0.4% increase in the average number of employees to 7,549[3]. General and administrative expenses (not including contributions to the regulatory funds) were up by 13.8%, at CZK 2,123 million. Growth in this category was driven by marketing, software and IT support, as well as costs related to real estate and overall inflation. The full-year charge to the regulatory funds (Deposit Insurance Fund, Resolution Fund) was lower by a slight (0.3%) year on year, at CZK 1,277 million, because the CNB reduced the Czech banks' aggregate contribution to the Resolution Fund in 2023. The levy for the Deposit Insurance Fund was increased, however, following last year's failure of Sberbank CZ. Depreciation, amortisation, and impairment of operating assets grew by 9.0% to CZK 1,624 million, whereas higher charges reflecting investments in pursuit of KB's digitalisation strategy were partly offset by lower depreciation of buildings.

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[1] Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' decreased by 1.1% year on year to CZK 1,091.7 billion.

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

[3] Recalculated to a full-time equivalent number.

The sum of profit before allowances for loan losses, provisions for other risk, profit on subsidiaries, and income tax **(operating profit)** was down by (16.2%), at CZK 9,006 million.

Cost of risk (impairment losses, provisions for loans, and net result from loans transferred and written off) reached CZK (899) million (i.e. a net release of provisions) compared to net provisions creation of CZK 562 million a year earlier. This was possible mainly due to an improved situation as well as 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 cost of risk in relative terms and as measured against the average volume of the lending portfolio during the first half of 2023 came to (22) 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 17.6% year on year, at CZK 127 million, influenced by interest rate developments, creation and utilisation of the insurance reserves, and implementation of the IFRS 17 accounting standard at Komerční pojišťovna.

Net profits (losses) on other assets reached a negative CZK (7) million. In the previous year, net profit on other assets had been CZK 120 million.

Income tax was lower by (7.5%), at CZK 1,832 million.

KB Group's consolidated **net profit** for the first half of 2023 reached CZK 8,193 million, which was down by (2.8%) in comparison with the year earlier. Of this total, CZK 107 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (unchanged year on year).

Reported **net profit attributable to the Group's equity holders** totalled CZK 8,086 million, which is (2.9%) less year on year.

Other comprehensive income reached CZK (371) million. This derived mainly from revaluation of some cash flow hedging positions and debt securities. **Consolidated comprehensive income** for the first 6 months of 2023 totalled CZK 7,822 million, of which CZK 105 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 2023 with the values from the statement of financial position as of 31 December 2022.

Assets

As of 30 June 2023, KB Group's total assets had grown by 12.4% year to date to CZK 1,467.3 billion.

Cash and current balances with central banks were down by (16.0%), at CZK 11.9 billion. Financial assets held for trading at fair value through profit or loss (trading securities and derivatives) decreased by (15.9%) to CZK 48.2 billion. The fair value of hedging financial derivatives declined by (24.8%) to CZK 16.2 billion.

Year to date, there was a (9.1%) decline in financial assets at fair value through other comprehensive income totalling CZK 27.4 billion. This item consisted mainly of debt securities issued by government institutions.

Financial assets at amortised cost grew by 15.6% to CZK 1,334.1 billion. The largest portion of this consisted of (net) loans and advances to customers, which increased year to date by 2.1% to CZK 798.0 billion. A 97.9% share in the gross amount of client loans was classified in Stage 1 or Stage 2 while 2.1% 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 12.9 billion. Loans and advances to banks climbed by 64.2% to CZK 383.2 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 9.7% and reached CZK 152.8 billion at the end of June 2023.

Revaluation differences on portfolio hedge items totalled CZK (1.7) billion, lower by (32.1%). Current and deferred tax assets stood at CZK 0.3 billion. Prepayments, accrued income, and other assets, which include receivables from securities trading and settlement balances, decreased overall by (1.1%) to CZK 5.7 billion. Assets held for sale diminished by (14.2%) to CZK 0.1 billion.

Because of Komerční pojišťovna's transition to the IFRS 17 standard, investments in associates rose by 6.1%, to CZK 2.8 billion, compared to the 2022 year-end restated value of CZK 2.7 billion.

The net book value of tangible assets stayed flat at CZK 8.8 billion. Intangible assets grew by 8.4% to reach CZK 9.8 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 14.0% higher in comparison to the end of 2022 and stood at CZK 1,346.4 billion.

Financial liabilities at amortised cost went up by 15.3% to CZK 1,211.5 billion. Amounts due to customers comprise the largest proportion of this total, and these climbed by 14.8% to CZK 1,091.7 billion. This total included CZK 97.1 billion of liabilities from repo operations with clients and CZK 6.4 billion of other payables to customers. Amounts due to banks increased through the first half of 2023 by 23.6% to CZK 105.3 billion.

Revaluation differences on portfolios hedge items were CZK (44.1) billion. Current and deferred tax liabilities ended at CZK 2.8 billion, up by 8.0%. Accruals and other liabilities, which include payables from securities trading and settlement balances, grew by 15.5% to CZK 19.4 billion.

The provisions balance was (21.4%) 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 48.8 billion, was up by 26.2% year to date, as KB continued to subscribe new loans during second quarter 2023 to meet regulatory minimum requirements for own funds and eligible liabilities (MREL).

Equity
Total equity declined year to date by (3.0%) to CZK 120.9 billion, as the volume of the annual dividend paid in May exceeded the amount of net profit generated in the first half. Values 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 3.1 billion. As of 30 June 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 104.9 billion as of 30 June 2023. **Capital adequacy** stood at 20.0%. Core Tier 1 (CET1) capital totalled CZK 102.1 billion and the Core Tier 1 ratio was 19.5%. Tier 2 capital summed to CZK 2.7 billion, which was 0.5% of risk-weighted assets.

As of 1 July 2023, Komerční banka's overall capital requirements (OCR) were at approximately 17.6%. The minimum required level of CET1 is 12.9%, and the minimum Tier 1 capital ratio stands at 14.9%.

KB Group's Liquidity Coverage Ratio came to 169% as of 30 June 2023. 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 stood at 6.75% as of 1 July 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 30 June, KB had accepted such loans in a total principal volume of EUR 1.95 billion.[2]

Developments in the Group structure

Komerční banka has founded a new fully owned subsidiary, KB Poradenství, s.r.o. The company was established by its entry into the register of companies on 27 June 2023. KB Poradenství was founded in relation to the intended development of of KB Group's distribution model. The company's registered scope of business includes intermediation of consumer loans, intermediation of insurance and reinsurance, intermediation of supplementary pension savings, and investment brokerage. In order to be authorised to conduct these business activities, the company needs to obtain additional licenses.

On 30 June 2023, KB Smart Solutions, a full owned subsidiary of Komerční banka, increased to 28.256% from 24.989% its stake in MonkeyData s.r.o.. MonkeyData fully owns a subsidiary, Lemonero, s.r.o., which provides financing to e-shops utilising an AI-powered scoring model.

[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 in 2023 and main risks to that development

Note: This outlook updates and thus replaces the outlook presented on 12 May 2023 on the occasion of Komerční banka's announcing its results for the first quarter of 2023. Given the high level of uncertainty and risks related to projecting future business results, investors should exercise caution and judgement before making their investment decisions while considering these forward-looking estimates and targets.

The Czech economy is expected to grow only marginally in 2023, if at all. A positive contribution will come from net exports, while fixed investments and household consumption, hindered by gloomy confidence levels, probably will decline year on year. The quarterly data on economic output should see some recovery in activity during the second half of this year.

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 end of the year before starting to reduce them in 2024.

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, then reduced it back to 2.25% from July. KB is not aware of further changes in capital requirements likely to occur during 2023. KB will also continue in gradually taking loans from Société Générale in order to meet the regulatory requirements for own funds and eligible liabilities (MREL) from the EU's Bank 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 or non-existent.

The government of the Czech Republic intends to adopt measures focused on reducing the public finance deficit. A majority of the proposed measures are subject to upcoming votes by Parliament and their intended effects are from 2024.

The banking market for loans will absorb a combination of impacts, including quite dynamic nominal indicators but rather sluggish real growth rates. Total lending on the market should grow at a mid-single-digit year-on-year percentage rate. The volumes of housing loans outstanding are expected to develop also at a mid-single-digit rate, as the production of these loans has been recovering since March from the drop recorded during 2022. Consumer credit expansion should reach a high-single-digit pace, supported by the favourable labour market situation. Lending to businesses and other corporations should rise at a mid-single-digit tempo, affected by cooling demand for working capital financing (due to less need in industry to keep high inventories) and hesitation about new investment plans.

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 in aggregate been able to protect their profitability margins and ability to generate cash. Several players on the deposits market have adopted aggressive pricing policies. This situation may last as long as market interest rates remain 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 expand also at a mid-single-digit pace, and the volume of new sales of these loans should be recovering in comparison with the second half of 2022. Consumer lending should grow faster, also thanks to improvements in the offer and the sales process. The corporate loan book should develop 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 tempo. Deposits of corporate clients may grow somewhat faster than do volumes in the retail segments. The year-on-year 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 somewhat compared to that in the previous year. Net interest income will retreat at a high-single-digit pace, mainly because of higher average costs of deposits. Net fees and commissions should improve by mid-single digits, driven especially by dynamic development of the volumes in mutual funds. The net profit on financial operations will likely grow notably, propelled by income from clients’ hedging and trading activity, 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 a high-single-digit pace, thus slower 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 low-double-digit rate, a reflection of the investments in digital transformation. Total regulatory levies for the Resolution and Deposit insurance funds will remain at a similar level year on year. As for other administrative costs, the Group will be mitigating the effects of high inflation through ongoing optimisation of operations.

Cost of risk will be influenced by several factors, including inflation, slower economic growth, and higher interest rates, as well as low unemployment and strong recovery performance. Certain impacts from high inflation and energy costs had been anticipated in provisioning during 2022. Reflecting the resilient credit profile of KB’s asset portfolio, the cost of risk in 2023 is expected to reach between 0 and 10 basis points, thus significantly below the 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 30 June 2023 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement	Reported			Recurring		
	1H 2022*	1H 2023	Change YoY	1H 2022*	1H 2023	Change YoY
(CZK million, unaudited)						
Net interest income	14,157	12,812	(9.5%)	14,157	12,812	(9.5%)
Net fee and commission income	2,969	3,049	2.7%	2,969	3,049	2.7%
Net profit on financial operations	1,946	2,063	6.0%	1,946	2,063	6.0%
Dividend and other income	96	175	82.3%	96	175	82.3%
Net banking income	**19,168**	**18,099**	**(5.6%)**	**19,168**	**18,099**	**(5.6%)**
Personnel expenses	(3,787)	(4,069)	7.4%	(3,787)	(4,069)	7.4%
General admin. expenses (excl. regulatory funds)	(1,866)	(2,123)	13.8%	(1,866)	(2,123)	13.8%
Resolution and similar funds	(1,281)	(1,277)	(0.3%)	(1,281)	(1,277)	(0.3%)
Depreciation, amortisation and impairment of operating assets	(1,490)	(1,624)	9.0%	(1,490)	(1,624)	9.0%
Total operating expenses	**(8,423)**	**(9,093)**	**8.0%**	**(8,423)**	**(9,093)**	**8.0%**
Operating profit	**10,745**	**9,006**	**(16.2%)**	**10,745**	**9,006**	**(16.2%)**
Impairment losses	(486)	911	+/-	(486)	911	+/-
Net gain from loans and advances transferred and written off	(76)	(13)	(83.2%)	(76)	(13)	(83.2%)
Cost of risk	**(562)**	**899**	**+/-**	**(562)**	**899**	**+/-**
Net operating income	**10,183**	**9,906**	**(2.7%)**	**10,183**	**9,906**	**(2.7%)**
Income from share of associated companies	108	127	17.6%	108	127	17.6%
Net profit/(loss) on subsidiaries and associates	0	0	n.a.	0	0	n.a.
Net profits on other assets	120	(7)	+/-	120	(7)	+/-
Profit before income taxes	**10,412**	**10,025**	**(3.7%)**	**10,412**	**10,025**	**(3.7%)**
Income taxes	(1,980)	(1,832)	(7.5%)	(1,980)	(1,832)	(7.5%)
Net profit for the period	**8,432**	**8,193**	**(2.8%)**	**8,432**	**8,193**	**(2.8%)**
Profit attributable to the Non-controlling owners	107	107	0.0%	107	107	0.0%
Profit attributable to the Group's equity holders	**8,325**	**8,086**	**(2.9%)**	**8,325**	**8,086**	**(2.9%)**

* Restated to reflect IFRS 17.

Statement of financial position	31-Dec-22*	30 Jun 2023	Ytd
(CZK million, unaudited)			
Assets	**1,305,304**	**1,467,274**	**12.4%**
Cash and current balances with central bank	14,190	11,913	(16.0%)
Loans and advances to banks	233,398	383,240	64.2%
Loans and advances to customers (net)	781,463	797,985	2.1%
Securities and trading derivatives	226,848	228,391	0.7%
Other assets	49,404	45,745	(7.4%)
Liabilities and shareholders' equity	**1,305,304**	**1,467,274**	**12.4%**
Amounts due to banks	85,176	105,292	23.6%
Amounts due to customers	950,692	1,091,739	14.8%
Securities issued	12,156	11,946	(1.7%)
Subordinated and senior non preferred debt	38,694	48,818	26.2%
Other liabilities	93,910	88,598	(5.7%)
Total equity	124,676	120,881	(3.0%)

* Restated to reflect IFRS 17.

Key ratios and indicators	30 Jun 2022	30 Jun 2023	Change year on year
Capital adequacy (CNB)	20.3%	20.0%	▼
Tier 1 ratio (CNB)	20.0%	19.5%	▼
Total risk-weighted assets (CZK billion)	533.2	524.6	(1.6%)
Risk-weighted assets for credit risk (CZK billion)	442.3	427.3	(3.4%)
Net interest margin (NII / average interest-bearing assets)[III]	2.2%	2.0%	▼
Loans (net) / deposits ratio[IV]	74.0%	80.2%	▲
Cost / income ratio[V]	43.9%	50.2%	▲
Return on average equity (ROAE)[VI]	13.4%	13.5%	▲
Return on average Tier 1 capital[VII]	16.0%	16.1%	▲
Return on average assets (ROAA)[VIII]	1.2%	1.2%	▼
Earnings per share (CZK)[IX]	88.2	85.6	(2.9%)
Average number of employees during the period	7,522	7,549	0.4%

Business performance in retail segment – overview	30 Jun 2023	Change year on year
CZK bil.		
Mortgages to individuals – volume of loans outstanding	271.3	1.9%
Building savings loans (MPSS) – volume of loans outstanding	88.5	8.5%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	36.8	6.6%
Small business loans – volume of loans outstanding	47.4	(0.7%)
Insurance premiums written (KP)	3.6	(8.8%)

Senior non-preferred loans as of 30 June 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%
15 Jun 2023	EUR 250m	15 Jun 2026	3M Euribor + 1.70%
15 Jun 2023	EUR 200m	15 Jun 2028	3M Euribor + 2.01%

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

Subordinated debt as of 30 June 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 one year after the call option excercise date.

Financial calendar:

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)	1H 2023	1H 2022
Net interest income income, year-to-date	**12,812**	**14,157**
Of which:		
Loans and advances at amortised cost	30,191	21,995
Debt securities at amortised cost	2,160	1,466
Other debt securities	271	278
Financial liabilities at amortised cost	(16,814)	(7,477)
Hedging financial derivatives – income	23,685	15,034
Hedging financial derivatives – expense	(26,681)	(17,139)

(source: Balance Sheet)	30 Jun 2023	31 Dec 2022	30 Jun 2022	31 Dec 2021
Cash and current balances with central banks / Current balances with central banks	4,162	6,167	10,807	21,455
Loans and advances to banks	383,240	233,398	455,150	257,196
Loans and advances to customers	797,985	781,463	757,528	724,587
Financial assets held for trading at fair value through profit or loss / Debt securities	11,868	9,968	12,385	8,696
Non-trading financial assets at fair value through profit or loss / Debt securities	0	132	135	135
Financial asset at fair value through other comprehensive income (FV OCI) / Debt securities	27,362	30,119	31,004	35,509
Debt securities	152,825	139,276	121,237	114,078
Interest-bearing assets (end of period)	**1,377,441**	**1,200,524**	**1,388,246**	**1,161,656**
Average interest-bearing assets, year-to-date	**1,288,983**		**1,274,951**	
NIM year-to-date, annualised	**1.99%**		**2.22%**	