Komerční banka, a.s.

RESULTS

Q1 2022

Regulatory information

Komerční banka, a.s.

Komerční banka reports strong recovery in revenues, with operational and risk costs under control

"The Czech economy had been on track in the first weeks of 2022 to reach quite soon its pre-pandemic levels of activity and even gradually to tame the inflation pressures. The beginning of the war in Ukraine on 24 February, however, changed the trajectory completely. Now, economic growth will be slower and inflation will remain higher for longer. Our sympathies are with the innocent Ukrainian victims of the war. We hope that the world will soon return to the path of peace and democracy. As Komerční banka, we continue to reinforce our resilience vis-à-vis current and future challenges by acting ethically and in full compliance with the laws and regulations, by contributing to the well-being of the communities within which we operate, as well as by helping to preserve the natural environment of our planet," remarked Jan Juchelka, KB's Chairman of the Board of Directors and Chief Executive Officer.

- **The total volume of KB Group's lending to customers expanded by 8.1% year on year to CZK 750.7 billion. Growth was recorded in retail as well as corporate lending.**

- **The overall volume of standard client deposits within KB Group was up by 3.0%, at CZK 1,015.1 billion. The volume of non-bank assets under management leapt up by 7.6% to CZK 206.9 billion.**

- **The number of users of the KB Klíč (KB Key) authentication application for accessing banking services crossed the 1,000,000 mark only on 4 April 2022. So, as of 31 March, KB Key was being used by 999,000 clients, some 133,000 more than a year ago. The number of clients with KB Mobile Banking climbed by 107,000 year on year to 1,066,000, representing 65% of all KB 1,636,000 customers. The KB Group as a whole was serving 2,253,000 clients.**

- **Compared with the first quarter of the previous year that was influenced by significant restrictions on people's mobility and on some business activities, KB reported a 27.7% increase in revenues. Operating expenditures were higher by 9.8%, mainly due to significantly higher regulatory levies. Net creation of credit risk provisions decreased by (52.6%), reflecting continued strong quality of assets. Net profit attributable to shareholders improved by 75.9% to CZK 3.5 billion.**

- **Indicators of KB Group's capital adequacy and liquidity continue to exceed the applicable regulatory requirements. Capital adequacy reached 20.2%, and the Core Tier 1 ratio was at 19.8%. The ratio of net loans to deposits reached 72.8%.**

- **The Annual General Meeting held on 20 April 2022 approved the audited financial statements for 2021 and the proposal for the distribution of profit, including a dividend payment in the amount of CZK 8.3 billion, which represents CZK 43.8 per share.**

- **Further steps to address the matter of excess equity accumulated due to the pandemic dividend restrictions in 2020 and 2021 will be considered in the second half of 2022 after finalisation of the annual regulatory stress tests.**

Prague, 5 May 2022 – Komerční banka reported today its unaudited consolidated results for the first quarter of 2022.

Total revenues increased by 27.7% to CZK 9.5 billion from the low base of the first quarter of 2021 that had been affected by pandemic lockdowns and extraordinarily low interest rates. Net interest income was up by 37.0%, at CZK 6.9 billion, driven by growing business volumes and higher yields from reinvestment of liabilities and capital. Net fee and commission income improved by 8.7% to CZK 1.5 billion due to normalisation of transaction activity, strong inflows to mutual funds, and increased demand for some services for corporate clients, such as for guarantees. Net profit on financial operations rose by 7.9% to CZK 1.1 billion, boosted by strong demand from clients for hedging of financial risks in the volatile and uncertain environment.

Operating expenses were up by 9.8%, at CZK 4.8 billion, mainly driven by a 26% increase in the regulatory levy to the Resolution Fund. Personnel expenses were higher by 2.6%, even as the average number of employees decreased by (3.3%) to 7,564. Administrative costs rose by 9.4% and depreciation and amortisation charges were up by 6.6% year on year, reflecting the ongoing investments in digitalisation.

Net creation of provisions for the first quarter of 2022 totalled CZK 0.3 billion. The provisioning reflected continued low default intensity and strong recovery performance of the retail and non-retail portfolios. It also included new provisions on exposures related to Russia following a detailed portfolio review.

The reported attributable net profit improved by 75.9% to CZK 3.5 billion.

Lending to clients climbed by 8.1% to CZK 750.7 billion.[1)] The volume of outstanding housing loans from KB and Modrá pyramida expanded by 9.0%, even as the new production of these loans in the first quarter decreased by 37.7% year on year. 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 7.5%. Demand for working capital financing was boosted as companies were building up inventories of more expensive inputs. Investment loans grew as well. The negative contribution from 6.7% year-on-year appreciation of the Czech koruna against the euro on the reported CZK value of EUR-denominated loans represented 1.2% of total lending.

Deposits from clients increased by 3.0% year on year to CZK 1,015.1 billion.[2)] The 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 7.6% to CZK 206.9 billion.

The capital adequacy ratio reached a strong 20.2%, and Core Tier 1 capital stood at 19.8%. The liquidity coverage ratio was at 151%, significantly above the regulatory minimum of 100%.

The Annual General Meeting of Komerční banka held on 20 April 2022 approved the audited financial statements for 2021 and the proposal for the distribution of profit, including a dividend payment in the amount of CZK 8.3 billion, which represents CZK 43.8 per share, before taxation, and 65% of the net profit from 2021. The dividend can be claimed by shareholders who held the shares as of 29 April 2022. The dividend will be paid on 23 May 2022. Further steps to address the excess equity accumulated due to the pandemic dividend restrictions in 2020 and 2021 will be considered in the second half of 2022 after finalisation of the annual regulatory stress tests.

The Bank had 60,857 shareholders as of 31 March 2022 (up by 3,552 year on year), of which 55,152 were private individuals from the Czech Republic 55,152 (greater by 3,398 from the year earlier). Strategic shareholder Société Générale maintained its 60.4% stake while minority shareholders owned 39.0% and KB held 0.6% of the registered capital in treasury.

[1)] Excluding volatile reverse repo operations with clients but including debt securities issued by KB's clients and held by the Bank. Inclusive of repo operations, lending rose by 7.9% year over year to CZK 750.7 billion.

[2)] Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 3.8% to CZK 1,051.3 billion.

Market environment (in first quarter 2022)[1)]

Economic and social life in first quarter 2022 was significantly impacted by two phenomena. First, another Covid-19 wave culminated in late January and early February. By far the largest in terms of people infected, it nevertheless was not so serious as earlier waves in terms of the pressure it put on the health care system. No serious restrictive measures (e.g. distance learning in schools or travel bans) were introduced, and after this wave peaked remaining measures were quickly phased out. As of 24 April 2022, 65.3% of the Czech population was fully vaccinated, 39.4% of the population had received booster vaccine, and some 37% were officially reported to have recovered from Covid-19.

Second, on 24 February the Russian army invaded Ukraine, once again bringing immeasurable suffering to Europe and, subsequently, various economic impacts upon the global, European, as well as Czech economy. A jump in economic uncertainty and market volatility, drop in economic confidence indicators, and increase in commodity prices were unsurprising first-order impacts. A very important second-order economic impact was to worsen the already fragile situation in disrupted global supply chains. Macro- and microeconomic impacts were exacerbated by the various export and import exposures and the imposition of international sanctions.

During the first quarter, the Czech economy demonstrated resilience, adding 0.7% quarter over quarter (+4.6% year on year), as per the flash estimate. That built upon the positive outcome from the fourth quarter (+0.8% quarter on quarter, 3.6% year on year). Labour market conditions remain tight. In the fourth quarter, wage inflation slowed to +4.0% year on year (–2.0% in real terms). At the same time, the unemployment rate is still low and remains one of the lowest within the EU (standing at 2.4% in February, according to the Eurostat methodology after seasonal adjustment).[2)] More recent data from the Czech labour ministry show the unemployment rate to be stable.[3)]

The dynamics of industrial producer prices averaged a weighty 21.8% year on year in 2022's first quarter. Pressure from the primary price categories together with robust wage cost dynamics transmitted through to consumer price inflation, which accelerated at the end of the first quarter. As of March, it reached 12.7% year on year, mainly due to housing, water, energy, and fuel prices. Core inflation climbed to double-digit territory already in February 2022. The Czech koruna's exchange rate appreciated through the end of March against the euro by a slight 1.9%, reaching CZK 24.4 per euro versus the CZK 24.9 per euro in December. The koruna exchange rate depreciated against the euro to CZK 25.9 in the early days after the Russian invasion of Ukraine, but, as the situation clarified, the koruna returned to its earlier strengthening trend.

The CNB had begun its rate hiking cycle already in June 2021, increasing its 2W repo rate in 5 steps by a cumulative 350 bps before the end 2021 to a level of 3.75%. Another two steps were added in the first quarter of 2022 (+75 bps in February and +50 bps at the end of March), which brought the main policy rate to 5%. Subsequently, as of 31 March, the 3M PRIBOR reached 5.06% (+98 bps year to date) and the 10Y interest rate swap 3.87% (+62 bps year to date) while the interest rate swap curve remained inverted (5Y at 4.44%, +60bps year to date) and yields on 10-year Czech government bonds climbed to 3.72% (+99 bps year to date).

Growth in prices of residential real estate continued apace, influenced by expectations for further rise in prices and interest rates, deployment of excess savings accumulated due to pandemic restrictions, and rising prices for building materials. Prices of new development were especially affected. Prices paid in 2021's fourth quarter for previously owned flats were up 25.2% year on year across Czechia and by 20.0% year on year in Prague. Prices obtained for new flats (in Prague only) were 26.5% greater than a year earlier.[4)]

Total bank lending for the overall market (excluding repo operations) grew 7.8% year on year at the end of first quarter.[5)] Lending expansion was faster in retail banking, with mortgage growth staying in double-digit territory. New mortgage production has plummeted, however, with increasing interest rates, stricter borrowing conditions due to CNB regulation, and further growth in property prices. Lending to businesses had increased year on year by 4.6% in March 2022, reflecting heightened uncertainty.

The volume of client deposits in Czech banks had expanded by 4.7% year over year as of March.[6)] Term-deposits were showing stronger dynamics as compared to non-term deposits. Deposits from individuals had grown by 3.9% while the business deposit market grew by 5.6%. Deposits from most reported categories recorded positive single-digit growth dynamics in year-on-year terms.

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

[2)] https://ec.europa.eu/eurostat/documents/2995521/14358254/3-31032022-AP-EN.pdf/56d0f0a6-de1f-9099-63e2-a2cbf543e4c2?t=1648654477051#:~:text=In%20February%202022%2C%20the%20euro,from%207.5%25%20in%20February%202021. Data up to February 2022.

[3)] https://www.mpsv.cz/web/cz/mesicni. Data as available up to March 2022.

[4)] Source: https://www.czso.cz/csu/czso/indices-of-realized-flat-prices-4-quarter-of-2021 Publication code 014007-21, released 16 March 2022.

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

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

Reinforcing resilience by acting responsibly

The new situation shaped first by the Covid-19 pandemic and more recently by the war in Ukraine highlights the necessity for the Bank, and indeed the entire KB Group, to build a robust and resilient business model, one that is able to cope well in adverse conditions and to take advantage of opportunities brought about by the changing environment.

The strategy of Komerční banka includes such factors supporting long-term resilience as a solid capital base, strong liquidity, and prudent risk management, as well as responsible conduct in accordance with the accepted principles for environmental protection, social development, and corporate governance. KB's policies regarding responsibility are implemented through numerous concrete activities in daily life.

KB is aware of the risks stemming from climate change and it has committed to contribute in mitigating that change, including by reducing its direct emissions (scopes 1 and 2) in accordance with the 1.5°C scenario from the Paris Agreement. Greenhouse gas emissions by KB decreased by 32.5% as of 2021 compared to 2019, the first year of measurement, to 23,090 tonnes of CO_2 equivalent. That represents 14.7 kg per client. This result has been audited by the Preferred by Nature agency.

During the first quarter of 2022, KB put into operation at its premises 89 charging stations for electric cars. The total planned number of KB's charging stations across the Czech Republic is 170. Moreover, KB signed a contract to purchase 131 Skoda Enyaq iV battery-powered electric vehicles. The electric cars will be shared by the management and employees for their business as well as private trips.

As of 31 March 2022, the total volume of loans with sustainable positive impact provided by KB and SGEF reached CZK 29.7 billion. The newly contracted volume during 2022's first quarter totalled CZK 5.0 billion.

KB Group has been supporting civilian victims of the war in Ukraine. It has donated CZK 20 million, including CZK 5 million raised by the employees, for humanitarian aid in Ukraine and for Ukrainian refugees in Czechia (who currently number approximately 300,000, including mostly women and children). KB has also provided its lodging facilities in Prague and some other towns for sheltering refugees. The Bank is offering a special account for citizens of Ukraine that includes a signing bonus, free-of-charge payments to Ukraine, telemedicine assistance, and other benefits.

Meanwhile, KB Jistota Foundation has continued in its other activities and long-term projects. In the first quarter, it launched a grant call for support of single parents. Opened together by KB Penzijní společnost and the environmental foundation Nadace Partnerství, another call is running for support of planting tree alleys across the country. KB's bankers were again visiting schools with seminars on improving financial literacy as part of the Czech Banking Association's Bankers to the Schools programme.

On behalf of the Deposit Insurance Fund of the Czech Republic, Komerční banka is also paying out compensation to clients of the failed Sberbank CZ. As of 30 April 2022, KB had paid out CZK 22.3 billion to 65,000 depositors of the failed bank.

KB has been consistently developing rigorous governance and compliance standards and processes, including in the anti-money-laundering and know-your-client areas. In the context of heightened cyber security risks, it has enhanced its security protections and anti-fraud measures.

KB also updated its rules for asserting the Bank's interests with public authorities (lobbying). It continues to follow a course of political neutrality and refrains from supporting political organisations or activities.

Selected awards in the first quarter 2022

KB Group products have been honoured with several recognitions. KB was recognised in the Innovation category of the MasterCard Awards for its marketing and product innovations, including limited card editions and campaigns in sports and e-sports. KB SmartPay received a Special Mention in the MasterCard Awards for its "Czechia pays by card" campaign. In the TOP APP Award organised by Byzkids, Mobilní banka ranked second in the evaluation of mobile banking applications on the Czech market. MůjÚčet Plus received a bronze-level award in the Finparada.cz Best current account survey.

Developments in the client portfolio and distribution networks

	31 Mar 2021	31 Mar 2022	Change YoY
KB Group's clients[1)]	2,286,000	2,253,000	(32,000)
Komerční banka[1)]	1,641,000	1,636,000	(5,000)
– individual clients[1)]	1,391,000	1,393,000	1,000
– internet banking clients	1,450,000	1,484,000	34,000
– mobile banking clients	959,000	1,066,000	107,000
Modrá pyramida	486,000	478,000	(8,000)
KB Penzijní společnost	525,000	517,000	(8,000)
ESSOX (Group)	145,000	136,000	(9,000)
KB branches (CZ)	242	240	(2)
Modrá pyramida points of sale	199	203	4
SGEF branches	9	9	0
ATMs	823	861	38
of which deposit-taking	449	514	65
of which contactless	421	626	205
Number of active debit cards	1,413,000	1,445,000	32,000
Number of active credit cards	182,000	186,000	4,000
Number of cards virtualized into payment apps	306,000	419,000	113,000
KB key authentication users	867,000	999,000	133,000

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

Comments on business and financial results

The financial data published below are from unaudited consolidated results compiled under IFRS (International Financial Reporting Standards). Unless stated otherwise, the data are as of 31 March 2022.

BUSINESS PERFORMANCE

Loans to customers
Total **gross volume of lending to clients** rose by 8.1% year on year to CZK 750.7 billion.[1)]

In lending to individuals, the overall volume of housing loans grew by 9.0% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 6.3% to CZK 264.4 billion. Modrá pyramida's loan portfolio grew by a strong 19.2% to CZK 78.8 billion. The new production of housing loans in the first quarter decreased by 37.7% year on year to CZK 16.1 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 33.7 billion.

The total volume of **loans to businesses** and other lending provided by KB Group was greater by 7.5% year on year, at CZK 373.8 billion. Lending to small businesses grew by 2.5% to CZK 47.2 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 8.8% year on year to CZK 295.7 billion. At CZK 31.0 billion, the total credit and leasing amounts outstanding at SGEF were up by 3.4% year over year.

Amounts due to customers and assets under management
The **volume of standard client deposits** within KB Group rose by 3.0% year on year to CZK 1,015.1 billion.[3)] Clients were switching 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 grew by 3.8% from the year earlier to CZK 352.1 billion. The deposit book at Modrá pyramida decreased by (2.6%) to CZK 58.9 billion. Total deposits from businesses and other corporations climbed by 5.1% to CZK 597.1 billion.

Client assets managed by KB Penzijní společnost were 5.0% greater, at CZK 71.6 billion. Technical reserves in life insurance at Komerční pojišťovna were lower by (5.5%) year on year, at CZK 47.6 billion. The volumes in mutual funds held by KB Group clients grew by 19.1% to CZK 87.6 billion.

The Group's liquidity as measured by the ratio of net loans[4)] to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 72.8%. The Group's liquidity coverage ratio stood at 151%, well above the regulatory limit of 100%.

FINANCIAL PERFORMANCE

Income statement
Komerční banka's **revenues (net operating income)** for the first quarter of 2022 improved by 27.7% year on year to reach CZK 9,477 million. This growth was influenced by the facts that the comparative base from the same period of 2021 was affected by the severe pandemic restrictions and that interest rates were at extremely low levels. The increase in net interest income contributed most to the overall growth of revenues. Net fees and commissions and net gains from financial operations also improved.

Net interest and similar income was up by 37.0%, at CZK 6,856 million, from the low base of 2021's first quarter. The loan and deposit volumes were growing and market interest rates increased significantly year on year, thus supporting the yields from reinvesting deposits and the Bank's own funds. The net interest margin for the first quarter 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.

Net fee and commission income grew by 8.7% to CZK 1,493 million. Clients' transaction activity in the first quarter of 2022 recovered in all transaction types compared to the time of the economy's partial lockdown a year ago. Deposit product fees were almost stable in line with the numbers of clients. Fees from cross-selling were up strongly, driven mainly by rising sales and volumes in mutual funds. Income from loan services was up slightly year over year, mainly thanks to growing fees from factoring services and overdrafts, while fees from retail loans were down. KB recorded a modest gain in income from specialised financial services, primarily due to higher issuance of bank guarantees.

[1)] Excluding volatile reverse repo operations with clients but including debt securities issued by KB's corporate clients. If reverse repo operations are included, gross lending increased by 7.9% to CZK 750.7 billion.

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

[3)] Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' increased by 3.8% to CZK 1,051.3 billion.

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

Net profit from financial operations improved by 7.9% to CZK 1,081 million. Strong demand from clients for hedging of financial risks was driven by volatility of Czech koruna exchange and interest rates caused by the CNB's rapid monetary tightening and first implications of Russia's invasion of Ukraine. Net gains on FX payment transactions were much higher year on year with the return of international travel and a boost in related payments.

Dividend and other income declined by 11.9% to CZK 47 million. This line item primarily comprises revenues from property rental and ancillary services.

Operating expenses rose by 9.8% to CZK 4,768 million. Within that total, personnel expenses increased by 2.6% to CZK 1,871 million, as the bonus accrual had been limited in the first half of last year. The average number of employees diminished by (3.3%) to CZK 7,564.[1)] General administrative expenses (not including contributions to the regulatory funds) were up by 9.4%, at CZK 893 million, as the higher costs related to marketing, IT support, and other employee costs (such as training and recruiting) were not compensated by lower real estate costs. The estimated full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 1,267 million, up 25.6% 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 6.6% to CZK 738 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 52.8%, at CZK 4,709 million.

Cost of risk reached CZK 278 million, down by (52.6%) in comparison with CZK 586 million in the first quarter of 2021. The net creation of provisioning reflected continued low intensity of inflows into default and strong recovery performance of the retail and non-retail portfolios. It also included new provisions on exposures related to Russia, determined in detailed portfolio reviews. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during 2022's first quarter came to 15 basis points. That compares with 33 basis points for the same period a year earlier.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was down (15.8%) year on year, at CZK 48 million, influenced by interest rates development and the timing of insurance reserves creation and utilisation at KP.

Net loss on other assets reached CZK (33) million due to accelerated depreciation of technical improvements in closed leased branches. In the previous year, net profit on other assets had been CZK 5 million.

Income tax was higher by 76.6%, at CZK 869 million.

KB Group's consolidated **net profit** for the first quarter of 2022 reached CZK 3,577 million, which was higher by 73.3% in comparison with a year earlier. Of this total, CZK 64 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (down by (4.5%) year on year).

Reported **net profit attributable to the Group's equity holders** totalled CZK 3,513 million, which is 75.9% 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 an associated company, reached CZK (808) million. **Consolidated comprehensive income** for the first quarter of 2022 totalled CZK 2,769 million, of which CZK 62 million was attributable to owners of non-controlling stakes.

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

Assets
As of 31 March 2022, KB Group's total assets had grown by 12.4% year to date to CZK 1,398.3 billion.

Cash and current balances with central banks were up 92.0%, at CZK 57.5 billion. Financial assets at fair value through profit or loss (trading securities and derivatives) increased by 6.0% to CZK 43.6 billion. The fair value of hedging financial derivatives climbed by 20.7% to CZK 17.3 billion.

Year to date, there was a (6.0%) decline in financial assets at fair value through other comprehensive income totalling CZK 33.4 billion. This item consisted mainly of debt securities issued by government insitutions.

[1)] Recalculated to a full-time equivalent number.

Financial assets at amortised cost grew by 11.2% to CZK 1,219.1 billion. The largest portion of this consisted of (net) loans and advances to customers, which increased year to date by 1.9% to CZK 738.5 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 13.3 billion. Loans and advances to banks grew by 35.7% to CZK 349.1 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 15.3% and reached CZK 131.5 billion at the end of the first quarter.

Revaluation differences on portfolio hedge items totalled CZK (0.8) billion, higher by 31.5%. Current and deferred tax assets stood at CZK 0.1 billion. Other assets and accrued accounts, which include receivables from securities trading and settlement balances, increased overall by 11.5% to CZK 6.5 billion. Assets held for sale diminished by (50.6%) to CZK 0.3 billion.

Investments in subsidiaries and associates declined by (29.9%) to CZK 0.6 billion.

The net book value of tangible assets declined by (2.8%) to CZK 8.7 billion. Intangible assets grew by 2.2% to reach CZK 8.1 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 13.5% higher in comparison to the end of 2021 and stood at CZK 1,268.7 billion.

Financial liabilities at amortised cost went up by 12.7% to CZK 1,190.4 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 9.9% to CZK 1,051.3 billion. This total included CZK 36.2 billion of liabilities from repo operations with clients and CZK 8.3 billion of other payables to customers. Amounts due to banks increased in the first quarter of 2022 by 48.8% to CZK 124.1 billion.

Revaluation differences on portfolios hedge items were negative CZK (41.3) billion. Current and deferred tax liabilities were steady at CZK 1.8 billion. Other liabilities and accruals, which include payables from securities trading and settlement balances, grew by 74.5% to CZK 21.8 billion.

The provisions balance was (1.1%) lower, at CZK 1.3 billion. Provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise those for ongoing contracted contingent commitments, legal disputes, self-insurance, and the retirement benefits plan.

Subordinated debt, at CZK 2.4 billion, was down (1.9%) year to date. Because that debt is issued in euro, the change reflects appreciation of the Czech koruna over the same period.

Equity
Total equity expanded year to date by 2.2% to CZK 129.6 billion. The value of non-controlling interests reached CZK 3.3 billion. As of 31 March 2022, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

Regulatory capital and requirements
Total **regulatory capital** for the capital adequacy calculation came to CZK 103.4 billion as of 31 March 2022. **Capital adequacy** stood at 20.2%. The Core Tier 1 capital amounted to CZK 101.4 billion, and the Core Tier 1 ratio stood at 19.8%. Tier 2 capital totalled CZK 2.0 billion, which was 0.4% of risk-weighted assets.

As of 1 April 2022, Komerční banka's overall capital requirements (OCR) come to 15.60%, the minimum required level of CET 1 is at 10.96%, and the minimum Tier 1 capital ratio stands at 12.95%.

The OCR will rise by cumulative 200 bps in four steps in July 2022, October 2022, January 2023, and April 2023 due to pre-announced increases in the countercyclical buffer requirement. Assuming no further changes, as from 1 April 2023, the minimum OCR would reach 17.60%, minimum CET1 ratio 12.96%, and minimum Tier 1 14.95%.

KB Group's Liquidity Coverage Ratio came to 151% as of 31 March 2022. The applicable regulatory minimum is 100%.

Expected development and main risks to that development in 2022

Note: This outlook updates and replaces the outlook first presented on 10 February 2022 upon release of Komerční banka's results for the full year 2021. It factors in recent development in economic conditions, as well as the assumed economic consequences of the Russian invasion of Ukraine launched on 24 February 2022.

KB Group is aware that the sharply deteriorated geopolitical situation 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 impossible 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 raw materials, supply chain disruption). 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, continued supply chain disruptions, and higher energy prices, the Czech economy's growth will slow to 1.8% from 3.4% a year ago, and this full year summary figure will include also a shallow recession in the second and third quarters. Household consumption and fixed investments should contribute positively to the 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 13%, with year-on-year inflation rates probably peaking in the middle of the year.

In order to fight the inflation pressures, the Czech National Bank is expected to continue raising monetary policy rates, as it had commenced to do in the middle of 2021. The two-week repo rate will likely peak at 5.5%, and it will stay at this level at least until the end of the year. The CNB is not expected to intervene toward stronger koruna in this year.

The regulatory environment will see the effects of a reversal of some measures adopted in reaction to the coronavirus crisis. The CNB has returned to stricter regulation of mortgage lending, reinstating with effect from 1 April 2022 the limits on the ratios of debt-to-income and debt service-to-income as well as lowering the maximum loan-to-value ratio.[1)] It decided, too, on increasing the counter-cyclical capital buffer rate in two steps during 2022 and two additional steps as of 1 January and 1 April 2023. This will take that rate to 2.5%.[2)] The national bank also announced in September 2021 that it would no longer restrict the amount of bank dividends across the board.[3)] 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, after the results of various regulatory tests will have been discussed with the regulator. In the situation of excess capital, KB may postpone the beginning of 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 the year on a solid footing, but it will gradually absorb the effects of the higher interest rates, slower 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 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 worsened consumer confidence. Lending to corporations should rise at a high single-digit pace. Demand for working capital financing strengthens 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 increased investment activity of the government 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 loans volumes as the financial situation of some households and businesses tightens.

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 a mid-single-digit growth rate for 2022. Within the total, the corporate loan book may grow somewhat faster. The volume of housing loans outstanding should continue to increase slightly, even though the new sales of these loans will drop in comparison with the record level achieved in 2021. Growth in total

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

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

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

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

In spite of the elevated inflation and significantly higher regulatory charges for the Resolution Fund, operating expenses will remain under tight control and will rise at a mid-single-digit pace, thus 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. Average salary growth will reach low single digits. 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 at another 19 branches cash services are newly provided only via ATMs. As of 1 July 2022, KB will simplify the management structure of the branch network, including to replace regional retail divisions with joint segment and line management of all distribution channels at headquarters level. The selection of branches for closing was based upon a long-term analysis of branch traffic, coverage and potential of locations, and 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, in the central scenario, still remain below the estimated normalised level of 30–40 basis points across the whole business cycle.

The key risks to the expectations described above consist in further escalation of the war in Ukraine and its economic repercussions, prolonged or deepened shortages of key input materials for Czech industry, or a return of pandemic restrictions and disruptions. Generally, the open Czech economy would be sensitive to a worsening external economic environment, such as, in particular, further recession in the euro zone.

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

Developments in corporate governance

The General Meeting held on April 20 approved the reported financial statements for 2021 and the proposal for the distribution of profit, including dividend payment in the amount of CZK 8.3 billion. The General Meeting also approved the consolidated financial statements for 2021, the new conditions for the acquisition of the Bank's own ordinary shares, and the Remuneration Report for 2021. It also decided to appoint an auditor to perform the statutory audit for 2022.

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

	Reported			Recurring		
Profit and Loss Statement	**1Q 2021**	**1Q 2022**	**Change YoY**	**1Q 2021**	**1Q 2022**	**Change YoY**
(CZK million, unaudited)						
Net interest income	5,004	6,856	37.0%	5,004	6,856	37.0%
Net fee and commission income	1,374	1,493	8.7%	1,374	1,493	8.7%
Net profit on financial operations	1,002	1,081	7.9%	1,002	1,081	7.9%
Dividend and other income	42	47	11.9%	42	47	11.9%
Net banking income	**7,422**	**9,477**	**27.7%**	**7,422**	**9,477**	**27.7%**
Personnel expenses	(1,824)	(1,871)	2.6%	(1,824)	(1,871)	2.6%
General admin. expenses (excl. regulatory funds)	(816)	(893)	9.4%	(816)	(893)	9.4%
Resolution and similar funds	(1,009)	(1,267)	25.6%	(1,009)	(1,267)	25.6%
Depreciation, amortisation and impairment of operating assets	(692)	(738)	6.6%	(692)	(738)	6.6%
Total operating expenses	**(4,341)**	**(4,768)**	**9.8%**	**(4,341)**	**(4,768)**	**9.8%**
Operating profit	**3,081**	**4,709**	**52.8%**	**3,081**	**4,709**	**52.8%**
Impairment losses	(598)	(158)	+/-	(598)	(158)	+/-
Net gain from loans and advances transferred and written off	12	(120)	+/-	12	(120)	+/-
Cost of risk	**(586)**	**(278)**	**(52.6%)**	**(586)**	**(278)**	**(52.6%)**
Net operating income	**2,495**	**4,431**	**77.6%**	**2,495**	**4,431**	**77.6%**
Income from share of associated companies	57	48	(15.8%)	57	48	(15.8%)
Profit/(loss) attributable to exclusion of companies from consolidation	0	0	n.a.	0	0	n.a.
Net profits on other assets	5	(33)	+/-	5	(33)	+/-
Profit before income taxes	**2,557**	**4,446**	**73.9%**	**2,557**	**4,446**	**73.9%**
Income taxes	(492)	(869)	76.6%	(492)	(869)	76.6%
Net profit for the period	**2,064**	**3,577**	**73.3%**	**2,064**	**3,577**	**73.3%**
Profit attributable to the Non-controlling owners	67	64	(4.5%)	67	64	(4.5%)
Profit attributable to the Group's equity holders	**1,997**	**3,513**	**75.9%**	**1,997**	**3,513**	**75.9%**

Statement of financial position	**31 Dec 2021**	**31 Mar 2022**	**Ytd**
(CZK million, unaudited)			
Assets	**1,244,353**	**1,398,297**	**12.4%**
Cash and current balances with central bank	29,947	57,491	92.0%
Loans and advances to banks	257,196	349,137	35.7%
Loans and advances to customers (net)	724,587	738,500	1.9%
Securities and trading derivatives	190,924	208,665	9.3%
Other assets	41,699	44,504	6.7%
Liabilities and shareholders' equity	**1,244,353**	**1,398,297**	**12.4%**
Amounts due to banks	83,372	124,097	48.8%
Amounts due to customers	956,929	1,051,287	9.9%
Securities issued	13,666	12,626	(7.6%)
Subordinated debt	2,490	2,442	(1.9%)
Other liabilities	61,114	78,288	28.1%
Total equity	126,782	129,556	2.2%

Key ratios and indicators	31 Mar 2021	31 Mar 2022	Change year on year
Capital adequacy (CNB)	22.5%	20.2%	▼
Tier 1 ratio (CNB)	21.8%	19.8%	▼
Total risk-weighted assets (CZK billion)	446.7	484.4	8.4%
Risk-weighted assets for credit risk (CZK billion)	374.3	425.8	13.8%
Net interest margin (NII / average interest-bearing assets)[III]	1.7%	2.2%	▲
Loans (net) / deposits ratio[IV]	68.9%	72.8%	▲
Cost / income ratio[V]	58.5%	50.3%	▼
Return on average equity (ROAE)[VI]	7.0%	11.3%	▲
Return on average Tier 1 capital[VII]	8.2%	13.9%	▲
Return on average assets (ROAA)[VIII]	0.7%	1.1%	▲
Earnings per share (CZK)[IX]	42.3	74.4	75.9%
Average number of employees during the period	7,820	7,564	(3.3%)

Business performance in retail segment – overview	31 Mar 22	Change year on year
CZK bil.		
Mortgages to individuals – volume of loans outstanding	264.4	6.3%
Building savings loans (MPSS) – volume of loans outstanding	78.8	19.2%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	33.7	4.8%
Small business loans – volume of loans outstanding	47.2	2.5%
Insurance premiums written (KP)	2.2	(17.5%)

Financial calendar:

3 August 2022 – 1H and 2Q 2022 results
4 November 2022 – 9M and 3Q 2022 results

Definitions of the performance indicators mentioned herein:

I. **Housing loans:** mortgages to individuals provided by KB + loans to clients provided by Modrá pyramida;

II. **Cost of risk in relative terms:** annualised 'Allowances for loan losses' divided by the average of 'Gross amount of client loans and advances', year to date;

III. **Net interest margin (NIM)**: 'Net interest income' divided by average interest-earning assets (IEA) year to date (IEA comprise 'Cash and current balances with central banks' ('Current balances with central banks' only), 'Loans and advances to banks', 'Loans and advances to customers', ,'Financial assets held for trading at fair value through profit or loss' [debt securities only], 'Non-trading financial assets at fair value through profit or loss' [debt securities only], 'Financial assets at fair value through other comprehensive income' [debt securities only], and 'Debt securities');

IV. **Net loans to deposits:** ('Net loans and advances to customers' inclusive of debt securities held by KB and issued by the Bank's clients less 'reverse repo operations with clients') divided by the quantity ('Amounts due to customers' less 'repo operations with clients');

V. **Cost to income ratio:** 'Operating costs' divided by 'Net operating income';

VI. **Return on average equity (ROAE):** annualised 'Net profit attributable to the Group's equity holders' divided by the quantity average group 'shareholders' equity' less 'Minority equity', year to date;

VII. **Return on average Tier 1 capital**: annualised 'Net profit attributable to the Group's equity holders'' divided by average group 'Tier 1 capital', year to date;

VIII. **Return on average assets (ROAA):** annualised 'Net profit attributable to the Group's equity holders'' divided by average 'Total assets', year to date;

IX. **Earnings per share:** annualised 'Net profit attributable to the Group's equity holders'' divided by the quantity average number of shares issued minus average number of own shares in treasury.

Reconciliation of 'Net interest margin' calculation, (CZK million, consolidated, unaudited):

(source: Profit and Loss Statement)	1Q 2022	1Q 2021
Net interest income income, year-to-date	**6,856**	**5,004**
Of which:		
Loans and advances at amortised cost	9,438	4,326
Debt securities at amortised cost	658	443
Other debt securities	138	179
Financial liabilities at amortised cost	(2,458)	(312)
Hedging financial derivatives – income	6,499	2,408
Hedging financial derivatives – expense	(7,419)	(2,040)

(source: Balance Sheet)	31-Mar-22	31-Dec-21	31-Mar-21	31-Dec-20
Cash and current balances with central banks / Current balances with central banks	47,865	21,455	16,003	15,050
Loans and advances to banks	349,137	257,196	368,290	262,606
Loans and advances to customers	738,500	724,587	679,531	679,956
Financial assets held for trading at fair value through profit or loss / Debt securities	9,052	8,696	10,757	3,342
Non-trading financial assets at fair value through profit or loss / Debt securities	132	135	0	279
Financial asset at fair value through other comprehensive income (FV OCI) / Debt securities	33,368	35,509	39,981	40,151
Debt securities	131,481	114,078	104,495	92,839
Interest-bearing assets (end of period)	**1,309,536**	**1,161,656**	**1,219,056**	**1,094,223**
Average interest-bearing assets, year-to-date	**1,235,596**		**1,156,640**	
NIM year-to-date, annualised	**2.22%**		**1.73%**	