Komerční banka, a.s.

RESULTS

9M 2022

AND STATUS OF KB CHANGE 2025 IMPLEMENTATION

Regulatory information

Komerční banka, a.s.

Komerční banka’s results for 9 months of 2022

Sound operating performance, cost of risk under control, recognition for corporate social responsibility

“Komerční banka continues to deliver solid business and financial performance. The credit profile of the loan portfolio is resilient, although we have noted worsening confidence indicators among businesses and consumers. Komerční banka will continue to stand by its clients at all times. Already in pandemic years 2020-2021 we have proved our determination and commitment to our clients even in uneasy times.

We have recently passed important milestones in our transformation journey planned until 2025. KB’s completely new digital banking infrastructure is operational with 3,000 clients from among employees. We are ready to switch to a new card management system in the next few days. The whole Change 2025 programme will reinforce Komerční banka’s competitiveness in the years to come.

I am especially happy of the high marks that Komerční banka has received recently in reputable global assessments of companies’ management of environmental, social, and governance challenges. Both MSCI ESG and S&P Global CSA measure various sustainability performance factors, including governance structure, reporting transparency and tax transparency. The acknowledgements attest to the important and positive role that the Bank plays in supporting the stability and development of the Czech economy and society,” remarked Jan Juchelka, KB’s Chairman of the Board of Directors and Chief Executive Officer.

- **Total volume of KB Group’s lending to customers expanded by 8.6% year on year to CZK 787.2 billion. Growth of the portfolio was faster in corporate lending. Growth continued even in the outstanding volume of housing loans, despite a drop in new production.**
- **Overall volume of standard client deposits within KB Group decreased by (3.2%), to CZK 1,010.1 billion, influenced by transfer of some client savings to mutual funds, utilisation of financial reserves accumulated during pandemic lockdowns, and stiff competition. Volume of non-bank assets under management leapt by 5.3% to CZK 210.0 billion.**
- **KB Group as a whole was serving 2,246,000 clients. That is 9,000 more than a year earlier. Standalone Komerční banka had 1,651,000 customers, up by 28,000 year on year.**
- **Compared with the first 9 months of the previous year, when economic activity had been affected by pandemic restrictions, KB reported a 28.2% increase in revenues to CZK 29.0 billion.**
- **Operating expenditures were higher by 6.4%, at CZK 12.1 billion.**
- **Quality of the loan portfolio remained resilient. Net creation of credit risk provisions increased by 71.2% to CZK 1.2 billion, predominantly reflecting anticipated impacts of high inflation.**
- **Net profit attributable to shareholders improved by 51.1% to CZK 12.9 billion. Income taxes rose by 45.5% to CZK 2.9 billion.**
- **In 9 months of 2022, KB Group paid into public budgets CZK 2.8 billion in income taxes, CZK 1.3 billion into the Resolution and Deposit Insurance regulatory funds, CZK 1.5 billion for social and health insurance, CZK 1.0 billion in withholding tax from interest and dividends, and further substantial amounts in other charges, such as VAT. The employees paid an additional CZK 0.5 billion in income tax and CZK 0.5 billion in social and health insurance.**

- **Volume of regulatory capital reached CZK 110.7 billion, capital adequacy stood at 21.1%, and the Core Tier 1 ratio was 20.5%.**

- **Komerční banka had 67,358 shareholders (up by 9,204 year on year), of which 61,445 were private individuals from the Czech Republic.**

- **Komerční banka was rated 'AA' by MSCI ESG ratings of global measurement of companies' management of financially relevant ESG risks and opportunities. It also received a score of 54 in the S&P Global Corporate Sustainability Assessment, thereby ranking KB among leading banks globally in terms of sustainability practices.**

Prague, 4 November 2022 – Komerční banka reported today its unaudited consolidated results for the 9 months of 2022.

Total revenues were up by 28.2%, at CZK 29.0 billion, as the comparative base from the previous year had been affected by pandemic lockdowns and extraordinarily low interest rates. Net interest income increased by 40.1% to CZK 21.5 billion, driven by growing business volumes and higher yields from reinvestment of liabilities and capital. Net fee and commission income improved by 6.7% to CZK 4.4 billion because of greater transaction activity, particularly due to card payments, clients' increased investments in mutual funds, and heightened demand among corporations for some services, such as for guarantees. Net profit on financial operations was almost stable (down by (1.4%) to CZK 2.9 billion), driven by recovery in travel-related currency conversions and demand from clients for hedging of financial risks in the volatile and uncertain environment.

Operating expenses were up by 6.4%, at CZK 12.1 billion, mainly driven by a 24% increase in the regulatory levy to the Resolution Fund. Personnel expenses were higher by 2.3%, even as the average number of employees decreased by (2.7%) to 7,496 and salaries grew by an average 3% effective from April 2022. Accruals for variable remuneration had been reduced in the first half of last year, thus influencing the comparative base. Administrative costs rose across all categories, but much less than did inflation, by a total 7.7%. Depreciation and amortisation charges were up by 6.8% year on year, reflecting the ongoing investments in digitalisation.

Net creation of provisions for the 9 months of 2022 totalled CZK 1.2 billion, up by 71.2% year on year. The new provisioning mainly related to anticipated impacts of the high inflation on the credit profile in future, in line with the forward-looking principles of the IFRS 9 accounting standard. The Group also released some provisions reflecting several successful resolutions in the corporate client segment. The level of new defaults remained relatively low across all client segments.

The reported net profit attributable to shareholders improved by 51.1% to CZK 12.9 billion. Income taxes climbed by 45.5% to CZK 2.9 billion.

Lending to clients went up by 8.6% to CZK 787.2 billion.[1)] The volume of housing loans outstanding from KB and Modrá pyramida expanded by 6.1%, even as new production of these loans in the first 9 months decreased by (59.9%) to CZK 33.5 billion. Clients benefitted from interest rate guarantees from previous periods and the drawing of loans for construction often extends over several months. Consumer lending by KB and ESSOX increased by 4.6%. Lending to businesses and other clients was up by 11.3%, with volumes of working capital financing as well as investment loans both increasing. Negative contribution from a 3.7% year-on-year appreciation of the Czech crown against the euro on the reported CZK value of EUR-denominated loans represented 0.8% of total lending.

Deposits from clients decreased by (3.2%) year on year to CZK 1,010.1 billion.[2)] This development was influenced by clients shifting some of their savings to mutual funds or even utilising them to cover the increased costs of living. The competition for deposits on the market has intensified. Then, too, clients often have been switching their deposits from current accounts to better-yielding term and savings accounts. The volume of KB Group clients' assets in mutual funds, pension savings, and life insurance rose by 5.3% to CZK 210.0 billion.

The capital adequacy ratio reached a strong 21.1%, and Core Tier 1 capital stood at 20.5%. The liquidity coverage ratio was 159%, significantly above the regulatory minimum of 100%.

The Bank had 67,358 shareholders as of 30 September 2022 (up by 9,204 year on year), of which 61,445 (greater by 8,887 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.

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

2) Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 2.4% to CZK 1,120.5 billion.

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

Economic and social life in 2022's third quarter was mostly influenced by energy prices and the inflationary environment generally, which is biting into corporate profits and especially household budgets. The global market environment was marked by rising interest rates. The direct consequences and amplification of existing economic obstacles (i.e. supply chain disruptions) from the Russian military's invasion of Ukraine were subdued in the third quarter. Covid-19 during the third quarter was an issue only at the individual level, as there were no general restrictive measures in place and a potential autumn wave is so far not gaining strength in Czechia.

During the third quarter the Czech economy started to slowdown when substracting 0.4% quarter on quarter (+1.6% year on year), as per the flash estimate. In the second quarter economic performance reached +0.5% growth quarter on quarter and +3.7% year on year, as per final numbers. The manufacturing sector, represented especially by car production, gained further momentum during summer, as production for 9 months was up by 9.8% year over year. Labour market conditions remain tight. In the second quarter, wage inflation picked up somewhat to +4.4% year on year (down by (9.8%) in real terms). The unemployment rate remains one of the lowest within the EU (standing at 2.2% in September, according to the Eurostat methodology after seasonal adjustment).[2)] Data from the Czech labour ministry show that the unemployment rate rose marginally in September.[3)]

Weighty pressure from the primary price categories continued in the third quarter. Dynamics of industrial producer prices averaged 25.9% year on year (2.1% quarter on quarter), agricultural producer prices 37.0% ((1.1%) quarter on quarter), and construction work prices 13.1% in the quarter (3.0% quarter on quarter). Pressure from the primary price categories together with wage cost dynamics are transmitting through to consumer price inflation. It accelerated in September to 18.0% year on year, mainly due to housing, water, and energy. Dynamics of core inflation remained at a steady 15% during July–September.

The CNB had left the main 2W repo monetary policy rate on hold at 7% since 23 June. Subsequently, as of 30 September, 3M PRIBOR reached 7.25% (+317 bps year to date, +2 bps quarter on quarter) and the 10Y interest rate swap hit 5.09% (+183 bps year to date, (6) bps quarter on quarter). Meanwhile, the interest rate swap curve remained inverted (5Y at 5.54%, +170 bps year to date, (15) bps quarter on quarter) and yields on 10-year Czech government bonds grew to 5.24% (+251 bps year to date, +45 bps quarter on quarter).

By the end of September, the Czech crown's exchange rate had appreciated against the euro by 0.8% quarter over quarter, reaching CZK 24.6 per euro. The crown exchange rate was to a certain extent again supported by CNB interventions on the FX market in order to neutralise the depreciating mood on this market and thereby to limit transmission of a weakened crown's influence to worsen CPI inflation in Czechia.

Information on development in residential real estate prices is available for the second quarter. In that period, growth in prices still continued apace, although the quarter-on-quarter dynamics slowed, especially due to prices of new dwellings as per the European house price index. Prices paid in 2022's second quarter for previously owned flats were up 27.6% year on year across Czechia and by 16.7% year on year in Prague. Prices obtained for new flats (in Prague only) were 26.7% greater than a year earlier.[4)]

Total bank lending for the overall market (excluding repo operations) grew by 7.7% year on year through the end of 2022's first nine months.[5)] Lending expansion was slower in retail banking (6.8% year over year), with housing loans growth moving back to single-digit territory as new mortgage production has decreased due to rising interest rates, stricter borrowing conditions as per CNB regulations, and high property prices. Lending to businesses increased year on year by 8.6% in September 2022, due to dynamics of all main segments, non-financial corporates, public sector and the financial institutions segment.

The volume of client deposits in Czech banks expanded by 7.9% year over year as of September.[6)] Individual term deposits tripled in year-on-year terms. Business term deposits added 91.9% over the previous year. Non-term deposits declined in both segments: ((7.5%) year over year in the retail segment and (14.1%) in the business segment. Deposits from individuals in total had grown by 3.4% while the business deposit market grew by 12.9% year over year.

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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/2995521/15228148/3-03112022-AP-EN.pdf/0fb6330c-11bf-3e4a-3590-a1b74ff5104b?t=1667238642154 Data as of September 2022.

3) https://www.mpsv.cz/web/cz/mesicni. Data as of September 2022.

4) Source: https://www.czso.cz/csu/czso/indices-of-realized-flat-prices-2-quarter-of-2022 Publication code 014007-22, released 13 September 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.

Progress in implementing KB Change 2025 strategic plan in the past 12 months

Komerční banka had presented on 5 November 2020 its KB Change 2025 plan updating strategic directions and addressing the emerging challenges and opportunities for creating a strong, client-focused bank. Komerční banka aims to build together with its clients a better and sustainable future through responsible and innovative financial solutions. KB aspires to be a leader in a new era of banking for 2 million active clients. The Bank has delivered tangible progress in ten areas covered by KB Change 2025 in the second year following launch of the strategic plan.

Building of a new digital bank with the Temenos Transact system at its core is a cornerstone of the transformation programme. As of October 2022, a pilot operation of the new platform in mobile application, internet banking, and relationship managers' dashboard is running with 3,000 clients from among KB's employees. Functionalities in operation include client onboarding, current account, savings account, investments, overdrafts, direct debit, SEPA payments, and standing orders.

KB also has prepared for deployment in mid-November of the new TSYS Prime card processing platform, in an application outsourcing to Global Payments Europe. It will enhance security and processing efficiency, as well as offer additional options for card administration.

Komerční banka and Modrá pyramida have merged into one team development and processing of their housing loans.

In 9 months of 2022, the share of digitally sold products in total sales reached 22.9% in the Individuals segment, of which 16.8% of products were sold in an end-to-end digital manner. End-to-end digital sales of consumer loans expanded by 81% year on year, representing 39% of total sales. End-to-end digital sales of current accounts were up 67% year on year, but still at a relatively modest 8% of total sales.

Because the network of branches will remain a building block of KB's omnichannel strategy, KB is gradually refurbishing branches in a new design concept that is appropriate for advisory and effectively serving clients' various financial needs. Relationship managers at branches are assisted with expert support in the areas of investments, financing, and debt resolution.

In order to procure new revenue sources, KB has been building an ecosystem of complementary financial services by a combination of internal development, co-operation with start-up as well as established providers, and even acquiring participations in fintech companies via its fully owned platform KB Smart Solutions. In this way, KB SmartSolutions during 2022 acquired full ownership in Enviros, a leading Czech energy and environment advisory providing its services to a number of important companies in Central Europe. Furthermore, KB SmartSolutions increased to 96% its ownership stake in UPVEST, a digital platform for crowdfunding of real estate projects. Some 3,500 investors have already funded 35 projects in the total amount of CZK 1.5 billion through the platform. The Group has also increased its stake in MonkeyData, operator of the Lemonero digital platform for B2B financing of e-commerce. The capital injection will facilitate expansion of that service employing advanced data analytics and artificial intelligence. Meanwhile, the internal start-up Finbricks, s.r.o., has become a leading aggregation platform for financial services under the PSD 2 Directive for payment gateways in the Czech Republic.

KB is striving to reinforce its market leadership position in services for corporate clients. It has introduced a flatter organisation of the SME & Public sector banking function for small and medium-sized corporations and public sector entities. This improved clients' access to the Bank across the Czech Republic, reinforced expert assistance to clients, and supports digital solutions. In a year-over-year comparison, as of September 2022, KB's market share in lending to businesses improved by some 0.9 percentage points to 18.2%.

Komerční banka intends to do its part to protect the climate by supporting a fair, environmentally friendly, and inclusive energy transition, even as it acknowledges that not all energy sources are equivalent in their costs to consumers and that the energy sector represents thousands of jobs. The Bank is committed to limiting global warming and to reducing its direct emissions (scopes 1 and 2) in accordance with the 1.5°C scenario from the Paris Agreement. KB will contribute to carbon removal projects with a view to reaching carbon neutrality by 2026. In 2021, total emissions decreased by 32.5% compared to the reference year 2019, to 23,903 tonnes of CO_2 equivalent (14.7 kilograms per client). Measurement is audited on a yearly basis by the non-profit Preferred by Nature. Over the past 12 months, the Group contracted CZK 28.7 billion in financing of projects with sustainable positive impact in accordance with EU Taxonomy. The outstanding volume of ESG-compliant loans expanded by 70.1% to CZK 34.7 billion. Furthermore, Komerční banka has committed to progressively reducing to zero by 2030 its exposure to projects actively associated with the coal sector. On this basis, the Bank is no longer providing new financial products to clients who have more than 25% of their revenues linked to the thermal coal sector and have not communicated a time-bound coal phase out plan aligned with the 2030/2040 thermal coal phase-out objectives of Société Générale.

As part of its risk management framework, KB has deployed new digital fraud prevention solutions. It has successfully piloted automated residential real estate valuations based on an internal model, as a key enabler for digital housing financing. Development of a new SOA-based credit risk management platform is another key enabler for digital retail financing activities.

The effectiveness of delivering applications and services is being improved by rollout of the DevOps concept, whereby dedicated teams have end-to-end responsibility for complete client or banking service journeys in the new digital bank. Moreover, KB has established its own Data Academy, at which more than 330 colleagues completed various courses during 2022's first 6 months.

Operational efficiency was boosted by centralisation of additional support functions across KB Group. Optimisation of operations through digitalisation, branch reduction and switching to cashless banking, automation of middle- and back-office and support functions, and robotics deployment will mean that the standalone bank's full operations and services will be handled by approximately 5,500 employees. This compares with 7,210 employees in the Bank as of 31 December 2019. The average number of employees through 9 months of 2022 decreased by 8.2% compared to the average in the reference year 2019. Although the branch will remain an important contact point for clients, as the trend in providing services increasingly involves migration to digital channels, the Bank aims to have just 200 branches by the strategy's horizon. During the past 12 months, KB closed 25 branches, and the current number of branches stands at 218, down by 36.3% from 342 as of 31 December 2019. KB also agreed with Moneta Money Bank on sharing the two banks' ATM networks for clients. This was a first step in an initiative that will lead to clients having better access to financial services in less densely populated areas, as well as better sustainability and efficiency in operating the ATM networks of all participating banks.

The plan's operational targets, which are formulated for the standalone bank, have been affirmed. KB aims to increase the level of client satisfaction as measured by Net Promoter Score in the retail clients and small and medium-sized enterprises segments while stabilising that satisfaction at the already very high level (above 50 points) within the large corporations segment. The measurements in retail segments during 2022 showed a gain in NPS among individual clients to 45 from 32 in 2019, and among small businesses to 33 from 32. At the time of this report's publication, Ipsos agency was still completing the NPS measurement in corporate segments. Based upon organic growth, the clients' seamless omnichannel experience should help the Bank to achieve its target of 1,850,000 clients by 2025. As of 30 September 2022, KB was serving 1,651,000 clients. The development in the past year was influenced by new accounts opened by war refugees from Ukraine.

The upgraded working and management methods are leading to employee empowerment and effective teamwork across the entity. KB is maintaining the Smart Office concept of hybrid work from office and home, developing the Mojevitalita programme promoting and supporting healthy life style, and is offering medical assistance as well as legal and life counselling for all colleagues. Effective leadership should help to achieve further gains in employee engagement levels as measured by a proprietary blended index to the level of 83 points from a strong 78 points in 2019. The employee engagement index's 2022 measurement stood at 79 points.

KB believes that pursuing sustainability in business and operations generates long-term benefits in delivering new business and value for shareholders as well as compliance with future Czech and European regulations. As a measure of maturity in the environmental, social, and governance areas, KB has selected the globally recognised FTSE4Good index of sustainably managed companies. Its target will be to exceed the level of 4 points. The Bank's index stood at 3.6 in 2022, up by 0.3 points in comparison with a year earlier. In MSCI ESG measurement, meanwhile, KB was rated at the 'AA' level, which is reserved for companies leading their respective industries in managing the most significant ESG risks and opportunities.

The financial targets have been set on a KB Group basis, and the management is confident about at least reaching these targets. For 2025, the cost-to-income ratio is targeted to move below 40%. Based upon organic growth, and after recovering from the pandemic hit in 2020 and 2021, the Group's revenues will slow their growth in 2023 as the interest rates will have peaked. This growth should accelerate in 2025 with the full launch of KB's new digital bank, boosted by digital sales and an advisory model supported by data analytics, as well as new revenue sources. Operating expenditures will be kept under tight control even in the high-inflation environment of 2022–2023. Savings from decommissioning the old components of the banking infrastructure should begin to accrue mainly from 2025.

With a view to reinforcing the scale of KB's existing business and thus optimising efficiency and competitiveness in high-potential business segments within the 2025 planning horizon, KB will consider to enhance its performance with non-organic growth elements. Implementation of any such ambition will be subject to further careful assessments and validations. The minimum ambition for the number of bank clients inclusive of the non-organic growth component has been set at 2,000,000.

The targeted cost-to-income ratio below 40% is valid also for the scenario of non-organic growth. Upon successful implementation of non-organic growth components, and assuming normalisation in the cost of risk levels at 25 basis points, KB Group targets ROE above 15% for 2025.

Strong capital supported by potential Tier 2 issuance shall allow sustaining a 60–70% dividend payout in the context of higher mid-single digit growth of risk-weighted assets that is driven by business growth, with some contribution of risk-weighted regulatory adjustments. The Group will potentially pursue accretive non-organic growth opportunities if they arise.

Key risks to these targets include significant worsening of the geopolitical situation (escalation of the war in Ukraine), worsening of macroeconomic development, unexpected increase in regulatory requirements and charges, new bank tax, and adverse competitive dynamics.

Developments in the client portfolio and distribution networks

	30 Sep 2021	30 Sep 2022	Change YoY
KB Group's clients	2,237,000	2,246,000	9,000
Komerční banka	1,623,000	1,651,000	28,000
– individual clients	1,380,000	1,407,000	27,000
– internet banking clients	1,457,000	1,509,000	52,000
– mobile banking clients	1,008,000	1,122,000	115,000
Modrá pyramida	484,000	464,000	(20,000)
KB Penzijní společnost	522,000	509,000	(13,000)
ESSOX (Group)	138,000	133,000	(5,000)
KB branches (CZ)	243	218	(25)
Modrá pyramida points of sale	200	195	(5)
SGEF branches	9	9	0
ATMs (KB network)	856	862	6
– of which deposit-taking	494	521	27
– of which contactless	579	643	64
ATMs (Total shared network)	856	1,420	564
– of which deposit-taking	494	707	213
Number of active debit cards	1,415,000	1,464,000	49,000
Number of active credit cards	183,000	191,000	8,000
Number of cards virtualized into payment apps	359,000	480,000	120,000
KB key authentication users	935,000	1,065,000	131,000

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 September 2022.

BUSINESS PERFORMANCE

Loans to customers
Total **gross volume of lending to clients** rose by 8.6% year on year to CZK 787.2 billion.[1)]

In lending to individuals, the overall volume of housing loans grew by 6.1% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 3.4% to CZK 267.1 billion. Modrá pyramida's loan portfolio swelled by a strong 15.6% to CZK 83.8 billion. The outstanding volume was growing mainly due to drawing of loans granted earlier, as the new production of housing loans in the 9 months of 2022 decreased by (59.9%) year on year from extraordinarily high levels of the previous year to CZK 33.5 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 4.6%, at CZK 34.7 billion.

The total volume of **loans to businesses** and other lending provided by KB Group was greater by 11.3% year on year, at CZK 401.6 billion. Lending to small businesses declined by (0.6%) 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 14.2% year on year to CZK 322.8 billion. At CZK 31.4 billion, the total credit and leasing amounts outstanding at SGEF were up by 2.4% year over year.

Amounts due to customers and assets under management
The **volume of standard client deposits** within KB Group decreased by (3.2%) year on year to CZK 1,010.1 billion.[3)] This development was influenced by clients shifting some of their savings to mutual funds or even utilising them to cover the increased costs of living. The competition for deposits on the market has intensified. Then, too, clients often have been switching their deposits from current

[1)] Including debt securities issued by KB's corporate clients. There were no reverse repo operations with clients to report as of 30 September 2022 or 30 September 2021.
[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 2.4% year on year to CZK 1,120.5 billion.

accounts to better-yielding term and savings accounts. Deposits at Komerční banka from individual clients were down by (5.9%) from the year earlier, at CZK 336.7 billion. The deposit book at Modrá pyramida diminished by (6.2%) to CZK 56.6 billion. Total deposits from businesses and other corporations were down by (0.6%) to CZK 610.1 billion.

Client assets managed by KB Penzijní společnost were 2.5% greater, at CZK 72.0 billion. Technical reserves in life insurance at Komerční pojišťovna were lower by (9.7%) year on year, at CZK 45.6 billion. The volumes in mutual funds held by KB Group clients grew by 17.4% to CZK 92.4 billion.

The Group's liquidity as measured by the ratio of net loans[1)] to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 76.9%. The Group's liquidity coverage ratio stood at 159%, well above the regulatory limit of 100%.

FINANCIAL PERFORMANCE

Income statement
Komerční banka's **revenues (net operating income)** for the 9 months of 2022 improved by 28.2% year on year to reach CZK 29,005 million, as the comparative base from the same period of 2021 had been affected by the severe pandemic restrictions and interest rates had previously been at extremely low levels. The increase in net interest income contributed most to the overall growth in revenues. Net fees and commissions also improved, but net gains from financial operations declined slightly year on year.

Net interest and similar income were up by 40.1%, at CZK 21,499 million, from the low base of 2021's first three quarters. The loan and deposit volumes were growing and market interest rates rose significantly year on year, thus supporting the yields from reinvesting deposits and the Bank's own funds. The net interest margin for the 9 months of 2022, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.3%. That compares to 1.7% a year earlier, and stands a bit below the 2.4% in prepandemic 2019's first 9 months.

Net fee and commission income grew by 6.7% to CZK 4,447 million. Clients' transaction activity in the 9 months of 2022 recovered across all transaction types compared to the time of the economy's partial lockdown a year earlier. In particular, payments by card gained significantly in popularity. Deposit product fees were almost stable in line with the numbers of clients. Fees from cross-selling were up notably, driven mainly by clients' rising investments in mutual funds and sales of insurance products. Income from loan services was down slightly year over year due to lower fees for loans to small businesses, consumer loans, overdrafts, and credit cards, while fees for factoring services and credit lines improved year on year. KB recorded also a gain in income from specialised financial services, primarily due to greater issuance of bank guarantees.

Net profit from financial operations diminished marginally (down by (1.4%) to (CZK 2,913 million). Demand from clients for hedging of financial risks was driven by volatility of Czech crown exchange and interest rates, but demand for hedging of interest rate risks was affected in the situation of higher rates in the later months of the period. KB was successful with its offer of tailored hedging strategies for SME clients, particularly those based on currency options. Increase in net gains on FX payment transactions was driven by the return of international travel and related payments and conversions.

Dividend and other income declined by (8.8%) to CZK 146 million. This line item primarily comprises revenues from property rental and ancillary services.

Operating expenses rose by 6.4% to CZK 12,079 million. Within that total, personnel expenses increased by 2.3% to CZK 5,731 million, as salaries climbed by an average 3% with effect from April 2022. The average number of employees diminished by (2.7%) to CZK 7,496.[2)] General administrative expenses (not including contributions to the regulatory funds) were up by 7.7%, at CZK 2,812 million, with the costs rising in most categories, but still below the level of inflation. Relatively faster increase was recorded in costs related to training, recruiting, and travel. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 1,286 million, up 24.1% year on year. The CNB adjusted the target volume of the Resolution Fund for 2024 and boosted the aggregate annual contribution from Czech banks in 2022 by 16.2% year on year. Depreciation and amortisation grew by 6.8% to CZK 2,250 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 50.1%, at CZK 16,926 million.

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

2) Recalculated to a full-time equivalent number.

Cost of risk reached CZK 1,231 million, higher by 71.2% in comparison with the three quarters of 2021. The new provisioning mainly related to anticipated impacts of the high inflation on the credit profile in future, in line with the forward-looking principles of IFRS 9 accounting standard. The Group also released some provisions reflecting several successful resolutions in the corporate client segment. The level of new defaults remained relatively low across all client segments. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during 2022's first 9 months came to 21 basis points. That compares with 13 basis points for the same period a year earlier.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was down (38.7%) year on year, at CZK 103 million, influenced by interest rate developments and the insurance reserves creation and utilisation at Komerční pojišťovna.

Net profit on subsidiaries and associates increased by 192.0% to CZK 73 million, as it included the gain from revaluation of a stake in a subsidiary.

Net profit on other assets reached CZK 136 million, mainly due to gains from sales of buildings that were partly offset by accelerated depreciation of technical improvements in leased branches that were closed. In the previous year, net profit on other assets had been CZK 28 million.

Income tax was higher by 45.5%, at CZK 2,931 million.

KB Group's consolidated **net profit** for the three quarters of 2022 reached CZK 13,076 million, which was higher by 49.3% in comparison with a year earlier. Of this total, CZK 149 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (down by (26.6%) year on year).

Reported **net profit attributable to the Group's equity holders** totalled CZK 12,927 million, which is 51.1% more year on year.

Other comprehensive income, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, as well as from effects of changed interest rates on the value of equity participation in an associated company, reached CZK (2,078) million. **Consolidated comprehensive income** for the first 9 months of 2022 totalled CZK 10,998 million, of which CZK 147 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 September 2022 with the values from the statement of financial position as of 31 December 2021.

Assets

As of 30 September 2022, KB Group's total assets had grown by 19.9% year to date to CZK 1,492.2 billion.

Cash and current balances with central banks were down (14.9%), at CZK 25.5 billion. Financial assets at fair value through profit or loss (trading securities and derivatives) increased by 49.6% to CZK 61.6 billion. The fair value of hedging financial derivatives climbed by 57.5% to CZK 22.5 billion.

Year to date, there was a (15.3%) decline in financial assets at fair value through other comprehensive income totalling CZK 30.1 billion. This item consisted mainly of debt securities issued by government institutions.

Financial assets at amortised cost grew by 21.0% to CZK 1,325.9 billion. The largest portion of this consisted of (net) loans and advances to customers, which increased year to date by 7.2% to CZK 776.6 billion. A 97.7% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.3% 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 14.1 billion. Loans and advances to banks grew by 63.6% to CZK 420.8 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 12.7% and reached CZK 128.6 billion at the end of September 2022.

Revaluation differences on portfolio hedge items totalled CZK (1.3) billion, larger by 100.2%. Current and deferred tax assets stood at CZK 0.2 billion. Other assets and accrued accounts, which include receivables from securities trading and settlement balances, decreased overall by (9.8%) to CZK 5.2 billion. Assets held for sale diminished by (87.4%) to CZK 0.1 billion.

Investments in subsidiaries and associates rose by 45.0% to CZK 1.1 billion.

The net book value of tangible assets declined by (4.1%) to CZK 8.6 billion. Intangible assets grew by 9.9% to reach CZK 8.7 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF, and ESSOX, remained unchanged at CZK 3.8 billion.

Liabilities

Total liabilities were 22.0% higher in comparison to the end of 2021 and stood at CZK 1,362.9 billion.

Financial liabilities at amortised cost went up by 17.9% to CZK 1,245.2 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 17.1% to CZK 1,120.5 billion. This total included CZK 110.4 billion of liabilities from repo operations with clients and CZK 7.9 billion of other payables to customers. Amounts due to banks increased through 9 months of 2022 by 31.6% to CZK 109.7 billion.

Revaluation differences on portfolios hedge items were CZK (57.1) billion. Current and deferred tax liabilities were steady at CZK 2.2 billion. Other liabilities and accruals, which include payables from securities trading and settlement balances, grew by 49.0% to CZK 18.6 billion.

The provisions balance was (1.6%) 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 and senior non-preferred debt, at CZK 20.9 billion, was up 738.7% year to date, influenced by issuances of loans in order to meet regulatory minimum requirements for own funds and eligible liabilities (MREL). Because those debts are issued in euro, the CZK value of this debt reflects also changes in the Czech crown exchange rate.

Equity

Total equity increased year to date by 2.0% to CZK 129.3 billion, driven by the volume of net profit generated during the three quarters, partly offset by the volume of dividends paid. The Group also recognised a decrease in the value of retained earnings related to Komerční pojišťovna. The value of non-controlling interests reached CZK 3.2 billion. As of 30 September 2022, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

Regulatory capital and other regulatory requirements

Total **regulatory capital** for the capital adequacy calculation came to CZK 110.7 billion as of 30 September 2022. **Capital adequacy** stood at 21.1%. Core Tier 1 (CET1) capital totalled CZK 107.6 billion and the Core Tier 1 ratio was 20.5%. Tier 2 capital summed to CZK 3.1 billion, which was 0.6% of risk-weighted assets. On October 10, KB exercised a call option and repaid the subordinated debt of EUR 100 million from 2017 and at the same time took on a new subordinated debt of EUR 100 million, with a maturity of 10 years and an option to repay after 5 years. The interest rate of this loan is stipulated at 3M EURIBOR plus 3.79%, using the actual/360 day count convention.

As from 1 October 2022, Komerční banka's overall capital requirements (OCR) come to approximately 16.6%. The minimum required level of CET1 is 12.0%, and the minimum Tier 1 capital ratio stands at 14.0%.

Based on pre-announced hikes in the countercyclical buffer requirement, the OCR will rise further by a cumulative 100 bps in two steps from January 2023 and April 2023. Assuming no further changes, as from 1 April 2023, the minimum OCR will reach 17.6%, the minimum CET1 ratio 13.0%, and the minimum Tier 1 15.0%.

KB Group's Liquidity Coverage Ratio came to 159% as of 30 September 2022. The applicable regulatory minimum is 100%.

Effective from 1 January 2022, KB Group is required to comply with a minimum requirement for own funds and eligible liabilities (MREL) equal to 14.4% of the consolidated total risk exposure and 4.46% of the consolidated total exposure. Based on the CNB general approach,[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 1 January 2024. The MREL requirement is defined as a sum of the amount of loss absorption and recapitalisation. In addition to the MREL, expressed as a percentage of risk-weighted assets, the Group must also fulfil the combined capital buffer. According to current regulations and the criteria from the supervisor, this requirement stands at 6.00% as of 1 October 2022.

With its considerable capital surplus, the Group fulfilled the interim target level valid from the beginning of 2022. In order to proceed gradually to meeting the ultimate MREL requirement, KB accepted the following senior non-preferred loans from Société Générale S.A.:

- on 27 June 2022, a loan of EUR 250 million, maturing on 27 June 2028, including a call option with exercise date of 27 June 2027. The interest rate of the loan is stipulated at 3M EURIBOR plus 2.05%, using the actual/360 day count convention.
- on 21 September 2022, a loan of EUR 250 million, maturing on 21 September 2027, including a call option with exercise date of 21 September 2026. The interest rate of the loan is stipulated at 1M EURIBOR plus 1.82%, using the actual/360 day count convention.
- on 21 September 2022, a loan of EUR 250 million, maturing on 21 September 2030, including a call option with exercise date of 21 September 2029. The interest rate of the loan is stipulated at 1M EURIBOR plus 2.13%, using the actual/360 day count convention.

1) https://www.cnb.cz/en/resolution/general-approach-of-the-czech-national-bank-to-setting-a-minimum-requirement-for-own-funds-and-eligible-liabilities-mrel/

Expected development and main risks to that development in 2022

Note: This outlook updates that presented on 3 August 2022 upon release of Komerční banka's results for the first half of 2022.

KB Group is continuously monitoring and evaluating potential influences of the current crisis caused by Russia's invasion of Ukraine launched on 24 February 2022 upon its activities and upon its clients. Although its direct exposure to Russia and Ukraine is limited, the Group is also evaluating indirect impacts (e.g. dependency on energy resources and raw materials, supply chain disruptions). As may be necessary and appropriate, the Group will respond to the changing situation by adjusting its policies (e.g. risk, operational, accounting), including possible adjustments to provisions and reserves in accordance with the IFRS 9 standard.

Given the high level of uncertainty concerning 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.

The Czech economy has so far in 2022 been relatively resilient to the impact of the energy crisis. However, according to KB's updated baseline macroeconomic scenario for 2022, declining demand caused by high inflation and uncertainty should translate into a mild recession at the turn of the year, followed by only a gradual recovery in growth. On a full-year basis, the Czech economy's growth will slow to 2.7% from 3.5% a year earlier. Fixed investments and inventories should contribute positively to annual growth. 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 15%, with the impact from high energy prices being mitigated by government measures.

The Czech National Bank is likely to keep interest rates at their current levels (7% repo rate) until the middle of next year, when it could start to reduce them gradually. The central bank may also need to continue intervening in order to prevent depreciation of the crown during this year.

In the regulatory environment, the CNB has returned to stricter regulation of mortgage lending, reinstating with effect from 1 April 2022 the limits on the ratios of debt-to-income and debt service-to-income, as well as lowering the maximum loan-to-value ratio. It decided, too, on increasing the counter-cyclical capital buffer rate in two steps during 2022 followed by two additional steps as of 1 January and 1 April 2023. This will take that rate to 2.5%. The national bank also announced in September 2021 that it would no longer restrict the amount of bank dividends across the board. After the annual general meeting approved the dividend payment representing 65% of net profit generated in 2021, the Board of Directors proposed that the per rollam Extraordinary General Meeting resolve to distribute to the shareholders retained earnings of Komerční banka in the amount of CZK 10.5 billion, which represents CZK 55.50 per share, before taxation. If approved, the payment of the share in the retained earnings shall be due on 22 December 2022. During the second half, KB will continue gradually taking loans from Société Générale in order to meet the regulatory requirements for own funds and eligible liabilities (MREL) from the EU's banks recovery and resolution directive (as the concept of Single Point of Entry is applied within the SG Group).

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

Komerční banka will continue implementing the changes in accordance with its KB Change 2025 programme that had been announced in November 2020. The new digital bank will be developed in order to reach a marketable level of maturity in 2023.

In this context, KB management expects that the Group's loan portfolio will record an upper mid-single-digit growth rate for 2022. Within the total, the corporate loan book will grow faster. The volume of housing loans outstanding should still increase at a mid-single digit pace, even though new sales of these loans will drop in comparison with the record level achieved in 2021. Total deposit balances are expected to reach a level similar to that at the end of the previous year, as growth in the deposits of corporate clients will be offset by declining volumes in the retail segments. At the same time, clients are expected to be shifting their deposits to term accounts.

KB Group's total net operating income for 2022 should expand by more than 20% in comparison with the low base of 2021 that had been affected by the pandemic. The growth in revenues will be driven mainly by net interest income, reflecting increase in market rates and business volumes. Net fees and commissions should improve by mid-single digits, driven mainly by recovery in transaction activity and cross-selling. The net profit from financial operations will probably decrease somewhat after having reached an extraordinarily high level in the past year, even as gains from currency conversions related to travelling recover from the pandemic drop and demand for hedging of financial risks is influenced by the uncertain environment.

In spite of the elevated inflation and significantly higher regulatory charges for the Resolution Fund, operating expenses remain under tight control and the figure for the full year will rise at an upper mid-single-digit pace, thus by much less than the rate of inflation. The Group will continue its transformation, which consists in investing into building the new digital infrastructure, overall simplification, and decreasing the numbers of employees and premises in use. After raising salaries by an average 3% effective from April 2022, the management agreed on an additional increase in average salary by 5% for most employees as from October 2022. KB management also has decided on further steps in optimising the branch network during 2022. As of 1 April 2022, 25 branches were closed and another 19 branches' cash services are newly provided only via ATMs. As of 1 July 2022, KB simplified the management structure of the branch network, including to replace regional retail divisions with joint segment and line management of all distribution channels at headquarters level. The selection of branches for closing was based upon a long-term analysis of branch traffic, coverage and potential of locations, and clients' changing behaviour reflecting growing preference for remote sales and assisted services in the digital environment.

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

The key risks to the expectations described above consist in further escalation of the war in Ukraine and its economic repercussions, prolonged or deepened shortages of fuels or key input materials for the Czech economy, and a return of pandemic restrictions and disruptions. Generally, the open Czech economy would be sensitive to a worsening external economic environment, as well as to abrupt changes to relevant exchange and interest rates or to monetary or fiscal policies, including changes in taxation.

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

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

Profit and Loss Statement	Reported 9M 2021	Reported 9M 2022	Reported Change YoY	Recurring 9M 2021	Recurring 9M 2022	Recurring Change YoY
(CZK million, unaudited)						
Net interest income	15,347	21,499	40.1%	15,347	21,499	40.1%
Net fee and commission income	4,167	4,447	6.7%	4,167	4,447	6.7%
Net profit on financial operations	2,954	2,913	(1.4%)	2,954	2,913	(1.4%)
Dividend and other income	160	146	(8.8%)	160	146	(8.8%)
Net banking income	**22,628**	**29,005**	**28.2%**	**22,628**	**29,005**	**28.2%**
Personnel expenses	(5,600)	(5,731)	2.3%	(5,600)	(5,731)	2.3%
General admin. expenses (excl. regulatory funds)	(2,611)	(2,812)	7.7%	(2,611)	(2,812)	7.7%
Resolution and similar funds	(1,036)	(1,286)	24.1%	(1,036)	(1,286)	24.1%
Depreciation, amortisation and impairment of operating assets	(2,107)	(2,250)	6.8%	(2,107)	(2,250)	6.8%
Total operating expenses	**(11,354)**	**(12,079)**	**6.4%**	**(11,354)**	**(12,079)**	**6.4%**
Operating profit	**11,274**	**16,926**	**50.1%**	**11,274**	**16,926**	**50.1%**
Impairment losses	(754)	(1,152)	+/-	(754)	(1,152)	+/-
Net gain from loans and advances transferred and written off	35	(79)	+/-	35	(79)	+/-
Cost of risk	**(719)**	**(1,231)**	**71.2%**	**(719)**	**(1,231)**	**71.2%**
Net operating income	**10,554**	**15,695**	**48.7%**	**10,554**	**15,695**	**48.7%**
Income from share of associated companies	168	103	(38.7%)	168	103	(38.7%)
Net profit/(loss) on subsidiaries and associates	25	73	>100%	25	73	>100%
Net profits on other assets	28	136	>100%	28	136	>100%
Profit before income taxes	**10,776**	**16,007**	**48.5%**	**10,776**	**16,007**	**48.5%**
Income taxes	(2,015)	(2,931)	45.5%	(2,015)	(2,931)	45.5%
Net profit for the period	**8,760**	**13,076**	**49.3%**	**8,760**	**13,076**	**49.3%**
Profit attributable to the Non-controlling owners	203	149	(26.6%)	203	149	(26.6%)
Profit attributable to the Group's equity holders	**8,557**	**12,927**	**51.1%**	**8,557**	**12,927**	**51.1%**

Statement of financial position	31 Dec 2021	30 Sep 2022	Ytd
(CZK million, unaudited)			
Assets	**1,244,353**	**1,492,210**	**19.9%**
Cash and current balances with central bank	29,947	25,497	(14.9%)
Loans and advances to banks	257,196	420,753	63.6%
Loans and advances to customers (net)	724,587	776,560	7.2%
Securities and trading derivatives	190,924	220,415	15.4%
Other assets	41,699	48,984	17.5%
Liabilities and shareholders' equity	**1,244,353**	**1,492,210**	**19.9%**
Amounts due to banks	83,372	109,738	31.6%
Amounts due to customers	956,929	1,120,532	17.1%
Securities issued	13,666	12,587	(7.9%)
Subordinated and senior non preferred debt	2,490	20,885	738.8%
Other liabilities	61,114	99,201	62.3%
Total equity	126,782	129,267	2.0%

Key ratios and indicators	30 Sep 2021	30 Sep 2022	Change year on year
Capital adequacy (CNB)	23.0%	21.1%	▼
Tier 1 ratio (CNB)	22.5%	20.5%	▼
Total risk-weighted assets (CZK billion)	471.1	525,7	11.6%
Risk-weighted assets for credit risk (CZK billion)	388.9	432.2	11.1%
Net interest margin (NII / average interest-bearing assets)[III]	1.7%	2.3%	▲
Loans (net) / deposits ratio[IV]	68.1%	76.9%	▲
Cost / income ratio[V]	50.2%	41.6%	▼
Return on average equity (ROAE)[VI]	9.6%	13.8%	▲
Return on average Tier 1 capital[VII]	11.2%	16.5%	▲
Return on average assets (ROAA)[VIII]	0.9%	1.3%	▲
Earnings per share (CZK)[IX]	60.4	91.3	51.1%
Average number of employees during the period	7,705	7,496	(2.7%)

Business performance in retail segment – overview	30-Sep-22	Change year on year
CZK bil.		
Mortgages to individuals – volume of loans outstanding	267.1	3.4%
Building savings loans (MPSS) – volume of loans outstanding	83.8	15.6%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	34.7	4.6%
Small business loans – volume of loans outstanding	47.4	(0.6%)
Insurance premiums written (KP)	5.7	(9.9%)

Financial calendar:

8 February 2023	FY and 4Q 2022 results
12 May 2023	1Q 2023 results
3 August 2023	1H and 2Q 2023 results
3 November 2023	9M and 3Q 2023 results

Definitions of the performance indicators mentioned herein:

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

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

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

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

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

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

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

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

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

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

(source: Profit and Loss Statement)	9M 2022	9M 2021
Net interest income income, year-to-date	**21,499**	**15,347**
Of which:		
Loans and advances at amortised cost	36,489	13,676
Debt securities at amortised cost	2,243	1,524
Other debt securities	419	518
Financial liabilities at amortised cost	(14,231)	(1,142)
Hedging financial derivatives – income	25,763	7,526
Hedging financial derivatives – expense	(29,185)	(6,754)

(source: Balance Sheet)	30-Sep-22	31-Dec-21	30-Sep-21	31-Dec-20
Cash and current balances with central banks / Current balances with central banks	16,782	21,455	69,952	15,050
Loans and advances to banks	420,753	257,196	374,771	262,606
Loans and advances to customers	776,560	724,587	709,811	679,956
Financial assets held for trading at fair value through profit or loss / Debt securities	13,232	8,696	10,244	3,342
Non-trading financial assets at fair value through profit or loss / Debt securities	133	135	0	279
Financial asset at fair value through other comprehensive income (FV OCI) / Debt securities	30,082	35,509	37,730	40,151
Debt securities	128,593	114,078	109,760	92,839
Interest-bearing assets (end of period)	**1,386,136**	**1,161,656**	**1,312,268**	**1,094,223**
Average interest-bearing assets, year-to-date	**1,273,896**		**1,203,246**	
NIM year-to-date, annualised	**2.25%**		**1.70%**	