Komerční banka, a.s.

RESULTS
9M 2023
AND STATUS OF KB 2025 STRATEGY IMPLEMENTATION

KB

Regulatory information

Komerční banka, a.s.

KB in three quarters of 2023: Solid delivery amidst stagflationary economy

"In the third quarter, we paid close attention to the development of our new digital bank following its roll-out in retail banking in April of this year. Gradual enrichment of the offer available in the new KB+ application by the addition of simple, advantageous, and attractive services will let us increase the number of clients switching from the legacy platform. Our ambition is to see 100,000 clients enrolled in the New Era of Banking by the end of this year and to offer migration to the new digital bank to 1,000,000 clients during 2024," remarked Jan Juchelka, Komerční banka's Chairman of the Board of Directors and Chief Executive Officer.

"Besides developing the new client proposition and technological systems of the Bank, the strategic transformation involves changes to the organisation of KB Group in order to make it more effective and efficient. In recent months, we have integrated operational functions of Factoring KB with those of the Bank, have been building a new sales force for KB Group based on the distribution network of Modrá pyramida, and we are streamlining development and marketing of consumer loans from a single centre for the whole Group. Successful implementation of our KB 2025 strategic programme will reinforce KB's position as a leader in the New Era of Banking," Jan Juchelka added.

- **KB Group's lending to customers up by 2.7% year on year, at CZK 808.3 billion.**
- **Deposits from clients grew by 1.2% from a year earlier to CZK 1,022.4 billion. Year to date, client deposits are higher by 11.5%.**
- **Volume of non-bank assets (mutual funds, pension funds, life insurance) under management expanded by 14.7% to CZK 240.7 billion.**
- **KB Group was serving 2,218,000 clients. Standalone Komerční banka had 1,665,000 customers, up by 14,000 year on year.**
- **Following introduction of the 'New Era of Banking Written by KB' in April, more than 50,000 clients had enrolled for KB's new digital bank by September 2023.**
- **Nine months of 2023: Total revenues were down by (6.9%) year on year to CZK 27.0 billion. Operating expenditures increased by 7.7% to CZK 13.0 billion. The Group reported a CZK (1.0) billion net release of provisions for credit risk. Net profit attributable to the Group's equity holders, at CZK 12.4 billion, was down by (4.9%) year on year.**
- **Third quarter 2023: Total revenues decreased by (9.5%) year on year to CZK 8.9 billion. Operating expenditures rose by 7.2% to CZK 3.9 billion. The Group reported a CZK (0.1) billion net release of provisions for credit risk. Net profit attributable to the Group's equity holders, at CZK 4.3 billion, was lower by (8.5%) year on year.**
- **Volume of regulatory capital reached CZK 106.5 billion, capital adequacy stood at 20.2%, and the Core Tier 1 ratio was 19.6%.**
- **KB had 72,934 shareholders (greater by 5,576 year on year), of which 66,869 were private individuals from the Czech Republic.**

Prague, 3 November 2023 – Komerční banka reported today its unaudited consolidated results for the first nine months of 2023.

Business and financial performance
Lending to clients went up by 2.7% to CZK 808.3 billion.[1)]

The volume of housing loans outstanding grew by 3.8%, with lending from Modrá pyramida building society expanding faster than did KB's mortgage portfolio. New production of housing loans improved since March after a large decline in sales during 2022. Nonetheless, some clients are still waiting for potential upcoming demand catalysts.

Despite a seasonal slowdown in summer, the growth in consumer lending was quite dynamic as KB improved its sales process and consumer confidence in the economy began to improve from low levels.

Growth in lending to businesses reflected subdued investment activity of corporations, lower need for working capital financing following normalisation in global supply chains, effects of FX rate fluctuations on the CZK value of euro-denominated business loans, and a selective approach by the Bank.

Deposits from clients improved by 1.2% year on year to CZK 1,022.4 billion.[2)] Since the beginning of 2023, deposits are up by 11.5%. Meanwhile, the volume of KB Group clients' assets in mutual funds, pension savings, and life insurance has risen by 14.7% year on year to CZK 240.7 billion. Clients were looking for greater returns on their money in saving and term accounts and in mutual funds.

Total revenues reached CZK 27.0 billion, lower by (6.9%) compared to the first 9 months of the previous year. Net interest income declined, mainly due to narrower average spreads on deposits and loans. Net fee and commission income was up modestly, reflecting especially clients' greater transaction activity and larger investments in mutual funds. Net profit on financial operations came down slightly from the strong levels of last year, as clients' hedging and trading activity had gradually moderated in the context of a sluggish economy.

Operating expenses were up by 7.7%, at CZK 13.0 billion. Personnel expenses were higher by 8.6%, driven mainly by the increase in average salaries even as the average number of employees rose only marginally. The full-year levy to the regulatory funds was unchanged year on year because the CNB adjusted downwards the aggregate contribution from Czech banks to the Resolution Fund even as the charge for deposit insurance was greater due to last year's failure of Sberbank CZ. Increase in administrative costs was driven by expenses related to real estate, IT, maintenance and marketing, and high inflation generally. Greater depreciation and amortisation charges reflected the ongoing investments into digitalisation.

Cost of risk reached a negative CZK (1.0) billion, reflecting a net release of credit risk allowances. This was made possible by generally low rates of default in corporate and retail segments and successful recovery on several larger corporate exposures.

Reported net profit attributable to shareholders for 2023's first three quarters decreased by (4.9%) year on year to CZK 12.4 billion. Income taxes came to CZK 2.7 billion.

Shareholders, capital, and dividends
KB's capital adequacy ratio reached a strong 20.2%, and Core Tier 1 capital stood at 19.6%. During 2023, the reported capital ratios include interim profit of the current year adjusted for the 'foreseeable dividend' at the level of a 65% payout ratio.

The liquidity coverage ratio was 157%, significantly above the regulatory minimum of 100%.

As of 30 September 2023, Komerční banka had 72,934 shareholders (up by 5,576 year on year), of which 66,869 (greater by 5,424 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.

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

[2)] Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 0.4% to CZK 1,124.6 billion.

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

If not perhaps fully resolved, many of certain challenges facing the global economy in the recent past have at least moved off or faded from the radar, but the economic picture continues to be weakened by high interest rates and general economic uncertainty. The main domestic focal point of macroeconomic discussion has been fiscal policy, the key issues being impact of the austerity (or consolidation) package first presented by the Czech government in early May and subsequent preparation of the government budget for 2024. This package has passed the lower house of the Parliament and discussion in the Senate (upper house of the Parliament) will follow. The 2024 budget has only recently started its way through three readings in the lower house of the Parliament which is the only chamber voting on the budget.

Otherwise, the Czech economy had stagnated quarter on quarter in the second quarter. In the third quarter, then, real GDP declined by (0.3%) quarter on quarter and came in (0.6%) smaller year on year as per the flash estimate. Economic activity was hindered mainly by weak household consumption and investments, while net exports contribute positively to year on year decline, but negatively to quarter on quarter. Manufacturing sector shrunk slightly year on year during 2 months of 2023's third quarter. However, car production in 2023's first nine months was higher by 12% year on year. Labour market conditions remained tight, but nominal wage growth did not keep up with rising consumer prices.[2)] The unemployment rate remains one of the lowest within the EU, standing at just 2.5% in August 2023 (according to the Eurostat methodology after seasonal adjustment).[3)] In September, the Czech labour ministry reported stagnation in the unemployment rate at very low levels.[4)]

Pressure from the primary price categories was gradually fading during the third quarter of 2023. The growth dynamics of industrial producer prices averaged just 1.3% year on year. Quarter-on-quarter dynamics were negative, at (0.3%). Agricultural producer prices were lower by (24.7%) year on year and on a quarter-on-quarter basis by (8.6%). Prices of construction work continued to rise by an average 3.7% year on year (0.3% from the second quarter of 2023 to the third quarter of 2023). Diminishing pressure from primary prices together with only decent wage cost dynamics and further retreating energy prices moderated the rise in consumer prices and the year-on-year price dynamics were once again influenced by the base effect. Hence, growth in consumer prices decelerated in September to 6.9% year on year. The dynamics of core inflation declined to 5.0% in September.[5)]

The CNB has left the main 2W monetary policy repo rate on hold at 7% since 23 June 2022. As of 29 September 2023, 3M PRIBOR stood at 7.09%, down (16) bps year on year and (17) bps year to date. The 10Y interest rate swap followed recently increasing global interest rates and hit 4.53% (off (56) bps year on year and (26) bps year to date). The interest rate swap curve remained still slightly inverted, with the 5Y measure at 4.63% (lower by (91) bps year on year and (60) bps year to date) and yields on 10-year Czech government bonds having eased to 4.85% (down (39) bps year on year and (18) bps year to date) by the end of September. The Czech crown had depreciated against the euro by 0.9% year to date but appreciated by 0.9% year on year, reaching CZK 24.3 per euro.

The latest information on residential real estate prices, available for the second quarter of 2023 from the Czech Statistical Office, showed prices declining in all relevant segments of the residential real estate market both in quarterly and year-on-year terms.[6)] Prices for second-hand homes in Prague slipped by (3.1%) quarter on quarter and were lower by (3.6)% as compared to the previous year's second quarter. Prices of second-hand flats in the rest of the country were down by (2.5%) quarter on quarter and were (4.2)% lower year on year. Already for the fourth consecutive quarter, prices were down quarter on quarter for newly developed flats in Prague. Those prices slipped by (0.5%) in the second quarter of 2023 and fell by (6.9%) from the same quarter a year earlier.[6)] Czech residential real estate prices according to the European house price index[7)] were down quarter on quarter by (0.4%) and year on year by (2.9%).

Total bank lending for the overall market (excluding repo operations) grew by 5.4% year on year as of September 2023.[8)] Lending to individuals rose by 5.0%, with housing loans expanding 4.4% year on year as new mortgage production was recovering from the drop in 2022 in spite of interest rates remained at heightened levels. Lending to businesses and other corporations increased year on year by 5.8% in September 2023, with growth recorded across all main segments, and mainly in euro-denominated loans.

The volume of client deposits in Czech banks expanded by 8.0% year over year as of September 2023.[9)] Deposits from individuals had grown in total by 6.5% while the market deposits from businesses and other corporations grew by 9.6% year over year. A switch from current to term and saving deposits moderated, but the volumes on current accounts were (8.3%) lower while the volume on term deposits swelled by 27.9% year on year and saving accounts added 26.3% as compared to the same month a year earlier.

---

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

2) The latest available data for the second quarter showed wage inflation picking up to +7.7% year on year (down by (3.1%) in real terms).

3) Source: https://ec.europa.eu/eurostat/databrowser/view/EI_LMHR_M/default/table?lang=en&category=euroind.ei_lm Data as of August 2023.

4) Source: https://www.mpsv.cz/web/cz/mesicni. Data as of September 2023.

5) Source: https://www.cnb.cz/arad/#/en/display_link/single__SCPIMZM09YOYPECNA_ ARAD statistics of the CNB.

6) Source: https://www.czso.cz/csu/czso/indices-of-realized-flat-prices-2-quarter-of-2023 Publication code 014007-23, released 13 September 2023.

7) Source: https://ec.europa.eu/eurostat/databrowser/view/prc_hpi_q/default/table?lang=en

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

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

Progress in implementing KB 2025 strategic plan in its third year

On 5 November 2020, Komerční banka had presented its KB Change 2025 plan updating strategic directions and addressing 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. It aspires to be a leader in a new era of banking for 2 million active clients. The Bank has delivered further tangible progress in the areas covered by KB Change 2025 in the past 12 months.

A cornerstone of the transformation programme consists in building a new digital banking infrastructure that includes a new core banking system, the KB+ mobile application, internet banking, a card management system, and analytical tools allowing an upgraded client proposition.

By April 2023, the construction of this new digital bank had reached such advanced level as to allow introducing the "New Era of Banking Written by KB" onto the Czech market, onboarding of new clients to the new platform, and the start of a gradual migration of clients from the legacy system.

More than 50,000 clients had enrolled into the new digital bank by September 2023. Of this total, over 8,000 were new clients to KB. The migration that has commenced in the Individuals segment will be followed in 2024 by that for entrepreneurs and later also by the corporate clients segment. This schedule is in accordance, too, with the development of new products and services for the "New Era of Banking Written by KB".

KB also deployed the new TSYS Prime card processing platform in an application outsourced to Global Payments Europe. This enhances security and processing efficiency while offering additional options for card administration. Komerční banka continued its payment systems transformation and payment processing centralisation into the Payment Hub application from Valantic. The processing of all card transactions was redirected to the Payment Hub application.

The advancements in building the new digital bank for clients in retail segments will enable KB to progressively refocus its development capacities on services and systems in the new digital bank for corporate clients.

Consistent with KB's targets, the prevalence of digital sales has been gaining traction. In the first 9 months of 2023, the share of products digitally sold within the Individuals segment reached 34.2% of total sales, up by 11 percentage points year on year. Within this total, 26.5% of products were sold in an end-to-end digital manner. That was 10 percentage points greater compared to a year ago. End-to-end digital sales of consumer loans came to 70% of total sales. End-to-end digital sales of subscription plans in the New Era of Banking reached 59% of total sales.

In order to procure new revenue sources, KB has been building an ecosystem of complementary financial services through 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 KB Smart Solutions platform.

KB SmartSolutions has acquired participations in such dynamic Czech fintech projects as Upvest, Roger, and Lemonero. It also has facilitated launch of the internal start-ups KB Advisory and Finbricks.

In addition, KB SmartSolutions acquired ownership in Enviros, a leading Czech energy and environment advisory providing its services to a number of important companies in Central Europe. This company is now developing synergetic co-operation with KB Advisory and with KB's EU Point teams in the highly demanded areas of energy efficiency and sustainability.

Some 8,000 clients invested almost CZK 8 billion in real estate projects via the Upvest crowdfunding platform. Turnover of the Roger online factoring platform increased by 30% year on year. The Lemonero online provider of financing to e-shops based on AI-powered scoring have entered markets of Benelux countries. Finbricks' open-banking aggregation platform has introduced a new direct payment service and it includes leading global payment gates among its customers.

The project of building a single mortgage factory for both KB and Modrá pyramida has progressed significantly, too. The new core and front office system for KB Group has just been put into operation. In a preceding step, all housing loan experts were integrated into Modrá pyramida.

KB is striving to reinforce its market leadership position in services for corporate clients. Communication between the Bank and corporate clients is gradually being digitised. KB is also administering new programmes of the European Investment Fund for advantageous financing of business and public institutions. KB's Investment Banking is developing new digital tools for hedging and trading activities of clients.

In addition to being perceived as a green bank in the Czech Republic, it is KB's strategic ambition to be a leader in sustainable banking on the Czech financial market and within the SG Group. 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 2022, total emissions decreased by 44% (to 13.5 kilograms per client of CO_2 equivalent) compared to the reference year 2019. Measurement is audited on a yearly basis by the non-profit Preferred by Nature.

As of 30 September 2023, the outstanding volume of loans with sustainable positive impact expanded by 32.7% to CZK 53.3 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 no longer provides new financial products to clients having more than 25% of their revenues linked to the thermal coal sector and not having communicated a time-bound coal phase-out plan aligned with Société Générale's 2030/2040 thermal coal phase-out objectives.

As part of its risk management framework, KB has been developing its environmental and social risk management, including climate vulnerability assessment, and is building a data collection and analytical infrastructure for indicators related to clients' ESG factors. As an important enabler for stronger origination of consumer loans in fully digital customer journeys, the Group will this year deploy a digital income verification and solvency assessment tool. KB has also reinforced its capabilities in the area of digital fraud risk management for retail segments.

In order to assure and develop key internal know-how more effectively, KB has insourced several dozen experts with specific development and analytical skills. It has also consolidated a number of internal incubator programmes for nurturing internal tech talent.

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 2023 decreased by 7.7% 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. As of 30 September 2023, the number of branches stood at 212, down by 38.0% from 342 as of 31 December 2019.

KB also agreed with Moneta Money Bank, UniCredit Bank, and Air Bank on sharing of their ATM networks for clients' withdrawals. This initiative has brought better access to financial services for clients in less densely populated areas, as well as improved sustainability and efficiency in operating the ATM networks of all the participating banks. KB has agreed with the partner banks also to share the deposit function of ATMs from 2024.

Operational efficiency is being boosted by centralisation of additional key functions across KB Group. Effective from 2023, the support functions of Factoring KB have been completely outsourced to the Bank. The Group is also finalising its Group Consumer Lending project, which will simplify the product portfolio in the consumer finance area across the Group, harmonise omnichannel distribution, and increase effectiveness of product development and marketing. On the basis of the sales agents network of Modrá pyramida, the Group will also launch a complementary distribution network, branded KB Poradenství, for the Group's products.

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 (NPS) 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 2023 showed a gain in NPS among individual clients to 45 points from 32 point in 2019 and among small businesses to 33 points from the earlier 32. At the time of this report's publication, the agency Ipsos 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 2023, KB was serving 1,665,000 clients.

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 styles, and 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 2023 measurement stood at 78 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 its 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 3.7 in 2023, up by 0.4 points in comparison with 2021. In accordance with 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.

Financial targets have been set on a KB Group basis, and management is striving to reach these targets despite several headwinds unforeseen at the time of setting these goals in 2020.

For 2025, the cost-to-income ratio is targeted to approach 40%. Based upon organic growth, the Group's revenues should accelerate mainly in 2025. By that time, KB's new digital bank will be fully operational for retail clients, a boost will come through digital sales and an advisory model supported by data analytics, and new revenue sources will be coming online.

Operating expenditures in 2025 will be at a level similar to that in 2023 and will reflect ongoing efficiency measures, a lower number of employees, as well as a smaller expected regulatory charge in 2025 for the Resolution Fund. Savings from decommissioning old components of the banking infrastructure should begin to accrue mainly from 2026.

The potential for increase in net profitability of the Group has been severely limited, however, by imposition of the so-called "windfall tax" at an incremental 60% rate. Thus, any profits exceeding a defined threshold would be taxed at a 79% rate (81% from 2024) that is the sum of the 19% (21% from 2024) statutory rate plus the "windfall tax".

With a view to reinforcing the scale of KB's existing business and thus optimising efficiency and competitiveness, KB's management remains ready to consider enhancing its performance with non-organic growth elements. Nevertheless, visibility regarding potential accretive acquisition opportunities is limited at the time of publishing this release. The minimum ambition for the number of bank clients inclusive of the non-organic growth component has been set at 2,000,000.

The Group will grow the volume of risk-weighted assets at a pace that is optimal from the perspective of creating shareholder value. The volume and structure of regulatory capital will be further optimised, even as it will at all times safely and assuredly meet the applicable and expected regulatory requirements.

Assuming all those factors as described above, KB Group targets ROE to come in around 15% for 2025.

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

Developments in the client portfolio and distribution networks

	30 Sep 2022	30 Sep 2023	Change YoY
KB Group's clients	2,246,000	2,218,000	(28,000)
Komerční banka	1,651,000	1,665,000	14,000
– individual clients	1,407,000	1,421,000	14,000
– internet banking clients	1,509,000	1,509,000	0
– mobile banking clients	1,122,000	1,191,000	69,000
Modrá pyramida	464,000	438,000	(26,000)
KB Penzijní společnost	509,000	482,000	(27,000)
ESSOX (Group)	133,000	132,000	(1,000)
KB branches (CZ)	218	212	(6)
Modrá pyramida points of sale	195	201	6
SGEF branches	9	9	0
ATMs (KB network)	862	821	(41)
– of which deposit-taking	521	521	0
– of which contactless	643	679	36
ATMs (Total shared network)	1,420	2,012	592
Number of active debit cards	1,464,000	1,499,000	35,000
Number of active credit cards	191,000	212,000	21,000
Number of cards virtualized into payment apps	480,000	636,000	157,000
KB key authentication users	1,065,000	1,166,000	100,000

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 2023.

BUSINESS PERFORMANCE

Loans to customers
Total **gross volume of lending to clients** rose by 2.7% year on year to CZK 808.3 billion.[1)]

In **lending to individuals,** the overall volume of housing loans grew by 3.8% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 2.4% to CZK 273.5 billion. Modrá pyramida's loan portfolio developed even faster, by 8.2% to CZK 90.6 billion. The sales of housing loans in the first 9 months of 2023 were lower by (24.8%) in comparison with the same period of 2022, at CZK 25.2 billion. These sales had been recovering since March, however, and production in the standalone third quarter was already higher by 27.2% year on year. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up by 6.9%, at CZK 37.0 billion. This growth pace was also influenced by improvements in the granting process and successful offer of flexible loans available online and at branches.

The total volume of **loans to businesses** and other lending provided by KB Group was greater by 1.4% year on year, at CZK 407.1 billion. Lending to small businesses remained flat at 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 1.1% year on year to CZK 326.5 billion. At CZK 33.2 billion, the total credit and leasing amounts outstanding at SGEF were up by 5.9% year over year.

1) Including debt securities issued by KB's corporate clients. There were no reverse repo operations with clients to report as of 30 September 2023 or 30 September 2022.
2) Inclusive of factor finance outstanding at Factoring KB and merchant and car dealers' financing from ESSOX Group.

Amounts due to customers and assets under management
The **volume of standard client deposits** within KB Group increased by 1.2% year on year to CZK 1,022.4 billion.[1] Year to date, the volume grew by 11.5%. The year-on-year growth was mainly driven by deposits from corporate clients. Clients were often investing their savings in mutual funds and they also have been switching their deposits from current accounts to better-yielding term and savings accounts.

Deposits at Komerční banka from individual clients were down by (2.3%) from the year earlier to CZK 329.0 billion. The deposit book at Modrá pyramida diminished by (6.8%) to CZK 52.8 billion. Total deposits from businesses and other corporations were up by 3.9% to CZK 634.0 billion.

The volumes in mutual funds held by KB Group clients grew by 32.5% to CZK 122.4 billion. Client assets managed by KB Penzijní společnost were 1.8% greater, at CZK 73.4 billion. Technical reserves in life insurance at Komerční pojišťovna were smaller by (1.2%) year on year, at CZK 45.0 billion.

The Group's liquidity as measured by the ratio of net loans[2] to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 79.3%. The Group's liquidity coverage ratio ended the year at 157%, well above the regulatory limit of 100%.

FINANCIAL PERFORMANCE

Income statement
Komerční banka's **revenues (net operating income)** reached CZK 26,999 million, down by (6.9%) compared to the 9 months of 2022. Net interest income declined as the impact from narrower average spreads between deposits and loans was not offset by expanding volumes. Net fee and commission income was up slightly, driven particularly by clients' larger investments in mutual funds and greater transaction activity, mainly with payment cards. Net profit on financial operations was off slightly from the strong level of last year's first three quarters, as the weak economy began to weigh on hedging and trading activity of corporate clients.

Net interest income was down by (10.1%), at CZK 19,320 million. The volume of loans expanded, but the average lending spreads narrowed. Switching of deposit volumes from current accounts to savings and term deposits, together with higher rates paid on deposit products, led to significantly higher average costs of deposits. Contribution to net interest income from investment banking activities diminished slightly due to smaller differences between Czech crown interest rates and those in other currencies. Net interest margin for the 9 months of 2023, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.0%. That compares to 2.3% a year earlier.

Net fee and commission income grew by 3.4% to CZK 4,597 million. Transaction fees contributed to this development, as clients' transaction activity was greater, especially in card payments but also in other non-cash payments. Deposit product fees were up slightly, as the base from last year was influenced by a humanitarian allowance for war refugees from Ukraine. Fees from cross-selling improved as well, with better contribution from mutual funds and insurance products. Income from loan services was higher, mainly due to expanded consumer lending. Because clients' activity on debt capital markets was diminished year on year, less income was generated from the related services.

Net profit on financial operations decreased by (2.5%) year on year to CZK 2,839 million. This solid result was achieved on the back of client activity in currency and interest rate hedging and trading, although that was slowing in the third quarter as the economy turned sluggish. A few larger transactions executed for corporate and institutional clients contributed positively. Small and medium-sized corporate clients continued to appreciate tailored hedging strategies, and particularly those based on currency options. Gains from foreign exchange payments were lower year on year, reflecting seasonality of travel, transaction activity of clients, and spreads adjustments. The result also included gain from sales of bonds reported on the banking book.

Dividend and other income was up by 66.4% to CZK 243 million. This line item primarily comprises revenues from property rental and ancillary services.

Operating expenses rose by 7.7% to CZK 13,013 million. Reflecting a combined rise in average salaries and 0.6% increase in the average number of employees to 7,541, personnel expenses grew by 8.6% to CZK 6,222 million[3] General and administrative expenses (not including contributions to the regulatory funds) were up by 7.0%, at CZK 3,009 million. Growth in this category was driven by marketing, software and IT support, as well as costs related to real estate and overall inflation. The full-year charge to the regulatory funds (Deposit Insurance Fund, Resolution Fund) was lower by a slight (0.2%) year on year, at CZK 1,284 million, because the CNB reduced the Czech banks' aggregate contribution to the Resolution Fund in 2023. The levy for the Deposit Insurance Fund was

[1] Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' increased by 0.4% year on year to CZK 1,124.6 billion.

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

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

increased, however, following last year's failure of Sberbank CZ. Depreciation, amortisation, and impairment of operating assets grew by 11.0% to CZK 2,498 million, driven by higher charges reflecting investments 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 down by (17.4%), at CZK 13,986 million.

Cost of risk (impairment losses, provisions for loans, and net result from loans transferred and written off) reached CZK (1,037) million (i.e. a net release of provisions) compared to net provisions creation of CZK 1,231 million a year earlier. The level of new defaults remained relatively low across all client segments and the Group achieved successful recoveries relating to several exposures in the corporate client segment. Net provisioning in retail segments remained low. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during the 9 months of 2023 came to (16) basis points. That compares with 21 basis points for the same period a year earlier.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was up by 26.1% year on year, at CZK 208 million, influenced by interest rate developments, creation and utilisation of the insurance reserves, and implementation of the IFRS 17 accounting standard at Komerční pojišťovna.

Net profit on subsidiaries and associates reached CZK 0, compared to CZK 73 million a year earlier, when it had included a gain from revaluation of a stake in a subsidiary.

Net profits (losses) on other assets reached a negative CZK (6) million. In the previous year, net profit on other assets had been CZK 136 million. This line comprises mainly result from sales of buildings and related costs.

Income tax was lower by (8.1%), at CZK 2,693 million.

KB Group's consolidated **net profit** for the first three quarters of 2023 reached CZK 12,532 million, which was down by (4.6%) in comparison with the year earlier. Of this total, CZK 179 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (up by 20.1% year on year).

Reported **net profit attributable to the Group's equity holders** totalled CZK 12,353 million, which is (4.9%) less year on year.

Other comprehensive income reached CZK (489) million. This derived mainly from revaluation of some cash flow hedging positions and debt securities. **Consolidated comprehensive income** for the nine months of 2023 totalled CZK 12,043 million, of which CZK 179 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 2023 with the values from the statement of financial position as of 31 December 2022.

<u>Assets</u>

As of 30 September 2023, KB Group's total assets had grown by 15.8% year to date to CZK 1,512.1 billion.

Cash and current balances with central banks were down by (18.3%), at CZK 11.6 billion. Financial assets held for trading at fair value through profit or loss (trading securities and derivatives) decreased by (17.2%) to CZK 47.4 billion. The fair value of hedging financial derivatives declined by (36.3%) to CZK 13.7 billion.

Year to date, there was a (37.1%) drop in financial assets at fair value through other comprehensive income totalling CZK 19.0 billion. This item consisted mainly of debt securities issued by government institutions.

Financial assets at amortised cost grew by 20.5% to CZK 1,390.9 billion. The largest portion of this consisted of (net) loans and advances to customers, which increased year to date by 3.7% to CZK 810.3 billion. A 97.9% share in the gross amount of client loans was classified in Stage 1 or Stage 2 while 2.1% of the loans were classified in Stage 3 (non-performing loans). The volume of loss allowances created for amounts due from customers came to CZK 12.8 billion. Loans and advances to banks climbed by 83.5% to CZK 428.2 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 9.4% and reached CZK 152.4 billion at the end of September 2023.

Revaluation differences on portfolio hedge items totalled CZK (1.8) billion, lower by (30.6%). Current and deferred tax assets stood at CZK 0.4 billion. Prepayments, accrued income, and other assets, which include receivables from securities trading and settlement balances, decreased overall by (3.5%) to CZK 5.6 billion. Assets held for sale climbed by 791.0% to CZK 0.8 billion.

Because of Komerční pojišťovna's transition to the IFRS 17 standard, investments in associates rose by 9.3%, to CZK 2.9 billion, compared to the 2022 year-end restated value of CZK 2.7 billion.

The net book value of tangible assets decreased by (10.9%) to CZK 7.8 billion. Intangible assets grew by 10.7% to reach CZK 10.0 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 17.5% higher in comparison to the end of 2022 and stood at CZK 1,387.0 billion.

Financial liabilities at amortised cost went up by 19.8% to CZK 1,257.9 billion. Amounts due to customers comprise the largest proportion of this sum, and these climbed by 18.3% to CZK 1,124.6 billion. This total included CZK 102.2 billion of liabilities from repo operations with clients and CZK 6.8 billion of other payables to customers. Amounts due to banks increased through the 9 months of 2023 by 39.3% to CZK 118.7 billion.

Revaluation differences on portfolios hedge items were CZK (46.9) billion. Current and deferred tax liabilities ended at CZK 1.0 billion, down by (61.3%). Accruals and other liabilities, which include payables from securities trading and settlement balances, grew by 1.5% to CZK 17.1 billion.

The provisions balance was (21.6%) lower, at CZK 0.9 billion. Provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise those for ongoing contracted contingent commitments, legal disputes, self-insurance, and the retirement benefits plan.

Subordinated and senior non-preferred debt, at CZK 50.1 billion, was up by 29.4% year to date, as KB continued to subscribe new loans during the first 9 months of 2023 to meet regulatory minimum requirements for own funds and eligible liabilities (MREL).

Equity

Total equity rose year to date by 0.3% to CZK 125.1 billion, whereas the positive contribution from the net profit generated in the three quarters was offset by the volume of the annual dividend paid in May. Values of retained earnings as well as income from share of associated undertakings were restated as of the end of 2022 as a result of Komerční pojišťovna's adopting the IFRS 17 standard. The value of non-controlling interests reached CZK 3.2 billion. As of 30 September 2023, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

Regulatory capital and other regulatory requirements

Total **regulatory capital** for the capital adequacy calculation came to CZK 106.5 billion as of 30 September 2023. **Capital adequacy** stood at 20.2%. Core Tier 1 (CET1) capital totalled CZK 103.6 billion and the Core Tier 1 ratio was 19.6%. Tier 2 capital summed to CZK 2.9 billion, which was 0.5% of risk-weighted assets.

As from 1 October 2023, Komerční banka's overall capital requirements (OCR) were at approximately 17.4%. The minimum required level of CET1 is 12.6% and the minimum Tier 1 capital ratio stands at 14.7%.

KB Group's Liquidity Coverage Ratio came to 157% as of 30 September 2023. The applicable regulatory minimum is 100%.

Effective from 1 January 2023, KB Group is recommended to comply with an MREL minimum requirement equal to 17.4% of the consolidated total risk exposure and 5.18% of the consolidated total exposure. With effect as of 31 December 2023, KB Group will have to meet MREL at 21.2% of the consolidated total risk exposure and 5.91% of the consolidated total exposure. The MREL requirement is defined as the sum of the amount of loss absorption and recapitalisation.

In addition to the MREL, expressed as a percentage of risk-weighted assets, the Group must also fulfil the combined capital buffer. According to current regulations and the criteria from the supervisor, this requirement stood at 6.50% as of 1 October 2023.

Pursuing the so-called "single point of entry" resolution strategy, KB intends to fulfil its MREL requirements by taking on senior non-preferred loans from Société Générale S.A. As of 30 September, KB had accepted such loans in a total principal volume of EUR 1.95 billion.[1)] KB Group's MREL ratio stood at 29.2%.

Developments in the Group structure during the third quarter of 2023

In September, KB Smart Solutions, a fully owned subsidiary of Komerční banka, increased to 33.171% from 28.256% its stake in MonkeyData s.r.o. MonkeyData fully owns a subsidiary, Lemonero, s.r.o., which provides financing to e-shops utilising an AI-powered scoring model.

[1)] An overview of senior non-preferred tranches to meet the MREL requirements is provided in the Annex.

ANNEX: Consolidated results as of 30 September 2023 under International Financial Reporting Standards (IFRS)

	Reported			Recurring		
Profit and Loss Statement	**9M 2022***	**9M 2023**	**Change YoY**	**9M 2022***	**9M 2023**	**Change YoY**
(CZK million, unaudited)						
Net interest income	21,499	19,320	(10.1%)	21,499	19,320	(10.1%)
Net fee and commission income	4,447	4,597	3.4%	4,447	4,597	3.4%
Net profit on financial operations	2,913	2,839	(2.5%)	2,913	2,839	(2.5%)
Dividend and other income	146	243	66.4%	146	243	66.4%
Net banking income	**29,005**	**26,999**	**(6.9%)**	**29,005**	**26,999**	**(6.9%)**
Personnel expenses	(5,731)	(6,222)	8.6%	(5,731)	(6,222)	8.6%
General admin. expenses (excl. regulatory funds)	(2,812)	(3,009)	7.0%	(2,812)	(3,009)	7.0%
Resolution and similar funds	(1,286)	(1,284)	(0.2%)	(1,286)	(1,284)	(0.2%)
Depreciation, amortisation and impairment of operating assets	(2,250)	(2,498)	11.0%	(2,250)	(2,498)	11.0%
Total operating expenses	**(12,079)**	**(13,013)**	**7.7%**	**(12,079)**	**(13,013)**	**7.7%**
Operating profit	**16,926**	**13,986**	**(17.4%)**	**16,926**	**13,986**	**(17.4%)**
Impairment losses	(1,153)	917	+/-	(1,153)	917	+/-
Net gain from loans and advances transferred and written off	(79)	120	+/-	(79)	120	+/-
Cost of risk	**(1,231)**	**1,037**	**+/-**	**(1,231)**	**1,037**	**+/-**
Net operating income	**15,695**	**15,024**	**(4.3%)**	**15,695**	**15,023**	**(4.3%)**
Income from share of associated companies	165	208	26.1%	165	208	26.1%
Net profit/(loss) on subsidiaries and associates	73	0	n.a.	73	0	n.a.
Net profits on other assets	136	(6)	+/-	136	(6)	+/-
Profit before income taxes	**16,069**	**15,225**	**(5.3%)**	**16,069**	**15,225**	**(5.3%)**
Income taxes	(2,930)	(2,693)	(8.1%)	(2,930)	(2,693)	(8.1%)
Net profit for the period	**13,139**	**12,532**	**(4.6%)**	**13,139**	**12,532**	**(4.6%)**
Profit attributable to the Non-controlling owners	149	179	20.1%	149	179	20.1%
Profit attributable to the Group's equity holders	**12,990**	**12,353**	**(4.9%)**	**12,990**	**12,353**	**(4.9%)**

* Restated to reflect IFRS 17.

Statement of financial position	**31-Dec-22***	**30 Sep 2023**	**Ytd**
(CZK million, unaudited)			
Assets	**1,305,304**	**1,512,109**	**15.8%**
Cash and current balances with central bank	14,190	11,590	(18.3%)
Loans and advances to banks	233,398	428,191	83.5%
Loans and advances to customers (net)	781,463	810,314	3.7%
Securities and trading derivatives	226,848	218,718	(3.6%)
Other assets	49,404	43,296	(12.4%)
Liabilities and shareholders' equity	**1,305,304**	**1,512,109**	**15.8%**
Amounts due to banks	85,176	118,659	39.3%
Amounts due to customers	950,692	1,124,553	18.3%
Securities issued	12,156	12,246	0.7%
Subordinated and senior non preferred debt	38,694	50,083	29.4%
Other liabilities	93,910	81,460	(13.3%)
Total equity	124,676	125,108	0.3%

* Restated to reflect IFRS 17.

Key ratios and indicators	30 Sep 2022	30 Sep 2023	Change year on year
Capital adequacy (CNB)	21.1%	20.2%	▼
Tier 1 ratio (CNB)	20.5%	19.6%	▼
Total risk-weighted assets (CZK billion)	525.7	527.6	0.4%
Risk-weighted assets for credit risk (CZK billion)	432.2	433.7	0.3%
Net interest margin (NII / average interest-bearing assets)[III]	2.3%	2.0%	▼
Loans (net) / deposits ratio[IV]	76.9%	79.3%	▲
Cost / income ratio[V]	41.6%	48.2%	▲
Return on average equity (ROAE)[VI]	13.8%	13.5%	▼
Return on average Tier 1 capital[VII]	16.6%	16.3%	▼
Return on average assets (ROAA)[VIII]	1.3%	1.2%	▼
Earnings per share (CZK)[IX]	91.7	87.2	(4.9%)
Average number of employees during the period	7,496	7,541	0.6%

Business performance in retail segment – overview	30 Sep 2023	Change year on year
CZK bil.		
Mortgages to individuals – volume of loans outstanding	273.5	2.4%
Building savings loans (MPSS) – volume of loans outstanding	90.6	8.2%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	37.0	6.9%
Small business loans – volume of loans outstanding	47.4	(0.0%)
Insurance premiums written (KP)	4.8	(15.9%)

Senior non-preferred loans as of 30 September 2023:

Issue	Principal	Call option date*	Interest rate (ACT/360)
27 Jun 2022	EUR 250m	28 Jun 2027	3M Euribor + 2.05%
21 Sep 2022	EUR 250m	21 Sep 2026	1M Euribor + 1.82%
21 Sep 2022	EUR 250m	21 Sep 2029	1M Euribor + 2.13%
9 Nov 2022	EUR 250m	9 Nov 2025	1M Euribor + 2.05%
9 Nov 2022	EUR 250m	9 Nov 2027	1M Euribor + 2.23%
9 Nov 2022	EUR 250m	9 Nov 2028	3M Euribor + 2.28%
15 Jun 2023	EUR 250m	15 Jun 2026	3M Euribor + 1.70%
15 Jun 2023	EUR 200m	15 Jun 2028	3M Euribor + 2.01%

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

Subordinated debt as of 30 September 2023:

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

* Maturity date is 5 years after the call option exercise date.

Financial calendar:

8 February 2024 FY and 4Q 2023 results
3 May 2024 1Q 2024 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 2023	9M 2022
Net interest income income, year-to-date	**19,320**	**21,499**
Of which:		
Loans and advances at amortised cost	47,647	36,489
Debt securities at amortised cost	3,286	2,243
Other debt securities	371	419
Financial liabilities at amortised cost	(27,215)	(14,231)
Hedging financial derivatives – income	35,902	25,763
Hedging financial derivatives – expense	(40,671)	(29,185)

(source: Balance Sheet)	30 Sep 2023	31 Dec 2022	30 Sep 2022	31 Dec 2021
Cash and current balances with central banks / Current balances with central banks	3,983	6,167	16,782	21,455
Loans and advances to banks	428,191	233,398	420,753	257,196
Loans and advances to customers	810,314	781,463	776,560	724,587
Financial assets held for trading at fair value through profit or loss / Debt securities	12,645	9,968	13,232	8,696
Non-trading financial assets at fair value through profit or loss / Debt securities	0	132	133	135
Financial asset at fair value through other comprehensive income (FV OCI) / Debt securities	18,911	30,119	30,082	35,509
Debt securities	152,355	139,276	128,593	114,078
Interest-bearing assets (end of period)	**1,426,399**	**1,200,524**	**1,386,136**	**1,161,656**
Average interest-bearing assets, year-to-date	**1,313,461**		**1,273,896**	
NIM year-to-date, annualised	**1.96%**		**2.25%**	