

Komerční banka, a.s.

RESULTS

9M 2024

AND PROGRESS IN TRANSFORMATION



Regulatory information

Komerční banka, a.s.

KB through three quarters of 2024: Strong performance, growing client base, progress in transformation

"I am pleased with our strong overall performance through the first nine months of the year even as we have progressed substantially along Komerční banka's transformational journey. The number of our clients increased notably, as did the volume of assets that those clients have entrusted to our management. The volume of financing we provided to businesses and households expanded, too. Our profitability had been gradually improving during the year even before it was given a boost in the third quarter by an exceptional gain related to the sale of our historic headquarters at Václavské náměstí," remarked Jan Juchelka, Chief Executive Officer and Chairman of the Board of Directors of Komerční banka.

"We continue to successfully implement our transformation strategy. We are approaching a point where half of our clients will be served in the KB+ application, and I consider that to be another important milestone in our journey. Today, almost exactly 18 months after we introduced the New KB Era Banking to the public, we have more than 800,000 users in the KB+ app. In the remaining months of this year, we have even more ambitious goals ahead of us. We want to be serving 1,000,000 users of our KB+ application by the year's end and of course to continue in deepening relationships with all 2.2 million of KB Group's clients. We aim to complete the transfer of retail clients in the first half of next year, and I am confident that we will reach our target. Moreover, preparations for the New Era of Banking for corporate clients are already well underway.

"We are focused on improving efficiency and sustainable profitability. We endeavour to achieve disciplined business growth while increasing operational efficiencies, operating in a streamlined and integrated business model, simplifying product portfolios, and seeking synergies. An example of this can be seen in our recently launched single centre for processing the housing loans of both KB and Modra pyramida," Jan Juchelka added.

- | **KB Group's lending to customers rose by 3.7% year on year to CZK 838.2 billion. Deposits from clients grew by 3.4% from a year earlier to CZK 1,057.6 billion. Volume of non-bank assets (mutual funds, pension funds, life insurance) under management expanded by 13.7% to CZK 273.8 billion.**
- | **The number of customers in standalone Komerční banka increased by 44,000 year on year to 1,709,000. As of 30 September 2024, 717,000 users had already enrolled into KB's new digital bank introduced in April 2023. KB Group was serving 2,184,000 clients.**
- | **First nine months of 2024: Total revenues were down by (1.0%) year on year to CZK 26.7 billion. Operating expenditures increased by 2.5% to CZK 13.3 billion. The Group reported a CZK 1.0 billion net creation of provisions for credit risk. Income taxes reached CZK 2.3 billion. Net profit attributable to the Group's equity holders, at CZK 12.5 billion, was up by 1.5% year on year.**
- | **Third quarter of 2024: Total revenues increased by 3.2% year on year to CZK 9.2 billion. Operating expenditures were higher by 8.8%, at CZK 4.3 billion. The Group reported a CZK 0.4 billion net creation of provisions for credit risk. Income taxes reached CZK 0.8 billion. Net profit attributable to the Group's equity holders, at CZK 6.2 billion, was up by 45.2% year on year.**
- | **Volume of regulatory capital reached CZK 106.4 billion, capital adequacy stood at 19.0%, and the Core Tier 1 ratio was 17.9%.**
- | **KB closed the sale to the City of Prague of its VN42 subsidiary owning the headquarters building at Václavské náměstí 42.**
- | **KB had 75,927 shareholders (greater by 2,993 year on year), of which 69,935 were private individuals from the Czech Republic.**

Prague, 31 October 2024 – Komerční banka reported today its unaudited consolidated results for the first 9 month of 2024.

Business and financial performance

Lending to clients was up by 3.7%, at CZK 838.2 billion.¹⁾ The outstanding volume of housing loans (from Komerční banka and Modrá pyramida) grew by 4.5%. New production of housing loans in the three quarters of 2024 was higher by 43.6% compared to the previous year's first 9 months. The rise in consumer lending reached 5.2%, growing within the Bank across all product categories. Growth in lending to businesses, at 2.8%, continued to be affected by subdued investment activity in the slow economy, increased bond issuance by large corporations, as well as the Bank's selective approach to such lending.

Deposits from clients improved by 3.4% year on year to CZK 1,057.6 billion.²⁾ This gain was concentrated in savings accounts and term deposits while the volumes on current accounts expanded only marginally. Meanwhile, the volume of KB Group clients' assets in mutual funds, pension savings, and life insurance had risen by 13.7% year on year to CZK 273.8 billion, with clients' investments in mutual funds making the main contribution to this growth.

Total revenues reached CZK 26.7 billion, lower by (1.0%) compared to the first three quarters of 2023. Net interest income declined slightly, as costs of funds were elevated and interest costs increased in relation to the volume of new liabilities mandated by regulation (MREL). Furthermore, from October 2023, the CNB stopped paying interest on banks' obligatory deposits (minimum reserves) with the central bank. Net fee and commission income was up modestly, reflecting especially clients' larger investments in mutual funds and greater demand among corporate clients for various financial services, such as trade finance instruments or bond issuance. Net profit on financial operations came down slightly from the strong levels of last year, but the result was still solidly underpinned by turnover of FX conversions linked to travel and clients' resilient hedging and trading activities in the context of a sluggish economy and decreasing interest rates.

Operating expenses were up by 2.5%, at CZK 13.3 billion. Personnel expenses were higher by 5.8%. The average number of employees declined slightly, even as a lower number of staff in support functions and the distribution network was offset by hiring of more IT and data specialists. Administrative costs were up a bit, mainly due to marketing and IT costs as well as rebranding of the KB Poradenství network. The full-year levy to the regulatory funds decreased markedly as the CNB adjusted downwards the aggregate contribution from Czech banks to the Resolution Fund and the comparison base from last year was also influenced by an increased charge for deposit insurance due to the failure of Sberbank CZ. Greater depreciation and amortisation charges reflected the ongoing investments into digitalisation.

Cost of risk reached CZK 1.0 billion. Net creation of credit risk allowances in retail segments related to consumer lending and small business portfolios, and in corporate segments it was linked to a creation for a few clients with worsened credit profile and higher inflow of corporate exposures into the non-performing loan category. The latter was partly offset by successful resolution of a few corporate client exposures. KB did not reduce the inflation overlay reserve which had been created in 2021 and 2022. Overall quality of the loan portfolio remained excellent, as strong resilience was seen across client segments.

Reported net profit attributable to shareholders for 2024's first 9 months improved by 1.5% year on year to CZK 12.5 billion. Income taxes came to CZK 2.3 billion. If gain from sale of the VN42, s.r.o. subsidiary in July were to be excluded, the attributable net profit would be down by (18.5%), at CZK 10.1 billion.

Shareholders, capital, and dividends

KB's capital adequacy ratio reached a strong 19.0%, and Core Tier 1 capital stood at 17.9%. During 2024, the reported capital ratios are adjusted for the "foreseeable dividend" at the level of a 100% payout ratio. That is in accordance with management's published intention.

The Liquidity Coverage Ratio was 169% and the Net Stable Funding Ratio at 143%, both indicators standing significantly above their applicable regulatory minimums.

As of 30 September 2024, Komerční banka had 75,927 shareholders (up by 2,993 year on year), of which 69,935 (greater by 3,066 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 2024 as well as of 30 September 2023 was nil.

²⁾ Excluding repo operations with clients. The total volume of 'Amounts due to customers' moved up by 17.3% to CZK 1,319.0 billion.

Market environment (in third quarter 2024)¹⁾

The state budget and its revisions as a consequence of the recent severe floods were the subject of public discussions in the third quarter of 2024. The budget was expanded by CZK 30 billion as a reserve to repair flood damages. The Czech Republic's 2025 government budget includes a planned deficit of CZK 241 billion.

The economy reported GDP growth of 0.3% in the third quarter over the prior quarter (1.3% year over year). Year over year growth was supported by final consumption and net export while fixed investment contributed negatively. In the previous, second quarter of 2024, the Czech economy had expanded by 0.4% quarter on quarter (0.6% year on year). GDP growth was mainly supported by household final consumption expenditure. Government final consumption expenditure also rose, and external demand had a positive effect on GDP growth, too. In contrast, the change in inventories contributed negatively.

The labour market remained tight and with nominal wage growth steadily rising.²⁾ The unemployment rate continued to be one of the lowest in the EU, standing at 2.6% in August 2024 (as per the Eurostat methodology after seasonal adjustment).³⁾

As in the prior period, the Czech Republic's price development was moderate in 2024's third quarter. Industrial producer prices rose in the quarter by 1.2% year over year. Quarter-on-quarter dynamics were at (0.4%). Agricultural producer prices were lower by (1.4%) year on year but up by 0.6% quarter on quarter. Prices of construction work continued to rise, climbing by an average 1.7% year on year and 0.3% quarter on quarter. Consumer price inflation reached 0.5% compared to the second quarter. Year on year, prices increased by 2.3%. The slowing price growth was mainly due to price developments in the transport sector. The main contributors to higher prices were housing, water, electricity, gas, and other fuels. The core inflation dynamics declined to 2.3% in third quarter 2024.⁴⁾

This stable price inflation allowed the Czech National Bank to implement two additional reductions in its main two-week monetary policy repo rate during 2024's third quarter. At the beginning of August, the rate was cut by 25 basis points to 4.50%. There followed another 25 bps reduction to 4.25% at the end of September. Hence, year to date, the two-week repo rate is already lower by 250 bps. As of the end of September, three-month PRIBOR stood at 4.20%, having decreased by (257) bps since the beginning of the year. The 10-year interest rate swap, at 3.30%, was down by (19) bps over the same period. The 5-year interest rate swap rate, at 3.11%, marked a decrease of (43) bps year to date. In the current environment, the bull steepening interest rate swap curve between the 5-year and 10-year rates reflects further potential for future cutting of shorter rates. Yields on 10-year Czech government bonds have also gone down (by (5) bps since the start of the year, to 3.77%). The Czech crown had depreciated against the euro by 1.84% year to date, reaching CZK 25.18 per euro by the end of September.

The latest information on residential real estate prices, available for the second quarter of 2024 from the Czech Statistical Office, showed prices for second-hand homes in Prague had grown by 4.2% quarter on quarter and were higher by 8.6% as compared to the previous year's second quarter.⁵⁾ Prices of second-hand flats in the rest of the country were up by 3.1% quarter on quarter and 5.5% year on year. Prices of newly developed flats in Prague increased by 3.7% in the second quarter of 2024 from the previous quarter and by 1.0% year on year. According to the European house price index,⁶⁾ residential real estate prices across the Czech Republic were up quarter on quarter by 2.6% and year over year by 4.2%.

Total bank lending for the overall market (excluding repo operations) had grown by 5.6% year on year as of the end of August 2024.⁷⁾ Lending to individuals rose by 4.9%, with housing loans expanding 4.0% year on year as new mortgage production gained in momentum while recovering as interest rates continued gradually to decline. Lending to businesses and other corporations increased year on year by 6.4% in August 2024, with growth recorded across all main segments and mainly in euro-denominated loans.

The volume of client deposits in Czech banks had expanded by 6.6% year over year as of the end of August 2024.⁸⁾ Deposits from individuals had grown in total by 7.9% while marketwide deposits from businesses and other corporations were up by 5.4% year over year. Switching from current accounts to term and saving deposits moderated, as the volumes on current accounts increased by 0.6% and those on saving accounts by 21.0% year on year. Term deposit volumes swelled by 7.3% 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 2024 showed wage inflation at +6.5% year on year (up by 3.9% in real terms).

³⁾ Source: https://ec.europa.eu/eurostat/databrowser/view/EI_LMHR_M/default/table?lang=en&category=euroidn.ei_lm Data as of August 2024.

⁴⁾ Source: https://www.cnb.cz/arad/#/en/display_link/single_SCPIMZM09YOYPECNA ARAD statistics of the CNB.

⁵⁾ Source: <https://csu.gov.cz/produkty/indices-of-realized-flat-prices-2-quarter-of-2024> Publication Date: 13 September 2024 Product Code: 014007-24

⁶⁾ Source: https://ec.europa.eu/eurostat/databrowser/view/prc_hpi_q/default/table?lang=en

⁷⁾ Source of data on banking market developments: ARAD statistics of the CNB, www.cnb.cz/arad.

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

In fourth year of KB 2025 strategic plan, delivering results through the transformative journey

On 5 November 2020, Komerční banka had presented its KB 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. While continuing on its transformative journey through the past 12 months, the Bank has delivered further tangible progress in the areas covered by KB Change 2025.

In the fourth year of implementing the plan, Komerční banka progressed significantly in the development of its fundamentally simplified and digitalised client proposition marketed as the “New Era of Banking for KB”. This New Era is based on a completely new digital banking technology stack that includes a new core banking system, the KB+ mobile application and internet banking, a card management system and a payment hub, as well as new analytical tools.

Onboarding of clients to the new digital bank has run at full speed. By September 2024, a total of 717,000 users were enrolled in the new digital bank, of which some 133,000 were entirely new users. The remaining clients had come over from the legacy system.

Boosted by higher prevalence of digital sales in the digital bank’s new KB+ environment, the share of products sold digitally within the Individuals segment reached 54% of total sales in the first 9 months of 2024. That is up by 20 percentage points year on year. Within this total, 48% of products were sold in an end-to-end digital manner.

KB Group has also launched a new single and unified mortgage processing hub for Komerční banka and Modrá pyramida, thus unlocking further operational synergies by enhancing efficiency in product development and streamlining portfolio administration. By 30 September 2024, already 90% of the mortgages from the legacy systems had been migrated and new production was being administered completely from the new hub.

The OneGroup initiative to leverage resources and skills and create synergies across KB Group continued. A KB Poradenství network of tied agents has been launched as part of KB’s retail banking, and centralisation into KB of support teams from subsidiaries also has advanced.

KB affirmed its strategic ambition to be a leader in sustainable banking on the Czech financial market and within the SG Group. 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. Carbon emissions generated in 2023 from own operations and purchased energy and products (Scopes 1+2) were lower by 59% compared to the 2019 reference year, reaching 9.6 kilograms per client of CO₂ equivalent). Measurement is audited on a yearly basis by the non-profit Preferred by Nature. KB also agreed with Air Bank and Moneta Money Bank on sharing of their ATM networks for depositing cash. Sharing ATMs for withdrawals has been in place already since 2022.

KB’s maturity in the environmental, social, and governance areas has been measured by several globally recognised ESG ratings. KB’s score in the FTSE4Good index of sustainably managed companies improved to 4.0 points from 3.7 points a year ago. 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. Moreover, KB received a high score of 54 points in the Corporate Sustainability Assessment by S&P Global.

The Group has also been optimising its real estate portfolio to reflect the needs of the distribution network, and especially to enhance collaboration and innovation by bringing KB Group’s head office teams together from multiple locations into a state-of-the-art office centre in Prague-Stodůlky. Pursuit of this strategy is seen also in the sale to the City of Prague of KB’s VN42, s.r.o. subsidiary, which had owned the historic headquarters building at Václavské náměstí 42.

Updated financial targets for 2025

Upon announcing the KB 2025 plan in 2020, KB also had unveiled some financial ambitions set on a KB Group basis for the strategy’s 2025 horizon, based on several assumptions, including successful implementation of non-organic growth components.

Reaching these financial targets has been postponed in recognition of headwinds unforeseen at the time of setting these goals in 2020, including slower economic growth that has hindered demand for loans and some other financial services, high inflation during 2022–2023 which affected the cost base, direct impacts on revenues as the CNB cancelled remuneration of mandatory minimum reserves, increase in the corporate income tax, and introduction of the so-called “windfall tax” which severely limits the potential for increasing net profitability.

Compared to 2024, KB expects in 2025 its revenue growth to accelerate, driven by expanding business volumes. That growth will be supported by improved functionalities of the new digital bank for retail clients and increasing sales activity as distribution capacity is gradually relieved of the need to provide migration assistance. On the other hand, revenues will be hit by an increase in the volume of non-remunerated mandatory reserves required by the CNB.

Operating expenditures in 2025 will not increase in comparison with 2024 despite higher personnel costs and increasing amortisation charges for components of the new digital bank. These effects will be compensated by efficiencies generated by the ongoing transformation, including lower number of employees and expected decrease in the charge for the Resolution Fund.

The corporate income tax rate is expected to stay at the 21% level to which it was increased in 2024. The windfall tax at the 60% incremental rate will remain in place for the 2023–2025 period as originally legislated.

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 managed effectively, 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 13–14% and the cost-to-income ratio between 43% and 44% for 2025.

Key risks to these targets include significant worsening of the macroeconomic conditions, including due to a worsened geopolitical situation, unexpected further increase in regulatory requirements and bank levies, and adverse competitive dynamics.

Developments in the client portfolio and distribution networks

	30 Sep 2023	30 Sep 2024	Change YoY
KB Group's clients	2,218,000	2,184,000	(34,000)
Komerční banka	1,665,000	1,709,000	44,000
– individual clients	1,421,000	1,467,000	46,000
– New Digital Bank clients	49,000	686,000	637,000
– internet banking clients	1,539,000	1,620,000	81,000
– mobile banking clients	1,221,000	1,457,000	235,000
Modrá pyramida	438,000	399,000	(40,000)
KB Penzijní společnost	482,000	431,000	(51,000)
ESSOX (Group)	132,000	112,000	(19,000)
KB branches (CZ)	212	207	(5)
KB Poradenství outlets	n.a.	187	n.a.
SGEF branches	9	9	0
ATMs (KB network)	821	791	(30)
– of which deposit-taking	521	498	(23)
– of which contactless	679	791	112
ATMs (Total shared network)	2,012	1,980	(32)
Number of active debit cards	1,499,000	1,577,000	78,000
Number of active credit cards	212,000	226,000	14,000

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 2024.

BUSINESS PERFORMANCE

Loans to customers

Total gross volume of lending to clients rose by 3.7% year on year to CZK 838.2 billion.¹⁾

In **lending to individuals**, the overall volume of housing loans grew by 4.5% from the year earlier. Within this total, the portfolio of mortgages to individuals increased by 3.9% to CZK 284.2 billion. Modrá pyramida's loan portfolio developed even faster, by 6.4% to CZK 96.4 billion. New production of housing loans was higher by 43.6% compared to the previous year's first 9 months. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up by 5.2%, at CZK 39.0 billion, growing within the Bank across all product categories.

The total volume of **loans to businesses** and other lending provided by KB Group was greater by 2.8% year on year, at CZK 418.6 billion. Growth in lending to businesses was affected by subdued investment activity in the slow economy, increased bond financing of large corporations, as well as the Bank's taking a selective approach to making these loans. Lending to small businesses increased by 2.0% to CZK 48.3 billion. The overall CZK volume of credit granted by KB to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia²⁾ climbed by 2.6% year on year to CZK 335.1 billion. At CZK 35.2 billion, the total credit and leasing amounts outstanding at SGEF were up by 6.0% year over year.

Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group increased by 3.4% year on year to CZK 1,057.6 billion.³⁾ This growth was mainly driven by term and saving accounts as the volumes on current accounts grew by 0.4% year on year but those on term and savings accounts were up by a more dynamic 7.6%.

Deposits at Komerční banka from individual clients were higher by 2.6% from the year earlier, at CZK 337.4 billion. The deposit book at Modrá pyramida diminished by (4.5%) to CZK 50.4 billion. Total deposits from businesses and other corporations were 4.4% greater, at CZK 661.6 billion.

The volumes in mutual funds held by KB Group clients grew by 25.5% to CZK 153.6 billion. Client assets managed by KB Penzijní společnost were 0.6% greater, at CZK 73.8 billion. Technical reserves in life insurance at Komerční pojišťovna were larger by 3.2% year on year, at CZK 46.4 billion.

The Group's liquidity as measured by the ratio of net loans⁴⁾ to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) stood at 80.0%. The Group's liquidity coverage ratio ended the first 9 months of the year at 169%, well above the regulatory limit of 100%.

FINANCIAL PERFORMANCE

Income statement

Komerční banka's **revenues (net operating income)** reached CZK 26,728 million, down by (1.0%) compared to the first three quarters of 2023.

Net interest income was lower by (3.3%), at CZK 18,691 million, in spite of the expanded volumes of loans and deposits. The average costs of deposits were higher year on year, although these had begun to diminish moderately in the second quarter. Average lending spreads were virtually stable year on year. KB also had to absorb interest costs stemming from loans accepted in order to meet the CNB's minimum requirement for own funds and eligible liabilities (MREL). Moreover, from October 2023, the CNB stopped paying interest on banks' obligatory deposits (minimum reserves) that it holds. Net interest margin for the 9 months of 2024, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 1.6%. That compares to 2.0% a year earlier.

Net fee and commission income grew by 7.1% to CZK 4,925 million. This growth was mainly driven by cross-selling of mutual funds, life insurance, and wealth management solutions in private banking, as well as by stronger demand among corporate clients for various financial services, such as trade finance or bond issuance, custody and depository services, and asset management. The Bank also paid less for received guarantees. Transaction fees contributed positively, too, as clients' transaction activity continued to pick up speed, especially in card payments but also in other non-cash payments. Deposit product fees were down slightly, influenced by clients' switching to the new digital bank and by lower number of building savings contracts. Income from loan services decreased slightly, as greater production of consumer loans was offset by higher commissions paid for intermediation of retail loans.

¹⁾ Including debt securities issued by KB's corporate clients and excluding reverse repo operations with clients. The volume including reverse repo operations with clients increased by 3.7% to CZK 838.2 billion.

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

³⁾ Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' increased by 17.3% year on year to CZK 1,319.0 billion.

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

Net profit on financial operations was down by (2.0%) from the strong result of 2023's first three quarters but recorded a still-solid CZK 2,783 million. The result was underpinned by solid turnover of FX conversions linked to travel, adjusted spreads, and clients' resilient hedging and trading activities in the context of a sluggish economy and decreasing rates. On the other hand, financial markets also saw intense competition among service providers across asset classes. The result of the previous year had included, too, gain from sales of bonds reported on the banking book.

Dividend and other income was up by 35.4% to CZK 329 million. This line item includes revenues from property rental and ancillary services and dividends from associated companies.

Operating expenses increased by 2.5% to CZK 13,342 million. The average number of employees decreased by (0.7%) to 7,487¹⁾ as a lower number of staff in support functions and the distribution network was partially offset by hiring of additional IT and data specialists. The Bank has agreed with the trade unions on increasing salaries in the annual compensation review by an average 4.6%, effective from April. Personnel expenses subsequently grew by 5.8% to CZK 6,581 million. General administrative expenses (not including contributions to the regulatory funds) were up by 4.9%, at CZK 3,156 million, reflecting slightly higher marketing and IT costs as well as expenditures related to rebranding of the KB Poradenství network. These expenses were not fully offset by savings in costs related to real estate and telecommunications. The full-year levy to the regulatory funds (Deposit Insurance Fund, Resolution Fund) was lower by (38.2%) year on year, at CZK 793 million, because the CNB adjusted downwards the aggregate contribution from Czech banks to the Resolution Fund and the comparison base from last year was also influenced by the temporarily increased charge for deposit insurance due to the failure of Sberbank CZ. Depreciation, amortisation, and impairment of operating assets grew by 12.5% to CZK 2,811 million, driven mainly 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 (4.3%), at CZK 13,385 million.

Cost of risk (impairment losses, provisions for loans, and net result from loans written off) reached CZK 954 million (i.e. a net creation of provisions or +14 basis points in relative terms) compared to a net provisions release of CZK (1,037) million a year earlier (or -16 basis points in relative terms). Net creation of credit risk allowances in retail segments related to consumer lending and small business portfolios. In corporate segments, it was linked to a creation on a few clients with worsened credit profile and higher inflow of corporate exposures to the non-performing loan category, partly offset by successful resolution of a few corporate client exposures. KB did not reduce the inflation overlay reserve which had been created in 2021 and 2022.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was down by (8.2%) year on year, at CZK 191 million, influenced by interest rate developments, as well as by creation and utilisation of the insurance reserves.

Net loss on subsidiaries and associates reached CZK (54) million, mainly due to impairment of a stake in a subsidiary of KB Smart Solutions. In the same period of 2023, this line had been at CZK 0.

Net profits (losses) on other assets reached CZK 2,368 million, mainly due to a gain on sale of the VN42, s.r.o. subsidiary in July. It also comprised allowances for buildings held for sale and costs related to sale of buildings. In the previous year's first half, net loss on other assets had been CZK (6) million.

Income tax was lower by (14.7%), at CZK 2,296 million.

KB Group's consolidated **net profit** for the first three quarters of 2024 came to CZK 12,641 million, down by 0.9% in comparison with the year earlier. Of this total, CZK 102 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (lower by (43.0%) year on year).

Reported **net profit attributable to the Group's equity holders** totalled CZK 12,539 million, which is 1.5% up year on year. Adjusted for the gain from the sale of VN42, s.r.o., the attributable net profit would reach CZK 10,064 million, down (18.5%) from the year earlier.

Other comprehensive income stood at CZK (232) million. This derived mainly from revaluation of some cash flow hedging positions and liabilities. **Consolidated comprehensive income** for the first 9 months of 2024 totalled CZK 12,409 million, of which CZK 105 million was attributable to owners of non-controlling stakes.

¹⁾ Recalculated to a full-time equivalent number.

Statement of financial position

Unless indicated otherwise, the following text provides a comparison of the balance sheet values as of 30 September 2024 with the values from the statement of financial position as of 31 December 2023.

Assets

As of 30 September 2024, KB Group's total assets had grown by 9.5% year to date to CZK 1,659.9 billion.

Cash and current balances with central banks were up by 89.4%, at CZK 24.3 billion. Financial assets held for trading at fair value through profit or loss (trading securities and derivatives) decreased by (4.2%) to CZK 46.4 billion. The fair value of hedging financial derivatives declined by (35.1%) to CZK 5.6 billion.

Year to date, there was a (20.3%) drop in financial assets at fair value through other comprehensive income totalling CZK 13.4 billion. This item consisted mainly of debt securities issued by government institutions.

Financial assets at amortised cost grew by 10.0% to CZK 1,537.8 billion. The largest portion of this consisted of (net) loans and advances to customers, which increased year to date by 1.5% to CZK 846.4 billion. A 98.0% share in the gross amount of client loans was classified in Stage 1 or Stage 2 while 2.0% 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 12.4 billion. Loans and advances to banks climbed by 27.2% to CZK 523.5 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 10.3% and reached CZK 167.9 billion at the end of September 2024.

Revaluation differences on portfolio hedge items totalled CZK (0.3) billion, lower by (57.1%). Current and deferred tax assets stood at CZK 0.8 billion. Prepayments, accrued income, and other assets, which include receivables from securities trading and settlement balances, increased overall by 13.1% to CZK 7.1 billion. Assets held for sale declined by (98.9%) to CZK 0.0 billion.

Investments in associates were lower by (9.0%) in comparison with the 2023 year-end value, at CZK 2.8 billion.

The net book value of tangible assets decreased by (2.1%) to CZK 7.9 billion. Intangible assets grew by 3.1% to reach CZK 10.5 billion. Goodwill, which derives primarily from the acquisitions of Modrá pyramida, SGEF, and ESSOX, remained unchanged at CZK 3.8 billion.

Liabilities

Total liabilities were 10.6% higher in comparison to the end of 2023 and stood at CZK 1,534.8 billion.

Financial liabilities at amortised cost went up by 12.8% to CZK 1,407.9 billion. Amounts due to customers comprise the largest proportion of this sum, and these climbed by 17.0% to CZK 1,319.0 billion. This total included CZK 261.4 billion in liabilities from repo operations with clients and CZK 6.1 billion of other payables to customers. Amounts due to banks decreased through the first half of 2024 by (30.3%) to CZK 73.7 billion.

Revaluation differences on portfolios hedge items were CZK (29.8) billion. Current and deferred tax liabilities ended at CZK 0.9 billion, down by (39.3%). Accruals and other liabilities, which include payables from securities trading and settlement balances, grew by 19.9% to CZK 20.8 billion.

The provisions balance was (14.1%) lower, at CZK 0.7 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 65.7 billion, was up by 1.8% year to date, due to the Czech crown's weakened exchange rate vis-à-vis the euro. That is because MREL instruments are denominated in euro.

Equity

Total equity declined year to date by (2.5%) to CZK 125.1 billion. The value of non-controlling interests reached CZK 3.3 billion. As of 30 September 2024, 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 106.4 billion as of 30 September 2024. **Capital adequacy** stood at 19.0%. Core Tier 1 (CET1) capital totalled CZK 99.9 billion and the Core Tier 1 ratio was 17.9%. Tier 2 capital summed to CZK 6.4 billion, which was 1.2% of risk-weighted assets.

As of 30 September 2024, Komerční banka's overall capital requirements (OCR) were at approximately 16.4%. The minimum required level of CET1 was 11.7% and the minimum Tier 1 capital ratio stood at 13.7%.

During 2024, the CNB decreased the required level of countercyclical capital buffer by 25 bps with effect from 1 January, by another 25 bps with effect from 1 April, and by 50 bps to 1.25% with effect from 1 July 2024. As from 1 January 2025, the CNB will newly set a systemic risk buffer requirement at a rate of 50 bps.

KB Group's Liquidity Coverage Ratio came to 170% as of 30 September 2024. The applicable regulatory minimum is 100%.

Effective from 1 January 2024, KB Group needed to comply with an MREL minimum requirement equal to 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. This requirement stood at 5.75% as of 30 September 2024 after decreasing by 0.50% from 1 July 2024. It nevertheless will rise again from 1 January 2025 due to introduction of the systemic risk buffer.

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 2024, KB had accepted such loans in a total principal volume of EUR 2.4 billion.¹⁾ KB Group's MREL ratio stood at 29.89%.

Developments in the Group structure in the third quarter of 2024

In June, Komerční banka concluded an agreement with the City of Prague on the sale of its fully owned subsidiary VN 42, s.r.o., which owns the head office building at Václavské náměstí 796/42 in Prague. Transfer of the company took place at the beginning of July 2024. The sale had positive impact on the consolidated result in the third quarter of 2024 (for details see previous pages of this document). The sale also included an agreement on Komerční banka's lease of some premises in the building at Václavské náměstí 42 until at latest the end of 2026.

In July, Komerční banka signed a memorandum of understanding with Société Générale Equipment Finance, S.A. (SGEF SA) and its parent company Société Générale, S.A. (SG SA) with a view to purchase from SGEF SA the remaining 49.9% stake in SG Equipment Finance Czech Republic s.r.o. (SGEF CR). This intended acquisition would happen concomitantly with the contemplated sale by the SG Group of its Equipment Finance activities, including the shares in SGEF SA (but excluding activities in the Czech Republic and Slovakia), to BPCE group, a French financial group. The signing of this memorandum of understanding follows a previously signed memorandum of understanding entered into between Société Générale and BPCE that was announced in April 2024. Komerční banka already holds 50.1% of SGEF CR. Its acquisition of the remaining 49.9% stake in SGEF CR would thus complete the transaction. The continuation of business co-operation with clients and suppliers common to SGEF SA and SGEF CR would be ensured by a Business Co-operation Agreement into which both companies intend to enter. The closing of the acquisition is contemplated to occur in the first quarter of 2025.

As of 1 October, Komerční banka acquired ownership of the KB Poradenství franchise from Modrá Pyramida. The agent network of KB Poradenství has become an integral part of Komerční banka, a.s.

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 2024 under International Financial Reporting Standards (IFRS)

Profit and Loss Statement	Reported			Recurring		
	9M 2023	9M 2024	Change YoY	9M 2023	9M 2024	Change YoY
(CZK million, unaudited)						
Net interest income	19,320	18,691	(3.3%)	19,320	18,691	(3.3%)
Net fee and commission income	4,597	4,925	7.1%	4,597	4,925	7.1%
Net profit on financial operations	2,839	2,783	(2.0%)	2,839	2,783	(2.0%)
Dividend and other income	243	329	35.4%	243	329	35.4%
Net banking income	26,999	26,728	(1.0%)	26,999	26,728	(1.0%)
Personnel expenses	(6,222)	(6,581)	5.8%	(6,222)	(6,581)	5.8%
General admin. expenses (excl. regulatory funds)	(3,009)	(3,156)	4.9%	(3,009)	(3,156)	4.9%
Resolution and similar funds	(1,284)	(793)	(38.2%)	(1,284)	(793)	(38.2%)
Depreciation, amortisation and impairment of operating assets	(2,498)	(2,811)	12.5%	(2,498)	(2,811)	12.5%
Total operating expenses	(13,013)	(13,342)	2.5%	(13,013)	(13,342)	2.5%
Operating profit	13,986	13,385	(4.3%)	13,986	13,385	(4.3%)
Impairment losses	917	(974)	+/-	917	(974)	+/-
Net gain from loans and advances transferred and written off	120	20	(83.5%)	120	20	(83.5%)
Cost of risk	1,037	(954)	+/-	1,037	(954)	+/-
Net operating income	15,024	12,431	(17.3%)	15,023	12,431	(17.3%)
Income from share of associated companies	208	191	(8.2%)	208	191	(8.2%)
Net profit/(loss) on subsidiaries and associates	0	(54)	n.a.	0	(54)	n.a.
Net profits on other assets	(6)	2,368	+/-	(6)	(19)	>100%
Profit before income taxes	15,225	14,937	(1.9%)	15,225	12,550	(17.6%)
Income taxes	(2,693)	(2,296)	(14.7%)	(2,693)	(2,383)	(11.5%)
Net profit for the period	12,532	12,641	0.9%	12,532	10,167	(18.9%)
Profit attributable to the Non-controlling owners	179	102	(43.0%)	179	102	(43.0%)
Profit attributable to the Group's equity holders	12,353	12,539	1.5%	12,353	10,064	(18.5%)

Statement of Financial Position	31 Dec 2023	30 Sep 2024	Year to date
(CZK million, unaudited)			
Assets	1,516,302	1,659,905	9.5%
Cash and current balances with central bank	12,835	24,313	89.4%
Loans and advances to banks	411,644	523,457	27.2%
Loans and advances to customers (net)	833,542	846,394	1.5%
Securities and trading derivatives	217,484	227,713	4.7%
Other assets	40,798	38,028	(6.8%)
Liabilities and shareholders' equity	1,516,302	1,659,905	9.5%
Amounts due to banks	105,694	73,681	(30.3%)
Amounts due to customers	1,127,228	1,319,047	17.0%
Securities issued	12,431	12,634	1.6%
Subordinated and senior non preferred debt	64,560	65,723	1.8%
Other liabilities	78,106	63,706	(18.4%)
Total equity	128,284	125,115	(2.5%)

Key ratios and indicators	30 Sep 2023	30 Sep 2024	Change year on year
Capital adequacy (CNB)	20.2%	19.0%	▼
Tier 1 ratio (CNB)	19.6%	17.9%	▼
Total risk-weighted assets (CZK billion)	527.6	558.7	5.9%
Risk-weighted assets for credit risk (CZK billion)	433.7	448.7	3.5%
Net interest margin (NII / average interest-bearing assets) ⁱⁱⁱ	2.0%	1.6%	▼
Loans (net) / deposits ratio ^{iv}	79.3%	80.0%	▲
Cost / income ratio ^v	48.2%	49.9%	▲
Return on average equity (ROAE) ^{vi}	13.5%	13.5%	▲
Return on average Tier 1 capital ^{vii}	16.3%	16.7%	▲
Return on average assets (ROAA) ^{viii}	1.2%	1.1%	▼
Earnings per share (CZK) ^x	87.2	88.5	1.5%
Average number of employees during the period	7,541	7,487	(0.7%)

Business performance in retail segment – overview	30 Sep 2024	Change year on year
CZK bil.		
Mortgages to individuals – volume of loans outstanding	284.2	3.9%
Building savings loans (MPSS) – volume of loans outstanding	96.4	6.4%
Consumer loans (KB + ESSOX + PSA Finance) – volume of loans outstanding	39.0	5.2%
Small business loans – volume of loans outstanding	48.3	2.0%
Insurance premiums written (KP)	4,823.7	526,342.5%

Senior non-preferred loans as of 30 September 2024:

Drawing date	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 Jun 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%
28 Nov 2023	EUR 250m	30 Nov 2026	3M Euribor + 1.51%
28 Nov 2023	EUR 200m	29 Nov 2027	3M Euribor + 1.61%

* Call option exercise date is 1 year before final maturity date.

Subordinated debt as of 30 September 2024:

Drawing date	Principal	Call option date*	Interest rate (ACT/360)
10 Oct 2022	EUR 100m	11 Oct 2027	3M Euribor + 3.79%
29 Nov 2023	EUR 100m	29 Nov 2028	3M Euribor + 2.82%

* Call option exercise date is 5 years before final maturity date.

Financial calendar:

6 February 2025	FY and 4Q 2024 results
30 April 2025	1Q 2025 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 2024	9M 2023		
Net interest income, year to date	18,691	19,320		
Of which:				
Loans and advances at amortised cost	52,919	47,647		
Debt securities at amortised cost	3,329	3,286		
Other debt securities	156	371		
Financial liabilities at amortised cost	(32,857)	(27,215)		
Hedging financial derivatives – income	32,551	35,902		
Hedging financial derivatives – expense	(37,407)	(40,671)		
(source: Balance Sheet)	30 Sep 2024	31 Dec 2023	30 Sep 2023	31 Dec 2022
Cash and current balances with central banks/Current balances with central banks	17,514	4,530	3,983	6,167
Loans and advances to banks	523,457	411,644	428,191	233,398
Loans and advances to customers	846,394	833,542	810,314	781,463
Financial assets held for trading at fair value through profit or loss / Debt securities	25,582	19,621	12,645	9,968
Non-trading financial assets at fair value through profit or loss / Debt securities	0	0	0	132
Financial asset at fair value through other comprehensive income (FV OCI) / Debt securities	13,326	16,729	18,911	30,119
Debt securities	167,910	152,238	152,355	139,276
Interest-bearing assets (end of period)	1,594,183	1,438,304	1,426,399	1,200,524
Average interest-bearing assets, year to date	1,516,243	1,313,461		
NIM year to date, annualised	1.64%	1.96%		