

Half-yearly report 2022



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Further information

Detailed financial and operational information about Komerční banka Group is available in other publications on KB's website for shareholders and investors, www.kb.cz/investors. Additional information on corporate social responsibility and ethics at KB as well as KB's corporate governance is available at <https://www.kb.cz/en/about-the-bank/about-kb>. Information about KB's products and services is accessible from the homepage, www.kb.cz/en.

This document contains a number of forward-looking statements relating to the targets and strategies of Komerční banka Group. These statements are based on numerous assumptions, both

general and specific. As a result, there is a risk that these projections will not be fulfilled. Forward-looking statements are valid only as of the date they are made, and it should not be assumed that they will be revised or updated in the light of new information or future events. Readers are therefore advised not to rely on this information more than is justified, as the Group's future results are liable to be affected by a number of factors and may therefore differ from current estimates.

Readers are advised to take into account factors of uncertainty and risk when basing their investment decisions on information provided in this document.

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| Company profile

Komerční banka, a.s. (hereinafter also “KB” or the “Bank”) is the parent company of KB Group (hereinafter also the “Group”) and a member of the Société Générale international financial group. KB ranks among the leading banking institutions in the Czech Republic, as well as in Central and Eastern Europe. It is a universal bank providing a wide range of services in retail, corporate, and investment banking. Member companies of Komerční banka Group provide additional specialised financial services, such as pension savings and building society schemes, leasing, factoring, consumer lending, and insurance. These are accessible through KB’s branch network, its direct banking channels, and the subsidiaries’ own sales networks. The Bank also provides services in the Slovak Republic through its branch focused on serving corporate clients as well as through selected subsidiaries.

CZK billion	Loans to clients – gross loans*		Amounts due to customers**	
	30 June 2022	30 June 2021	30 June 2022	30 June 2021
KB Group	769.4	708.1	1,024.3	996.9
KB (including KB Slovakia)	660.2	611.4	968.4	939.6
- Individuals	293.7	279.4	347.0	349.7
- Businesses and other	366.5	331.9	621.4	589.9
- Small businesses	41.0	40.6	240.5	237.8
- Medium corporates and municipalities	122.2	112.6	229.8	228.8
- Top corporates and other (including KB Slovakia)	203.2	178.7	151.1	123.4
Modrá pyramida	81.5	69.0	58.0	60.5
ESSOX (including PSA FINANCE)	18.5	18.0	0.2	0.2
Factoring KB	10.3	8.5	1.1	0.8
SGEF	31.7	30.5	n.a.	n.a.
BASTION	2.0	2.2	n.a.	n.a.
Consolidation and other adjustments	(34.8)	(31.5)	(3.4)	(4.1)

* According to IFRS, excluding Other amounts due from customers and repo operations but including debt securities issued by KB corporate clients.

** According to IFRS, excluding repo operations with clients.

Komerční banka was established in 1990 as a state institution, and in 1992 it was transformed into a joint-stock company.

In 2018, the Bank launched a transformation programme, KB Change, which comprised, among other things, simplification of the management and distribution structures and switching of important central functions to agile working methodology. Komerční banka followed upon full implementation of the transformation steps from that plan by announcing in 2020 the successive KB Change 2025 strategic programme, which will assure KB’s leading position in the new era of digital banking.

Komerční banka is a vibrant promoter of green financing and at the same time is focusing ever more comprehensively on the environmental, social, and governance (ESG) aspects of its own operations. As a result, Komerční banka is a constituent company in the FTSE4Good Index Series of companies demonstrating strong ESG practices.

KB’s shares have been listed on the Prague Stock Exchange since its inception in 1993, as well as within the RM-SYSTÉM Czech Stock Exchange. The Bank had 64,384 shareholders as of 30 June 2022 (up by 6,533 year on year), of which 58,349 (greater by 6,203 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.

| Highlights from 2022's first half

January

Since 5 January 2022, the post of KB Group's ombudsman has been held by Prof. JUDr. Marie Karfíková, CSc. She is an expert in financial, tax, and insurance law, a long-time attorney, and a lecturer and head of the Department of Financial Law and Financial Science at the Faculty of Law of the Charles University in Prague. Professor Karfíková replaced in this position Mr Joseph Franciscus Vedlich, LL.M., who had been KB's ombudsman since December 2009.

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

In the Finparáda.cz competition, the Personal Loan from KB successfully defended last year's first place in the consumer non-purpose loans category. In this competition, also Moudré stavební spoření (Wise Building Savings) from Modrá pyramida repeated earlier success, taking bronze in the building savings category. The Finparad Award, conferred for technological progress and innovation, was won by the project Bankovní identita.

February

The Russian army invaded Ukraine, once again bringing immeasurable suffering to Europe and, subsequently, various negative economic impacts upon the global, European, as well as Czech economy.

March

On behalf of the Deposit Insurance Fund of the Czech Republic, Komerční banka began paying out compensation to clients of the failed Sberbank CZ.

With the approaching expiration of their terms of office, the Supervisory Board of Komerční banka re-elected members of the Board of Directors Mr David Formánek and Mr Miroslav Hiršl for additional terms of office effective from 2 August 2022.

KB Group products were honoured with several acknowledgements. KB was recognised in the Innovation category of the MasterCard Awards for its marketing and product innovations, including limited card editions and campaigns in sports and e-sports. KB SmartPay received a Special Mention in the MasterCard Awards for its "Czechia pays by card" campaign. In the TOP APP Award organised by Byzkids, Mobilní banka

ranked second in the evaluation of mobile banking applications on the Czech market.

April

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

May

KB agreed with Moneta Money Bank on sharing the two banks' ATM networks for clients. This was a first step in an initiative for sharing ATMs in Czechia that will lead to clients having better access to financial services in less densely populated areas, as well as better sustainability and efficiency in operating the ATM networks of all participating banks.

June

In the Zlatá koruna (Golden Crown) contest, KB's loan for sustainable technologies was awarded the Green Crown, KB Profi Auto received a Silver Crown in the SME Leasing category, the KB Profi loan won a Bronze Crown in the SME Lending category, and Roger's iPayment was awarded a Silver Crown in the Fintech category.

As in previous years, KB was again recognised by the Ministry of Finance among the Top 20 income taxpayers for 2021 in the Czech Republic. That is despite the fact that KB had prepaid a part of its tax charges due in 2021 already in 2020 in order to support the country's fiscal condition during the first year of the pandemic.

KB SmartSolutions boosted its stake in MonkeyData, operator of the Lemonero digital platform for B2B financing of e-commerce. The capital injection will facilitate expansion of that service employing advanced data analytics and artificial intelligence.

Post-balance sheet date events

In order to reinforce its leadership in advisory for energy transition, KB SmartSolutions also acquired full ownership in Enviros, a leading Czech energy and environment advisory providing its services to a number of important companies in Central Europe. Furthermore, KB SmartSolutions boosted to 96% its ownership stake in upvest, a digital platform for crowdfunding of real estate projects.

In the 2021 VISA Awards, dedicated to innovative solutions in the payments area, KB was recognised as the #1 sustainable bank, and KB's leader of the payment methods tribe, Monika Truchlíková, was named #1 woman in payment systems.

Komerční banka received the Gold Certificate of the Index diversity (Diversity Index) 2021. Index diversity is a benchmark on the Czech labour market for diversity management. It is based on the DISA (Diversity and Inclusion Strategic Assessment) assessment tool. Participating in total during 2021 were 51 signatory companies of the Diversity Charter, representing almost 200,000 employees.

I Macroeconomic development

The Czech economy grew in the first quarter by a solid 0.9% in comparison to the previous quarter. This related to an easing of supply chain problems, as a result of which car production partially recovered. This part of industry had suffered most from the lack of production inputs. Accordingly, the quarter-on-quarter growth of the economy was driven by net exports and fixed investment by companies. Household consumption, on the other hand, fell for the second quarter in a row. Lower consumer spending in real terms was due to high inflation, which significantly reduced households' purchasing power. In a year-on-year comparison, the economy grew by 4.9%.¹⁾

The second quarter was marked by intensifying economic effects of the war in Ukraine. This brought heightened uncertainty regarding gas supplies from Russia, among other things, but also substantial increase in the prices of energy and agricultural commodities. This added to already strong upward pressures on inflation. As a result, there was a sharp drop in consumer sentiment, which reached historic lows.²⁾ First signs of weakening demand due to high prices were visible also in the manufacturing sector. The leading PMI indicator assessing the situation in domestic manufacturing fell in June after roughly two years below the 50-point threshold,³⁾ into the contraction zone. The economy grew by 0.2%⁴⁾ quarter on quarter in the second quarter, which represented a noticeable slowing compared to the first quarter. Although growth in value added was recorded in the service sector, the industry and construction sectors stagnated. In a year-on-year comparison, the economy added 3.6%.

Further developments will be influenced by high inflation, which cuts away at real household incomes and is reflected in dropping consumer confidence. In the third and fourth quarters, respectively, GDP is expected to decrease by 0.3% and 0.7% quarter on quarter. For the whole of this year, GDP dynamics should reach 2.5% in year on year.

The growth of consumer prices in the first half of this year further accelerated and exceeded all expectations. While year-on-year inflation was 9.9% in January, it rose to 17.2% in June.⁵⁾ Around a third of June's inflation was due to higher housing costs. These reflected the rapid growth in prices for real estate and construction materials, as well as expensive energy costs. The price of electricity for households in June was higher year on year by approximately 30%. In the case of gas, that figure was almost 60%. Growth in food prices also accelerated considerably during the first half of the year, from 5.4% in January to 18.0%

year on year in June. The third-largest contribution to the growth in consumer prices was recorded in costs related to transport, mainly due to higher fuel prices. Nonetheless, inflation remained spread across the entire consumer basket. For now, consumer prices include only a fraction of higher wholesale energy prices, as a result of which inflation can be expected to accelerate further. We estimate that for the whole of this year it will be at the level of 16.8%. At the same time, its dynamics will weaken only very gradually. Throughout the second half of 2022, year-on-year inflation should be in the range of 19–21%. Although we expect it to peak in the fourth quarter of this year, inflation will probably remain in double digits in the first half of next year.

The tightening of the labour market continued in the first half of this year. The share of unemployed persons fell by another ten basis points to 3.1% in June.⁶⁾ After seasonal adjustment, unemployment stagnated at 3.3%. Despite an influx of refugees from Ukraine, the Czech labour market remains tight. According to the Labour Office, little somewhat fewer 40,000 of the refugees were employed in the Czech Republic since the outbreak of the war. This contributes to the decrease in job vacancies, of which there were still about 319,000 in June. However, the rate at which they are diminishing in number is accelerating. Seasonally adjusted, the number of job vacancies was the lowest since August 2018. Nevertheless, there are still only 0.7 applicants per job vacancy.

In June, the CNB Bank Board, still in its old composition and headed by Governor Rusnok, raised the base two-week repo rate by a substantial 125 bps to 7%.⁷⁾ The reason was the dynamic development of inflation, which was significantly above the central bank's forecast and at the same time its 2% target in recent months. At its August meeting, however, the CNB already decided to leave interest rates unchanged.⁸⁾ The change in the nature of monetary policy came with the new Bank Board and the new governor, Aleš Michl. Governor Michl and three new CNB Bank Board members, E. Zamrazilová, K. Kubelková, and J. Frait, were appointed as of 1 July. Moreover, according to the CNB's forecast, interest rates will not rise further. The central bank is saying that a decrease in demand associated with a reduction in real household incomes and the currently high level of interest rates should contribute to easing price pressures. In order to tame inflation, however, even tighter monetary conditions will probably be needed than forecast by the CNB. We expect the central bank to raise rates one more time, by 50 bp in November. This should be the peak of the current cycle of monetary policy

¹⁾ <https://www.czso.cz/csu/czso/ari/quarterly-sector-accounts-1-quarter-of-2022>

²⁾ <https://www.czso.cz/csu/czso/ari/business-cycle-surveys-july-2022>

³⁾ <https://www.pmi.spglobal.com/Public/Release/PressReleases?language=en>

⁴⁾ <https://www.czso.cz/csu/czso/ari/gdp-preliminary-estimate-2-quarter-of-2022>

⁵⁾ <https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-june-2022>

⁶⁾ <https://www.mpsv.cz/web/en/information-on-unemployment>

⁷⁾ <https://www.cnb.cz/en/monetary-policy/bank-board-decisions/CNB-Board-decisions-1655909280000/?tab=statement>

⁸⁾ <https://www.cnb.cz/en/monetary-policy/bank-board-decisions/CNB-Board-decisions-1659624480000/?tab=statement>

tightening. However, we also expect a stronger exchange crown rate vis-à-vis the euro.

In the first half of the year, the crown exchange rate against the euro was influenced by the financial markets' aversion to currencies of the Central European region, changes in the CNB Bank Board, and foreign exchange rate interventions by the CNB. Negative sentiment was caused by concerns over the onset of recession in the eurozone and the interruption of Russian gas supplies. Although the Czech crown performed best in the region, it was helped significantly by the CNB, which, since the appointment of a new governor, when it re-entered the market, prevented the domestic currency from weakening beyond the level of 24.75 CZK/EUR.¹⁾

According to data from the Ministry of Finance, the budget deficit reached CZK 183.0 billion by the end of June this year.²⁾ Compared to last year, the deficit is lower by CZK 82.1 billion, which mainly reflects higher tax revenues. The revenues are supported by growth in wages and employment, as well as by increased inflation. Their total year-on-year increase of CZK 74.2 billion was mainly related to higher collections of VAT, corporate income tax, excise taxes, and social security contributions. Tapping of EU funds probably lags behind plan, as just over 32% of the full-year plan had been utilised by the end of June (at this time last year, it was 48%). To a lesser extent, the year-on-year reduction in the deficit was influenced also by lower outlays, which this year no longer include pandemic compensation. The state budget deficit could end this year at around CZK 320 billion.

¹⁾ Bloomberg

²⁾ <https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2022/pokladni-plneni-sr-48085>
(available only in Czech)

| Information on impact of Covid-19 and Russia's invasion of Ukraine on KB Group during the first half of 2022

During 2022's first half, impacts from pandemic measures on KB's operations were only marginal in comparison with those of previous periods. The state of emergency had been called off already on 25 December 2021 and remaining restrictions were gradually removed during the first half, including mandatory testing of employees, travel restrictions, and limitations on cultural, sport, and other public events. The Group has maintained many sanitary measures introduced during the pandemic, as well as its support for employees working remotely. Recovering economic activity in combination with interest rates increased from their extremely low levels due to the pandemic positively influenced financial performance, as detailed in respective parts of this half-yearly report.

KB Group is aware that sharp deterioration in the geopolitical situation caused by the Russian invasion of Ukraine launched on 24 February 2022 will significantly impact upon the economies of European countries. Nevertheless, due to heightened global uncertainty and the turbulent development, a full assessment and quantification of these impacts is not possible at the current stage. The Group is continuously monitoring and evaluating potential influences of the current crisis on its activities and on its clients.

As of 30 June 2022, KB Group's direct exposure to Russia and Ukraine is immaterial. The Group has identified client exposures that may be negatively impacted by the war in Ukraine. These exposures total CZK 29 billion as at 30 June 2022. During the first half of 2022, CZK 631 million of provisions were made on this exposure.

The Group is also evaluating indirect impacts (e.g. dependency on energy resources and raw materials, supply chain disruptions). As may be necessary and appropriate, the Group will respond to the changing situation by adjusting its policies (e.g. risk, operational, accounting), including possibly to make adjustments to provisions and reserves in accordance with the IFRS 9 standard.

Considering the heightened risk of cyber attacks observed in relation to the Ukraine–Russia crisis, the Group has introduced specific additional measures reinforcing cyber security and resilience against these types of attacks. Access to selected categories of web presentations has been restricted, rules for downloading and running of specific types of applications and files from the internet were adjusted, and special attention was dedicated to managing and mitigating the known vulnerabilities in the systems. The security analytical team continues to work in an alert mode.

I Corporate social responsibility

The new situation shaped first by the Covid-19 pandemic and in 2022 also by the war in Ukraine highlights the necessity for the Bank, and indeed the entire KB Group, to build a robust and resilient business model, one that is able to cope well in adverse conditions and to take advantage of opportunities brought about by the changing environment.

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

Komerční banka conducted in the first half of 2022 an upgraded materiality assessment process of identifying and evaluating topics in the environmental, social, and governance areas that can affect the business of KB Group and interests of its stakeholders. The aim is to inform creation of strategies, targets, and reporting of KB Group and its members.

KB has identified individual groups of stakeholders whose interests are influenced by KB Group activities and determined the significance of individual topics for each stakeholder group, as well as for growth, cost, and risk development. In this process, the Group set out from the general issues structured in dimensions according to SASB Standards created by the Value Reporting Foundation¹⁾. This list identifies material issues that are reasonably likely to impact the financial condition or operating performance of a company and, therefore, that are most important to investors.

A materiality analysis then visualises in a scatter chart the significance of the chosen topics for stakeholders along the vertical axis and the significance for financial and business performance and outlook of the Group on the horizontal axis.²⁾

KB has been consistently developing rigorous governance and compliance standards and processes, including in the anti-money laundering and know-your-client areas. In the context of heightened cyber security risks, it has enhanced its security protections and anti-fraud measures. KB also has updated its rules for asserting the Bank's interests with public authorities (lobbying). It continues to follow a course of political neutrality and refrains from supporting political organisations or activities.

¹⁾ [https://www.sasb.org/standards/materiality-finder/find/?industry\[\]=FN-CB&lang=en-us](https://www.sasb.org/standards/materiality-finder/find/?industry[]=FN-CB&lang=en-us)

²⁾ <https://www.kb.cz/en/about-the-bank/everything-about-kb/we-do-business-br-sustainably/materiality-assessment>

As part of its risk management framework, KB has implemented an environmental and social risks management (ESRM) system that begins by identifying these risks in the financing of corporate clients. The system also takes into account requirements of the Equator Principles for assessing larger projects and evaluates specific climate vulnerability indicators.

As of 30 June 2022, the total volume of loans with sustainable positive impact provided by KB and SGEF reached CZK 33.6 billion. The newly contracted volume during 2022's first half totalled CZK 6 billion.

In July, FTSE Russell affirmed KB's inclusion in the FTSE4Good Index series, designed to identify companies that demonstrate strong ESG practices as measured against international standards.

Climate change

KB is aware of the risks stemming from climate change and has committed to contribute in mitigating that change by supporting a fair, environmentally friendly, and inclusive energy transition, even as it acknowledges that not all sources of energy are equivalent in their costs to consumers and that the energy sector represents thousands of jobs.

The Bank has been committed to limiting global warming and to reducing its direct emissions (scopes 1 and 2) in accordance with a 1.5°C scenario from the Paris Agreement. KB will contribute to carbon removal projects with a view to reaching carbon neutrality by 2026.

Greenhouse gas emissions by KB decreased by 32.5% as of 2021 compared to 2019, the first year of measurement, to 23,090 tonnes of CO₂ equivalent. That represents 14.7 kg per client. This result has been audited by the Preferred by Nature agency.

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

In co-operation with Heureka, VISA, and the Czech Social Responsibility Association, KB also supports the Udržitelný e-shop (Sustainable e-shop) project. Of some 800 applicants, around 100 e-shops are entitled to use the label upon assessment of their environmental, social, and governance practices. Visibility of participating e-shops among KB clients was also boosted by a campaign providing a cash-back incentive.

Society

The KB Group supports civilian victims of the war in Ukraine. It donated CZK 20 million for humanitarian aid to Ukraine and for Ukrainian refugees in the Czech Republic, of which CZK 5 million was collected among employees. KB also provided accommodation for refugees in Prague and some other cities. The Bank offered a special account for citizens of Ukraine, which included a signing bonus, free payments to Ukraine, telemedicine assistance, and other benefits.

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

Komerční banka received the Gold Certificate of the Diversity Index 2021, which assesses how employers approach the management of diversity. The Czech Diversity Index is a guide for employers and captures best practice for setting up diversity management on the Czech labour market. It is built upon the diversity management assessment tool DISA (Diversity and Inclusion Strategic Assessment). In 2021, 51 signatory companies of the Diversity Charter having almost 200,000 employees took part in the assessment. Last year, Komerční banka participated in this measurement for the first time.

| Business performance of KB Group

Developments in the client portfolio and distribution networks

	30 Jun 2021	30 Jun 2022	Change year on year
KB Group's clients	2,244,000	2,256,000	12,000
Komerční banka	1,621,000	1,650,000	29,000
– individual clients	1,378,000	1,407,000	28,000
– internet banking clients	1,447,000	1,503,000	55,000
– mobile banking clients	980,000	1,099,000	119,000
Modrá pyramida	487,000	472,000	(16,000)
KB Penzijní společnost	523,000	512,000	(11,000)
ESSOX (Group)	142,000	135,000	(7,000)
KB branches (CZ)	243	218	(25)
Modrá pyramida points of sale	200	194	(6)
SGEF branches	9	9	0
ATMs	846	863	17
– of which deposit-taking	477	521	44
– of which contactless	552	641	89
Number of active debit cards	1,408,000	1,456,000	48,000
Number of active credit cards	183,000	188,000	6,000
Number of cards virtualised into payment apps	329,000	449,000	120,000
KB key authentication users	904,000	1,036,000	132,000

Selected achievements and initiatives in the first half of 2022

During the first half of 2022, KB Group pursued several important initiatives in implementing the vision of the KB Change 2025 strategy.

KB agreed with Moneta Money Bank on sharing the two banks' ATM networks for clients. This was a first step in an initiative that will lead to clients having better access to financial services in less densely populated areas, as well as better sustainability and efficiency in operating the ATM networks of all participating banks.

On its KB SmartSolutions platform, the Group further developed its ecosystem of digital, simple, and convenient financial solutions. KB SmartSolutions boosted its stake in MonkeyData, operator of the Lemonero digital platform for B2B financing of e-commerce. The capital injection will facilitate expansion of that service employing advanced data analytics and artificial intelligence. In order to reinforce its leadership in advisory for energy transition, KB SmartSolutions also acquired full ownership in Enviro, a leading Czech energy and environment advisory providing its services to a number of important companies in

Central Europe. Furthermore, KB SmartSolutions boosted its ownership stake in upvest, a digital platform for crowdfunding of real estate projects, to 96%.

In co-operation with Heureka, VISA, and the Czech Social Responsibility Association, KB also supports the Udržitelny e-shop (Sustainable e-shop) project. Of some 800 applicants, around 100 e-shops are entitled to use the label upon assessment of their environmental, social, and governance practices. Visibility of participating e-shops among KB clients was also boosted by a campaign providing a cash-back incentive.

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KB was recognised in the Innovation category of the MasterCard Awards for its marketing and product innovations, including limited card editions and campaigns in sports and e-sports. KB SmartPay received a Special Mention in the MasterCard Awards for its "Czechia pays by card" campaign.

In the TOP APP Award organised by Byzkids, Mobilní banka ranked second in the evaluation of mobile banking applications on the Czech market.

MůjÚčet Plus received a bronze-level award in the Finparada.cz Best Current Account survey.

In the Zlatá koruna (Golden Crown) contest, KB's loan for sustainable technologies was awarded the Green Crown, KB Profi Auto received a Silver Crown in the SME Leasing category, the KB Profi loan won a Bronze Crown in the SME Lending category, and Roger's iPayment was awarded a Silver Crown in the Fintech category.

In the 2021 VISA Awards, dedicated to innovative solutions in the payments area, KB was recognised as the #1 sustainable bank. Moreover, KB's leader of the payment methods tribe, Monika Truchlíková, was named #1 woman in payment systems.

As in previous years, KB was again recognised by the Ministry of Finance among the Top 20 income taxpayers for 2021 in the Czech Republic. That is despite the fact that KB had prepaid a part of its tax charges due in 2021 already in 2020 in order to support the country's fiscal condition during the first year of the pandemic.

Loans to customers

Total **gross volume of lending to clients** rose by 8.7% year on year to CZK 769.4 billion.¹⁾

In lending to individuals, the overall volume of housing loans grew by 8.0% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 5.2% to CZK 266.2 billion. Modrá pyramida's loan portfolio grew by a strong 18.2% to CZK 81.5 billion. New production of housing loans in the first half decreased by (53.9%) year on year to CZK 26.2 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up by 4.8%, at CZK 34.5 billion.

The total volume of **loans to businesses** and other lending provided by KB Group was greater by 9.6% year on year, at CZK 387.2 billion. Lending to small businesses grew by 1.4% to CZK 47.7 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 11.7% year on year to CZK 307.8 billion. At CZK 31.7 billion, the total credit and leasing amounts outstanding at SGEF were up by 4.0% year over year.

Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group rose by 2.7% year on year to CZK 1,024.3 billion.³⁾ Clients were tending to switch their funds from current accounts to better yielding term and saving deposits, as well as to mutual funds. Deposits at Komerční banka from individual clients were down by (0.8%) from the year earlier, at CZK 347.0 billion. The deposit book at Modrá pyramida diminished by (4.2%) to CZK 58.0 billion. Total deposits from businesses and other corporations climbed by 7.7% to CZK 612.1 billion.

Client assets managed by KB Penzijní společnost were 3.2% greater, at CZK 71.5 billion. Technical reserves in life insurance at Komerční pojišťovna were lower by (10.4%) year on year, at CZK 45.6 billion. The volumes in mutual funds held by KB Group clients grew by 16.3% to CZK 88.5 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 74.0%. The Group's liquidity coverage ratio was 174%, well above the regulatory limit of 100%.

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

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

³⁾ Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' increased by 6.9% year on year to CZK 1,103.6 billion.

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

Financial performance of KB Group

Income statement

Komerční banka's **revenues (net operating income)** for the first half of 2022 improved by 29.5% year on year to reach CZK 19,168 million. This growth was influenced by the facts that the comparative base from the same period of 2021 had been affected by the severe pandemic restrictions and that interest rates had previously been at extremely low levels. The increase in net interest income contributed most to the overall growth in revenues. Net fees and commissions also improved, and net gains from financial operations were stable year on year.

Net interest income was up by 42.2%, at CZK 14,157 million, from the low base of 2021's first half. The loan and deposit volumes were growing and market interest rates rose significantly year on year, thus supporting the yields from reinvesting deposits and the Bank's own funds. The net interest margin for the first half of 2022, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.2%. That compares to 1.7% a year earlier, and the same 2.2% as in the pre-pandemic 2019's first half.

Net fee and commission income grew by 6.3% to CZK 2,969 million. Clients' transaction activity in the first half of 2022 recovered across all transaction types compared to the time of the economy's partial lockdown a year earlier. In particular, payments by card continued gaining popularity throughout the whole period. Deposit product fees were almost stable in line with the numbers of clients. Fees from cross-selling were up visibly, driven mainly by clients' rising investments in mutual funds and sales of insurance products. Income from loan services was down slightly year over year due to lower fees for loans to small businesses, consumer loans, and credit cards, while fees for factoring services and credit lines improved year on year. KB recorded a modest gain in income from specialised financial services, primarily due to greater issuance of bank guarantees.

Net profit on financial operations was almost stable (down by (0.5%) to CZK 1,946 million). Strong demand from clients for hedging of financial risks was driven by volatility of Czech crown exchange and interest rates. KB was also successful with its offer of tailored hedging strategies for SME clients, particularly those based on currency options. Increase in net gains on FX payment transactions was driven by the return of international travel and related payments and conversions.

Dividend and other income declined by (5.9%) to CZK 96 million. This line item primarily comprises revenues from property rental and ancillary services.

Total operating expenses rose by 7.5% to CZK 8,423 million. Within that total, personnel expenses increased by 3.3% to CZK 3,787 million, as salaries grew by an average 3% effective from April 2022 and bonus accrual had been limited in the first half of last year. The average number of employees diminished by (2.9%) to CZK 7,522.¹⁾ General administrative expenses (not including contributions to the regulatory funds) were up by 7.3%, at CZK 1,866 million, with the higher costs related to marketing, consultancy, IT support, and other employee costs (such as training and recruiting) not fully offset by lower real estate costs. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 1,281 million, up 24.2% year on year. The CNB adjusted the target volume of the Resolution Fund for 2024 and boosted the aggregate annual contribution from Czech banks in 2022 by 16.2% year on year. Depreciation, amortisation, and impairment of operating assets grew by 6.8% to CZK 1,490 million, driven mainly by new and upgraded software acquired in pursuit of KB's digitalisation strategy.

The sum of profit before allowances for loan losses, provisions for other risk, profit on subsidiaries, and income tax (**operating profit**) was up by 54.1%, at CZK 10,745 million.

Cost of risk reached CZK 562 million, down by (15.9%) in comparison with the first half of 2022. The provisioning was concentrated mainly on corporate clients with relationships of various types to the Russian market. The Group also added some prudential provisions for estimated future impacts of the current high-inflation environment. The repayment discipline and recovery performance in retail segments remained excellent. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during 2022's first half came to 14 basis points. That compares with 19 basis points for the same period a year earlier.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was down (2.8%) year on year, at CZK 103 million, influenced by interest rates development and the insurance reserves creation and utilisation at KP.

Net profit on other assets reached CZK 120 million, mainly due to gains from sales of buildings that were partly offset by accelerated depreciation of technical improvements in leased branches that were closed. In the previous year, net profit on other assets had been CZK 25 million.

Income tax was higher by 64.6%, at CZK 1,980 million.

¹⁾ Recalculated to a full-time equivalent number.

KB Group's consolidated **net profit** for the first half of 2022 reached CZK 8,426 million, which was higher by 60.3% in comparison with a year earlier. Of this total, CZK 107 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (down by (18.9%) year on year).

Reported **net profit attributable to the Group's equity holders** totalled CZK 8,319 million, which is 62.3% more year on year.

Other comprehensive income, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, as well as from effects of changed interest rates on the value of equity participation in an associated company, reached CZK (1,415) million. **Consolidated comprehensive income** for the first half of 2022 totalled CZK 7,011 million, of which CZK 107 million was attributable to owners of non-controlling stakes.

Statement of financial position

Unless indicated otherwise, the following text provides a comparison of the balance sheet values as of 30 June 2022 with the values from the statement of financial position as of 31 December 2021.

Assets

As of 30 June 2022, KB Group's total assets had grown by 19.7% year to date to CZK 1,489.0 billion.

Cash and current balances with central banks were down (28.6%), at CZK 21.4 billion. Financial assets held for trading at fair value through profit or loss (trading securities and derivatives) increased by 32.7% to CZK 54.6 billion. Positive fair value of hedging financial derivatives climbed by 57.6% to CZK 22.6 billion.

Year to date, there was a (12.7%) decline in financial assets at fair value through other comprehensive income totalling CZK 31.0 billion. This item consisted mainly of debt securities issued by government institutions.

Financial assets at amortised cost grew by 21.7% to CZK 1,333.9 billion. The largest portion of this consisted of (net) loans and advances to customers, which increased year to date by 4.5% to CZK 757.5 billion. A 97.6% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.4% of the loans were classified in Stage 3 (non-performing loans). The volume of loss allowances created for amounts due from customers came to CZK 13.5 billion. Loans and advances to banks grew by 77.0% to CZK 455.2 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 6.3% and reached CZK 121.2 billion at the end of the first half 2022.

Revaluation differences on portfolio hedge items totalled CZK (1.3) billion, larger by 108.5%. Current and deferred tax assets stood at CZK 0.2 billion. Prepayments, accrued income, and other assets, which include receivables from securities trading and settlement balances, decreased overall by (14.6%) to CZK 5.0 billion. Assets held for sale diminished by (86.2%) to CZK 0.1 billion.

Investments in associates declined by (10.8%) to CZK 0.7 billion.

The net book value of tangible assets declined by (3.3%) to CZK 8.7 billion. Intangible assets grew by 5.8% to reach CZK 8.3 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF, and ESSOX, remained unchanged at CZK 3.8 billion.

Liabilities

Total liabilities were 22.0% higher in comparison to the end of 2021 and stood at CZK 1,363.7 billion.

Financial liabilities at amortised cost went up by 19.8% to CZK 1,266.0 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 15.3% to CZK 1,103.6 billion. This total included CZK 79.4 billion of liabilities from repo operations with clients and CZK 8.4 billion of other payables to customers. Amounts due to banks increased in the first half of 2022 by 76.6% to CZK 147.3 billion.

Revaluation differences on portfolios hedge items were negative CZK (55.5) billion. Current and deferred tax liabilities were steady at CZK 2.3 billion. Accruals and other liabilities, which include payables from securities trading and settlement balances, grew by 61.7% to CZK 20.2 billion.

The provisions balance was 4.4% higher, at CZK 1.4 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 8.7 billion, was up 248.0% year to date, influenced by issuance of loans in order to meet regulatory minimum requirements for own funds and eligible liabilities (MREL). Because that debt is issued in euro, the CZK value of this debt reflects also changes in the Czech crown exchange rate.

Equity

Total equity decreased year to date by (1.2%) to CZK 125.3 billion as the volume of dividends paid approximately matched the volume of net profit generated during the first half and the Group recognised a decrease in the value of retained earnings related to Komerční pojišťovna. The value of non-controlling interests reached CZK 3.1 billion. As of 30 June 2022, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

Regulatory capital and requirements for capital and liquidity

Total **regulatory capital** for the capital adequacy calculation came to CZK 108.5 billion as of 30 June 2022. **Capital adequacy** stood at 20.3%. Core Tier 1 capital was CZK 106.4 billion, and the Core Tier 1 ratio stood at 20.0%. Tier 2 capital totalled CZK 2.0 billion, which was 0.4% of risk-weighted assets.

As from 1 July 2022, Komerční banka's overall capital requirements (OCR) come to approximately 16.1%. The minimum required level of CET 1 is 11.5%, and the minimum Tier 1 capital ratio stands at 13.5%.

The OCR will rise further by a cumulative 150 bps in three steps during October 2022, January 2023, and April 2023 due to pre-announced hikes in the countercyclical buffer requirement. Assuming no further changes, as from 1 April 2023, the minimum OCR will reach 17.6%, the minimum CET1 ratio 13.0%, and the minimum Tier 1 15.0%.

KB Group's Liquidity Coverage Ratio came to 174% as of 30 June 2022. The applicable regulatory minimum is 100%.

Effective as of 1 January 2022, KB Group is required to comply with a minimum requirement for own funds and eligible liabilities (MREL) equal to 14.4% of the consolidated total risk exposure and 4.46% of the consolidated total exposure. Based on the CNB general approach,¹⁾ MREL is expected to reach 21.2% of the consolidated total risk exposure and 5.91% of the consolidated

total exposure effective as of 1 January 2024. The MREL requirement is defined as a sum of the amount of loss absorption and recapitalisation. In addition to the MREL, expressed as a percentage of risk-weighted assets, the Group must also fulfil the combined capital buffer. According to current regulations and the criteria from the supervisor, this requirement stands at 5.50% as of 1 July 2022.

With its considerable capital surplus, the Group fulfilled the interim target level valid from the beginning of 2022. In order to proceed gradually to meeting the ultimate MREL requirement, KB accepted on 27 June 2022 a senior non-preferred loan from Société Générale S.A. of EUR 250 million, with a maturity date of 27 June 2028 and a call option with exercise date on 27 June 2027. The interest rate of the loan is stipulated at 3M EURIBOR plus 2.05%, using the ACT/360-day count convention.

Key ratios and indicators	30 Jun 2021	30 Jun 2022	Change year on year
Capital adequacy (CNB)	23.2%	20.3%	▼
Tier 1 ratio (CNB)	22.6%	20.0%	▼
Total risk-weighted assets (CZK billion)	446.7	484.4	8.4%
Risk-weighted assets for credit risk (CZK billion)	387.6	442.3	14.1%
Net interest margin (NII / average interest-bearing assets) ⁱⁱⁱ	1.7%	2.2%	▲
Loans (net) / deposits ratio ^{iv}	69.5%	74.0%	▲
Cost / income ratio ^v	52.9%	43.9%	▼
Return on average equity (ROAE) ^{vi}	8.8%	13.5%	▲
Return on average Tier 1 capital ^{vii}	10.1%	16.0%	▲
Return on average assets (ROAA) ^{viii}	0.8%	1.2%	▲
Earnings per share (CZK) ^x	54.3	88.1	62.3%
Average number of employees during the period*	7,748	7,522	(2.9%)

* Calculation according to Czech Statistical Office methodology.

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

I 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;
- Average of Gross amount of client loans and advances:** ('Gross amount of client loans and advances' as of the quarter end X-1 plus 'Gross amount of client loans and advances' as of the quarter end X-2 plus 'Gross amount of client loans and advances' as of the quarter end X-3 plus 'Gross amount of client loans and advances' as of the quarter end X-4) divided by 4;
- Gross amount of client loans and advances:** 'Total loans and advances to customers, gross' minus 'Other amounts due from customers';
- III. **Net interest margin (NIM):** 'Net interest income' divided by average interest-earning assets (IEA) year to date
- Average interest-earning assets:** ('Total interest-earning assets' as of the last day of the described period in year X plus 'Total interest-earning assets' as of the year end X-1) divided by 2;
- Interest-earning assets (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;
- Average 'Total equity' less 'Non-controlling interest':** (('Total equity' less 'Non-controlling interest' as of the last day of the described period in year X) plus ['Total equity' less 'Non-controlling interest' as of the year end X-1]) divided by 2;
- 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;
- Average Tier 1 capital:** ('Total Tier 1 capital' as of the last day of the described period in year X plus 'Total Tier 1 capital' as of the year end X-1) divided by 2;
- VIII. **Return on average assets (ROAA):** annualised 'Net profit attributable to the Group's equity holders' divided by average 'Total assets', year to date;
- Average total assets:** ('Total assets' as of the last day of the described period in year X plus 'Total assets' as of the year end X-1) divided by 2;
- IX. **Earnings per share:** annualised 'Net profit attributable to the Group's equity holders' divided by the quantity average number of shares issued minus average number of own shares in treasury.

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

(Source: Profit and Loss Statement)	1H 2022	1H 2021		
Net interest income, year to date	14,157	9,956		
Of which:				
Loans and advances at amortised cost	21,995	8,688		
Debt securities at amortised cost	1,466	961		
Other debt securities	278	349		
Financial liabilities at amortised cost	(7,477)	(653)		
Hedging financial derivatives – income	15,034	4,792		
Hedging financial derivatives – expense	(17,139)	(4,180)		
<hr/>				
(Source: Balance Sheet)	30 Jun 22	31 Dec 21	30 Jun 21	31 Dec 20
Cash and current balances with central banks / Current balances with central banks	10,807	21,455	14,284	15,050
Loans and advances to banks	455,151	257,196	377,833	262,606
Loans and advances to customers	757,528	724,587	692,814	679,956
Financial assets held for trading at fair value through profit or loss / Debt securities	12,385	8,696	12,311	3,342
Non-trading financial assets at fair value through profit or loss / Debt securities	135	135	0	279
Financial asset at fair value through other comprehensive income (FV OCI) / Debt securities	31,004	35,509	38,670	40,151
Debt securities	121,236	114,078	119,024	92,839
Interest-bearing assets (end of period)	1,388,246	1,161,656	1,254,936	1,094,223
Average interest-bearing assets, year to date	1,274,951	1,174,579		
NIM year to date, annualised	2.22%	1.70%		

| Expected development and main risks to that development in 2022

Note: This outlook was first presented on 3 August 2022 on the occasion of the announcement of KB results for the second quarter of 2022 and it updates the outlook presented on 5 May 2022 upon release of Komerční banka's results for the first quarter of 2022.

KB Group is aware that sharp deterioration of the geopolitical situation caused by the Russian invasion of Ukraine launched on 24 February 2022 will significantly impact upon the economies of European countries. Nevertheless, due to heightened global uncertainty and the turbulent development, a full assessment and quantification of these impacts is not possible at the current stage. The Group is continuously monitoring and evaluating potential influences of the current crisis on its activities and on its clients. Although its direct exposure to Russia and Ukraine is limited, the Group is also evaluating indirect impacts (e.g. dependency on energy resources and raw materials, supply chain disruptions). As may be necessary and appropriate, the Group will respond to the changing situation by adjusting its policies (e.g. risk, operational, accounting), including possible adjustments to provisions and reserves in accordance with the IFRS 9 standard.

Given the high level of uncertainty surrounding the war in Ukraine and the global pandemic situation that are in addition to the usual risks related to projecting future business results, investors should exercise caution and judgement before making their investment decisions while considering these forward-looking estimates and targets.

In its updated baseline macroeconomic scenario for 2022, KB expects that, due to the war in Ukraine, shock in commodity prices, continued supply chain disruptions, and weakened economic confidence, the Czech economy's growth will slow to 2.5% from 3.5% a year earlier. Due to double-digit inflation, which dampens household consumption, as well as decreasing global demand for industrial goods, KB expects a mild recession in the Czech economy in the second half of 2022. Fixed investments should contribute positively to annual growth, while net exports will be a drag on economic expansion. Despite the slower economy, the lack of available labour in the economy will remain a factor limiting the growth potential. The average inflation rate in 2022 is expected to reach almost 17%, with year-on-year inflation rates probably peaking around 20% in the fourth quarter.

The Czech National Bank may continue raising monetary policy rates, as it had commenced to do in the middle of 2021. The terminal rate for the two-week repo rate is seen at 7.5%, to be reached towards the end of the year 2022. The CNB may need to continue intervening in order to prevent depreciation of the crown during this year.

In the regulatory environment, the CNB has returned to stricter regulation of mortgage lending, reinstating with effect from 1 April 2022 the limits on the ratios of debt-to-income and debt service-to-income, as well as lowering the maximum loan-to-value ratio.¹⁾ It decided, too, on increasing the counter-cyclical capital buffer rate in two steps during 2022 followed by two additional steps as of 1 January and 1 April 2023. This will take that rate to 2.5%.²⁾ The national bank also announced in September 2021 that it would no longer restrict the amount of bank dividends across the board.³⁾ After the annual general meeting approved the dividend payment representing 65% of net profit generated in 2021, the management aims to address the matter of KB's surplus capital in the second half of the year and once the results of various regulatory tests will have been discussed with the regulator. During the second half, KB will continue gradually taking loans from Société Générale in order to meet the regulatory requirements for own funds and eligible liabilities (MREL) from the EU's banks recovery and resolution directive (as the concept of Single Point of Entry is applied within the SG Group).

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

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

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

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

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

In this context, KB management expects that the Group's loan portfolio will record an upper mid-single-digit growth rate for 2022. Within the total, the corporate loan book will grow faster. The volume of housing loans outstanding should still increase at a low- to mid-single digit pace, even though new sales of these loans will drop in comparison with the record level achieved in 2021. Growth in total deposit balances should reach a low single-digit pace, while clients are expected to be shifting their deposits to term accounts. The deposits at Modrá pyramida will probably record a decline in mid-single digits.

KB Group's total net operating income for 2022 should expand by more than 20% in comparison with the low base of 2021 that had been affected by the pandemic. The growth in revenues will be driven mainly by net interest income, reflecting increase in market rates and business volumes and larger share of the total margin from hedging services for clients booked in this accounting line. Net fees and commissions should improve by mid-single digits, driven again by cross-selling. The net profit from financial operations will probably decrease somewhat after having reached an extraordinary level in the past year, even as demand for hedging of financial risks remains high in the uncertain environment.

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

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

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

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

| Events in corporate governance

In connection with expiration of their terms of office, the Supervisory Board of Komerční banka re-elected members of the Board of Directors Mr David Formánek and Mr Miroslav Hiršl for additional terms of office effective from 2 August 2022.

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

| Changes in Group structure

KB has further extended partnerships with fintech providers of value-added services via its fully owned KB SmartSolutions platform. In June, KB SmartSolutions increased its share from 11% to 24.989% in MonkeyData. MonkeyData fully owns a subsidiary, Lemonero, which provides financing to e-shops utilising an AI-powered scoring model. In July 2022, KB SmartSolutions acquired 96% of Enviros Group, which comprises the following four companies: Enviros Global Limited, ENVIROS, s.r.o. (CZ), ENVIROS, s.r.o. (SK), and ENVIROS d.o.o. Enviros Group provides services in energy and environmental advisory. In July, KB SmartSolutions increased its participation in the upvest real estate crowdfunding platform to 96%.

| Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

As of 30 June 2022, the Group was controlled by Société Générale, which owns 60.35% (31 December 2021: 60.35%) of the Bank's issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, transactions with derivative financial instruments, and other types of transactions. These transactions were carried out on an arm's length basis.

Amounts due to and from the Group companies

As of 30 June 2022, the Group had deposits of CZK 4,244 million (31 December 2021: CZK 1,251 million) due to the associate Komerční pojišťovna, a.s. and the Bank had provided it a subordinated loan in the amount of CZK 452 million (31 December 2021: CZK 446 million). The positive fair value of financial derivatives in relation to the associate Komerční pojišťovna, a.s. totalled CZK 826 million (31 December 2021: CZK 734 million) and the negative fair value CZK 20 million (31 December 2021: CZK 98 million). The book value of mortgage bonds issued by the Bank was CZK 0 million (31 December 2021: CZK 801 million) and interest expense from mortgage bonds for the first six months totalled CZK 3 million (30 June 2021: CZK 20 million).

During the half year ended 30 June 2022, interest income from financial derivatives of Komerční pojišťovna, a.s. to the Group totalled CZK 246 million (30 June 2021: CZK 846 million) and interest expense on financial derivatives amounted to CZK 208 million (30 June 2021: CZK 737 million). Interest income from the subordinated loan was 6 CZK million (30 June 2021: 6 CZK million), interest expense from deposits totalled CZK 61 million (30 June 2021: CZK 3 million), fee income of the Group arising from intermediation was CZK 253 million (30 June 2021: CZK 495 million), fee expense totalled CZK 68 million (30 June 2021: CZK 119 million), insurance expenses were CZK 4 million (30 June 2021: CZK 7 million), and other income totalled CZK 12 million (30 June 2021: CZK 11 million).

As of 30 June 2022, deposits received by the Group from other associated companies represent CZK 30 million (31 December 2021: CZK 18 million) and loans granted to these companies amount to CZK 120 million (31 December 2021: CZK 147 million). Related interest income totalled CZK 3 million (30 June: CZK 0 million).

Amounts due to and from Société Générale Group entities

Principal balances due from Société Générale Group entities include:

(CZKm)	30 Jun 2022		31 Dec 2021	
	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	6,706	0	6,847	0
ALD Automotive Slovakia s. r. o.	91	0	83	0
BRD - Groupe Société Générale SA	61	0	11	0
PJSC Rosbank	0	0	159	0
SG Bruxelles	1	0	0	0
SG Zurich	153	0	193	0
Société Générale International Limited	2	0	2	0
Société Générale Paris	31,816	15,301	18,866	8,151
Total	38,830	15,301	26,161	8,151

Principal balances due to Société Générale Group entities include:

(CZKm)	30 Jun 2022		31 Dec 2021	
	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	0	0	369	0
BRD - Groupe Société Générale SA	10	0	6	0
Crédit du Nord	33	0	124	0
SG Amsterdam	5	0	72	0
SG Bruxelles	0	0	70	0
SG Frankfurt	470	0	73	0
Société Générale Luxembourg	54	0	25	0
SG Milan	1	0	43	0
SG Option Europe	0	0	1	0
SG Private Banking (Suisse)	43	0	45	0
SG Zurich	23	0	73	0
Société Générale Factoring	212	0	60	0
Société Générale Londres	125	0	183	0
Société Générale New York	37	0	3	0
Société Générale oddział w Polsce	2	0	1	0
Société Générale Paris	120,369	17,587	61,888	13,600
SOGEPROM Czech Republic s.r.o.	4	0	4	0
Total	121,388	17,587	63,040	13,600

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, subordinated debt, issued loans, interbank market loans and placements, deposited margins in favour of a counterparty, and fair values of derivatives.

As of 30 June 2022, the Group also carried off-balance sheet exposures to Société Générale Group entities, of which off-balance sheet nominal assets and liabilities totalled CZK 604,424 million (31 December 2021: CZK 533,053 million) and CZK 558,009 million (31 December 2021: CZK 495,618 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances, and guarantees for credit exposures.

As of 30 June 2022 and 31 December 2021, the Group also recorded other accounts receivable and payable from and to Société Générale Group entities the amounts of which are not significant.

During the half year ended 30 June 2022, the Group generated net operating revenues due to the Société Générale Group of CZK 5,188 million (30 June 2021: CZK 1,691 million). The total amount is mainly affected by the volatile revaluation of derivative transactions to fair value. These operations follow on from operations concluded with clients and eliminate the Group's market risk or they are hedging derivatives of the fair value hedging type. Other sources of revenue include the distribution of SG Group products, providing services in areas of infrastructure, information technology, and business intelligence services. Net interest income of CZK 18 million (30 June 2021: CZK (46) million) consisted mainly of interest on hedging derivatives, transactions on the interbank market, and subordinated debt received. Operating expenses realised in relation to the SG Group reached CZK 132 million (30 June 2021: CZK 118 million), mostly for the use of services in the area of operation and management of hardware and software and assistance services. The operating result in relation to the SG Group reached CZK 5,056 million (30 June 2021: CZK 1,573 million).

In connection with lease contracts the Group records:

(CZKm)	30 Jun 2022				31 Dec 2021			
	Right-of-use assets	Lease liabilities	Depreciation expense	Interest expense	Right-of-use assets	Lease liabilities	Depreciation expense	Interest expense
ALD Automotive s.r.o.	121	63	12	0	99	66	21	1
ALD Automotive Slovakia s. r. o.	0	0	0	0	0	0	1	0
Total	121	63	12	0	99	66	22	1

As of 30 June 2022, the Group reported a loss of CZK 1 million (30 June 2021: CZK 2 million) on terminated contracts.

Amounts due from members of the Board of Directors and Supervisory Boards

In respect of loans and guarantees as of 30 June 2022, the Group recorded loan receivables from loans granted to members of the Board of Directors and Supervisory Board totalling CZK 53 million (31 December 2021: CZK 51 million). During the first half of 2021, drawings of CZK 3 million (30 June 2021: CZK 2 million) were made under the loans granted. During the first half of 2022, loan repayments totalled CZK 1 million (30 June 2021: CZK 1 million).

| Report of financial results as of 30 June 2022

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Consolidated Income Statement and Statement of Comprehensive Income

Period ended 30 June 2022

(CZKm)	Note	30 Jun 2022	30 Jun 2021
Interest income		39,081	14,964
Interest expense		(24,924)	(5,008)
Net interest income		14,157	9,956
Net fee and commission income		2,969	2,792
Net profit/(loss) on financial operations		1,946	1,955
Dividend income		2	2
Other income		94	100
Net operating income		19,168	14,805
Personnel expenses		(3,787)	(3,667)
General and administrative expenses		(3,146)	(2,770)
Depreciation, amortisation, and impairment of operating assets		(1,490)	(1,395)
Total operating expenses		(8,423)	(7,832)
Operating profit		10,745	6,973
Impairment losses		(486)	(693)
Net gain from loans and advances transferred and written off		(76)	25
Cost of risk		(562)	(668)
Income from share of associated undertakings		103	106
Profit/(loss) attributable to exclusion of companies from consolidation		0	25
Gain on a bargain purchase		0	0
Net profits on other assets		120	25
Profit before income tax		10,406	6,461
Income tax		(1,980)	(1,203)
Net profit for the period		8,426	5,258
Profit attributable to the Non-controlling owners		107	132
Profit attributable to the Group's equity holders		8,319	5,126
Earnings per share/diluted earnings per share (in CZK)		44.05	27.14

(CZKm)	Note	30 Jun 2022	30 Jun 2021
Net profit for the period		8,426	5,258
Items that will not be reclassified to the Statement of Income			
Remeasurement of retirement benefits plan, net of tax		0	0
Revaluation of equity securities at FVOCI option*, net of tax		1	0
Items that may be reclassified subsequently to the Statement of Income			
Cash flow hedging			
– Net fair value gain/(loss), net of tax		310	223
– Transfer to net profit/(loss), net of tax		(390)	265
Hedge of a foreign net investment		1	22
Foreign exchange difference on translation of a foreign net investment		2	(28)
Revaluation of debt securities at FVOCI**, net of tax		(602)	84
Revaluation of debt securities at FVOCI** (associated undertakings), net of tax		(737)	(63)
Other income from associated undertakings		0	0
Other comprehensive income for the period, net of tax		(1,415)	503
Total comprehensive income for the period, net of tax		7,011	5,761
Comprehensive income attributable to the Non-controlling owners		107	129
Comprehensive income attributable to the Group's equity holders		6,904	5,632

* Revaluation of equity securities at fair value through other comprehensive income option.

** Revaluation of debt securities at fair value through other comprehensive income.

The accompanying Notes are an integral part of this Consolidated Income Statement and Statement of Comprehensive Income.

Consolidated Statement of Financial Position

As of 30 June 2022

(CZKm)	Note	30 Jun 2022	31 Dec 2021
ASSETS			
Cash and current balances with central banks		21,383	29,947
Financial assets held for trading at fair value through profit or loss		54,579	41,142
Other assets held for trading at fair value through profit or loss		0	0
Non-trading financial assets at fair value through profit or loss		135	135
Positive fair value of hedging financial derivatives		22,564	14,315
Financial assets at fair value through other comprehensive income	4	31,049	35,568
Financial assets at amortised cost	5	1,333,915	1,095,861
Revaluation differences on portfolios hedge items		(1,313)	(629)
Current tax assets		38	18
Deferred tax assets		140	91
Prepayments, accrued income, and other assets		4,958	5,806
Investments in associates		702	786
Intangible assets		8,335	7,878
Tangible assets		8,685	8,983
Goodwill		3,752	3,752
Assets held for sale		97	700
Total assets		1,489,019	1,244,353
LIABILITIES AND EQUITY			
Amounts due to central banks		0	0
Financial liabilities held for trading at fair value through profit or loss		58,355	39,933
Negative fair value of hedging financial derivatives		62,274	34,957
Financial liabilities at amortised cost	7	1,265,971	1,056,483
Revaluation differences on portfolios hedge items		(55,469)	(31,716)
Current tax liabilities		1,239	395
Deferred tax liabilities		1,076	1,175
Accruals and other liabilities		20,232	12,513
Provisions	8	1,400	1,341
Subordinated and senior non-preferred debt		8,665	2,490
Total liabilities		1,363,743	1,117,571
Share capital		19,005	19,005
Share premium, funds, retained earnings, revaluation, and net profit for the period		103,146	104,504
Non-controlling interest		3,125	3,273
Total equity		125,276	126,782
Total liabilities and equity		1,489,019	1,244,353

The accompanying Notes form an integral part of this Consolidated Statement of Financial Position.

Consolidated Statement of Changes in Shareholders' Equity

Period ended 30 June 2022

(CZKm)	Share capital	Own shares	Capital funds and retained earnings*	Share-based payment	Remeasurement of retirement benefits plan	Revaluation of equity securities at FVOCI option	Cash flow hedging	Hedge of a foreign net investment	Revaluation of debt securities at FVOCI	Shareholders equity	Non-controlling interest	Total equity, including non-controlling interest
Balance as of 31 Dec 2021	19,005	(577)	102,148	546	(224)	4	1,248	(12)	1,371	123,509	3,273	126,782
Treasury shares, other	0	0	52	10	0	0	0	0	0	62	0	62
Payment of dividends	0	0	(8,324)	0	0	0	0	0	0	(8,324)	(255)	(8,579)
Transactions with owners	0	0	(8,272)	10	0	0	0	0	0	(8,262)	(255)	(8,517)
Profit for the period	0	0	8,319	0	0	0	0	0	0	8,319	107	8,426
Other comprehensive income for the period, net of tax**	0	0	(737)	0	0	1	(80)	3	(602)	(1,415)	0	(1,415)
Comprehensive income for the period	0	0	7,582	0	0	1	(80)	3	(602)	6,904	107	7,011
Balance as of 30 June 2022	19,005	(577)	101,458	556	(224)	5	1,168	(9)	769	122,151	3,125	125,276

* Capital funds and retained earnings consist of other funds created from profit in the amount of CZK 5,211 million (31 Dec 2021: CZK 5,211 million), net profit from the period in the amount of CZK 8,319 million (31 Dec 2021: CZK 12,727 million), and retained earnings in the amount of CZK 87,928 million (31 Dec 2020: CZK 84,210 million).

** Amounts in column Capital funds and retained earnings represent loss from revaluation of debt securities due to consolidation of an associated company using the equity method.

(CZKm)	Share capital	Own shares	Capital funds and retained earnings*	Share-based payment	Remeasurement of retirement benefits plan	Revaluation of equity securities at FVOCI option	Cash flow hedging	Hedge of a foreign net investment	Revaluation of debt securities at FVOCI	Shareholders equity	Non-controlling interest	Total equity, including non-controlling interest
Balance as of 31 Dec 2020	19,005	(577)	94,414	526	(230)	4	(90)	(9)	773	113,816	3,242	117,058
Changes in accounting policies (refer to Note 2)	0	0	328	0	0	0	0	0	0	328	0	328
Balance as of 1 January 2021	19,005	(577)	94,742	526	(230)	4	(90)	(9)	773	114,144	3,242	117,386
Treasury shares, other	0	0	39	11	0	0	0	0	0	50	1	51
Payment of dividends	0	0	0	0	0	0	0	0	0	0	0	0
Transactions with owners	0	0	39	11	0	0	0	0	0	50	1	51
Profit for the period	0	0	5,126	0	0	0	0	0	0	5,126	132	5,258
Other comprehensive income for the period, net of tax**	0	0	(63)	0	0	0	488	(3)	84	506	(3)	503
Comprehensive income for the period	0	0	5,063	0	0	0	488	(3)	84	5,632	129	5,761
Balance as of 30 June 2021	19,005	(577)	99,844	537	(230)	4	398	(12)	857	119,826	3,372	123,198

* Capital funds and retained earnings consist of other funds created from profit in the amount of CZK 5,211 million (1 Jan 2021: CZK 5,211 million), net profit from the period in the amount of CZK 5,126 million (1 Jan 2021: CZK 8,156 million), and retained earnings in the amount of CZK 89,507 million (1 Jan 2021: CZK 81,375 million).

** Amounts in column Capital funds and retained earnings represent loss from revaluation of debt securities due to consolidation of an associated company using the equity method.

The accompanying Notes form an integral part of this Consolidated Statement of Changes in Shareholders' Equity.

Consolidated Cash Flow Statement

Period ended 30 June 2022

(CZKm)	30 Jun 2022	30 Jun 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	10,406	6,461
Non-cash and other adjustments		
Movement of allowances/provisions (including impact of loans and advances transferred and written off)	707	819
Depreciation and amortisation expense on tangible and intangible fixed assets	1,490	1,398
Net profits/(losses) on other assets	(120)	(25)
Revaluation of derivatives	8,218	1,636
Accrued interest, amortisation of discount and premium	(1,785)	(270)
Profit/(loss) on subsidiaries and associates	(105)	(133)
Foreign exchange differences	1,744	(302)
Other changes	474	267
Operating profit before change in operating assets and liabilities	21,029	9,851
Changes in assets and liabilities from operating activities after non-cash adjustments		
Amounts due from banks (received/paid)	(194,054)	(116,797)
Loans and advances to customers	(33,863)	(14,928)
Debt securities at amortised cost	(10,173)	(27,259)
Financial assets at fair value through other comprehensive income	240	(288)
Financial assets held for trading at fair value through profit or loss	(3,684)	(8,894)
Other assets held for trading at fair value through profit or loss	0	0
Non-trading financial assets at fair value through profit or loss	0	297
Other assets	552	617
Amounts due to banks (received/paid)	65,070	14,427
Amounts due to customers	145,721	127,883
Financial liabilities at fair value through profit or loss	3,798	551
Other liabilities	7,077	6,299
Net cash flow from operating assets and liabilities	(19,316)	(18,092)
Net cash flow from operating activities before tax	1,713	(8,241)
Income tax paid	(1,137)	(1,724)
Net cash flow from operating activities	576	(9,965)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received (including associated undertakings)	2	2
Purchase of tangible and intangible assets	(1,593)	(1,394)
Sale of tangible and intangible assets	748	64
Purchase of investments in subsidiaries and associates	(529)	(47)
Sale/decrease of investments in subsidiaries and associates	0	26
Net cash flow from investment activities	(1,372)	(1,349)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to shareholders	(8,362)	52
Dividends paid to non-controlling interest	0	0
Purchase of own shares	0	0
Securities issued	0	13,236
Securities redeemed	(899)	(44)
Lease liabilities	(219)	(227)
Subordinated and senior non-preferred debt	6,176	(77)
Increase in minority equity	0	0
Net cash flow from financing activities	(3,304)	12,940
Net increase/(decrease) in cash and cash equivalents	(4,100)	1,626

(CZKm)	30 Jun 2022	30 Jun 2021
Cash and cash equivalents at the beginning of the year	27,349	20,512
Foreign exchange differences on cash and cash equivalents at the beginning of the year	(64)	(184)
Adjustment of cash and cash equivalents at the beginning of the year due to acquisition	0	0
Cash and cash equivalents at the end of the year	23,185	21,954
Interest received	38,199	14,963
Interest paid	(25,827)	(5,277)

The accompanying Notes form an integral part of this Consolidated Cash Flow Statement.

Notes to the Consolidated Financial Statements

Period ended 30 June 2022

1 Events for the period ended 30 June 2022

Changes in the Bank's financial group

In February 2022, the Bank increased shareholders' equity of Bankovní identita, a.s. by CZK 8.5 million through a financial contribution into other capital funds.

In May 2022, the Bank decreased shareholders' equity of BASTION EUROPEAN INVESTMENTS S.A. by EUR 885 thousand.

During 2022, the Bank increased the equity of KB SmartSolutions, s.r.o. by CZK 39.35 million through a financial contribution into other capital funds. KB SmartSolutions, s.r.o. is a fully consolidated unit of KB Group.

In June 2022, KB SmartSolutions, s.r.o. increased shareholders' equity of MonkeyData s.r.o. (which fully owns start-up Lemonero s.r.o.) by CZK 39.35 million, thereby boosting its share from the previous 11% to the current 24.989%. MonkeyData s.r.o. and Lemonero s.r.o. are currently not consolidated due to their insignificant impact on the consolidated financial statements.

In June 2022, the Bank increased shareholders' equity of Komerční pojišťovna, a.s. by CZK 450 million through a financial contribution into other capital funds.

Seasonality and unusual items

The Group's principal activities are not significantly influenced by seasonality, and in the first half of 2022 no unusual transaction occurred.

2 Principal accounting policies

These Consolidated Financial Statements were neither audited nor reviewed by an auditor. The presented information is consistent with IAS 34 Interim Financial Reporting requirements.

During the first half of 2022, the Group updated its IFRS 9 provisioning models for the Stage 1 and Stage 2 portfolios while taking into account the current macroeconomic outlook. In accordance with IFRS 9 methodology, the update was based upon a so-called multi-scenario approach. Three scenarios were considered for June 2022 accounting closure: a baseline scenario with 60% probability, a stress scenario with 30% probability, and an optimistic scenario with 10% probability.

The scenarios were developed internally while using the best available estimates and closely monitoring prognoses published by state, regulatory, and other bodies. The scenarios reflect the current macroeconomic outlook, including expected impacts of the war in Ukraine and delayed post-covid impacts due to the ending of state support programmes introduced in the course of 2020–2021 (payment moratoria, Antivirus and guarantee programmes).

The baseline scenario applied in IFRS 9 models as of June 2022 expects year-on-year GDP contraction at 3.9% in 2022 and year-on-year GDP growth at 2.6% in 2023. The 2022 GDP scenario specifically reflects delayed post-covid impacts. The update of IFRS 9 models in the first half of 2022 led to the release of allowances in the amount of CZK 501 million, and this release was driven by a partial release of allowances covering delayed post-covid impacts.

In line with the IFRS 9 forward-looking approach, the Group applied as of June 2022 a specific approach using post-model adjustments that cover expected losses from high inflation for the two portfolios as described below:

- (i) The Group decided to introduce specific allowances for its entire non-retail portfolio covering future inflation impacts in the second quarter of 2022. The rating of non-retail clients was downgraded by one notch for the purpose of allowance calculation, and specific allowances were created totalling CZK 987 million as of June 2022.
- (ii) In the fourth quarter of 2021, the Group introduced specific allowances for a retail subportfolio defined as a subportfolio with lower income or higher indebtedness and therefore more sensitive to accelerating inflation and interest rates. As of June 2022, for the purpose of allowance calculation, the rating of dedicated Small Business clients was downgraded by two notches, while the rating of Individual clients was downgraded by one risk class and subsequently specific allowances were created totalling CZK 362 million as of June 2022. The exposure of this retail subportfolio with higher indebtedness or lower income totalled CZK 65 billion as of June 2022.

In the second quarter of 2022, the Group released all additional allowances of CZK 204 million for subportfolios that the Group in the past identified as subportfolios with deteriorated credit risk profile due to covid: (i) office and retail store subsegments (belonging to the real estate developers and investors segment); and (ii) hotels, restaurants, and catering.

As of June 2022, the Group did not apply any specific sectorial approaches in its IFRS 9 models. The Group did not detect any materially more inflation-sensitive sectors in its non-retail portfolio and therefore introduced the specific portfolio overlay covering the high inflation impact for the whole non-retail portfolio, as mentioned above. The Group deems that the expected credit risk in the sectors is included in the IFRS 9 forward-looking component and in the inflation portfolio overlay.

The Group has been closely following the development of exposures that were under the payment moratoria regime during 2020. The most sensitive parts of former retail moratoria exposures have been transferred into Stage 2 (the volume of additional provisions on these exposures totalled CZK 437 million as of June 2021).

In accordance with EBA recommendations, the granting of both Group private and public moratoria was not itself a reason for reclassification of a credit exposure to a poorer stage. Nevertheless, exposures that were under the Bank's private moratorium are reported as forborne, albeit without automatic reclassification to a poorer stage.

In addition, the Group has been closely monitoring sectors with heightened vulnerabilities to Covid-19 impacts (hotels, restaurants, transport, real estate investors and developers, etc.). For sectors hit very negatively by Covid-19 (hotels, restaurants, catering, real estate investors and developers active in offices and retail segments), the Group applies a specific and prudent sectorial approach in its IFRS 9 models (the volume of additional provisions on these sectors totalled CZK 227 million as of June 2021). For all other sectors, the Group deems that the expected credit risk in the sectors is included in the forward-looking components and the risk staging algorithm used in the IFRS 9 models. Therefore, the Group applies no additional portfolio overlay for them.

In accordance with the IFRS 9 concept, the Group identified non-retail exposures with worsened credit risk profile. In particular, these were exposures of clients whose ratings were downgraded by at least one notch during the second half of 2020. Because the downgrade in the second half of 2020 had been made at a time of a significantly more positive outlook for the epidemic situation and did not take into account the subsequent lockdowns in the first half of 2021, the Group decided to create additional provisions for these portfolios in the first quarter of 2021 (the volume of additional provisions on these exposures totalled CZK 105 million as of June 2021).

Changes in accounting policies

During its April 2021 meeting, the IFRS Interpretations Committee (hereinafter the "IFRS IC") specified the method for determining the vesting period of a defined post-employment benefit plan with the following characteristics: (i) employees are entitled to a lumpsum benefit payment, depending on their length of employee service, when they reach retirement age; and (ii) this length is capped at a specified number of consecutive years of service. The IFRS IC specified that, applying IAS 19, the vesting period should be the period of employee service immediately before the retirement age, capped at the number of consecutive years of service specified in the pension plan. Therefore, it is not possible to use as the vesting period the total length of service when the latter is greater than the cap used to calculate the benefit. The decision not to place the issue on the IFRS IC agenda was validated by the IASB on 24 May 2021.

During the second half of 2021, the Group assessed the retirement benefits plan similar to the ones covered by the IFRS IC decision and whose vesting period applied until now corresponded to the employees' total length of service. In response to the IFRS IC decision, the commitments relating to this plan have been reassessed based on a capped length of service, resulting in a release of provisions for employee benefits. Because this change has no significant impact on the annual profit and loss, the comparative information has not been restated and the change was reflected as an adjustment to the opening balance in 2021 of the provisions for employee benefits in the amount of CZK 405 million and the retained earnings in the amount after tax of CZK 328 million.

3 Segment reporting

(CZKm)	Retail banking		Corporate banking		Investment banking		Other		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Net interest income	7,907	6,343	4,743	3,055	1,550	235	(43)	323	14,157	9,956
Net fee and commission income	2,102	1,940	903	912	50	100	(86)	(160)	2,969	2,792
Net profit/(loss) on financial operations	826	568	1,679	1,120	(737)	158	178	109	1,946	1,955
Dividend income	0	0	0	0	0	0	2	2	2	2
Other income	43	64	(21)	(19)	199	153	(127)	(98)	94	100
Net operating income	10,878	8,915	7,304	5,068	1,062	646	(76)	176	19,168	14,805

Given the specifics of banking activities, the Board of Directors of the Bank (the chief operating decision maker) is provided with information on income, recognition of allowances, write-offs, and income tax only for selected segments rather than consistently for all segments. For this reason, this information is not reported for segments.

As most of the income of segments arises from interest and, in assessing the performance of segments and deciding on allocation of resources for segments the Board of Directors primarily refers to net interest income, the interest for segments is reported on a net basis (i.e. reduced by interest expense).

Transfer prices between operating segments are based on transfer interest rates representing actual market interest rates conditions, including the liquidity component, reflecting the opportunities existing to acquire and invest financial resources.

The Group's income is primarily – more than 98% (30 June 2021: more than 98%) – generated on the territory of the Czech Republic.

4 Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise the following:

(CZK m)	30 Jun 2022	31 Dec 2021
Equity instruments at FVOCI option	45	59
Debt securities at FVOCI	31,004	35,509
Total financial assets at fair value through other comprehensive income	31,049	35,568

For detailed information on 'Debt securities', broken out by sector, currency, and country of issuer, refer to Note 6.

5 Financial assets at amortised cost

Financial assets at amortised cost comprise the following:

(CZK m)	30 Jun 2022	31 Dec 2021
Loans and advances to banks	455,151	257,196
Loans and advances to customers	757,528	724,587
Debt securities	121,236	114,078
Total financial assets at amortised cost	1,333,915	1,095,861

For detailed information on 'Debt securities', broken out by sector and currency, refer to Note 6.

As of 30 June 2022, 'Financial assets at amortised cost' comprise the following, as broken down by Staging:

(CZK m)	Gross carrying value				Allowances				Carrying value
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Central banks	338,693	0	0	338,693	0	0	0	0	338,693
General governments	28,805	13	110	28,928	(26)	0	(16)	(42)	28,886
Credit institutions	115,973	448	48	116,469	(1)	(8)	(2)	(11)	116,458
Other financial corporations	46,363	2,159	201	48,723	(160)	(41)	(52)	(253)	48,470
Non-financial corporations	255,917	26,681	12,002	294,600	(1,147)	(1,704)	(6,471)	(9,322)	285,278
Households*	369,332	23,055	6,420	398,807	(287)	(564)	(3,062)	(3,913)	394,894
Total loans	1,155,083	52,356	18,781	1,226,220	(1,621)	(2,317)	(9,603)	(13,541)	1,212,679
Central banks	0	0	0	0	0	0	0	0	0
General governments	117,345	0	0	117,345	(18)	0	0	(18)	117,327
Credit institutions	0	0	0	0	0	0	0	0	0
Other financial corporations	1,381	0	27	1,408	0	(1)	0	(1)	1,407
Non-financial corporations	2,503	0	0	2,503	(1)	0	0	(1)	2,502
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	121,229	0	27	121,256	(19)	(1)	0	(20)	121,236

* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2021, 'Financial assets at amortised cost' comprise the following, as broken down by Staging:

(CZKm)	Gross carrying value				Allowances				Carrying value
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Central banks	201,132	0	0	201,132	0	0	0	0	201,132
General governments	28,603	46	148	28,797	(30)	(1)	(14)	(45)	28,752
Credit institutions	55,693	373	0	56,066	(1)	(1)	0	(2)	56,064
Other financial corporations	41,557	496	271	42,324	(131)	(14)	(53)	(198)	42,126
Non-financial corporations	235,296	31,416	10,973	277,685	(998)	(1,829)	(6,128)	(8,955)	268,730
Households*	356,659	25,571	6,854	389,084	(273)	(618)	(3,214)	(4,105)	384,979
Total loans	918,940	57,902	18,246	995,088	(1,433)	(2,463)	(9,409)	(13,305)	981,783
Central banks	0	0	0	0	0	0	0	0	0
General governments	108,507	0	0	108,507	(15)	0	0	(15)	108,492
Credit institutions	0	0	0	0	0	0	0	0	0
Other financial corporations	1,054	0	0	1,054	0	0	0	0	1,054
Non-financial corporations	4,533	0	0	4,533	(1)	0	0	(1)	4,532
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	114,094	0	0	114,094	(16)	0	0	(16)	114,078

* This item also includes loans granted to individual entrepreneurs.

Set out below is the breakdown of loans and advances to non-financial corporations by sector:

(CZKm)	30 Jun 2021	31 Dec 2021
Agriculture, forestry, and fishing	13,129	13,006
Mining and quarrying	2,216	3,425
Manufacturing	74,034	68,593
Electricity, gas, steam, and air conditioning supply	11,631	10,797
Water supply, sewerage, waste management, and remediation activities	3,789	2,264
Construction	16,196	14,968
Wholesale and retail trade, repair of motor vehicles and motorcycles	57,551	52,795
Transportation and storage	18,659	20,739
Accommodation and food service activities	2,101	2,254
Information and communication	6,727	7,165
Real estate activities	56,406	52,589
Professional, scientific, and technical activities	9,758	9,715
Administrative and support service activities	9,252	7,985
Public administration and defence, compulsory social security	354	348
Education	575	599
Human health and social work activities	3,385	3,206
Arts, entertainment, and recreation	2,833	2,762
Other service activities	6,004	4,475
Total loans and advances to non-financial corporations	294,600	277,685

Broken out below are the types of collateral held in support of loans and advances to customers as stated in the Consolidated Statement of Financial Position as of 30 June 2022:

(CZKm)	Applied loans and advances to customers collateral value*				
	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Loans and advances to customers	312,598	27,730	9,796	16,751	33,905
of which:					
– Other financial corporations	50	590	0	1,112	6,849
– Non-financial corporations	3,038	23,260	2,689	15,106	24,170
– Households**	309,491	3,847	7,102	468	723

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

** This item also includes loans granted to individual entrepreneurs.

Broken out below are the types of collateral held in support of loans and advances to customers as stated in the Consolidated Statement of Financial Position as of 31 December 2021:

(CZKm)	Applied loans and advances to customers collateral value*				
	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Loans and advances to customers	300,907	33,584	9,871	14,234	33,638
of which:					
– Other financial corporations	65	1,152	0	2,722	6,704
– Non-financial corporations	2,869	28,532	2,726	10,863	23,340
– Households**	297,948	3,866	7,141	565	804

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

** This item also includes loans granted to individual entrepreneurs.

6 Debt securities

The Group's debt securities, broken out by sector and currency, comprise the following as of 30 June 2022:

(CZKm)	Fair value through profit or loss			Fair value through other comprehensive income			Amortised cost		
	CZK	Other	Total	CZK	Other	Total	CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	11,807	489	12,296	19,642	11,362	31,004	117,327	0	117,327
Credit institutions	61	0	61	0	0	0	0	0	0
Other financial corporations	26	0	26	0	0	0	1,407	0	1,407
Non-financial corporations	2	0	2	0	0	0	2,145	357	2,502
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	11,896	489	12,385	19,642	11,362	31,004	120,879	357	121,236

* This item also includes individual entrepreneurs.

The Group's debt securities, broken out by sector and currency, comprise the following as of 31 December 2021:

(CZKm)	Fair value through profit or loss			Fair value through other comprehensive income			Amortised cost		
	CZK	Other	Total	CZK	Other	Total	CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	3,246	12	3,258	24,503	15,411	39,914	85,054	4,678	89,732
Credit institutions	81	0	81	0	237	237	0	0	0
Other financial corporations	3	0	3	0	0	0	280	68	348
Non-financial corporations	0	0	0	0	0	0	2,759	0	2,759
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	3,330	12	3,342	24,503	15,648	40,151	88,093	4,746	92,839

* This item also includes individual entrepreneurs.

7 Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise the following:

(CZKm)	30 Jun 2022	31 Dec 2021
Amounts due to banks	147,266	83,372
Amounts due to customers	1,103,643	956,929
Securities issued	12,689	13,666
Lease liabilities	2,373	2,516
Total financial liabilities at amortised cost	1,265,971	1,056,483

Amounts due to banks and customers, broken out by sector, comprise the following:

(CZKm)	30 Jun 2022	31 Dec 2021
Central banks	0	0
General governments	178,188	102,630
Credit institutions	147,266	83,372
Other financial corporations	99,916	50,053
Non-financial corporations	355,189	323,814
Households*	470,350	480,432
Total amounts due to banks and customers	1,250,909	1,040,301

* This item also includes amounts due to individual entrepreneurs.

Securities issued

Securities issued comprise the following:

(CZKm)	30 Jun 2022	31 Dec 2021
Mortgage bonds	12,689	13,567
Depository bills of exchange	0	99
Total securities issued	12,689	13,666

The Group issues mortgage bonds to fund its mortgage activities.

Mortgage bonds according to their remaining time to maturity break out as follows:

(CZKm)	30 Jun 2022	31 Dec 2021
In less than one year	202	1,002
In one to five years	12,487	12,565
In five to ten years	0	0
In ten to twenty years	0	0
More than twenty years	0	0
Total mortgage bonds	12,689	13,567

The issued securities detailed above include the following mortgage bonds issued by the Group:

Name	Interest rate	Currency	Issue date	Maturity date	30 Jun 2022 (CZKm)	31 Dec 2021 (CZKm)
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	202	1,002
HZL Komerční banky, a.s., XS2289128162	0.01%	EUR	20 Jan 2021	20 Jan 2026	12,487	12,565
Total mortgage bonds					12,689	13,567

8 Provisions

Provisions comprise the following:

(CZKm)	30 Jun 2022	31 Dec 2021
Provisions for contracted commitments	183	182
Provisions for other credit commitments	1,138	1,118
Provisions for restructuring	5	41
Other provisions	74	0
Total provisions	1,400	1,341

The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, self-insurance, and those for loyalty and jubilee bonuses and the retirement benefits plan.

Movements in the provisions for contracted commitments and for restructuring were as follow:

(CZKm)	Retirement benefits plan	Other provisions for contracted commitments	Provisions for restructuring	Other provisions	Total
Balance as of 31 December 2021	68	114	41	0	223
Charge	8	11	0	75	94
Release	(4)	(9)	(36)	0	(49)
Use	0	(6)	0	(1)	(7)
Accrual	1	0	0	0	1
Remeasurement	0	0	0	0	0
Foreign exchange difference	0	0	0	0	0
Balance as of 30 June 2022	73	110	5	74	262

(CZKm)	Retirement benefits plan	Other provisions for contracted commitments	Provisions for restructuring	Other provisions	Total
Balance as of 31 December 2020	473	111	81	0	665
Changes in accounting policies (refer to Note 2)	(405)	0	0	0	(405)
Charge	23	10	0	0	33
Release	0	0	0	0	0
Use	(2)	(3)	(45)	0	(50)
Accrual	0	0	0	0	0
Remeasurement	0	0	0	0	0
Foreign exchange difference	1	0	0	0	1
Balance as of 30 June 2021	90	118	36	0	244

9 Commitments and contingent liabilities

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 30 June 2022. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Group has recorded a provision of CZK 33 million (31 December 2021: CZK 19 million) for these legal disputes. The Group has also recorded a provision of CZK 3 million (31 December 2021: CZK 3 million) for costs associated with potential payment of interest on the pursued claims.

As of 30 June 2022, the Group conducted a review of legal proceedings filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Financial commitments and contingencies comprise the following:

(CZKm)	30 Jun 2022	31 Dec 2021
Non-payment guarantees including commitments to issued non-payment guarantees	48,419	45,829
Payment guarantees including commitments to issued payment guarantees	21,664	19,874
Committed facilities and unutilised overdrafts	14,076	14,189
Undrawn credit commitments	142,006	146,904
Unutilised overdrafts and approved overdraft loans	27,430	19,433
Unutilised limits under framework agreements to provide financial services	11,018	6,974
Open customer/import letters of credit not covered	380	430
Standby letters of credit not covered	3,446	3,040
Confirmed supplier/export letters of credit	795	763
Total commitments and contingencies	269,234	257,436

As of 30 June 2022, the financial commitments and contingencies of the Group were comprised of the following, as broken down by classification:

(CZKm)	Carrying value				Provisions			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central banks	0	0	0	0	0	0	0	0
General governments	31,052	0	0	31,052	17	0	0	17
Credit institutions	3,646	71	4	3,721	1	4	0	5
Other financial corporations	15,145	0	0	15,145	31	0	0	31
Non-financial corporations	146,473	5,189	1,266	152,928	268	140	550	958
Households*	63,679	2,563	146	66,388	45	43	39	127
Total commitments and contingencies	259,995	7,823	1,416	269,234	362	187	589	1,138

* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

As of 31 December 2021, the financial commitments and contingencies of the Group were comprised of the following, as broken down by classification:

(CZKm)	Carrying value				Provisions			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central banks	0	0	0	0	0	0	0	0
General governments	29,287	23	0	29,310	17	0	0	17
Credit institutions	2,438	124	0	2,562	1	2	0	3
Other financial corporations	12,547	43	0	12,590	22	1	0	23
Non-financial corporations	132,222	8,123	1,241	141,586	206	147	583	936
Households*	67,780	3,466	142	71,388	42	53	43	138
Total commitments and contingencies	244,274	11,779	1,383	257,436	288	203	626	1,117

* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

Set out below is a breakdown of financial commitments and contingencies to non-financial corporations by sector:

(CZKm)	30 Jun 2022	31 Dec 2021
Agriculture, forestry, and fishing	3,924	3,585
Mining and quarrying	1,923	1,114
Manufacturing	33,500	36,520
Electricity, gas, steam, and air conditioning supply	16,964	8,188
Water supply, sewerage, waste management, and remediation activities	1,579	1,553
Construction	37,761	37,335
Wholesale and retail trade, repair of motor vehicles and motorcycles	25,727	21,206
Transportation and storage	7,053	6,005
Accommodation and food service activities	677	640
Information and communication	2,755	2,770
Real estate activities	8,098	9,101
Professional, scientific, and technical activities	9,782	10,186
Administrative and support service activities	846	975
Public administration and defence, compulsory social security	551	468
Education	64	49
Human health and social work activities	438	568
Arts, entertainment, and recreation	821	1,004
Other service activities	465	319
Total commitments and contingencies to non-financial corporations	152,928	141,586

The majority of commitments and contingencies originate on the territory of the Czech Republic.

10 Estimated fair value of assets and liabilities of the Group

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at their fair values:

(CZKm)	30 Jun 2022		31 Dec 2021	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	21,383	21,383	29,947	29,947
Financial assets at amortised cost	1,333,915	1,308,258	1,095,861	1,082,270
– Loans and advances to banks	455,151	455,038	257,196	257,043
– Loans and advances to customers	757,528	743,236	724,587	714,831
– Debt securities	121,236	109,984	114,078	110,396
Financial liabilities				
Amounts due to central banks	0	0	0	0
Financial liabilities at amortised cost	1,265,971	1,261,191	1,056,483	1,053,330
– Amounts due to banks	147,266	147,279	83,372	83,384
– Amounts due to customers	1,103,643	1,098,985	956,929	953,925
– Securities issued	12,689	12,554	13,666	13,505
– Lease liabilities	2,373	2,373	2,516	2,516
Subordinated debt	8,665	8,665	2,490	2,490

The following table presents the hierarchy of fair values for those financial assets and liabilities not presented on the Group's Statement of Financial Position at their fair values:

(CZKm)	30 Jun 2022				31 Dec 2021			
	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
Financial assets								
Cash and current balances with central banks	21,383	10,576	0	10,807	29,947	8,492	0	21,455
Financial assets at amortised cost	1,308,258	105,628	0	1,202,630	1,082,270	104,502	0	977,768
– Loans and advances to banks	455,038	0	0	455,038	257,043	0	0	257,043
– Loans and advances to customers	743,236	0	0	743,236	714,831	0	0	714,831
– Debt securities	109,984	105,628	0	4,356	110,396	104,502	0	5,894
Financial liabilities								
Amounts due to central banks	0	0	0	0	0	0	0	0
Financial liabilities at amortised cost	1,261,191	0	0	1,261,191	1,053,330	0	0	1,053,330
– Amounts due to banks	147,279	0	0	147,279	83,384	0	0	83,384
– Amounts due to customers	1,098,985	0	0	1,098,985	953,925	0	0	953,925
– Securities issued	12,554	0	0	12,554	13,505	0	0	13,505
– Lease liabilities	2,373	0	0	2,373	2,516	0	0	2,516
Subordinated debt	8,665	0	0	8,665	2,490	0	0	2,490

11 Transfers between levels of the fair value hierarchy

There were no transfers between levels during the first half of 2022.

12 Events after the reporting period

Macroeconomic development

In the subsequent period, the Group will carefully monitor future macroeconomic development and adjust its IFRS 9 models in case new macroeconomic forecasts differ from the current forecasts. The Group uses internal forecasts for its IFRS 9 models, but it also carefully monitors external forecasts (CNB, ECB, etc.). In particular, the Group uses the macroeconomic forecasts published by the Czech National Bank to benchmark its IFRS 9 models. The Group will also monitor the development of the war in Ukraine and assess its potential impacts on the Group's financial situation.

Geopolitical situation

The war in Ukraine is having significant impacts on the economies of European countries. Nevertheless, due to heightened global uncertainty and the turbulent development, it is impossible to fully assess and quantify those impacts at the current stage. The Group is continuously monitoring and evaluating potential impacts of the current crisis on its activities and on its clients. Although the Group's direct exposure to Russia and Ukraine is limited, it is also evaluating secondary and indirect impacts (supplier chains, dependence on raw materials, etc.). The Group has identified client exposures that may be negatively impacted by the war in Ukraine, and these exposures total CZK 29 billion as of 30 June 2022. During the first half of 2022, CZK 631 million of provisions were made on this exposure. If needed, the Group will respond to the changing situation by adjusting its policies and accounting estimates, including to adjust its provisioning models in accordance with IFRS9.

Changes in Group

In July 2022, the Bank increased shareholders' equity of Bankovní identita, a.s. by CZK 6.8 million through financial contribution into other capital funds.

In July 2022, the Bank increased the equity of KB Smart Solutions.

KB Smart Solutions used these funds to purchase ownership shares from the existing shareholders of upvest s.r.o. KB SmartSolutions, s.r.o. increased its stake in upvest s.r.o. from the earlier 31.06% to 96.0%.

Furthermore in July 2022, KB SmartSolutions, s.r.o. acquired 100% of Enviros group, which comprises the following four companies: Enviros Global Limited, ENVIROS, s.r.o. (CZ), ENVIROS, s.r.o. (SK), and ENVIROS, d.o.o. Enviros Group provides services in energy and environmental consulting.

Optimisation of branch network

The Bank has decided during 2022 on further steps in optimising its branch network. In second quarter, 25 branches were closed and at an additional 16 branches cash services started to be provided only via ATMs. As of 1 July 2022, the Bank simplified the management structure of the branch network, including to replace regional retail divisions by a joint segment and line management of all distribution channels at the headquarters level. The selection of branches for closing was based upon a long-term analysis of branch customer traffic, coverage and potential of locations, and changes in clients behaviour that reflect increasing preference for remote sales and assisted services in the digital environment. The estimated costs incurred in 2022 are expected to be in the tens of millions of crowns.

| Ratings

Ratings of Komerční banka as of 30 June 2022*

	Short-term	Long-term
Standard & Poor's	A-1	A
Moody's	Prime-1	A1
Fitch	F1	A

Note: * KB was assigned a credit rating by rating agencies registered under Regulation of the European Parliament and Council (EC) No. 462/2013. KB has considered appointment of rating agencies in accordance with Article 8d of this Regulation and decided not to appoint a rating agency whose market share is smaller than 10%.

| Shareholder structure

The share capital of Komerční banka totals CZK 19,004,926,000 and is divided into 190,049,260 ordinary shares admitted to trading on the European regulated market, each with a nominal value of CZK 100. All the Bank's shares carry the same rights.

The Bank had 64,384 shareholders as of 30 June 2022 (up by 6,533 year on year), of which 58,349 (greater by 6,203 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.

Major shareholders of Komerční banka owning more than 1% of the share capital as of 30 June 2022: (per the extract from the issuers register taken from the Central Securities Depository)

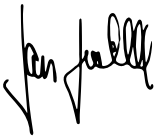
Shareholder	Proportion of share capital
Société Générale S.A.	60.35%
Chase Nominees Limited	3.24%
Nortrust Nominees Limited	3.16%
Clearstream Banking S.A.	2.34%
GIC Private Limited	1.24%
Other shareholders	29.67%

| Management affidavit

To the best of our knowledge, we believe that this half-yearly report gives a fair and true view of the Bank's and Group's financial position, business activities, and results from the first half of 2022, as well as of the outlook for the development of the Bank's and Group's financial situation, business activities, and results in the second half of 2022.

Prague, 31 August 2022

Signed on behalf of the Board of Directors:



Jan Juchelka m. p.
Chairman of the Board of Directors
and Chief Executive Officer
Komerční banka, a.s.



Jitka Haubová m. p.
Member of the Board of Directors
and Senior Executive Director, Chief Operations Officer
Komerční banka, a.s.