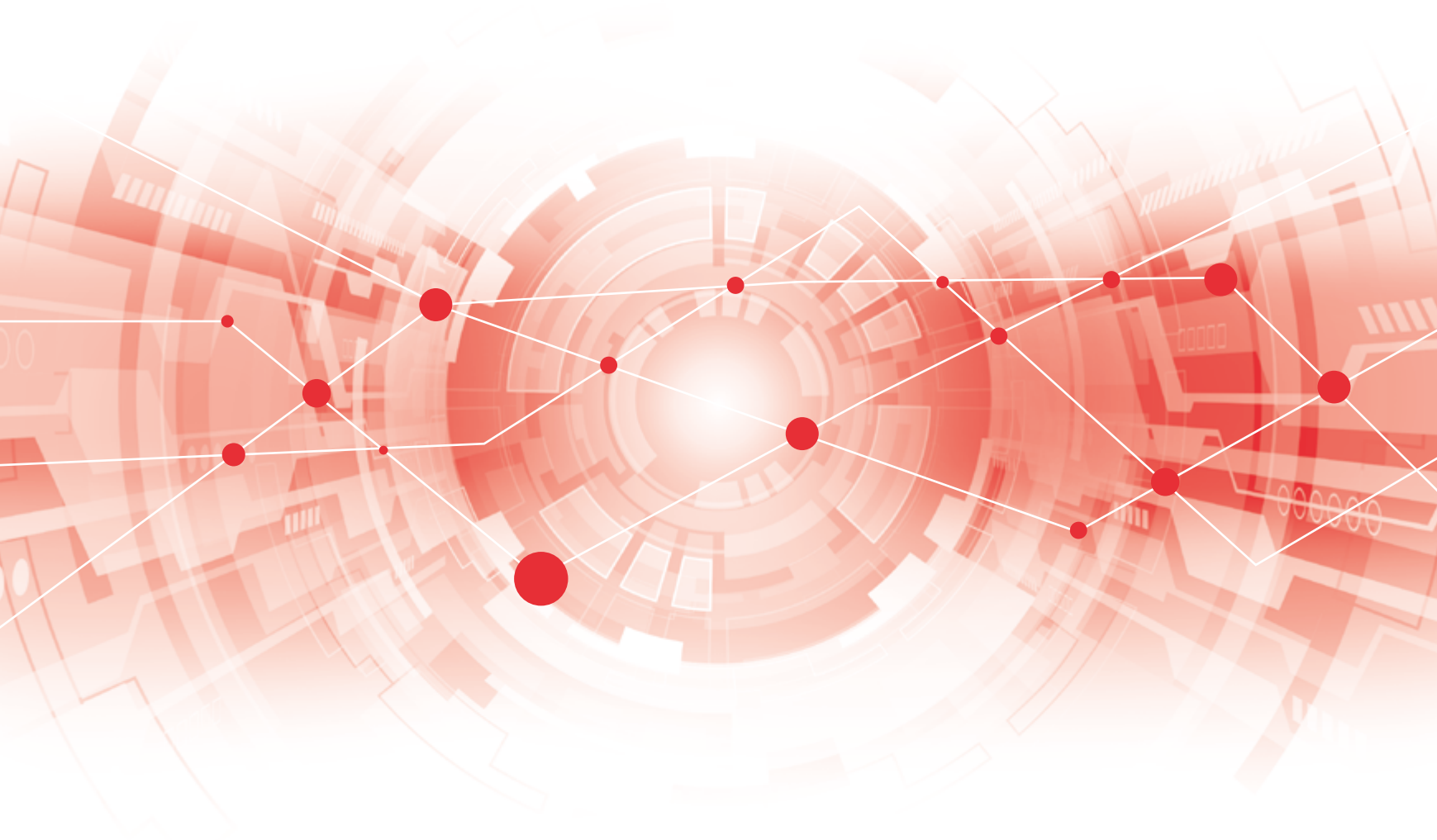


Komerční banka, a.s.

HALF-YEARLY REPORT

2020



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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 at www.kb.cz/investors. Additional information on corporate social responsibility and ethics at KB is available in the 'Corporate Social Responsibility' section at <https://www.kb.cz/en/about-the-bank/about-kb>. Specifics about KB's products and services are 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.

| Highlights from 2020's first half

January

On 1 January 2020, Komerční banka celebrated the 30th anniversary of its existence and introduced a special logo symbolising that anniversary for communication with clients and the public.

SG Equipment Finance was one of the first to react to a statutory amendment changing the VAT payment by leasing companies and the lessee's right to deduct DPH. SGEF's clients using financial leasing thus now have a choice of how and when they will pay the corresponding tax.

February

On 6 February, Komerční banka announced its business and financial results for 2019 and at the same time stated that the Board of Directors would propose a dividend of CZK 11.0 billion (i.e. CZK 58 per share) from the 2019 profit. KB management's intent for next year had been to propose a dividend payment equal to 65% of the consolidated net profit attributable to shareholders for 2020.

Approval of a legislative change in February allowed banks to authenticate clients remotely not only when using their banks' own services and other commercial services provided by contractual third parties, but also for accessing government services and signing legal documents. Komerční banka, together with Česká spořitelna, a.s and Československá obchodní banka, a. s., announced its intention to create a joint venture for providing electronic identification and authentication services to private companies and public institutions in the Czech Republic. All banks as well as branches of foreign banks registered in the Czech Republic will be able to participate in the joint venture as identification providers on equal and transparent terms.

March

On 1 March, the first three cases of Covid-19 were confirmed in the Czech Republic. On 12 March, the government declared a state of emergency throughout the Czech Republic due to coronavirus. KB has followed its business continuity plan as updated for the specifics of the pandemic situation, and it rapidly took measures to protect its employees and clients.

From 13 March, KB began offering voluntary instalment payment holidays to individual and small business clients affected by the pandemic. The subsidiaries, and in particular ESSOX and Modrá pyramida, launched similar offers on 13 or 16 March.

On 16 March, the Bank Board of the Czech National Bank convened in an extraordinary monetary policy meeting and decided on first measures to mitigate the economic effects of the coronavirus epidemic, including to lower the two-week repo rate by 50 basis points to 1.75% and reverse its earlier decision to increase the countercyclical capital buffer for exposures within the Czech Republic. The CNB further advised banks to refrain with immediate effect from any dividend payments or other steps that could jeopardise the resilience of individual banks, doing so until both acute and longer-term consequences of the new coronavirus epidemic subsided.

Due to the significant negative economic consequences of the measures adopted to contain the spread of the Covid-19 disease, KB withdrew on 23 March its outlook for 2020 financial and business results that had been announced on 6 February. At the same time, the Bank announced a new proposal of KB's Board of Directors to the Supervisory Board to retain the net profit earned in 2019 in order to comply with the measures the CNB had called for and while acknowledging the Bank's responsibility to guard against any increase in systemic risk to the domestic economy.

April

Throughout the emergency period caused by the Covid-19 outbreak, KB joined in and contributed to numerous activities directed to mitigating the negative impacts of the epidemic on the most affected and vulnerable.

KB and SG Equipment, in partnership with the energy company ČEZ ESCO, have launched a new product that can contribute to limiting climate change. This innovative new product – solar energy as a service – allows industrial companies to begin generating savings on their energy bills by making the roofs of their buildings available for photovoltaic panel installations.

Komerční banka launched a new service – Zaplacenoc.z. As the first bank on the Czech market to do so, KB introduced an effective payment solution for e-shops using the so-called indirect payment order (PISP) made possible by the European PSD2 directive. The solution was prepared in co-operation with the fintech company BudgetBakers.

May

Komerční banka began offering loans to businesses within the guarantee programmes of the Bohemian–Moravian Guarantee and Development Bank (ČMZRB). KB has actively participated through the Czech Banking Association in designing the largest programme – Covid III.

The website of Modrá pyramida won the Site of the Year global competition, hosted by Kentico, for the best financial services website.

June

Jitka Haubová became a new member of Komerční banka's Board of Directors with effect from 4 June. In her new role, she is responsible for the Transaction and Payment Services, Support Services, Investment Banking Services, and Legal departments, as well as the Payment Methods and Customer tribes.

Due to limitations caused by the Covid-19 epidemic and in accordance with applicable laws, Komerční banka held its annual general meeting using remote decision-making and communication arrangements. Voting and questioning took place in the period from 9 to 29 June. Komerční banka's shareholders approved the reported financial results and retention of the profit from 2019. The General Meeting also approved the Board of Directors' report on the Bank's business activities and the state of its assets for the year 2019, the consolidated financial statements, and the annual financial statements for 2019. Upon the Nomination Committee's proposal, the General Meeting elected Ms Maylis Coupet a member of the Supervisory Board. The General meeting also approved the remuneration policy.

KB began offering a new programme of guaranteed lending aimed at mitigating impacts of the epidemic. Known as COVID Plus, it is operated by the Export Guarantee and Insurance Company (EGAP) of the Czech Republic. The programme makes available to large companies both working-capital and investment financing.

Komerční banka announced co-operation with the additional Czech fintech companies Zakladači and Trivi. The company Zakladači attends to legal establishment of new limited liability companies for its clients with no additional charges above regulatory fees, while KB equips the new entrepreneurs with a Profi account package that includes a business payment card. In partnership with Trivi, KB's internet banking offers a unique set of services for small businesses, including online accounting, regulatory reporting, and payroll assistance.

The digital magazine The Statement from the Lafferty Group named Komerční banka the best bank in the Czech Republic and at the same time one of the 100 best banking institutions in the world. The ranking evaluates the quality of banks in 21 categories, such as financial performance, relationships with clients and employees, approach to the environment, and benefits for shareholders.

The FTSE Russell from the London Stock Exchange Group affirmed Komerční banka as a constituent of the FTSE4Good Index Series, designed to measure the performance of companies demonstrating strong environmental, social, and governance (ESG) practices.

Post-balance sheet date events

KB's fully owned subsidiary KB SmartSolutions acquired minority participation in the Czech start-up fintech company upvest, which operates an online crowdfunding platform for real estate development projects.

I Macroeconomic development¹

The first two months of this year were marked by trends continuing from the end of 2019,² and from a European and global perspective Covid-19 was at that time perceived as just another of recent Asian influenza epidemics. This changed completely at the end of 2020's first quarter.^{3,4} The Czech economy shrank in the first quarter by 2.0% (-3.4% quarter on quarter). The economy was then hard hit in the second quarter by closing down of much of the economy, pausing of most social activities, and imposing of travel restrictions. Economic activity slowed by 10.7% year on year. Gross domestic product declined in comparison to the first quarter by another 8.4% and thus recorded its most significant drop in recent history. According to the Czech Statistical Office, the economic downturn was primarily caused by weak foreign demand and investment. Household consumption was also diminished. Conversely, government consumption and change in inventories helped to dampen the economy's contraction.

The Czech National Bank reacted to this unprecedented economic development by reducing its key repo rate by 50 bps on 16 March, by 75 bps on 26 March, and by another 75 bps on 7 May to the current 0.25%. To support liquidity in the banking sector, the CNB renewed its liquidity-providing repo operations at a fixed interest rate and zero spread with three times a week frequency. Parliament approved an amendment to legislation regulating the CNB that significantly expands the CNB's room to manoeuvre in its financial market operations. The CNB was authorised to accept a larger range of securities as collateral, and the types of eligible counterparties were expanded. This amendment is valid until the end of 2021. The national bank also permitted banks and non-bank financial institutions to voluntarily provide deferral of loans instalments as a loss-prevention tool in accordance with European Banking Authority guidelines. This was allowed even before the respective law was passed by Parliament. On 16 March, the CNB rescinded its planned increase in the countercyclical capital buffer to 2%. The CNB reduced it to 1% as of the end of March, with effect from 1 April through June. With effect from 1 July, it was further reduced to 0.5%. Another step to ease market conditions consisted in adjustments to mortgage regulation. The permitted loan-to-property ratio was expanded from 80% to 90%, the debt-to-income multiple restriction (formerly 9x) was eliminated from 1 April,

and the permitted monthly payment as a proportion of disposable income was raised from 45% to 50% as from 1 April. The latter measure also was abolished as of 1 July.

The government then addressed the epidemic's effects on the economy on several fronts. It enacted the possibility to request deferral of bank loan payments for 3 to 6 months for both the corporate and retail segments. It introduced a rent ceiling, limited the possibility of terminating a rental contract for a short time, and created a programme to support rental payments. It deferred the payment of certain taxes and health and social insurance. The government has introduced an employment support programme that contributes to the payment of wages while maintaining the jobs in companies. The self-employed were provided one-off support. The government has prepared several waves of COVID programmes for entrepreneurs. The largest is the COVID III programme. It provides up to CZK 150 billion in state guarantees that should support additional bank financing of up to CZK 500 billion. Government support to the economy was naturally mirrored in management of the government budget deficit. The originally approved budget deficit was increased to CZK 200 billion at the end of March, to CZK 300 billion at the end of April, and in the second half of June a government budget deficit of CZK 500 billion was approved by Parliament.

From the start of introducing the restrictive measures up until June the rise in the unemployment rate according to the Ministry of Labour and Social Affairs methodology was less than 0.7 percentage points and the rate climbed to 3.7%. Given the magnitude of the shock the economy suffered, this effect could have been greater. The labour market's deterioration was slower for several reasons. The extremely tight labour market prior to the Covid-19 crisis had created a natural cushion for people who lost their jobs. Economic policy also helped to stabilise the labour market. Many parents took the opportunity to stay at home with their children and received home-care benefits equal to 80% of their salaries. The antivirus programme made a significant contribution, enabling firms to keep employees on the principle of so-called partial employment support. Wages of such employees are supported by the government to the extent of 80% of the total. The unemployment rate is likely to climb further and should peak at the beginning of next year, albeit

¹ The sources of primary data in this section are the Czech Statistical Office and Czech National Bank. Forecasts are by Komerční banka's Economic and Strategic Research.

² This can be documented, for example, by persistently high inflationary pressures in the economy, causing the Czech National Bank on 6 February to raise its key two-week repo interest rate by 25 basis points to 2.25%.

³ The first three Covid-19 cases were identified in the Czech Republic on 1 March 2020. The first anti-epidemic measures were imposed on 4 March (e.g. prohibiting flights to northern Italy and Korea). On 10 March, schools of all types were closed. A state of emergency was declared on 12 March. From 14 March, restaurants and non-essential stores (e.g. excluding groceries and pharmacies) were closed. As of 16 March, with some exceptions, the Czech Republic's borders were shut, essentially putting the country in lock-down.

⁴ Phasing out of the quarantine began on 20 April 2020 when certain special shops were permitted to reopen. The two most important relaxation steps came on 11 May, when cultural and sport events of up to 100 people were allowed to be organised and shopping malls were opened, and on 25 May, when all food service operations and accommodation services were given leave to reopen and teaching of elementary school children was provisionally restarted. Easing of the quarantine continued up until 1 July, when night life was revived and wearing of masks in public was no longer required.

still at a relatively low level of between 5% and 6%. The growth rate in average wage has slowed since the beginning of the year as the tight labour market situation eased. For the full year, growth in nominal wages should reach 4.5%, and in real terms the average wage should go up by 1.5%.

During the first half of 2020, year-on-year growth in consumer prices averaged 3.4%. Prices of fuels fell, while food price inflation stagnated. Import prices rose significantly in the cases of food and core components due to the disruption of foreign trade and a weaker Czech crown. Core inflation has accelerated significantly. In the year's second half, weakened demand should somewhat constrain price growth.

The crown's exchange rate against the euro started out 2020 around CZK 25.3/EUR, then strengthened for a short time in February to near CZK 25/EUR, its strongest level since the end of the exchange rate commitment in March 2017. After outbreak of the Covid-19 pandemic, however, the crown sharply depreciated to the CZK 27.3/EUR level and traded with heightened volatility. After the hot phase of the pandemic subsided, the crown gradually strengthened to CZK 26.2/EUR.

The crown's exchange rate has been supported in recent weeks by a rebound from the bottom in market interest rates and the positive sentiment of international financial markets towards emerging-country currencies generally. This trend is likely to continue, and the crown is set to strengthen further. At the same time, significantly lower volatility can be expected in the second half of the year.

The economic outlook remains highly uncertain. A second wave of the pandemic is still the main risk. Although for the whole of 2020 the economy will contract by 5%, it is nevertheless already back in a slow upward phase and the situation should improve further through the remainder of the year. Considering the individual components of gross domestic product, the economy will be dragged down mainly by investment spending, and especially in the corporate segment. Similarly, household consumption will decline and the foreign trade result will be significantly poorer than in 2019. The Czech economy should grow again in 2021, by about 6%. Gross domestic product will probably not return to pre-coronavirus levels, however, until the turn of 2021/2022.

| KB's directions in the Covid-19 crisis environment

Since the outbreak of the Covid-19 pandemic on the European continent in February, the KB Group had to adjust its direction and operations. In accordance with its vision, the KB Group deployed its resources to help the country in overcoming the social and economic impacts of the global Covid-19 pandemic and to build a sustainable and resilient model for the future.

Supporting economic recovery

KB has continued financing the needs of its clients across all client segments. It has been instrumental as a member of the Czech Banking Association in the preparation of guarantee programmes directed to helping Czech businesses obtain funding necessary for their operations. As of 17 July, Komerční banka had approved CZK 5.3 billion in lending to 1,061 clients guaranteed within the Covid programmes operated by the government's ČMZRB and EGAP institutions.

Strong contribution to the country's fiscal capacity

Despite temporary closure of a number of its branches, Komerční banka has committed to not use the partial unemployment scheme available in the Czech Republic as well as the mechanisms for deferring social and tax charges. The objective is to avoid burdening the national budget and allow the state to focus its help on those enterprises that need it most. During the first half, KB Group continued in contributing significantly to the public budgets, including to pay CZK 1.6 billion during the first half in corporate income taxes, CZK 0.9 billion in contributions to the Resolution and Deposit Insurance funds, CZK 1.0 billion in employer's payments of health and social insurance, and further payments of withholding tax, value added tax, and other levies.

Protecting client financial security and satisfaction

KB maintained all its services throughout the state of emergency. In peer surveys conducted by independent agencies, KB ranked in top positions for helpfulness of its staff, effectiveness of all contact channels, as well as transparent and supportive communication. The Net Promoter Score measure of client satisfaction was at a similar good level (at 30) in June for individual clients as it had been at the end of 2019. It was slightly lower, but at a still solid value of 24, in the segment consisting of small businesses, reflecting their relatively worsened financial conditions as well as impressions from the announced reduction in the branch network.

Komerční banka Group stands by its clients. From mid-March, Group companies began offering voluntarily credit moratoria to clients affected by the pandemic and containment measures. The Group immediately implemented the legally mandated instalment moratorium in April. As of 17 July, KB Group had postponed instalments on loans of 46,364 clients totalling CZK 65.6 billion, including CZK 27.8 billion in relation to mortgages, CZK 3.1 billion to consumer loans, and CZK 34.7 billion to financing of businesses.

Confirmed high employee assurance

The Bank has facilitated working from home for almost all its employees, and it has equipped its operational premises with protective equipment for both employees and clients. It has maintained regular and open communication about the current situation and necessary steps. According to a survey conducted in June by the independent polling institute BVA across the Société Générale Group, the average overall mood of employees in the Czech Republic was scored at 7.7 points on a 10-point scale. In the survey, some 48% of the Czech employees said the decision making is faster (slower according to 13% of staff), work meetings are more effective for 40% of colleagues (less effective for 20%), and relationships with colleagues and managers have improved for some 24% of staff (worsened for 7%). Fully 77% of respondents from the Czech Republic said that after the crisis passes they would like to do more remote working than before the lock-down. This was well noted and taken into consideration when discussing introduction of the Smart Office concept in KB.

Smart Office is a flexible and agile workplace organisation that is being rolled out across Komerční banka. It is based on three pillars: sharing of workplaces + remote working + rotation. The office premises are allocated to teams rather than individual team members. The rules applied to each position are then calibrated by managers based on the specific conditions of each job and team. The Smart Office concept benefits from experiences gained during the lock-down, and it provides more flexibility to employees while achieving cost savings related to operating work premises. All employees will retain the option to work from KB's offices.

Developing a sustainable banking

KB Group supports a responsible and proactive energy transition through gradual reduction of its exposure to fossil energy sources and increase in its support of renewable energy. KB has allocated CZK 10 billion in funding sources at preferential rates for projects with sustainable positive impact. The Bank has been implementing steps to progressively shrink the carbon footprint from its operations, including by implementing the Smart Office concept.

Komerční banka has been recognised in international rankings for its ambition to be a leader in responsible finance. In June, FTSE Russell, the index provider that is a part of the London Stock Exchange Group, confirmed KB's membership in the FTSE4Good Index Series designed to identify companies that demonstrate strong environmental, social, and governance practices as measured against globally recognised standards.¹

High security of banking services

In the first half, Komerční banka observed an increase in the number of attempted frauds, mainly targeted at revealing and then abusing the credentials of banking clients or payment cardholders. KB teams have been updating its procedures and remained very successful in preventing the vast majority of such attempts and protecting clients' assets. To mitigate the overall higher level of cyber security risk during the emergency period, KB has reinforced several security measures, including to implement two-factor authentication for employees (utilising KB Key), enhance data leakage prevention capabilities, and heighten the Security Operating Centre's detection capabilities and capacities.

Also during the first half, KB further reinforced its controls in the areas of anti-money-laundering (AML), know-your-client (KYC), know-your-supplier (KYS), and measures against corruption and bribery, as well as for protection of personal and confidential data. The ongoing exercise to reinforce client data quality (KYC) has paid off in, among other ways, the Bank's ability to effectively and quickly meet the strict verification and disclosure requirements concerning beneficial owners imposed within the Covid guarantee programmes. All changes have been governed within a strict validation process and under vigilant monitoring in order to maintain strong oversight of the internal control system.

Accelerating digital transformation

Mainly relating to agile transformation, KB has implemented key business changes that are delivering significant improvements in service to clients as well as strengthened internal efficiency and improved operational resilience. Utilising its flexible platform for working with start-up and fintech ventures, KB has expanded co-operation with several fintech companies on effective development of services relevant for clients' evolving needs. In return for their fresh ideas and willingness to take on risks, KB may offer start-ups support of its vast expertise and other resources, as well as access to its priceless client portfolio. In addition to providing co-operation, KB's fully owned subsidiary KB SmartSolutions, s.r.o. has acquired minority participation in the Czech start-up fintech company upvest, which operates an online crowdfunding platform for real estate development projects. Through its collaboration with upvest, KB intends gradually to develop its presence on the crowdfunding market.

To maintain its leading position in financial services, Komerční banka recognises it must continuously optimise the operating model while focusing on better meeting customer needs and improving efficiency, pursue strategic collaborations, and upgrade its technological infrastructure.

Citing KB's advanced digital transformation, the Lafferty Group's digital magazine The Statement has named Komerční banka the best bank in the Czech Republic and at the same time one of the 100 best banking institutions in the world. The ranking is based upon evaluating the quality of banks in 21 categories, such as financial performance, relationships with clients and employees, approach to the environment, and benefits for shareholders.

Philanthropy and sustainability

In addition to supporting its clients, which is of course Komerční banka's reason for being, KB Group has contributed to various activities addressing the current situation in the first half, as well as some longer-term issues.

Early on, KB Jistota Foundation has provided financial gifts to 20 homes for seniors and children to supplement their capacity for resisting infection. The Bank also has provided senior homes with 30,000 face masks acquired through its emergency purchases. KB was the general partner of the 'Together with one voice' joint online benefit concert that featured leading Czech musical performers and raised funds to buy protective equipment for people on the front lines in the fight against coronavirus. Moreover, the Bank joined the 'We cook for the indispensable' initiative organised by Czech chefs to distribute meals for deployed members of rescue forces and police.

Activities in accordance with KB's long-term philanthropic strategy continued even during the first half. KB Jistota Foundation awarded year-long support to six providers of early and preschool care for children with specific needs. The Foundation also supported six other projects providing prevention, diagnosis, and therapy in cases of violence against and abuse of children.

KB Jistota Foundation has provided money grants to six organisations providing mobile hospice care in order to expand their capacities to help people in the last days of their lives to stay at home with their loved ones. The Foundation has also launched a special call for projects helping single parents in distress, families affected by domestic violence, and vulnerable seniors. Personal participation of KB's employees is a requisite in this call for projects. The Foundation's spring Group fundraising, which collects contributions from Komerční banka subsidiaries, has generated funding to support eight programmes focused on intergenerational learning and improving quality of life for seniors across the Czech Republic.

Prague Zoo and Komerční banka mark 15 years of partnership during 2020. Ostrava Zoo, meanwhile, is newly partnering with KB. The Bank remains a general partner of the traditional Rock for People music festival, although this year it has been converted into the Rock for People Home Live Jukebox hybrid event while combining a range of smaller concerts with live streaming.

In order to identify the challenges of digital education, KB facilitated a representative survey of 6,500 students of Czech secondary schools conducted by the Institute of Economic Education.

¹ <https://www.ftserussell.com/products/indices/ftse4good>

Broader social benefits will ensue also from a new initiative prepared within the KB SmartSolutions platform. KB and the Group's SGEF leasing company, in partnership with energy company ČEZ ESCO, have launched a new product that can contribute to limiting climate change. This innovative new product – solar energy as a service – allows industrial companies to begin generating savings on their energy bills by making the roofs of their buildings available for photovoltaic panel installations. Furthermore, KB has allocated CZK 10 billion for funding of projects with sustainable positive impact, mainly in energy transition, at preferential terms.

| Business performance of KB Group

Developments in the client portfolio and distribution networks

	30 Jun 2019	30 Jun 2020	Change year on year
KB Group's clients*	2,376,000	2,315,000	(61,000)
Komerční banka	1,662,000	1,657,000	(5,000)
– individual clients	1,406,000	1,402,000	(4,000)
– internet banking clients	1,405,000	1,433,000	28,000
– mobile banking clients	699,000	868,000	169,000
Modrá pyramida	489,000	483,000	(6,000)
KB Penzijní společnost	532,000	527,000	(5,000)
ESSOX (Group)*	208,000	159,000	(49,000)
KB Retail branches	344	275	(69)
KB Business centres	10	10	0
KB Corporate divisions	5	5	0
Modrá pyramida points of sale	200	200	0
SGEF branches	9	9	0
ESSOX Group points of sale	1,045	1,003	(42)
ATMs	786	802	16
of which deposit-taking	359	406	47
of which contactless	0	268	268
Number of active debit cards	1,391,000	1,406,000	15,000
Number of active credit cards	179,000	181,000	2,000
Number of cards virtualised into payment apps	112,000	226,000	114,000
KB key authentication users	260,000	670,000	410,000

*Influenced by termination of non-active credit card relationships

New products and awards

During the first half of 2020, KB enhanced its mobile banking by an option to sign contractual documents with the Bank directly within the application. The products offer in Mobilní banka was extended to include a permanent travel insurance policy and the Merlin wallet insurance linked to payment cards. Clients now can also increase their credit limits on credit cards via internet banking.

In co-operation with the European Investment Bank, KB offered financing with a subsidised interest rate to small and medium-sized companies through the Europremium programme. It has total lending capacity of CZK 3 billion under that programme.

KB has been developing its digital identification services. Approval of a legislative change in February allowed banks to authenticate clients remotely not only for using their banks' own services and those of other commercial services provided by contractual third parties, but also for accessing government services and signing

legal documents. Komerční banka, together with Česká spořitelna, a.s. and Československá obchodní banka, a. s., announced its intention to create a joint venture for providing electronic identification and authentication service to private companies and public institutions in the Czech Republic. All banks and branches of foreign banks registered in the Czech Republic will be able to participate in the services of the joint venture as identification providers on equal and transparent terms. Establishment of the joint venture is pending upon approval by the European Commission as an authority for protecting economic competition.

Among the major additions during the COVID-19 pandemic were offers of loan repayment moratoria and of credit guaranteed within the state guarantee programmes, KB has speeded up processing of cross-border SEPA payments so that instructions received in the morning are credited to the receiving bank on the same working day. Responding quickly to many clients' changed travel plans, Komerční pojišťovna expanded the coverage of its travel

insurance policies, which comprises insurance against liability, injury, and trip cancellation, also to domestic journeys. The Bank has also launched a new portal, KB Rádce, providing advisory and tips for consumers and entrepreneurs.

Many of the new offers were prepared in partnerships with fintech companies. The company Zakladači provides legal establishment of new limited liability companies with no additional charges beyond regulatory fees, while KB supplies the new entrepreneurs with a Profi account package that includes a business payment card. In partnership with Trivi, KB's internet banking offers a unique set of services for small businesses, including online accounting, regulatory reporting, and payroll assistance. With Zaplaceno.cz, KB was the first bank on the Czech market to introduce an effective payment solution for e-commerce and fintech companies using the so-called indirect payment order (PISP) enabled by the European PSD2 directive. KB has been developing further innovative e-commerce activities with Webmium (for development of web presentations), Shoptet (for construction of eshops), and Alza.cz with Expando (for connecting eshops with the marketplace via API). From July, KB is participating also in the Czech fintech start-up upvest, which operates an online crowdfunding platform for real estate development projects.

According to a review of banking applications by the Bizkids consultancy, Mobilní banka was the best banking app on the Czech market for the first quarter of 2020. The ranking is based on each competing app's range and usefulness of features. KB also scored the silver spot in the daily newspaper Hospodářské noviny's Banking Innovator award for its offer of payments by smartphone or watch using Apple Pay, Google Pay, Fitbit Pay, and Garmin Pay applications. Furthermore, the consultancy Salt Edge named KB an "open-bank hero" for integration within 5 days of third-party banking solutions via API according to the EU's PSD2 directive. The website of Modrá pyramida won the Site of the Year global competition, hosted by Kentico, for the best financial services website.

Loans to customers

Total **gross volume of lending to clients** rose by 4.9% year on year to CZK 676.3 billion.¹

In lending to individuals, the overall volume of housing loans grew by 6.2% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 5.0% to CZK 236.4 billion. Modrá pyramida's loan portfolio grew by a strong 10.9% to CZK 59.4 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up 0.9%, at CZK 39.1 billion.

The total volume of **loans to businesses** and other lending provided by KB Group climbed by 4.3% year on year to CZK 341.5 billion. Lending to small businesses grew by 6.1% to CZK 38.3 billion. The overall CZK volume of credit granted by KB to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia² increased by 3.8% year on year to CZK 273.0 billion. At CZK 30.2 billion, the total credit and leasing amounts outstanding at SGEF were 6.3% greater year over year. The growth rate of lending to businesses was influenced also by depreciation of the Czech crown during the pandemic (by 5.1% year over year vis-à-vis the euro as of 30 June) because a part of loans to businesses is provided in euro.

Amounts due to customers and assets under management

The **volume of standard client deposits** within KB Group rose by 7.1% year on year to CZK 898.4 billion.³

Deposits at Komerční banka from individual clients grew by 7.5% from the year earlier to CZK 302.5 billion. The deposit book at Modrá pyramida diminished by (2.1%) to CZK 60.3 billion. Total deposits from businesses and other corporations climbed by 8.8% to CZK 528.7 billion.

Client assets managed by KB Penzijní společnost were 7.5% greater, at CZK 64.5 billion. Technical reserves in life insurance at Komerční pojišťovna were up by 3.6% year on year, at CZK 49.4 billion. The volumes in mutual funds held by KB Group clients grew by 3.5% to CZK 71.5 billion, although sales of mutual funds dropped during the emergency.

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 74.3%. The Group's liquidity coverage ratio (LCR) stood at 232%, well above the regulatory limit of 100%.

¹ Excluding volatile reverse repo operations with clients but including debt securities issued by KB's corporate clients. If reverse repo operations are included, gross lending increased by 4.4% to CZK 680.4 billion.

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

³ Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' increased by 4.6% to CZK 933.6 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 six months of 2020 deteriorated by (6.7%) year on year to reach CZK 15,083 million. This decline was driven lower by net interest income, affected by the sharp drop in market interest rates that pressed down yields from reinvestment of deposits and by net fees and commissions, which were impacted by a drop in client activity during the lock-down and by the new caps on fees for payments within the Single European Payments Area (SEPA). Net gains from financial operations improved because of clients' increased demand for hedging of financial risks.

Net interest income was down by (7.8%), at CZK 10,843 million. This was caused mainly by the sharp drop in market interest rates since March 2020, which negatively impacted the yields from reinvestment of deposits and the Bank's own funds. In the second quarter, KB also recorded a modification loss of CZK 161 million from postponement of instalment payments under the loan moratorium. The net interest margin for the first half of 2020, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.0%. That compares to 2.2% a year earlier.

Net fee and commission income diminished by (11.3%) to CZK 2,626 million. The drop was related to decline in transaction activity, as in the first half cash transactions sunk by more than one-third year over year, non-cash transactions were stable, and only the number of card transactions increased by 5% year on year. Transaction fees were also hit by the new regulation of charges for euro-denominated payments within SEPA. The maintenance fee income was stable. KB recorded lower income from specialised financial services, as issuance and syndication activity weakened after a strong first quarter. Income from bank guarantees and income from private banking services slightly improved for the six months. Fees from cross-selling were up due to income from mutual funds and life insurance, but new sales of mutual funds deteriorated during the pandemic.

Net profit on financial operations improved by 12.6% to CZK 1,508 million. Clients' demand for hedging of financial risks grew with the uncertainty and volatility of interest and exchange rates. On the other hand, the value of certain derivative positions has decreased due to a need to recognise higher credit value adjustments to account for counterparty credit risk. Net gains on FX payment transactions were lower year on year, reflecting smaller numbers and volume of these transactions.

Dividend and other income declined by (7.0%) to CZK 106 million. This line item primarily comprises revenues from property rental and ancillary services.

Operating expenses were up by 3.1%, at CZK 7,950 million. Operating expenses adjusted for one-off items were higher by 1.9%, at CZK 7,855 million. Personnel expenses rose by 1.1% to CZK 3,887 million, as the average number of employees increased by 0.1% to 8,150.¹ General administrative expenses (not including contributions to the regulatory funds) were up by 0.5%, at CZK 1,844 million. KB in the second quarter booked a restructuring provision for acceleration of structural changes based on Covid-19 experience, which was partly offset by release of a residual provision for "KB Change 2020" (with a net impact on operating expenses of CZK -94 million). Adjusted for this one-off cost, general administrative expenses would decline by (4.7%) to CZK 1,749 million, as expenses on marketing and travel were lower. On the other hand, there were offsetting costs for protective and IT equipment. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 934 million, up 10.3% year on year. The CNB adjusted the 2024 target volume of the Resolution Fund and increased the aggregate annual contribution from Czech banks by 9.2% year on year. Depreciation, amortisation, and impairment of operating assets grew by 8.3% to CZK 1,284 million, driven mainly by new and upgraded software and IT equipment.

The sum of profit before cost of risk, profit on subsidiaries, and income taxes (**operating profit**) was down by (15.7%), at CZK 7,133 million. Adjusted for the aforementioned one-off items, this sum would be (14.6%) lower, at CZK 7,227 million.

Cost of risk reached CZK 1,729 million (net creation of provisions) in comparison with a negative CZK 354 million (net release of provisions) in the first half of 2019. The Group recorded a strong impact from the statutory recalibration of IFRS 9 provisioning models to reflect the ongoing macroeconomic downturn. That impact on cost of risk was CZK 1,287 million, or 39 bps. The underlying level for cost of risk remained at a low 13 basis points, reflecting (i) transfer of a limited number of large corporate exposures into default, (ii) a resilient retail collection performance, and (iii) the neutralising effect on cost of risk from the Loan Instalment Moratorium law.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was up by a slight 0.7% year on year, at CZK 143 million.

Net profits on other assets reached CZK 2 million, which amount was linked to sales of buildings in the held-for-sale portfolio and a loss from disposal of certain internal IT projects. In the previous year, this result had been CZK 14 million.

Income taxes were lower by (35.1%), at CZK 1,070 million.

¹ Recalculated to a full-time equivalent number.

KB Group's consolidated **net profit** for the first half of 2020 reached CZK 4,479 million, which was down by (39.3%) in comparison with a year ago. Of this total, CZK 42 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (down by (74.7%) year on year). Net profit adjusted for one-off items would slip by (37.8%) to CZK 4,555 million.

Reported **net profit attributable to the Group's equity holders** totalled CZK 4,437 million, which is (38.5%) less year on year. Recurring **net profit attributable to the Group's equity holders declined by (37.0%) to CZK 4,513 million. Other comprehensive income**, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK (315) million. **Consolidated comprehensive income** for the first half of 2020 totalled CZK 4,164 million, of which CZK 49 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 2020 with the values from the statement of financial position as of 31 December 2019.

Assets

As of 30 June 2020, KB Group's total assets had risen by 15.7% year to date to CZK 1,246.6 billion.

Cash and current balances with central banks were up 55.0%, at CZK 27.5 billion. Financial and other assets at fair value through profit or loss (trading securities and derivatives) increased by 89.8% to CZK 44.4 billion. Positive fair value of hedging financial derivatives grew by 127.3% to CZK 22.7 billion.

Year to date, there was a 24.5% rise in financial assets at fair value through other comprehensive income totalling CZK 45.1 billion. This consisted mainly of public debt securities.

Financial assets at amortised cost grew by 12.1% to CZK 1,079.6 billion. The largest portion of this consisted of (net) loans and advances to customers, which rose by 3.8% to CZK 671.7 billion. A 97.8% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.2% 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 10.9 billion. Loans and advances to banks increased by 30.5% to CZK 319.2 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 23.8% and reached CZK 88.6 billion at the end of June.

Revaluation differences on portfolio hedge items totalled CZK 0.5 billion. Current and deferred tax assets stood at CZK 0.4 billion. Prepayments, accrued income, and other assets, which include receivables from securities trading and settlement balances, decreased overall by (11.3%) to CZK 4.6 billion. Assets held for sale diminished by (19.9%) to CZK 0.1 billion.

Investments in subsidiaries and associates rose by 16.3% to CZK 1.5 billion.

The net book value of tangible fixed assets declined by (2.7%) to CZK 10.2 billion. Intangible fixed assets grew by 5.3% to reach CZK 6.3 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 17.0% higher in comparison to the end of 2019 and stood at CZK 1,133.8 billion.

Financial liabilities at amortised costs were 15.1% greater, at CZK 1,061.2 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 13.6% to CZK 933.6 billion. This total included CZK 35.3 billion of liabilities from repo operations with clients and CZK 7.4 billion of other payables to customers. Amounts due to banks increased in the second quarter of 2020 by 30.4% to CZK 122.0 billion.

The volume of outstanding securities issued was down by (28.7%), at CZK 2.6 billion.

Revaluation differences on portfolios hedge items expanded to CZK 14.9 billion. Current and deferred tax liabilities diminished by (35.3%) to CZK 0.8 billion. Accruals and other liabilities, which include payables from securities trading and settlement balances, increased by 23.7% to CZK 14.8 billion.

The provisions balance was 27.6% higher, at CZK 1.7 billion. The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise those for ongoing contracted contingent commitments, legal disputes, self-insurance, and the retirement benefits plan.

Subordinated debt, at CZK 2.7 billion, was up 5.3% year to date. Because that debt is issued in euro, the change reflects the Czech crown's depreciation over the same period.

Equity

Total shareholders' equity grew year to date by 3.8% to CZK 112.8 billion. The value of non-controlling interests reached CZK 3.1 billion. As of 30 June 2020, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

Regulatory capital and requirements

Total **regulatory capital** for the capital adequacy calculation came to CZK 97.9 billion as of 30 June 2020, up 13.0% year to date. **Capital adequacy** stood at 21.9%. The Core Tier 1 capital totalled CZK 95.2 billion (13.2% higher year to date), and the Core Tier 1 ratio stood at 21.3%. Tier 2 capital totalled CZK 2.7 billion, which was 0.6% of risk-weighted assets.

Komerční banka is required to maintain the total SREP (Supervisory Review and Evaluation Process) capital ratio at the minimum level of 10.2% with effect from 1 January 2020. This total SREP capital ratio, known as TSCR, consists of the following:

1. A minimum capital requirement according to Article 92 (1) of the EU regulation on prudential requirements for credit institutions and investment firms (i.e. maintaining a Tier 1 core capital ratio of 4.5%, a Tier 1 capital ratio of 6%, and a capital ratio of 8%), and
2. An additional requirement of 2.2% established in Pillar 2 above the aforementioned requirements. This additional requirement must be covered fully by Tier 1 capital, and at least 75% of this requirement must be covered by Core Tier 1 capital.

Moreover, credit institutions in the Czech Republic are simultaneously subject to the combined capital requirements, which are in addition to the TSCR requirement.

As of 30 June 2020, KB was required to maintain a combined capital buffer comprising, in the case of Komerční banka, the capital conservation buffer at 2.5%, the countercyclical buffer set for exposures in particular countries (in the Czech Republic at 1.75% from 1 January 2020, cut to 1.00% with effect from 1 April 2020, and further reduced to 0.50% with effect from 1 July 2020), and the systemic risk buffer at 3.00%.

Thus, Komerční banka's overall capital requirements as of 30 June 2020 reached approximately 16.7% in relation to the consolidated

volume of risk-weighted assets. The minimum Core Tier 1 capital level was approximately 12.6% and the minimum Tier 1 capital ratio requirement stood at approximately 14.6%. As from 1 July 2020, the overall capital requirements decreased to approximately 16.2%, the minimum Core Tier 1 capital level to about 12.1%, and the minimum Tier 1 capital ratio to approximately 14.1%.

The Bank received information from the CNB on the minimum requirements for own funds and eligible liabilities (MREL), according to which it shall comply with individual MREL on a sub-consolidated basis at the level of 8.58% of total liabilities and own funds (19.2% of Total Risk Exposure Amount). This should be met with subordinated instruments and shall be reached by 31 December 2023. From that date, the requirement shall be met at all times.

KB Group's Liquidity Coverage Ratio reached 232% as of 30 June 2020, and it is thus significantly above the regulatory minimum of 100%.

With effect from 1 July 2020, the CNB has further relaxed its recommendation for the assessment of new mortgages, having applied some loosening already from April. The limit on the LTV ratio (loan size relative to the value of the pledged property) is now at 90% (up from 80% prior to April). The change to the LTV ratio does not apply to "investment" mortgages. The limit on the DSTI ratio (total debt service relative to net disposable monthly income) and the limit on the DTI ratio (debt relative to net income) have been eliminated.

Key ratios and indicators	30 Jun 2019	30 Jun 2020	Change year on year
Capital adequacy (CNB)	19.0%	21.9%	▲
Tier 1 ratio (CNB)	18.4%	21.3%	▲
Total risk-weighted assets (CZK billion)	451.8	446.7	(1.1%)
Risk-weighted assets for credit risk (CZK billion)	373.5	368.5	(1.3%)
Net interest margin (NII / average interest-bearing assets)	2.2%	2.0%	▼
Loans (net) / deposits ratio	75.7%	74.3%	▼
Cost / income ratio	47.7%	52.7%	▲
Return on average equity (ROAE)	14.6%	8.2%	▼
Return on average Tier 1 capital	17.6%	9.9%	▼
Return on average assets (ROAA)	1.3%	0.8%	▼
Earnings per share (CZK)	76	47	(38.5%)
Average number of employees during the period	8,144	8,150	0.1%

Definitions of the alternative performance indicators are provided in the next section.

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 'Cost of risk' divided by the average of 'Gross amount of client loans and advances'; 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;

III. **Net interest margin (NIM):** 'Net interest income' divided by average interest-earning assets (IEA) year to date (IEA comprise 'Cash and current balances with central banks' [Current balances with central banks only], 'Loans and advances to banks', 'Loans and advances to customers', 'Financial assets at fair value through profit or loss' [debt securities only], 'Financial assets at fair value through profit or loss – non SPPI' [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 equity holders' divided by the quantity average group 'Shareholders' equity' less 'Minority equity', year to date;

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

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

IX. **Earnings per share:** annualised 'Net profit attributable to 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 2020	1H 2019
Net interest income, year to date	10,844	5,892
Of which:		
Loans and advances at amortised cost	10,904	5,795
Debt securities at amortised cost	851	475
Other debt securities	338	122
Financial liabilities at amortised cost	(1,777)	(858)
Hedging financial derivatives – income	8,800	3,971
Hedging financial derivatives – expense	(8,273)	(3,613)

(source: Balance Sheet)	30 Jun 20	31 Dec 19	30 Jun 19	31 Dec 18
Cash and current balances with central banks / Current balances with central banks	18,983	7,737	14,058	16,347
Loans and advances to banks	319,222	244,561	349,218	256,268
Loans and advances to customers	671,699	647,259	641,514	624,954
Financial assets at fair value through profit of loss / Debt securities	16,628	4,112	6,426	3,248
Financial asset at fair value through other comprehensive income (FV OCI) / Debt securities	44,526	35,682	31,799	24,909
Debt securities	88,632	71,581	73,137	69,881
Interest-bearing assets (end of period)	1,159,690	1,010,931	1,116,152	995,608
Average interest-bearing assets, year to date	1,085,310		1,055,880	
NIM year to date, annualised	2.00%		2.23%	

Expected development and main risks to that development in 2020

Komerční banka presented its initial outlook for KB's business and financial results in 2020 along with its announcement of the full-year 2019 results on 6 February 2020. On 23 March 2020, KB advised investors not to rely on that outlook due to the significant negative economic consequences of measures being adopted to contain the spread of the Covid-19 disease, and on 6 May 2020 the Bank provided an updated outlook.

The text below describes management's updated baseline expectations for KB's performance in 2020 as of mid-year 2020. It is founded on assumptions about the public health and economic development in the Czech Republic. Given the high level of uncertainty surrounding the pandemic situation in addition to the usual risks related to projecting future business results, investors should apply caution and judgement before making their investment decisions while considering these forward-looking estimates and targets.

In its baseline macroeconomic expectations valid as of today, Komerční banka expects the Czech economy will record a full-year GDP drop of approximately 5% in 2020. In comparison to the GDP decline in the first and second quarters, slow recovery is expected in the third quarter, to be followed by a stronger recovery in the year's final quarter. Uncertainty remains high, however. A sharp slide in fixed investments is expected while the foreign trade surplus will diminish and household consumption will decline more modestly.

Average inflation for the year is expected to reach around 3% and gradually decelerate. The Czech National Bank cut interest rates three times between March and May by a cumulative 200 bps in total. The projection of KB's interest income shown below assumes stability in the CNB's repo rate through the rest of the year at the current level of 25 bps.

Developments in the remainder of 2020 will be influenced by regulatory changes adopted before the pandemic as well as in response to it. The year's fee income will absorb the full impact from the cap on fees charged for cross-border payments within the Single European Payments Area effective from 15 December 2019. KB will continue its preparations for meeting the new minimum requirements for own funds and eligible liabilities (MREL). The CNB has reduced the countercyclical capital buffer requirement with effect from July 2020 to 0.50%, but that capital is temporarily locked in the Bank as it is compliant with CNB's recommendation from 16 March not to pay dividends or conduct buybacks until the consequences of the covid-19 outbreak fade away. Lending for housing purposes may benefit from a certain relief due to relaxation of the limits for assessing new mortgages in two steps with effect from April and from July.

The banking market will reflect the changing levels of confidence among consumers and businesses. Its development will be supported, too, by the guarantee programmes launched by the state, which enable bank financing even of such sectors or social activities that have been put at risk due to consequences of the Covid-19 pandemic. It thus is assumed that the loan market should grow at a mid-single-digit pace, and the pace of growth in bank client deposits should be even somewhat faster.

Komerční banka has implemented the organisational changes and optimisations envisaged until 2020 in its KB Change programme that had been announced in May 2018. In 2020, KB is preparing a strategic plan for the subsequent period. It will set out important steps for the Bank, including further digitalisation of processes, transformation of IT infrastructure, and identification of new revenue opportunities.

In this context, KB management expects that the Group's loan portfolio will record a mid-single-digit growth rate in 2020. Lending to small businesses may even aim for faster growth if the economy gets onto a recovery path as the SME segment receives assistance in the form of state guarantees. Growth in total deposit balances will reach a mid-single-digit pace, influenced also by adjustment of deposit remuneration to the current market conditions.

KB Group's total net operating income for 2020 should record a high-single-digit decline in comparison with 2019. Net interest income will be pressed down by the low interest rate environment. Net fees and commissions will drop, reflecting the combination of decreased economic activity and the impact from implementing the cap on fees for euro-denominated payments within the Single European Payment Area. The net profit from financial operations may even improve compared to the previous year, as it is in large measure driven by the volume of financial hedging provided to corporate clients. Increased volatility and uncertainty may generate additional demand for hedging of financial risks.

Operating expenditures will remain under tight control and continue stable year on year. The Bank has agreed with the trade unions to 3.6% growth in average remuneration for 2020. At the same time, KB is continuing its optimisation, simplification, and digitalisation. The first quarter saw an increase in the mandatory contributions to regulatory funds and also higher costs to facilitate working from home and reinforcing hygienic protections. Through the remainder of the year, the Bank will record certain savings in expenditures related to travel, office supplies, and operations of the branch network. KB's management has decided to accelerate optimisation of the branch network. Komerční banka expects to operate 241 branches as of August 2020. The Bank is also rolling out the Smart Office concept of shared workplaces, which will begin to generate cost savings from 2021.

Cost of risk will rise above the normalised rate of 30 to 40 basis points as a result of the economic downturn on clients' repayment capacity. The Covid-19 crisis will transmit only with delay to KB's risk profile thanks to support measures of the Czech government and the loan repayment moratorium. The impact on provisions will be spread across 2020 and 2021, but the cost of risk for 2020 is expected to be contained below 70 basis points under the Bank's IFRS 9 macroeconomic scenario from the second quarter, which implies a model recalibration impact of approximately 20 bps in 2020 and underlying cost of risk at the level of 40–50 bps for the year 2020.

Among the key risks to the expectations described above is the potential for a worsening pandemic situation in the Czech Republic that is connected with a further lock-down of important parts of the economy and a sharper economic downturn. A scenario involving significant disruption of foreign trade caused either by direct measures to contain the disease or due to its indirect consequences would hurt the open Czech economy significantly. Recovery of the crucial automotive industry may be hampered if producers do not succeed in meeting the prescribed emission limits. The Czech banking sector would suffer if interest yields on Czech crown-denominated financial assets would decrease markedly further.

The management expects that KB's operations will remain profitable in 2020.

| Changes in corporate governance

Following a vote of the Supervisory Board on 18 March 2020, Ms Jitka Haubová became a new member of Komerční banka's Board of Directors with effect from 4 June. In her new role, Ms Haubová is responsible for the Transaction and Payment Services, Support Services, Investment Banking Services, and Legal departments, as well as for the Payment Methods and Customer tribes. Ms Haubová replaced Mr Vladimír Jeřábek, whose term ended on 3 June 2020.

The Annual General Meeting, which originally had been called on 26 March 2020 for 29 April 2020, was called off on 20 April 2020 due to emergency measures taken by the government of the Czech Republic, including restrictions on freedom of movement and prohibition of gatherings of several people.

Due to limitations caused by the Covid-19 epidemic and in accordance with applicable laws, Komerční banka conducted its annual general meeting while utilising remote decision-making and communication arrangements. Voting and questioning took place in the period from 9 to 29 June. Komerční banka's shareholders approved the reported financial results and retention of the profit from 2019. The General Meeting also approved the Board of Directors' report on the Bank's business activities and the state of its assets for the year 2019, the consolidated financial statements, and the annual financial statements for 2019. Upon the Nomination Committee's proposal, the General Meeting elected Ms Maylis Coupet a member of the Supervisory Board. The General Meeting also approved the remuneration policy.

| Changes in Group structure

KB's fully owned subsidiary KB SmartSolutions, s.r.o. as of 1 July 2020 acquired minority interest of 18.90% in upvest s.r.o. in the form of an equity investment. In 2021, KB SmartSolutions, s.r.o. has an option to increase its share in upvest, s.r.o. to 30.9% and in the following year can reach majority in the company. Upvest s.r.o. is a fintech company that provides real estate crowdfunding investments in the form of participation in debt financing of development projects.

| 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 2020, the Group was controlled by Société Générale, which owns 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 2020, the Group had deposits of CZK 1,236 million due to the associate Komerční pojišťovna, a.s. Interest paid from deposits totalled CZK 13 million. The positive fair value of financial derivatives in relation to the associate amounted to CZK 1,230 million and the negative fair value of financial derivatives to CZK 1 million. Interest expense from financial derivatives totalled CZK 228 million and interest income from financial derivatives to CZK 334 million. The book value of mortgage bonds issued by the Bank was CZK 813 million and interest expense from mortgage bonds amounted to CZK 10 million. Fee expense totalled CZK 46 million, fee income CZK 216 million, and insurance expense CZK 7 million. Other income principally comprising income from non-banking activities, amounted to CZK 13 million.

Amounts due to and from Société Générale Group entities

Principal balances due from Société Générale Group entities include:

(CZKm)	30 Jun 2020		31 Dec 2019	
	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	7,017	0	7,753	0
ALD Automotive Slovakia s. r. o.	59	0	27	0
BRD – Groupe Société Générale	23	0	21	0
PJSC Rosbank	274	0	601	0
SG Zurich	231	0	202	0
Société Générale Ghana Limited	36	0	0	0
Société Générale China Limited	40	0	41	0
Société Générale International Limited	2	0	2	0
Société Générale Londres	12	0	16	0
Société Générale New York	1	0	0	0
Société Générale oddział w Polsce	14	5	2	0
Société Générale Paris	14,223	5,965	12,397	4,736
Total	21,932	5,970	21,062	4,736

Principal balances due to Société Générale Group entities include:

(CZKm)	30 Jun 2020		31 Dec 2019	
	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o.	372	0	370	0
BRD – Groupe Société Générale	6	0	1	0
Crédit du Nord	8	0	75	0
PJSC Rosbank	2	0	4	0
SG Amsterdam	12	0	20	0
SG Banques au Liban	0	0	1	0
SG Bruxelles	0	0	3	0
SG ISSUER	1	0	1	0
SG Milan	7	0	11	0
SG Option Europe	1	0	1	0
SG Private Banking (Suisse)	175	0	92	0
SG Zurich	0	0	81	0
SGSS Nantes	2	0	3	0
Société Générale Bank & Trust	0	0	64	0
Société Générale Factoring	289	0	774	0
Société Générale Londres	85	0	31	0
Société Générale Luxembourg	31	0	0	0
Société Générale New York	0	0	10	0
Société Générale oddział w Polsce	1	0	6	0
Société Générale Paris	65,226	10,883	53,649	9,208
SOCIETE GENERALE SUCCURSAL EN ESPANA	9	0	0	0
SOGEPROM Česká republika s.r.o.	4	0	4	0
Total	66,231	10,883	55,201	9,208

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 2020, the Group also carried off-balance sheet exposures to the Société Générale Group, of which off-balance sheet nominal assets and liabilities, respectively, amounted to CZK 501 million and CZK 455 million. 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 2020 the Group also carried other amounts due to and from Société Générale Group entities which are immaterial.

During the period ended 30 June 2020, the Group realised total income of CZK 30,400 million and total expenses of CZK 32,473 million in relation to Société Générale Group entities. That income included that from interbank deposits, fees from securities transactions, profit from financial operations, and interest income on hedging derivatives. Expenses comprised those of interbank deposits and subordinated debt, a loss from financial operations, interest expense on hedging derivatives, depreciation and interest expense related to lease contracts, and expenses related to the provision of management, consultancy, and software services.

In connection with lease contracts the Group records:

(CZKm)	30 Jun 2020				31 Dec 2019			
	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.	130	88	12	1	140	92	26	1
ALD Automotive Slovakia s. r. o.	2	2	0	0	2	2	1	0
Total	132	90	12	1	142	94	27	1

As of 30 June 2020, the Group reported a loss of 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 2020, the Group recorded loan receivables from loans granted to members of the Board of Directors and Supervisory Board totalling CZK 31 million (31 December 2019: CZK 21 million). During the first half of 2020, drawings of CZK 13 million were made under the loans granted. During the first half of 2020, loan repayments amounted to CZK 0 million. The increase of loans in 2020 is affected by new members already having loans in the amount of CZK 3 million. Loans to resigning members amounted to CZK 6 million as of 31 December 2019.

| Report of Financial Results as of 30 June 2020

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Consolidated Income Statement and Statement of Comprehensive Income

Period ended 30 June 2020

Consolidated Income Statement			
CZKm	Note	30 Jun 2020	30 Jun 2019
Interest income		20,894	21,180
Interest expense		(10,051)	(9,421)
Net interest income		10,843	11,759
Net fee and commission income		2,626	2,961
Net profit on financial operations		1,508	1,338
Dividend income		4	3
Other income		102	111
Net operating income		15,083	16,172
Personnel expenses		(3,887)	(3,844)
General administrative expenses		(2,779)	(2,682)
Depreciation, amortisation, and impairment of operating assets		(1,284)	(1,186)
Total operating expenses		(7,950)	(7,712)
Operating profit		7,133	8,460
Impairment losses		(1,830)	4
Net gain from loans and advances transferred and written off		101	351
Cost of risk		(1,729)	355
Income from share of associated undertakings		143	142
Profit/(loss) attributable to exclusion of companies from consolidation		0	55
Gain on a bargain purchase		0	0
Net profits on other assets		2	14
Profit before income taxes		5,549	9,026
Income taxes		(1,070)	(1,648)
Net profit for the period		4,479	7,378
Profit attributable to the Non-controlling owners		42	165
Profit attributable to Group's equity holders		4,437	7,213
Earnings per share/diluted earnings per share (in CZK)		23.49	38.19

Consolidated Statement of Comprehensive Income			
CZKm		30 Jun 2020	30 Jun 2019
Net profit for the period		4,479	7,378
Items that will not be reclassified to Income Statement			
Remeasurement of retirement benefits plan, net of tax		0	0
Revaluation of equity securities at FVOCI option*, net of tax		8	89
Items that may be reclassified subsequently to Income Statement			
Cash flows hedging			
- Net fair value gain/(loss), net of tax		175	156
- Transfer to net profit/(loss), net of tax		(235)	(222)
Hedge of a foreign net investment		(37)	8
Foreign exchange gain/(loss) on translation of a foreign net investment		45	(9)
Revaluation of debt securities at FVOCI**, net of tax		(327)	228
Revaluation of debt securities at FVOCI** (associated undertakings), net of tax		56	24
Other income from associated undertakings		0	0
Other comprehensive income for the period, net of tax		(315)	274
Comprehensive income for the period, net of tax		4,164	7,652
Comprehensive income attributable to Non-controlling owners		49	166
Comprehensive income attributable to Group's equity holders		4,115	7,486

*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 2020

CZKm	Note	30 Jun 2020	31 Dec 2019
Assets			
Cash and current balances with central banks		27,510	17,744
Financial assets at fair value through profit or loss		43,821	22,904
Other assets at fair value through profit or loss		578	494
Positive fair value of hedging financial derivatives		22,724	9,996
Financial assets at fair value through other comprehensive income	4	45,085	36,204
Financial assets at amortised cost	5	1,079,552	963,401
Revaluation differences on portfolios hedge items		494	(374)
Current tax assets		302	30
Deferred tax assets		56	70
Prepayments, accrued income, and other assets		4,590	5,176
Investments in associates and unconsolidated subsidiaries		1,459	1,255
Intangible fixed assets		6,338	6,018
Tangible fixed assets		10,244	10,528
Goodwill		3,752	3,752
Assets held for sale		109	136
Total assets		1,246,614	1,077,334
Liabilities			
Amounts due to central banks		2	1
Financial liabilities at fair value through profit or loss		26,722	23,725
Negative fair value of hedging financial derivatives		10,998	10,283
Financial liabilities at amortised cost	7	1,061,158	921,725
Revaluation differences on portfolios hedge items		14,931	(4,105)
Current tax liabilities		37	363
Deferred tax liabilities		741	840
Accruals and other liabilities		14,819	11,976
Provisions	8	1,716	1,345
Subordinated debt		2,680	2,546
Total liabilities		1,133,804	968,699
Shareholders' equity			
Share capital		19,005	19,005
Share premium, funds, retained earnings, revaluation, and net profit for the period		90,661	86,535
Non-controlling interests		3,144	3,095
Total shareholders' equity		112,810	108,635
Total liabilities and shareholders' equity		1,246,614	1,077,334

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

Consolidated Statement of Changes in Shareholders' Equity

Period ended 30 June 2020

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	Total equity	Non-controlling interest	Total equity, including non-controlling interests
Balance as of 31 December 2019	19,005	(577)	85,924	505	(215)	288	(82)	(8)	700	105,540	3,095	108,635
Treasury shares, other	0	0	0	11	0	0	0	0	0	11	0	11
Payment of dividends	0	0	0	0	0	0	0	0	0	0	0	0
Transactions with owners	0	0	0	11	0	0	0	0	0	11	0	11
Profit for the period	0	0	4,437	0	0	0	0	0	0	4,437	42	4,479
Other comprehensive income for the period, net of tax	0	0	56**	0	0	8	(60)	1	(327)	(322)	7	(315)
Comprehensive income for the period	0	0	4,493	0	0	8	(60)	1	(327)	4,115	49	4,164
Balance as of 30 June 2020	19,005	(577)	90,417	516	(215)	296	(142)	(7)	373	109,666	3,144	112,810

* Capital funds and retained earnings as of 30 Jun 2020 consist of other funds created from profit in the amount of CZK 5,211 million (31 Dec 2019: CZK 5,211 million), net profit from the period in the amount of CZK 4,437 million (31 Dec 2019: CZK 14,901 million), and retained earnings in the amount of CZK 80,769 million (31 Dec 2019: CZK 65,812 million).

**This amount represents the gain from revaluation of debt securities (the impact of the 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	Total equity	Non-controlling interest	Total equity, including non-controlling interests
Balance as of 31 December 2018	19,005	(577)	80,606	478	(132)	157	(87)	(7)	488	99,931	3,398	103,329
Treasury shares, other	0	0	52	15	0	0	0	0	0	67	2	69
Payment of dividends	0	0	(9,693)	0	0	0	0	0	0	(9,693)	(576)	(10,269)
Transactions with owners	0	0	(9,641)	15	0	0	0	0	0	(9,626)	(574)	(10,200)
Profit for the period	0	0	7,213	0	0	0	0	0	0	7,213	165	7,378
Other comprehensive income for the period, net of tax	0	0	24**	0	0	87	(66)	0	228	273	1	274
Comprehensive income for the period	0	0	7,237	0	0	87	(66)	0	228	7,486	166	7,652
Balance as of 30 June 2019	19,005	(577)	78,202	493	(132)	244	(153)	(7)	716	97,791	2,990	100,781

* Capital funds and retained earnings as of 30 Jun 2019 consist of other funds created from profit in the amount of CZK 5,211 million (31 Dec 2019: CZK 4,670 million), net profit from the period in the amount of CZK 7,213 million (31 Dec 2019: CZK 14,846 million), and retained earnings in the amount of CZK 65,778 million (31 Dec 2019: CZK 61,090 million).

**This amount represents the gain from revaluation of debt securities (the impact of the consolidation of an associated company using the equity method).

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

Consolidated Cash Flow Statement

Period ended 30 June 2020

(CZKm)	30 June 2020	30 June 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	5,549	9,026
Non-cash and other adjustments:		
Movement of allowances and provisions (including impact of loans and advances transferred and written off)	1,855	(190)
Depreciation and amortisation expense on tangible and intangible fixed assets	1,292	1,186
Gains/(losses) from the sale of assets	(2)	(14)
Revaluation of derivatives	(2,165)	641
Accrued interest, amortisation of discount and premium	220	144
Profit/(loss) on subsidiaries and associates	(147)	(200)
Foreign exchange differences	1,230	(210)
Other changes	449	185
Operating profit before change in operating assets and liabilities	8,281	10,568
Changes in assets and liabilities from operating activities after non-cash adjustments:		
Amounts due from banks (received/paid)	(74,614)	(91,678)
Loans and advances to customers	(24,224)	(16,909)
Debt securities at amortised cost	(15,388)	(3,351)
Financial assets at fair value through other comprehensive income	(6,266)	(6,377)
Financial assets at fair value through profit and loss	(12,625)	(3,596)
Financial assets at fair value through profit and loss – non-SPPI	0	0
Other assets	543	(132)
Amounts due to banks (received/paid)	29,259	31,776
Amounts due to customers	108,973	80,819
Financial liabilities at fair value through profit and loss	(783)	930
Other liabilities	2,216	5,847
Net cash flow from operating assets and liabilities	7,091	(2,671)
Net cash flow from operating activities before tax	15,372	7,897
Income tax paid	(1,659)	(1,581)
Net cash flow from operating activities	13,713	6,316
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received (including associated undertakings)	4	239
Purchase of tangible and intangible assets	(1,206)	(1,260)
Sale of tangible and intangible assets	24	14
Purchase of investments in subsidiaries and associates	(7)	(16)
Sale/decrease of investments in subsidiaries and associates	0	55
Net cash flow from investment activities	(1,185)	(968)

(CZKm)	30 June 2020	30 June 2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	0	(9,612)
Dividends paid to non-controlling interests	0	(576)
Purchase of own shares	0	0
Securities issued	0	2,616
Securities redeemed	(1,068)	0
Lease liabilities	(243)	(204)
Subordinated debt	135	(28)
Increase in minority equity	0	0
Net cash flow from financing activities	(1,176)	(7,804)
Net increase/(decrease) in cash and cash equivalents	11,352	(2,456)
Cash and cash equivalents at the beginning of the year	13,518	23,247
Net increase/(decrease) in cash and cash equivalents	11,352	(2,456)
Foreign exchange differences on cash and cash equivalents at the beginning of the year	260	(70)
Cash and cash equivalents at the end of the year	25,130	20,721
Interest received	20,827	20,582
Interest paid	(9,764)	(8,679)

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

Notes to the Consolidated Financial Statements

Period ended 30 June 2020

1. Events for the period ended 30 June 2020

Changes in equity investments in subsidiaries and associates in 2020

During 2020, the Bank increased the equity of KB SmartSolutions, s.r.o. by CZK 36 million through a financial contribution into other capital funds. KB SmartSolutions, s.r.o. is a fully consolidated unit of KB Group.

During 2020, KB SmartSolutions, s.r.o. increased the equity of My Smart Living, s.r.o. by CZK 6 million through a financial contribution into other capital funds. My Smart Living, s.r.o. is currently not consolidated due to its insignificant impact on the financial statements.

During 2020, KB SmartSolutions, s.r.o. increased the equity of KB Advisory, s. r. o. by CZK 1 million through a financial contribution into other capital funds. KB Advisory, s. r. o. is currently not consolidated due to its insignificant impact on the financial statements.

The Consolidated Financial Statements as of 30 June 2020 were compiled on the basis of the best estimates available at the time and the management of the Group believes that these financial statements present a true and fair view of the Group's financial position and of its financial results using all relevant and available information as of the financial statements date.

Seasonality and unusual items

The Group's principal activities are not significantly influenced by seasonality and in the first half of 2020 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 Q2 2020, the Group updated its IFRS 9 provisioning models for the Stage 1 and Stage 2 portfolios with the cost of risk impact at CZK 1.3 billion and while taking into account the current macroeconomic outlook. In accordance with IFRS 9 methodology, the updating was based upon a so-called multi-scenario approach. Four scenarios were considered: a baseline scenario with 65% probability, a prolonged stress scenario with 25% probability, as well as additional severe stress and optimistic scenarios, each with low 5% probability. The baseline scenario expects 5% GDP contraction in 2020 and 6% GDP growth in 2021. The prolonged stress scenario anticipates 11% GDP contraction in 2020 and 10% GDP growth in 2021.

In order to reflect the expected development of heightened risk intensity and inflow of defaults possibly delayed by state support programmes (statutory payments moratorium, shortened working times, guarantee programmes, and others), the Group used for purposes of IFRS 9 the smoothed version of scenarios (smoothed baseline scenario with 3.4% year-on-year GDP contraction for 2020 and 2021, derived from the above-described baseline scenario, and the smoothed prolonged stress scenario with a 7.6% year-on-year GDP contraction for 2020 and 2021 and which is derived from the above-described prolonged stress scenario).

The scenarios were developed internally while using the best available estimates and closely monitoring prognoses published by state, regulatory, and other bodies.

The Group is closely following the development of clients under the payment moratoria regime with the aim to (i) support clients via targeted measures, (ii) calibrate recovery capacities for an expected Q4 2020 wave of defaults, and (iii) estimate the future profit-and-loss impacts. This work is in progress and the activities consist mainly of (i) dynamic monitoring of risk indicators, (ii) client surveys, (iii) modernising the Group's retail collection platform (expanding capacity for loan restructuring, implementing artificial intelligence tools), and (iv) adequately sizing and staffing by seniority expert teams dedicated to loan recovery activities in the corporate segment. The work in all these areas will continue during the second half of 2020.

In accordance with EBA recommendations, the granting of both Group private and public moratoria is not in and of itself reason for reclassification of a credit exposure to a poorer stage. On the other hand, a client's staging could be worsened by an individual assessment of the decision taker in the course of extraordinary or routine monitoring or annual renewal. Those exposures under Group private moratorium are reported as forbearance, albeit without automatic reclassification to a worse stage.

In addition the Group is closely monitoring sectors with heightened vulnerabilities to Covid-19 impacts (automotive industry, car dealerships, hospitality and entertainment, transport, etc.). For retail clients in these sectors, the credit-granting rules were adjusted. In the corporate segment, meanwhile, individual assessments are being used. The Group deems that the expected credit risk in these sectors is included in the forward-looking components and the risk staging algorithm used in IFRS 9 models. Therefore, the Group does not apply any additional portfolio overlay for the selected industries.

3. Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total	
(CZKm)	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Net interest income	7,105	7,833	3,225	3,353	464	451	49	122	10,843	11,759
Net fee and commission income	1,890	2,052	766	937	20	(41)	(50)	13	2,626	2,961
Net profit on financial operations	517	616	1,072	855	(164)	(268)	83	135	1,508	1,338
Dividend income	0	0	0	0	0	0	4	3	4	3
Other income	64	75	(24)	(20)	78	126	(16)	(70)	102	111
Net operating income	9,576	10,576	5,039	5,125	398	268	70	203	15,083	16,172

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 99%) 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:

(CZKm)	30 Jun 2020	31 Dec 2019
Equity instruments at FVOCI option	558	522
Debt securities at FVOCI	44,527	35,682
Financial assets at fair value through other comprehensive income	45,085	36,204

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

5. Financial assets at amortised cost

Financial assets at amortised cost comprise the following:

(CZKm)	30 Jun 2020	31 Dec 2019
Loans and advances to banks	319,222	244,561
Loans and advances to customers	671,698	647,259
Debt securities	88,632	71,581
Financial assets at amortised cost	1,079,552	963,401

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

As of 30 June 2020, '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	267,014	0	0	267,014	0	0	0	0	267,014
General governments	24,732	253	12	24,997	(14)	(1)	(12)	(27)	24,970
Credit institutions	51,596	613	0	52,209	0	(1)	0	(1)	52,208
Other financial corporations	32,602	236	104	32,942	(47)	(2)	(46)	(95)	32,847
Non-financial corporations	250,638	19,676	8,755	279,069	(868)	(1,116)	(4,206)	(6,190)	272,879
Households*	322,827	16,774	5,946	345,547	(319)	(671)	(3,555)	(4,545)	341,002
Total loans	949,409	37,552	14,817	1,001,778	(1,248)	(1,791)	(7,819)	(10,858)	990,920
Central banks	0	0	0	0	0	0	0	0	0
General governments	85,491	0	0	85,491	(10)	0	0	(10)	85,481
Credit institutions	0	0	0	0	0	0	0	0	0
Other financial corporations	350	0	0	350	0	0	0	0	350
Non-financial corporations	2,801	0	0	2,801	0	0	0	0	2,801
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	88,642	0	0	88,642	(10)	0	0	(10)	88,632

* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2019, '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	198,738	0	0	198,738	0	0	0	0	198,738
General governments	21,648	1,397	14	23,059	(9)	(1)	(12)	(22)	23,037
Credit institutions	45,151	650	23	45,824	0	(1)	0	(1)	45,823
Other financial corporations	32,110	303	59	32,472	(26)	(1)	(24)	(51)	32,421
Non-financial corporations	235,929	16,375	7,466	259,770	(530)	(536)	(4,320)	(5,386)	254,384
Households*	320,692	14,953	6,449	342,094	(241)	(603)	(3,833)	(4,677)	337,417
Total loans	854,268	33,678	14,011	901,957	(806)	(1,142)	(8,189)	(10,137)	891,820
Central banks	0	0	0	0	0	0	0	0	0
General governments	68,482	0	0	68,482	(5)	0	0	(5)	68,477
Credit institutions	0	0	0	0	0	0	0	0	0
Other financial corporations	350	0	0	350	0	0	0	0	350
Non-financial corporations	2,754	0	0	2,754	0	0	0	0	2,754
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	71,586	0	0	71,586	(5)	0	0	(5)	71,581

* 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 2020	31 Dec 2019
Agriculture, forestry and fishing	13,224	11,713
Mining and quarrying	3,381	3,072
Manufacturing	71,520	65,801
Electricity, gas, steam and air conditioning supply	15,414	14,633
Water supply, sewerage, waste management and remediation activities	2,407	2,395
Construction	12,901	10,561
Wholesale and retail trade, repair of motor vehicles and motorcycles	44,618	43,374
Transportation and storage	17,715	14,404
Accommodation and food service activities	2,330	1,896
Information and communication	6,129	6,271
Real estate activities	53,009	49,701
Professional, scientific and technical activities	10,296	6,668
Administrative and support service activities	6,320	7,021
Public administration and defence, compulsory social security	236	321
Education	576	535
Human health and social work activities	2,607	2,522
Arts, entertainment and recreation	3,989	4,109
Other service activities	12,397	14,775
Total loans and advances to non-financial corporations	279,069	259,772

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 2020:

(CZKm)	Collateral value applied against loans and advances to customers*				
	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	256,633	30,055	6,993	24,878	33,174
of which:					
Other financial institutions	50	1,183	0	1,679	8,538
Non-financial corporations	2,467	25,180	1,204	20,145	19,325
Households**	254,057	3,680	5,763	2,953	701

*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, and other factors 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 2019:

(CZKm)	Collateral value applied against loans and advances to customers*				
	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	246,568	29,747	7,380	22,122	32,013
of which:					
Other financial institutions	28	1,332	0	855	9,054
Non-financial corporations	2,570	24,718	1,279	18,126	17,732
Households**	243,901	3,680	6,074	3,032	638

*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, and other factors 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 2020:

(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	8,631	13	8,644	25,027	17,386	42,413	85,473	8	85,481
Credit institutions	81	0	81	0	2,114	2,114	0	0	0
Other financial corporations	6	0	6	0	0	0	350	0	350
Non-financial corporations	0	0	0	0	0	0	2,354	447	2,801
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	8,718	13	8,731	25,027	19,500	44,527	88,177	455	88,632

* This item also includes individual entrepreneurs.

The Group's debt securities, broken out by sector and currency, comprise the following as of 31 December 2019:

(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	4,021	10	4,031	16,834	16,839	33,673	68,470	7	68,477
Credit institutions	77	0	77	0	2,009	2,009	0	0	0
Other financial corporations	3	0	3	0	0	0	350	0	350
Non-financial corporations	1	0	1	0	0	0	2,342	412	2,754
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	4,102	10	4,112	16,834	18,848	35,682	71,162	419	71,581

* This item also includes individual entrepreneurs.

The Group's debt securities, broken out by the country of issuer, comprise the following as of 30 June 2020:

(CZKm)	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost
Czech Republic	8,664	28,980	88,177
European Investment Bank	61	0	0
Poland	0	7,671	0
Republic of Azerbaijan	0	0	8
Romania	0	1,678	0
Slovak Republic	6	6,198	447
Total debt securities	8,731	44,527	88,632

The Group's debt securities, broken out by the country of issuer, comprise the following as of 31 December 2019:

(CZKm)	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost
Czech Republic	4,045	20,973	71,162
European Investment Bank	62	0	0
Poland	0	7,443	0
Republic of Azerbaijan	0	0	7
Romania	0	1,597	0
Slovak Republic	5	5,669	412
Total debt securities	4,112	35,682	71,581

7. Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise the following:

(CZKm)	30 Jun 2020	31 Dec 2019
Amounts due to banks	122,004	93,581
Amounts due to customers	933,635	821,507
Securities issued	2,583	3,621
Lease liabilities	2,936	3,016
Financial liabilities at amortised cost	1,061,158	921,725

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

(CZKm)	30 Jun 2020	31 Dec 2019
Central banks	0	0
General governments	141,070	91,486
Credit institutions	122,004	93,581
Other financial corporations	73,486	48,958
Non-financial corporations	294,635	277,853
Households*	424,444	403,210
Total amounts due to banks and customers	1,055,639	915,088

* This item also includes amounts due to individual entrepreneurs.

Securities issued

Securities issued comprise the following:

(CZKm)	30 Jun 2020	31 Dec 2019
Mortgage bonds	1,016	1,004
Depository bills of exchange	1,567	2,617
Total securities issued	2,583	3,621

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 2020	31 Dec 2019
In less than one year	0	0
In one to five years	1,016	1,004
In five to ten years	0	0
In ten to twenty years	0	0
in twenty to thirty years	0	0
Total mortgage bonds	1,016	1,004

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

Name	Interest rate	Currency	Issue date	Maturity date	30 Jun 2020 (CZKm)	31 Dec 2019 (CZKm)
HZL Komerční banky, a.s. CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	1,016	1,004
Total mortgage bonds					1,016	1,004

8. Provisions

Provisions comprise the following:

(CZKm)	30 Jun 2020	31 Dec 2019
Provisions for contracted commitments	589	579
Provisions for other credit commitments	963	653
Provisions for restructuring cost	164	113
Total provisions	1,716	1,345

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 the provisions for loyalty and jubilee bonuses and the retirement benefits plan.

During the first half of 2020, the Group adjusted the amount of provisions for restructuring related to the “KB Change” transformation project and created provisions for restructuring related to the structural changes based on Covid-19 experience.

The change in the restructuring provisions related to the “KB Change” project includes use of provisions in the amount of CZK 43 million, release of provisions in the amount of CZK 56 million, and charge of provisions in the amount of CZK 1 million. Reported in the Income Statement line ‘*Personnel expenses*’ is use of provisions in the amount of CZK 29 million and release of provisions in the amount of CZK 56 million and in line ‘*General administrative expenses*’ is use of provisions in the amount of CZK 14 million and charge of provisions in the amount of CZK 1 million.

The charge of provisions related to the restructuring includes estimated costs of severance pay, optimisation of the branch network, and costs of communication to clients, and it is reported in the Income Statement line ‘*Personnel expenses*’ in the amount of CZK 55 million and ‘*General administrative expenses*’ in the amount of CZK 94 million.

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

(CZKm)	Retirement benefits plan	Provisions for loyalty and jubilee bonuses	Other provisions for contracted commitments	Provisions for restructuring	Total
Balance at 1 January 2020	470	0	109	113	692
Charge	17	0	9	150	176
Release	0	0	(3)	(56)	(59)
Use	(4)	0	(11)	(43)	(58)
Accrual	2	0	0	0	2
Remeasurement	0	0	0	0	0
Foreign exchange difference	0	0	0	0	0
Balance at 30 June 2020	485	0	104	164	753

(CZKm)	Retirement benefits plan	Provisions for loyalty and jubilee bonuses	Other provisions for contracted commitments	Provisions for restructuring	Total
Balance at 1 January 2019	347	0	129	230	706
Charge	12	0	19	0	31
Release	0	0	(22)	0	(22)
Use	(6)	0	(9)	(62)	(77)
Accrual	3	0	0	0	3
Remeasurement	0	0	0	0	0
Foreign exchange difference	0	0	(1)	0	(1)
Balance at 30 June 2019	356	0	116	168	640

9. Commitments and contingent liabilities

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 30 June 2020. 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 15 million for these legal disputes. The Group has also recorded a provision of CZK 5 million for costs associated with a potential payment of interest on the pursued claims.

As of 30 June 2020, 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 2020	31 Dec 2019
Non-payment guarantees, including commitments to issued non-payment guarantees	39,329	38,447
Payment guarantees, including commitments to issued payment guarantees	20,082	18,993
Committed facilities and unutilised overdrafts	15,445	13,710
Undrawn credit commitments	91,673	78,640
Unutilised overdrafts and approved overdraft loans	14,938	14,462
Unutilised limits under framework agreements to provide financial services	5,743	6,371
Open customer/import letters of credit uncovered	584	464
Stand-by letters of credit uncovered	3,542	2,907
Confirmed supplier/export letters of credit	702	732
Total commitments and contingencies	192,038	174,726

As of 30 June 2020, 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	20,590	8	0	20,598	9	0	0	9
Credit institutions	5,013	8	0	5,021	1	0	0	1
Other financial corporations	5,420	2	0	5,422	8	0	0	8
Non-financial corporations	109,935	6,731	1,617	118,283	181	177	490	848
Households*	41,822	857	35	42,714	44	31	20	95
Total commitments and contingencies	182,780	7,606	1,652	192,038	243	208	510	961

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

As of 31 December 2019, 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	17,662	473	0	18,135	6	0	0	6
Credit institutions	3,016	0	0	3,016	0	0	0	0
Other financial corporations	5,362	110	0	5,472	4	0	0	4
Non-financial corporations	103,010	4,180	1,177	108,367	86	71	418	575
Households*	38,952	752	32	39,736	28	23	17	68
Total commitments and contingencies	168,002	5,515	1,209	174,726	124	94	435	653

* 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 2020	31 Dec 2019
Agriculture, forestry and fishing	2,410	2,813
Mining and quarrying	1,194	1,021
Manufacturing	27,258	23,620
Electricity, gas, steam and air conditioning supply	6,698	5,320
Water supply, sewerage, waste management and remediation activities	689	715
Construction	34,774	34,454
Wholesale and retail trade, repair of motor vehicles and motorcycles	12,878	10,640
Transportation and storage	7,920	5,398
Accommodation and food service activities	584	614
Information and communication	4,560	4,984
Real estate activities	4,675	4,226
Professional, scientific and technical activities	8,730	9,270
Administrative and support service activities	1,210	888
Public administration and defence, compulsory social security	66	152
Education	195	122
Human health and social work activities	462	454
Arts, entertainment and recreation	1,411	796
Other service activities	2,569	2,880
Total commitments and contingencies to non-financial corporations	118,283	108,367

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 2020		31 Dec 2019	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	27,510	27,510	17,744	17,744
Financial assets at amortised cost	1,079,552	1,105,890	963,401	969,302
– Loans and advances to banks	319,222	319,284	244,561	244,417
– Loans and advances to customers	671,698	695,089	647,259	651,828
– Debt securities	88,632	91,517	71,581	73,057
Financial liabilities				
Amounts due to central banks	2	2	1	1
Financial liabilities at amortised cost	1,061,158	1,060,822	921,725	921,386
– Amounts due to banks	122,004	121,990	93,581	93,558
– Amounts due to customers	933,635	933,636	821,507	821,502
– Securities issued	2,583	2,260	3,621	3,310
– Lease liabilities	2,936	2,936	3,016	3,016
Subordinated debt	2,680	2,680	2,546	2,546

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 2020				31 Dec 2019			
	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	27,510	8,527	0	18,983	17,744	10,007	0	7,737
Financial assets at amortised cost	1,105,890	87,775	3,440	1,014,675	969,302	69,294	3,423	896,585
– Loans and advances to banks	319,284	0	0	319,284	244,417	0	0	244,417
– Loans and advances to customers	695,089	0	0	695,089	651,828	0	0	651,828
– Debt securities	91,517	87,775	3,440	302	73,057	69,294	3,423	340
Financial liabilities								
Amounts due to central banks	2	0	0	2	1	0	0	1
Financial liabilities at amortised cost	1,060,822	0	0	1,060,822	921,386	0	0	921,386
– Amounts due to banks	121,990	0	0	121,990	93,558	0	0	93,558
– Amounts due to customers	933,636	0	0	933,636	821,502	0	0	821,502
– Securities issued	2,260	0	0	2,260	3,310	0	0	3,310
– Lease liabilities	2,936	0	0	2,936	3,016	0	0	3,016
Subordinated debt	2,680	0	0	2,680	2,546	0	0	2,546

11. Transfers between levels of the fair value hierarchy

During the first half of 2020 there were no transfers between levels.

12. Events after the reporting period

As of 1 July 2020, KB SmartSolutions, s.r.o. acquired a minority interest of 18.90% in upvest s.r.o. in the form of an equity investment. In 2021, KB SmartSolutions, s.r.o. has an option to increase its share in upvest, s.r.o. to 30.9%, and in the following year it can obtain a majority interest in the company. Upvest s.r.o. is a fintech company that provides real estate crowdfunding investments in the form of participation in debt financing of development projects.

The Group will carefully follow future macroeconomic development in the coming months and will adjust its models in case that the new macroeconomic predictions will deviate from the current ones. In July 2020, the Czech National Bank published its new macroeconomic forecast. The potential impact on KB IFRS 9 models is being assessed.

| Ratings

Ratings of Komerční banka as of 30 June 2020*

	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.

As of 30 June 2020, the shareholders consisted of 56,187 legal entities and private individuals, of which 50,644 were private individuals from the Czech Republic. KB held in treasury 1,193,360 of its own shares, constituting 0.6% of the registered capital. Strategic shareholder Société Générale maintained a 60.4% stake, and minority shareholders held 39.0% of KB's equity.

Major shareholders of Komerční banka owning more than 1% of the share capital as of 30 June 2020 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	4.56%
Nortrust Nominees Limited	4.47%
Clearstream Banking S.A.	2.23%
GIC Private Limited	1.50%
State Street Bank and Trust Company	1.09%
Other shareholders	25.81%

| 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 2020, as well as of the outlook for the development of the Bank's and Group's financial situation, business activities and results.

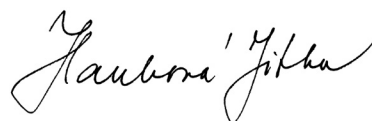
Prague, 26 August 2020

Signed on behalf of the Board of Directors:



Jan Juchelka

Chairman of the Board of Directors
and Chief Executive Officer



Jitka Haubová

Member of the Board of Directors
and Senior Executive Director, Chief Operations Officer