

HALF-YEARLY REPORT

2019

Komerční banka, a.s.



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Further information

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

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

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

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

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| Company profile

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

Vision

Real bank for real situations

Mission

We stand by discerning individuals and their families, small businesses and corporations, support them throughout their lifetime journeys and diverse business ventures to succeed in the dynamic world. We provide first-class advisory, tailor-made solutions and leading industry innovations through our passionate people and convenient digital channels.

Declaration on principles of corporate social responsibility

Code of conduct

Only by taking an ethical approach to doing business and providing financial services can Komerční banka hope to maintain and even strengthen its market position over the long-term horizon. A fundamental prerequisite to successfully developing the company consists in professional conduct and behaviour on the part of its employees, as exemplified in particular by fostering and preserving direct and open relationships with clients as well as by fortifying the mutual trust between KB and its clients. Komerční banka expects all its employees to be fully aware of and committed to their obligation to act in accordance with the ethical standards set forth in its Code of Ethics and to endeavour always to adhere to those standards.

Corporate governance

Komerční banka acceded to and upholds all the principal standards of corporate governance in compliance with the Corporate Governance Code based on the OECD principles as amended in 2004 and issued by the Czech Securities Commission. The Czech wording of the Revision of the Code is available on the website of the Ministry of Finance of the Czech Republic at www.mfcr.cz. Moreover, in September 2018, Komerční banka registered for compliance with all main corporate governance standards set by the Corporate Governance Code of the Czech Republic (2018) issued by the Institute of Administrative Bodies on the basis of international standards of corporate governance (in particular G20 / OECD Principles of Corporate Governance from 2015). Its full text in Czech is available at <http://www.cginstitut.cz/cs/dokumenty/>. Komerční banka's Board of Directors applies and develops the aforementioned principles of corporate governance in a spirit of transparency, accountability and long-term prospects, and it translates these best practices into its internal procedures and regulations.

Sustainable development

Komerční banka is aware of the influence that its activities have on the surroundings wherein it operates, and it considers responsible behaviour to be important. Therefore, it adopts adequate measures which on the one hand should eliminate negative influences on the environment and on the other contribute to its protection and improvement. KB monitors the impact of its activities on the environment and identifies those areas upon which it needs to focus. Komerční banka then adopts measures directed towards effectively reducing its environmental impact.

| Highlights from 2019's first half

January

On 7 January 2019, KB SmartSolutions, s.r.o. (a fully owned KB subsidiary) was established with the aim to facilitate the preparation of some new KB Group services. Subsequently, on 8 January 2019, My Smart Living, s.r.o. (a fully owned subsidiary of KB SmartSolutions, s.r.o.) was established. It develops solutions to meet clients' needs in relation to housing.

With effect from 14 January 2019, Ms Sylva Kynychová, Mr Ondřej Kudrna and Mr Vojtěch Šmajer were elected members of the Supervisory Board as employees' representatives.

Mr Margus Simson was elected by the Supervisory Board with effect from 14 January 2019 as a new member of the Board of Directors. Mr Simson holds the post of Chief Digital Officer.

With effect from 14 January 2019, Mr Pavel Jiráček became Chairman and CEO of Modrá pyramida stavební spořitelna.

The Supervisory Board appointed Ms Cécile Camilli a substitute member of the Supervisory Board with effect from 15 January 2019 until the next general meeting. The General Meeting held on 24 April 2019 then elected Mrs Camilli as a member of the Supervisory Board with effect from 25 April 2019.

February

With effect from 1 February 2019, Mr Jan Kotík became Chairman and CEO of Factoring KB.

In co-operation with Czech Information Agency (ČIA), Komerční banka newly offered its entrepreneur clients more favourable access to ČIANEWS, which is extensive economic news that includes reports on tenders, investment plans and other business opportunities in individual fields or regions.

Komerční banka became one of the first Czech banks enabling its clients to pay through Apple Pay. KB was also the first bank in the Czech Republic providing clients with a banking application for Apple Watch.

March

In signing the Partnership Contract for 2019, Komerční banka and the Federation of the Food and Drink Industries of the Czech Republic confirmed their traditionally good mutual co-operation, mainly in the efficient financing of food-processing investments and boosting the competitiveness of Czech food producers.

April

Based on its long-term successful co-operation with Czech-Moravian Guarantee and Development Bank (ČMZRB), Komerční banka concluded a Guarantee Agreement in the new EXPANZE programme to support small and medium-sized enterprises, bringing them benefits in the form of larger guaranteed loans and longer guarantee periods.

At the General Meeting on 24 April, Komerční banka's shareholders approved the reported financial results, distribution of profit, and paying out of the 2018 dividend of CZK 51 per share. The General Meeting also approved the Board of Directors' report on the Bank's business activities and the state of its property for the year 2018, the consolidated financial statements and the annual financial statements for 2018. Upon the Nomination Committee's proposal, the General Meeting elected Ms Cécile Camilli and Ms Petra Wendelová members of the Supervisory Board. Ms Wendelová was also elected as a member of the Audit Committee.

May

In co-operation with the Association of Small and Medium-Sized Enterprises and Tradesmen of the Czech Republic, KB opened the seventh year of the Start-Up Grant Program. Its aim is to support new entrepreneurs in the Czech Republic. Participants' winning business ideas will receive financial and media support and other prizes.

Komerční banka won the Kentico Site of the Year 2018 competition for the best website.

June

KB launched on its website KB M&A Point, which is focused on the Bank's M&A consulting. It also includes a freely accessible on-line calculator designed to quickly determine an indicative value of a company, such as when considering its sale or purchase.

KB was affirmed as a constituent company in the FTSE4Good Index Series. The FTSE4Good Index Series is designed to identify companies that demonstrate strong environmental, social and governance practices measured against globally recognised standards.

| Macroeconomic development¹

The first half of 2019 was marked by continuing solid trends from 2018. Last year, GDP grew by 2.9% in real terms. In the first half of this year, we estimate GDP growth to have been about 2.8%. The economy is still supported mainly by strong household consumption even as the external environment has deteriorated significantly and the monetary policy cycle in the US and euro area has reversed itself. Although the Czech economy has so far been notably resistant to Germany's industrial recession, domestic economic growth will slow considerably by the end of this year. We expect real GDP to increase by 2.7% this year.

The external environment is noticeably deteriorating. German industry has been in recession for a year, and annual growth in the German economy as a whole is now below 1%. Brexit still has not occurred, and, with Boris Johnson as the head of the British government, there is increasing likelihood that Britain will leave the EU without an agreement at the end of October. The trade wars situation continues, and there is still no trade agreement between China and the USA on the table. This is a very negative mix of news for Czech industry, and especially the automotive sector. Therefore, last year's growth in real industrial production at slightly over 3% will not be repeated this year. We now expect 1.3% growth.

The Czech economy has so far shrugged off weaker external demand as strong domestic demand, and especially household consumption, has picked up the slack. This is mainly due to the strong labour market, as unemployment stood just below 2% at the end of the year's first half. But the labour market is now being watched for signals of an economic reversal. The number of vacancies has already started to decline. Wages will nevertheless continue to rise rapidly, but the rate of growth will continue to ease. After rising by 7.6% last year, we expect wage growth to reach 6.5% this year. Household consumption will remain the driving force of the economy. Its year-on-year growth will slow only marginally from the 2.8% in the first quarter to 2.6% by the end of the year. Compared to 2018, the dynamics of investments will drop significantly this year. Last year's tempo of 7.1% year on year will be followed by a 2.2% pace this year. The reason lies not so much in the economic cycle but, rather, in the cycle of tapping into EU funds.

Domestic inflationary pressures are not slackening significantly. Inflation peaked at the end of the first quarter, when it approached 3.0%, the upper bound of the CNB's inflation target tolerance band. Inflation was 2.8% year on year in the first half of 2019. The price level dynamics will decline slightly in the second half, but the 2% target will not be achieved. Overall, we estimate inflation will come in at 2.6% this year. The structure of inflation shows that regulated prices (mainly in the form of higher energy prices) and food prices are particularly inflationary. Food prices are rising mostly due to last year's drought and poor harvest. This year's weather conditions to date do not yet indicate any reversal of that trend.

The foreign exchange market was marked by extremely low exchange rate volatility for most of the year's first half. The large presence of foreign capital in the Czech economy creates a resistance barrier against further appreciation of the Czech currency, despite the attractive interest rate differential that was further improved by the CNB's interest rate hike in May. Exchange rate stability is expected also in the second half of the year. As the end of the year approaches, slight depreciation to CZK 25.80 per euro might be seen, as per our forecast.

The monetary policy normalisation and cycle of rising rates were completed by the May increase in the repo rate to 2%. We now expect a relatively long period of stable interest rates. Although domestic economic fundamentals, especially the inflation outlook, point to the possibility of a further rate hike, the external environment is moving in exactly the opposite direction. In a situation where both the US and European central banks have embarked on a monetary easing cycle, the CNB will not try to swim upstream.

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.

Implementation of KB Change strategic transformation

Komerční banka had announced its strategic transformation programme KB Change in May 2018. The programme was prepared in order to address key challenges existing in the Czech banking market, including the ongoing erosion of product margins due to competition and regulation, clients' swiftly escalating preference for digital banking channels, and rapid development of banking technologies. The Bank's ultimate vision is to be a lifetime partner with a human touch for active individual, small business, and corporate customers; to provide employees a sense of purpose and room for growth; and to deliver long-term sustainable profitability to shareholders while acting responsibly towards society.

The updated strategy focuses on reinforcing or achieving market-leading customer satisfaction status in the target client segments throughout each client's entire lifespan. KB will differentiate itself in the market by best-in-class advisory, a relevant and comprehensive product offer leveraging the global scale of the Komerční banka and Société Générale groups, and its ability to provide better service in a simple and efficient way with tailored financial solutions.

The KB Change goals include raising client satisfaction levels as measured by Net Promoter Score among discerning individual clients, small and medium-sized enterprises, and large corporations. The improvements in culture, organisation, and motivation should measurably increase the employees' engagement. Moreover, the plan is designed to generate recurring financial benefits in terms of faster growth in revenues and gross operating income, mainly driven by stronger growth in lending and assets under management; savings in operating expenditures from improved overall efficiency; and, in a later stage, savings in needed capital expenditures due to improved processes and allocation efficiency.

During the first half of 2019, KB completed establishment of the agile organisational structure at headquarters. A total of 16 teams dedicated to defined client journeys or business processes is supported by 5 centres of expertise, with the goals to accelerate KB's time to market, improve the internal corporate culture and adaptability in the uncertain context, and attract talent. Approximately 40% of employees at KB headquarters now work according to the agile@KB methodology, which involves an iterative way of working within multidisciplinary teams that are autonomous and empowered but nevertheless aligned.

KB has focused on enhancing its client value proposition and making sure it remains at the leading edge of the digital transformation of banking.

In February, KB was among the first Czech banks to introduce the Apple Pay service on the Czech market. The service uptake was successful. By the end of June, clients had tokenised some

73,000 payment cards in Apple's Wallet application. In total, Komerční banka's customers had virtualised 112,000 cards into payment applications from Apple, Google, Garmin and Fitbit. The Bank also recorded a rapid roll-out of its new KB Key authentication application introduced in December 2018. As of the end of June, the number of clients with KB Key exceeded 260,000.

KB also introduced three new web portals: (1) cincink.cz – providing on-line assistance with residential property sales, purchases and rentals, including intermediation, legal services, valuation and financing; (2) KB M&A Point – offering advisory services, including an on-line tool for companies valuation, and (3) KB API portal – presenting a stable environment for third-party developers using KB's application programming interfaces. Authentication service provisioning for third parties will be the first commercially launched API. KB also has been active in a sector initiative of the Czech Banking Association to enable secure communication by individuals with government and private institutions using banking clients' digital identities. Full launch of the service is expected in 2021. Moreover, KB's internet and mobile banking enables its clients to access their accounts in 8 other banks, including 1 foreign (Slovak) bank.

Under license from Warner Bros., KB issued a limited edition of payment cards featuring designs from the popular The Big Bang Theory TV series.

Corporate social responsibility

In the first half of 2019, KB was again developing numerous activities that reflected on its responsibility as a leading Czech bank. Furthermore, scores of employees took part in various charitable events, many using their one day for volunteer activities that KB has newly made available to each employee. The largest number of employees joined in the campaign Uklidme Česko (Let's tidy up Czechia), where KB was the main partner. Many others helped with repairs in charity and shelter houses, children's centres or hospices, or dedicated their time to other good purposes.

KB supported education at all levels. It was the main partner of the SingularityU Czech Summit, a conference featuring leading experts on new technologies, including artificial intelligence, education, mobility, robotics, medicine, neuroscience, and blockchain. Moreover, KB sponsored attendance at the event by talented students 15–25 years of age. Komerční banka is also a general partner of the Economic Olympics, a knowledge contest for students from secondary schools and universities. In the same period, KB's Jistota Foundation co-operated with the Czech Streetwork Association to host seminars on financial literacy for vulnerable young people.

Sponsoring by Komerční banka embraced areas of culture and non-professional sports, as well. Fans at the Rock for People festival in Hradec Králové appreciated the performance by the Prague Philharmonia of a previously unfinished part of Antonín Dvořák's symphony called From the Future World that had been created using an artificial intelligence program known as AIVA. The sponsoring of the National Gallery and Prague Zoo also continued successfully. Continuing in its support of non-professional sports, KB was the main partner of the 2019 Superfinals for the women's and men's national floorball championships. The event also encompassed the KB Floorball Challenge tournaments for secondary school students.

KB's Jistota Foundation decided to underpin four long-term projects in various parts of the Czech Republic for assisting young people leaving children's home institutions on their way towards leading full and independent lives. In its Open Call for social projects, KB Jistota Foundation supported six projects on prevention of relationship and behavioural problems among vulnerable and disadvantaged children. KB Jistota Foundation also contributed to three long-term projects on quality of life for patients with incurable illnesses, including to assist caring personnel and the bereaved.

A total of 193 children have found caring sanctuary in the baby boxes for abandoned newborns. Of this number, 62 babies in total and 13 in this year were rescued from those baby boxes supported by the Jistota Foundation. The Foundation is now funding replacement of older units with new-generation baby boxes. In Slovakia, similar incubators supported by Komerční banka's branch in Bratislava are termed Hniezda záchrany (Rescue Nests).

Komerční banka also expanded to 207 the number of branches where hearing-impaired clients can deal with the Bank using the eScibe on-line service that provides rapid transcription of negotiations prepared by blind speed-writers from the Transkript online charity.

As a contribution to the functioning of the ecosystem in the area, KB built ten beehives on the roof of the headquarters building in Prague-Stodůlky in the spring.

In July 2019, KB was affirmed as a constituent company in the FTSE4Good Index Series. The FTSE4Good Index Series is designed to identify companies that demonstrate strong environmental, social and governance practices measured against globally recognised standards.

| Business performance of KB Group

Developments in the client portfolio and distribution networks

	1H 2018	1H 2019	Change
Number of clients			
KB Group's clients	2,393,000	2,376,000	(17,000)
Komerční banka	1,666,000	1,662,000	(4,000)*
– individual clients	1,408,000	1,406,000	(2,000)*
– using at least one direct banking channel	1,437,000	1,468,000	31,000
– internet banking clients	1,370,000	1,405,000	35,000
– mobile banking clients	514,000	699,000	185,000
Modrá pyramida	487,000	489,000	2,000
KB Penzijní společnost	532,000	532,000	0
ESSOX (Group)	214,000	208,000	(6,000)
Distribution network			
KB retail branches	378	344	(34)
KB business centres	10	10	0
KB corporate divisions	5	5	0
Modrá pyramida points of sale	213	200	(13)
SGEF branches	9	9	0
ESSOX Group points of sale	1,340	1,045	(295)**
ATMs	761	786	25
of which deposit-taking	274	359	85

*Affected by write-off of non-active defaulted clients in 1Q 2019.

**Influenced by the new qualification requirements for intermediaries of consumer financing.

KB was among the first Czech banks to introduce the Apple Pay service to the Czech market, and uptake of the service has been successful. By the end of June, clients had tokenised some 73,000 payment cards in Apple's Wallet application. In total, Komerční banka's customers had virtualised 112,000 cards into payment applications from Apple, Google, Garmin and Fitbit. The Bank also recorded a rapid roll-out of its new KB Key authentication application introduced in December 2018. As of the end of June, the number of clients with KB Key already exceeded 260,000.

Loans to customers

Total gross volume of lending to clients rose by 3.2% year on year to CZK 644.8 billion.²

In lending to individuals, the overall volume of housing loans grew by 3.6% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 1.5% to CZK 225.1 billion. Modrá pyramida's loan portfolio grew by a strong 13.7% to CZK 53.5 billion. The volume of KB Group's consumer lending

² 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 2.6% to CZK 651.7 billion.

(provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up 0.8%, at CZK 38.7 billion.

The total volume of loans to businesses and other lending provided by KB Group climbed by 3.1% year on year to CZK 327.5 billion. Lending to small businesses grew by 2.2% to CZK 36.1 billion. The overall CZK volume of credit granted by KB to medium-sized, large corporate, and other clients in the Czech Republic and Slovakia³ increased by 2.9% year on year to CZK 263.0 billion. At CZK 28.4 billion, the total credit and leasing amounts outstanding at SGEF were 6.4% higher year over year.

Amounts due to customers and assets under management

The volume of standard client deposits within KB Group rose by 4.0% year on year to CZK 838.6 billion.⁴

Deposits at Komerční banka from individual clients grew by 6.0% from the year earlier to CZK 281.5 billion. The deposit book

³ Inclusive of factor finance outstanding at Factoring KB and merchant and car dealers' financing from ESSOX Group.

⁴ Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' increased by 7.3% to CZK 893.0 billion.

at Modrá pyramida expanded by a slight 0.5% to CZK 61.6 billion. Total deposits from businesses and other corporations climbed by 4.4% to CZK 486.0 billion.

Client assets managed by KB Penzijní společnost were 8.2% greater, at CZK 60.0 billion. Technical reserves in life insurance at Komerční pojišťovna were up by 0.8% year on year, at CZK 47.7 billion. The volumes in mutual funds held by KB Group clients grew by 9.4% to CZK 69.1 billion.

The Group's liquidity as measured by the ratio of net loans to deposits⁵ stood at 75.7%.

⁵ See Definitions of the alternative performance indicators

Financial performance of KB Group according to IFRS

With effect from 1 January 2019, Komerční banka is applying the new accounting standard IFRS 16 Leases. It replaces the previous standard, IAS 17. Particularly as a lessee under operating lease of office buildings and branches, the Bank must recognise those leases on its balance sheet. That increases both the assets (right-of-use assets) and the liabilities (lease liabilities). In addition, the nature of expenses related to those leases has changed, because IFRS 16 replaces the straight-line operating lease expenses with a depreciation charge for right-of-use assets and interest expense on lease liabilities. KB followed the modified retrospective approach in adopting the new standard, which means there was no restatement of comparative information.

Income statement

Komerční banka's revenues (net operating income) for the first half of 2019 improved by 5.0% year on year to reach CZK 16,172 million. This growth was driven by net interest income, whereas fee income was almost stable and net gains from financial operations diminished.

Net interest and similar income⁶ was up by 8.0%, at CZK 11,759 million. The result reflected growth in the volume of assets and higher CZK interest rates, which supported returns from reinvesting deposits and capital. Meanwhile, intense competition has compressed the spreads on loans. The net interest margin for the first six months of 2019, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.2%, similar to that of a year earlier.

Net fee and commission income⁷ declined by a slight 0.7% to CZK 2,961 million. KB recorded higher income from specialised financial services, such as loan syndications, issuance of trade finance instruments, guarantees and advisory. The maintenance fee income improved, as well, due to clients' increasing preference for better account packages that include a wider range of services. Fees from cross-selling were up slightly thanks to income from life insurance products and mutual funds. This positive development was offset by decline in fees for transactions, mainly caused by inclusion of more transactions into the price of account packages, and despite the rapidly rising number of transactions, mainly due to greater use of payment cards. Income from loan services declined, especially in connection with smaller loans production in retail.

⁶ As from 1 January 2019, Komerční banka reclassified charges for reservation of funds (commitment fees) from 'Net fee and commission income' to 'Net interest income'. The data for the comparative period have been restated and year-on-year commentaries are made in comparison with the restated base. The contribution of interest expense on lease liabilities newly charged according to IFRS 16 represented 0.2% of the quarterly net interest income.

⁷ As from 1 January 2019, Komerční banka reclassified charges for reservation of funds (commitment fees) from 'Net fee and commission income' to 'Net interest income'. The data for the comparative period have been restated and year-on-year commentaries are made in comparison with the restated base.

Net profit on financial operations decreased by 4.9% to CZK 1,338 million. Clients' demand for hedging of financial risks was constrained in the first months of the year by an absence of clear trends for CZK exchange and interest rates. This demand recovered in the second quarter, however, with greater volatility of the Czech crown and changed perception for the interest rate outlook. Net gains on FX payment transactions were higher year on year, reflecting an increase in the volume of these transactions and wider spreads.

Dividend and other income declined by 4.2% to CZK 114 million. This line primarily comprises revenues from property rental and ancillary services.

Operating expenses were up by 1.6%, at CZK 7,712 million. Excluding the effect from creating a restructuring reserve and release of over-accrued charges for corporate services, growth of operating expenses reached 2.9%.⁸ Adjusted personnel expenses rose by 1.8% to CZK 3,844 million, reflecting mainly higher remuneration even as the average number of employees declined by 4.0% to 8,144.⁹ Reported personnel expenses, including last year's restructuring reserve, were lower by 3.9%. General administrative expenses (excluding contributions to the regulatory funds) were lower by 2.4%, at 1,835 million. However, this line was also influenced last year by creation of the restructuring reserve⁸ and in 2019 by implementation of the new IFRS 16 standard that has replaced rent expense with the depreciation expense of rights-of-use. Adjusted for these extraordinary factors, general administrative expenses increased by 2.7%, mainly as a result of higher cost for IT support. The full-year cost of contributions to the regulatory funds (Deposit Insurance Fund, Resolution Fund) reached CZK 847 million. Depreciation and amortisation grew by 34.3% to CZK 1,186 million, including the effect of IFRS 16 implementation. Adjusted depreciation and amortisation charges were higher by 9.2%, driven mainly by new and upgraded software and IT equipment.

Operating profit was up by 8.4%, at CZK 8,460 million. Excluding the contribution of one-off items from last year,⁸ gross operating income improved by 7.0%.

Cost of risk reached a negative CZK 355 million (net release of provisions), which amount is 11.7% smaller than the net release in the first half of 2018. This was made possible by the still

⁸ In second quarter 2018, KB created the restructuring reserve for anticipated costs arising from the KB Change programme, comprising CZK 223 million in expected costs of severance payments recognised in personnel expenses and CZK 71 million in estimated costs of reducing branch facilities recognised in general and administrative expenses. In the same period of 2018, KB released CZK 193 million over-accrued in previous years within general and administrative expenses for various services from entities of Société Générale Group.

⁹ Recalculated to a full-time equivalent number.

supportive economic environment, continued low client default rates, and good performance from recovery activities. The cost of risk in relative terms and as measured against the average volume of the lending portfolio during the first three months came to –11 basis points.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was up 25.7% year on year, at CZK 142 million. The Group booked CZK 55 million in profit attributable to exclusion of companies from consolidation that was from settling the sale price of KB's stake in Komerční pojišťovna agreed in 2006. In the first half of 2018, this line comprised CZK 82 million related to finalising the selling price for KB's stake in Cataps. Net profits on other assets were at CZK 14 million, compared to CZK 17 million in 2018, which amounts were linked to sales of buildings in the held-for-sale portfolio).

Income tax was higher by 8.8%, at CZK 1,648 million.

KB Group's consolidated net profit for the first half of 2019, at CZK 7,378 million, was higher by 6.9% in comparison with the first half a year ago. Of this amount, CZK 165 million was profit attributable to the non-controlling owners of minority stakes in KB's subsidiaries (+11.4% year on year).

Reported net profit attributable to the Group's equity holders totalled CZK 7,213 million, which is 6.8% better year on year. Recurring attributable net profit (i.e. excluding one-off effects in 2018 from the restructuring reserve, release of accrual for corporate services and sale price for Cataps, and in 2019 from settlement of the sale price for Komerční pojišťovna) was up 6.0% year on year (at CZK 7,158 million).

Other comprehensive income, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK 274 million. Consolidated comprehensive income for the first six months of 2019 amounted to CZK 7,652 million, of which CZK 164 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 2019 with the values from the statement of financial position as of 31 December 2018 and reflects the newly introduced accounting methodology according to IFRS 16.

Assets

As of 30 June 2019, KB Group's total assets had risen by 11.9% year to date to CZK 1,186.0 billion.

Cash and current balances with central banks were down by 9.8%, at CZK 22.4 billion.

Financial assets at fair value through profit or loss (trading securities and derivatives and financial assets whose cash flows do not comprise solely payments of principal and interest) increased by 25.0% to CZK 28.3 billion.

Positive fair value of hedging financial derivatives declined by 2.0% to CZK 12.3 billion.

Year to date, there was a 27.7% increase in financial assets at fair value through other comprehensive income amounting to CZK 32.3 billion. This consisted mainly of public debt securities.

Financial assets at amortised cost grew by 11.9% to CZK 1,063.9 billion. The largest portion of this consisted of (net) loans and advances to customers, which were up by 2.6%, at CZK 641.5 billion. A 97.7% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.3% of the loans were classified in Stage 3 (non-performing loans). The volume of loss allowances created for amounts due from customers came to CZK 10.8 billion. Loans and advances to banks rose by 36.3% to CZK 349.2 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was up by 4.7% and reached CZK 73.1 billion at the end of June 2019.

Revaluation differences on portfolio hedge items were CZK –0.2 billion. Current and deferred tax assets stood at CZK 0.1 billion. Other assets and prepayments, accrued income, which include receivables from securities trading and settlement balances, grew overall by 3.2% to CZK 5.9 billion. Assets held for sale declined by 40.0% to CZK 0.1 billion.

Investments in associates and unconsolidated subsidiaries decreased by 4.8% to CZK 1.1 billion.

The net book value of tangible assets rose by 37.0% to CZK 10.5 billion as rights-of-use, recognised under IFRS 16, added CZK 3.0 billion to this total. Intangible assets grew by 6.2% to reach CZK 5.6 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 13.4% higher in comparison to the end of 2018 and stood at CZK 1,085.2 billion.

Financial liabilities at amortised costs went up by 13.1% to CZK 1,026.0 billion. Within that total, lease liabilities, an item under IFRS 16, amounted to CZK 3.0 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 9.9% to CZK 893.0 billion. This total included CZK 54.4 billion of liabilities from repo operations with clients and CZK 5.6 billion of other payables to customers. Amounts due to banks increased in 2019 by 35.3% to CZK 124.8 billion. The volume of outstanding securities issued was higher by 104.0% at CZK 5.2 billion.

Revaluation differences on portfolios hedge items turned from CZK –0.7 billion at the end of 2018 to CZK 0.1 billion at the end of 2019's first half. Current and deferred tax liabilities increased by 10.4% to CZK 1.0 billion. Other liabilities and accruals, which include payables from securities trading and settlement balances, expanded by 44.9% to CZK 19.5 billion.

Provisions declined by 7.7% to 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 2.6 billion, was down by 1.1% year to date. Because that debt is issued in euro, the change reflects the strengthening of the Czech crown over the same period.

Equity

Total equity declined year to date by 2.5% to CZK 100.8 billion, as generation of net profit for six months was offset by payment of annual dividend. The value of non-controlling interests reached CZK 3.0 billion. As of 30 June, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

Regulatory capital and capital requirements

Total regulatory capital for the capital adequacy calculation came to CZK 85.7 billion as of 30 June 2019, up 2.8% year to date. Capital adequacy stood at 19.0%. The Core Tier 1 capital amounted to CZK 83.1 billion (+2.9% year on year), and the Core Tier 1 ratio stood at 18.4%. Tier 2 capital totalled CZK 2.6 billion, which was 0.6% of risk-weighted assets.

KB's overall capital requirement as of 30 June 2019 was approximately 16.35% relative to the consolidated volume of risk-weighted assets. The required minimum Core Tier 1 capital level was at 12.450%, and the minimum Tier 1 capital ratio at 14.35%. This followed the rise by 25 basis points to 1.25% in the countercyclical capital buffer for Czech exposures with effect from 1 January 2019 and increase by 10 basis points to 1.6% in the additional requirement set in Pillar II of the EU regulation on prudential requirements for credit institutions and investment firms.

As of 1 July 2019, the countercyclical capital buffer for Czech exposures was raised by an additional 25 basis points to 1.5%. The CNB has announced further increases in this buffer with effect from 1 January 2020 by 25 basis points (to 1.75%) and by another 25 basis points (to 2.00%) from 1 July 2020.

As measured by the Liquidity Coverage Ratio, KB's liquidity safely met requirements established by the applicable regulations throughout the period.

Key ratios and indicators	30 June 2018	30 June 2019	Change year on year
Capital adequacy (CNB)	18.1%	19.0%	▲
Tier 1 ratio (CNB)	17.5%	18.4%	▲
Total risk-weighted assets (CZK billion)	446.8	451.8	1.1%
Risk-weighted assets for credit risk (CZK billion)	369.0	373.5	1.2%
Net interest margin	2.2%	2.2%	=
Loans (net) / deposits ratio	75.9%	75.7%	▼
Cost / income ratio	49.3%	47.7%	▼
Return on average equity (ROAE)	14.5%	14.6%	▲
Return on average Tier 1 capital	17.4%	17.6%	▲
Return on average assets (ROAA)	1.3%	1.3%	=
Earnings per share (CZK)	72	76	6.8%
Average number of employees during the period	8,481	8,144	-4.0%

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

Definitions of the alternative performance indicators

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

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

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');

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');

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

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;

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

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

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: income Statement)	1H 2018	1H 2019
Net interest income and similar income, year to date	10,887	11,759
Of which:		
Loans and advances at amortised cost	9,205	11,839
Debt securities at amortised cost	966	903
Debt securities other	208	266
Financial liabilities at amortised cost	(971)	(1,931)
Hedging financial derivatives – income	4,798	8,172
Hedging financial derivatives – expense	(3,321)	(7,490)

(Source: Balance Sheet)	1 Jan 2018	30 Jun 2018	31 Dec 2018	30 Jun 2019
Cash and current balances with central banks/ Current balances with central banks	22,593	13,324	16,347	14,058
Loans and advances to banks	222,821	304,488	256,268	349,218
Loans and advances to customers	593,639	622,804	624,954	641,514
Financial assets at fair value through profit or loss/ Debt securities	1,633	5,897	3,248	6,426
Financial assets at fair value through profit or loss – non SPPI/ Debt securities	2,694	2,652	0	0
Financial asset at fair value through other comprehensive income (FV OCI)/ Debt securities	23,798	25,030	24,909	31,799
Debt securities	70,340	74,433	69,881	73,137
Interest-bearing assets (end of period)	937,518	1,048,627	995,608	1,116,152
Average interest-bearing assets, year to date		993,072		1,055,880
NIM year to date, annualised		2.19%		2.23%

Expected development and main risks to that development in the second half of 2019

In its baseline macroeconomic scenario, Komerční banka expects the Czech economy will grow its output by approximately 2.7%. Domestic consumption and investments as well as exports should contribute positively to that growth.

The tight labour market will remain the main factor limiting faster growth in the economy and also the driver of domestic inflation. Despite the strong domestic economic fundamentals, the fragile global context will probably prevent the Czech National Bank from continuing on the path of monetary policy normalisation. The CZK yield curve will likely stay inverted into the next year.

Competition has quickly pushed down banks' profit margins to those levels seen in Western Europe. The relative prices dropped most visibly in retail lending and for such basic banking services as payments. The rollover effect from maturing loans will squeeze average spreads into the future, even if new sales margins stabilise. Banks have been facing mounting competition also from technology companies offering so-called "fintech", often focused upon providing streamlined services in such specific areas as payments, currency conversions or even consumer lending.

The CNB continues to tighten its macroprudential policy. The central bank raised the countercyclical capital requirement by an additional 25 basis points to 1.50% from July 2019, and further 25 basis point increases are planned for January 2020 and July 2020.

In such context, KB management expects the annual growth rate of the loan portfolio in 2019 will remain in mid- to low-single digits. This growth will be rather slower in retail segments, as production of mortgages will be affected by the regulations imposed by the CNB in October 2018 and overall diminished affordability of housing. In a year-on-year comparison, the outstanding volume of mortgages is still expected to expand marginally in 2019, with sales recovering somewhat from the slump at the beginning of the year. Lending by Modrá pyramida is still expected to record strong growth close to the rate achieved in the year's first half. Unsecured lending to consumers should grow faster than mortgage lending, boosted by the favourable situation on the labour market.

Business lending will reflect the more cautious expectations of corporations about future demand but also by their need to invest in boosting productivity and, mainly in the construction sector, to have pre-funded investment orders from the public sector. Overall growth in business lending is thus expected in mid-single digits, but the result may be further influenced by bond issuance used by some large corporations to refinance loans, as well as by intense competition.

Total deposits will probably grow faster than loans, and the trend of clients transferring part of their cash reserves from current

accounts into saving and term accounts will likely continue. The deposit book at Modrá pyramida is not expected to grow, as it still is influenced by maturing of old deposit contracts with relatively high rates. The volume of assets under management in pension funds, mutual funds and life insurance should continue to expand.

KB Group's total net operating income for 2019 should improve slightly in comparison with 2018. Net interest income in the second half should reach a similar volume as in the first six months of this year, while the effect of increasing loan and deposit volumes will be offset by the continuing competitive pressure on lending spreads and moderately rising cost of deposits. Income from fees and commissions should be stable year on year, benefitting from growth in clients' activity but limited by pressure on prices. By 15 December, the Bank must implement a cap on fees for cross-border transactions within the Single European Payment Area,¹⁰ and that will hit fee income in 2020. Net profit from financial operations will decrease on a year-on-year basis, because the previous year's result had been boosted by some extraordinarily large hedging deals developed for clients.

Operating expenditures will increase at a rate similar to that of inflation. The Bank has agreed with the trade unions upon 6.5% growth in average remuneration for 2019, but the impact on costs will be mitigated by an ongoing decrease in employee numbers that is facilitated by improving productivity of operations. Non-personnel costs will be managed very vigorously, even as KB Group will continue to invest substantial amounts into such areas as new products development, digitalisation, and staff training.

KB expects that the clients will maintain their overall excellent repayment discipline throughout the second half and that the Group's recovery performance will remain strong. If this is the case, the cost of risk for the full year may reach a very low or even negative level (due to net release of provisions). The situation of a net release of provisions for credit losses is exceptional. The pace of future normalisation of risk costs will depend mainly upon how macroeconomic conditions develop in the Czech Republic, and to some extent in Slovakia. Another possible factor could be individual circumstances of clients with larger exposures. The normalised rate of provisioning across the whole business cycle is estimated to float around 30 to 40 basis points.

Among the key risks to the expectations described above are the following: (1) a severe worsening of the macroeconomic environment, due to, for example, distortions in international supply chains caused by disorderly withdrawal of the United

¹⁰ Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No. 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges

Kingdom from the European Union or by escalation of trade frictions among the global economic regions; (2) a significant worsening of the competitive situation on the Czech banking market leading to material erosion of profit spreads on key products, or (3) a solitary impairment of a large credit exposure.

The management expects that KB's operations will generate sufficient profit in 2019 to cover the Group's capital needs ensuing from its growing volume of assets as well as to pay out in dividends 65% of consolidated net profit attributable to shareholders.

| Developments in KB's corporate governance

Members of the Supervisory Board Mr Pavel Jelínek, Mr Bořivoj Kačena and Mrs Miroslava Šmídová terminated their functions on 13 January 2019. With effect from 14 January 2019, Ms Sylva Kynychová, Mr Ondřej Kudrna and Mr Vojtěch Šmajer were elected members of the Supervisory Board. The newly elected members of the Supervisory Board are employees of Komerční banka.

With effect from 14 January 2019, Mr Margus Simson was elected by the Supervisory Board as a new member of the Board of Directors. Mr Simson holds the post of Chief Digital Officer.

With effect from 14 January 2019, Mr Pavel Jiráček became Chairman and CEO of Modrá pyramida stavební spořitelna. With effect from 1 February 2019, Mr Jan Kotík became Chairman and CEO of Factoring KB.

The Supervisory Board appointed Ms Cécile Camilli a substitute member of the Supervisory Board with effect from 15 January 2019 until the next general meeting.

At the General Meeting held on 24 April, Komerční banka's shareholders approved the reported financial results, distribution of profit, and paying out of the 2018 dividend of CZK 51 per share. The General Meeting also approved the Board of Directors' report on the Bank's business activities and the state of its property for the year 2018, the consolidated financial statements and the annual financial statements for 2018. Upon the Nomination Committee's proposal, the General Meeting elected Ms Cécile Camilli and Ms Petra Wendelová members of the Supervisory Board with effect from 25 April 2019. Ms Wendelová was also elected as a member of the Audit Committee with effect from 25 April 2019.

| Changes in Group structure

On 7 January 2019, KB SmartSolutions, s.r.o. (a fully owned KB subsidiary) was established with the aim to facilitate the preparation of some new KB Group services. Subsequently, on 8 January 2019, My Smart Living, s.r.o. (a fully owned subsidiary of KB SmartSolutions, s.r.o.) was established. It develops solutions to meet clients' needs in relation to housing.

I 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 2019, 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 2019, the Group had deposits of CZK 2,920 million due to the associate Komerční pojišťovna, a.s. Interest paid from deposits amounted to CZK 16 million. The positive fair value of financial derivatives in relation to the associate, Komerční pojišťovna, a.s., totalled CZK 925 million and the negative fair value CZK 120 million. Interest expense from financial derivatives totalled CZK 220 million and interest income from financial derivatives amounted to CZK 318 million. The book value of mortgage bonds issued by the Bank was CZK 814 million and interest expense from mortgage bonds totalled CZK 10 million. Fee expense amounted to CZK 44 million, fee income was CZK 200 million, and insurance expense totalled CZK 6 million. Other income, principally comprising income from non-banking activities, totalled CZK 10 million.

Amounts due to and from Société Générale Group entities

Principal balances due from Société Générale Group entities consist of the following:

(CZKm)	30 Jun 2019		31 Dec 2018	
	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o. (Czech Republic)	7,748	0	7,100	0
ALD Automotive s.r.o. (Slovak Republic)	57	0	74	0
BRD – GROUPE Société Générale SA	92	0	17	0
PJSC Rosbank	166	0	193	0
SG Bruxelles	2	0	3	0
SG Express bank	0	0	48	0
SG Marocaine de Banques	2	0	6	0
SG New York	1	0	0	0
SG Paris	14,715	6,450	14,348	5,733
SG S.A. Oddział w Polsce	20	0	0	0
SG Zurich	113	0	228	0
SGA Société Générale Acceptance	0	0	0	0
Société Générale China Limited	3	0	41	0
Société Générale International Limited	1,518	0	2,210	0
SKB Banka D.D. Ljubljana	1	0	1	0
SG Banka Srbija	0	0	0	0
Total	24,438	6,450	24,269	5,733

Principal balances owed to Société Générale Group entities consist of the following:

(CZKm)	30 Jun 2019		31 Dec 2018	
	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o. (Czech Republic)	463	0	389	0
ALD Automotive s.r.o. (Slovak Republic)	2	0	0	0
BRD – GROUPE Société Générale SA	2	0	8	0
Crédit du Nord	6	0	5	0
PEMA Praha, spol. s r.o.	18	0	26	0
PJSC Rosbank	0	0	0	0
SG Amsterdam	20	0	68	0
SG Banques au Liban	2	0	2	0
SG Bruxelles	8	0	9	0
SG ISSUER	1	0	1	0
SG Frankfurt	3	0	45	0
SG London	1	0	88	0
SG Milan	1	0	2	0
SG New York	4	0	8	0
SG Paris	69,933	9,663	50,161	8,486
SG Private Banking /Suisse/ S.A.	203	0	143	0
SG S.A. Oddział w Polsce	1	0	2	0
SG Zurich	0	0	53	0
SGSS Nantes	0	0	2	0
Société Générale Bank & Trust	45	0	650	0
Société Générale Factoring	278	0	21	0
SG Express Bank	0	0	54	0
SG Option Europe	1	0	0	0
SOGEPROM Česká republika s.r.o.	5	0	5	0
SG Financial Services Holding	188	0	0	0
Total	71,185	9,663	51,742	8,486

Amounts due to and from 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 2019, the Group also carried off-balance sheet exposures to Société Générale Group, of which off-balance sheet nominal assets and liabilities totalled CZK 496,199 million and CZK 442,534 million, respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances, and guarantees for credit exposures.

In connection with lease contracts, the Group recorded rights of use in the amount of CZK 150 million and lease liabilities totalling CZK 99 million.

As of 30 June 2019, the Group also carried other amounts due to and from Société Générale Group entities that are immaterial.

During the period ended 30 June 2019, the Group realised total income of CZK 18,158 million and total expenses of CZK 18,674 million in relation to Société Générale Group entities. That included income from interbank deposits, fees from transactions with securities, profit from financial operations, and interest income on hedging derivatives. Expenses comprised

those for 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.

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

In respect of loans and guarantees as of 30 June 2019, the Group recorded loan receivables from loans granted to the members of the Board of Directors and Supervisory Board totalling CZK 18 million (31 December 2018: CZK 19 million). During the first half of 2019, draw-downs were not made under the loans granted. During the first half of 2019, loan repayments totalled CZK 1 million.

| Report of Financial Results as of 30 June 2019

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Consolidated Income Statement and Statement of Comprehensive Income

Period ended 30 June 2019

Consolidated Income Statement		Restated	
CZKm	Note	30 Jun 2019	30 Jun 2018
Interest income		21,180	15,179
Interest expense		(9,421)	(4,292)
Net interest income		11,759	10,887
Net fee and commission income		2,961	2,983
Net profit on financial operations		1,338	1,407
Dividend income		3	3
Other income		111	117
Net operating income		16,172	15,397
Personnel expenses		(3,844)	(3,998)
General administrative expenses		(2,682)	(2,714)
Depreciation, amortisation and impairment of operating assets		(1,186)	(883)
Total operating expenses		(7,712)	(7,595)
Operating profit		8,460	7,802
Impairment losses		4	306
Net gain from loans and advances transferred and written off		351	95
Cost of risk		355	401
Income from share of associated undertakings		142	113
Profit/(loss) attributable to exclusion of companies from consolidation		55	82
Gain on a bargain purchase		0	2
Net profits on other assets		14	17
Profit before income taxes		9,026	8,417
Income taxes		(1,648)	(1,515)
Net profit for the period		7,378	6,902
Profit attributable to the Non-controlling owners		165	149
Profit attributable to Group's equity holders		7,213	6,753
Earnings per share/diluted earnings per share (in CZK)		38.19	35.76

Consolidated Statement of Comprehensive Income			
CZKm		30 Jun 2019	30 Jun 2018
Net profit for the period		7,378	6,902
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		89	40
Items that may be reclassified subsequently to Income Statement			
Cash flows hedging			
– Net fair value gain/(loss), net of tax		156	(143)
– Transfer to net profit/(loss), net of tax		(222)	(39)
Hedge of a foreign net investment		8	(50)
Foreign exchange gain/(loss) on translation of a foreign net investment		(9)	53
Revaluation of debt securities at FVOCI**, net of tax		228	(269)
Revaluation of debt securities at FVOCI** (associated undertakings), net of tax		24	(49)
Other income from associated undertakings		0	0
Other comprehensive income for the period, net of tax		274	(457)
Comprehensive income for the period, net of tax		7,652	6,445
Comprehensive income attributable to Non-controlling owners		166	150
Comprehensive income attributable to Group's equity holders		7,486	6,295

*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 2019

CZKm	Note	30 Jun 2019	31 Dec 2018
Assets			
Cash and current balances with central banks		22,425	24,851
Financial assets at fair value through profit or loss		27,580	22,369
Other assets at fair value through profit or loss		677	245
Positive fair value of hedging financial derivatives		12,314	12,559
Financial assets at fair value through other comprehensive income	4	32,263	25,265
Financial assets at amortised cost	5	1,063,869	951,103
Revaluation differences on portfolios hedge items		(233)	(372)
Current tax assets		64	59
Deferred tax assets		59	93
Prepayments, accrued income and other assets		5,935	5,753
Investments in associates and unconsolidated subsidiaries		1,080	1,134
Intangible fixed assets		5,573	5,249
Tangible fixed assets		10,517	7,676
Goodwill		3,752	3,752
Assets held for sale		118	196
Total assets		1,185,993	1,059,932
Liabilities			
Amounts due to central banks		1	1
Financial liabilities at fair value through profit or loss		25,370	21,572
Negative fair value of hedging financial derivatives		9,010	9,669
Financial liabilities at amortised cost	7	1,025,956	907,261
Revaluation differences on portfolios hedge items		143	(676)
Current tax liabilities		297	160
Deferred tax liabilities		724	765
Accruals and other liabilities		19,450	13,420
Provisions	8	1,711	1,853
Subordinated debt		2,550	2,578
Total liabilities		1,085,212	956,603
Shareholders' equity			
Share capital		19,005	19,005
Share premium, funds, retained earnings, revaluation and net profit for the period		78,786	80,926
Non-controlling interest		2,990	3,398
Total shareholders' equity		100,781	103,329
Total liabilities and shareholders' equity		1,185,993	1,059,932

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 2019

CZKm	Share capital	Own shares	Capital funds and retained earnings*	Share-based payment	Revaluation of equity securities at FVOCI option	Remeasurement of retirement benefits plan	Cash flow hedging	Hedge of a foreign net investment	Revaluation of debt securities at FVOCI	Total	Non-controlling interest	Total, including non-controlling interest
Balance as of 31 December 2018	19,005	(577)	80,606	478	157	(132)	(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	87	0	(66)	0	228	273	1	274
Comprehensive income for the period	0	0	7,237	0	87	0	(66)	0	228	7,486	166	7,652
Balance as of 30 June 2019	19,005	(577)	78,202	493	244	(132)	(153)	(7)	716	97,791	2,990	100,781

*Capital and reserve 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 2018: CZK 4,670 million), net profit from the period in the amount of CZK 7,213 million (31 Dec 2018: CZK 14,846 million) and retained earnings in the amount of CZK 65,778 million (31 Dec 2018: CZK 61,090 million).

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

CZKm	Share capital	Own shares	Capital and reserve funds and retained earnings*	Share-based payment	Revaluation of equity securities	Remeasurement of retirement benefits plan	Cash flow hedging	Hedge of a foreign net investment	Revaluation of debt securities	Total	Non-controlling interest	Total, including non-controlling interest
Balance as of 31 December 2017	19,005	(577)	75,352	443	77	(154)	119	(7)	2,291	96,549	3,797	100,346
Changes in accounting policies	0	0	(672)	0	0	0	0	0	(1,427)	(2,099)	(85)	(2,184)
Balance as of 1 January 2018	19,005	(577)	74,680	443	77	(154)	119	(7)	864	94,450	3,712	98,162
Treasury shares, other	0	0	55	16	0	0	0	0	0	71	1	72
Payment of dividends	0	0	(8,932)	0	0	0	0	0	0	(8,932)	(644)	(9,576)
Transactions with owners	0	0	(8,877)	16	0	0	0	0	0	(8,861)	(643)	(9,504)
Profit for the period	0	0	6,753	0	0	0	0	0	0	6,753	149	6,902
Other comprehensive income for the period, net of tax	0	0	(49)**	0	40	0	(182)	2	(269)	(458)	1	(457)
Comprehensive income for the period	0	0	6,704	0	40	0	(182)	2	(269)	6,295	150	6,445
Balance as of 30 June 2018	19,005	(577)	72,507	459	117	(154)	(63)	(5)	595	91,884	3,219	95,103

*Capital and reserve funds and retained earnings as of 30 Jun 2018 consist of other funds created from profit in the amount of CZK 4,671 million (1 Jan 2018: CZK 4,671 million), net profit from the period in the amount of CZK 6,753 million (1 Jan 2018: CZK 14,930 million), and retained earnings in the amount of CZK 61,083 million (1 Jan 2018: CZK 55,079 million).

**This amount represents a gain from revaluation of debt securities (the impact of consolidating 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 2019

(CZKm)	30 Jun 2019	Restated 30 Jun 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	9,026	8,417
Non-cash and other adjustments:		
Movement of allowances and provisions (including impact of loans and advances transferred and written off)	(190)	(477)
Depreciation and amortisation expense on tangible and intangible fixed assets	1,186	883
Gains/(losses) from the sale of assets	(14)	(17)
Revaluation of derivatives	641	823
Accrued interest, amortisation of discount and premium	144	680
Profit/(loss) on subsidiaries and associates	(200)	(200)
Other changes	(25)	364
Operating profit before change in operating assets and liabilities	10,568	10,473
Changes in assets and liabilities from operating activities after non-cash adjustments:		
Amounts due from banks (received/paid)	(91,678)	(81,334)
Loans and advances to customers	(16,909)	(28,138)
Debt securities at amortised cost	(3,351)	(4,371)
Financial assets at fair value through other comprehensive income	(6,377)	(1,387)
Financial assets at fair value through profit and loss	(3,596)	0
Financial assets at fair value through profit and loss – non-SPPI	0	(5,259)
Other assets	(132)	429
Amounts due to banks (received/paid)	31,776	38,326
Amounts due to customers	80,819	69,486
Financial liabilities at fair value through profit and loss	930	147
Other liabilities	5,847	2,067
Net cash flow from operating assets and liabilities	(2,671)	(10,034)
Net cash flow from operating activities before tax	7,897	439
Income tax paid	(1,581)	(1,478)
Net cash flow from operating activities	6,316	(1,039)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received (including associated undertakings)	239	219
Purchase of tangible and intangible assets	(1,260)	(1,156)
Sale of tangible and intangible assets	14	17
Lease liabilities	(204)	0
Purchase of investments in subsidiaries and associates	(16)	0
Sale/decrease of investments in subsidiaries and associates	55	221
Net cash flow from investment activities	(1,172)	(699)

(CZKm)	30 Jun 2019	Restated 30 Jun 2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(9,612)	(8,876)
Dividends paid to non-controlling interest	(576)	(644)
Purchase of own shares	0	0
Securities issued	2,616	2,429
Securities redeemed	0	0
Subordinated debt	(28)	52
Increase in minority equity	0	0
Net cash flow from financing activities	(7,600)	(6,976)
Net increase/(decrease) in cash and cash equivalents	(2,456)	(8,714)
Cash and cash equivalents at the beginning of the year	23,247	24,308
Net increase/(decrease) in cash and cash equivalents	(2,456)	(8,714)
Foreign exchange differences on cash and cash equivalents at the beginning of the year	(70)	111
Cash and cash equivalents at the end of the year	20,721	15,705
Interest received	20,582	15,317
Interest paid	(8,679)	(3,844)

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

Notes to the Consolidated Financial Statements

Period ended 30 June 2019

1. Events for the period ended 30 June 2019

Dividends declared in respect of the year ended 31 December 2018

In accordance with the resolution of the Bank's General Shareholders' meeting held on 24 April 2019, the Bank paid out CZK 9,693 million (CZK 51 per share before tax) in dividends and the remaining balance of the net profit was allocated to retained earnings. Moreover, the Group decided to pay out CZK 188 million in dividends to non-controlling owners of ESSOX s.r.o and CZK 388 million to non-controlling owners of SG Equipment Finance Czech Republic.

Changes in equity investments in subsidiaries and associates in 2019

As of 7 January 2019, KB SmartSolutions, s.r.o. was established as a wholly owned subsidiary of the Bank. Share capital of the company was CZK 100,000 upon establishment. At the same time, the Bank increased the equity of the company by CZK 18 million through a financial contribution into other capital funds. KB SmartSolutions, s.r.o. is a consolidated part of the Bank.

As of 8 January 2019, My Smart Living, s.r.o., was established as a wholly owned subsidiary of KB SmartSolutions, s.r.o.. Share capital of My Smart Living, s.r.o. was CZK 100,000 upon establishment. At the same time, KB SmartSolutions, s.r.o. increased equity of the company by CZK 16 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.

With regard to fulfilment of conditions established in the agreement on the 2005 sale of an interest in Komerční pojišťovna, a.s., financial settlement was made with Sogecap, S.A. during the second quarter of 2019. The Bank received a one-off financial payment of CZK 55 million.

The Consolidated Financial Statements presented for the period ended 30 June 2018 are based on the current best estimates. The management of the Group believes they present a true and fair view of the Group's financial results and financial position 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 2019 there occurred no unusual transactions.

2. Principal accounting policies

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

2.1. Leases

2.1.1. First-time application of IFRS 16 Leases

As of 1 January 2019, the Group has applied the new standard IFRS 16 Leases as endorsed by the European Commission in October 2017, superseding the current standard IAS 17 and related interpretations. In compliance with the transitional provisions of IFRS 16, the Group elected the modified retrospective approach, i.e. without restatement of comparative information. Consequently, the accounting principles applicable to leases and the related disclosures presented in the Notes to the Consolidated Financial Statements have been amended as from 1 January 2019. Refer to Note 2.1.2. for accounting principles and for quantitative information to Notes 7 and 11.

Accounting treatment under IFRS 16

IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The standard newly requires lessees to account for leases under a single on-balance sheet model, an approach applicable for almost all leases with the optional exceptions for short-term leases and leases of low-value items. The lessee is required to recognise in the statement of financial position a right-of-use asset representing its right to use the underlying asset for the lease term and a lease liability representing its obligation to make lease payments. In its statement of income, the lessee is required to separately recognise the depreciation charge of the right-of-use asset and interest expense on the lease liability.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. A lessor continues to classify leases as operating or finance leases using similar principles as in IAS 17. Therefore, the Group was not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for subleases. Under IFRS 16, the lessor is required to assess the classification of a sublease with reference to the right-of-use asset, not by reference to the underlying asset as was the case under IAS 17. Because of this change, the Group has reclassified certain of its sublease contracts as finance leases.

Transition requirements and impacts of the first-time application

The Group applied IFRS 16 using the modified retrospective approach, i.e. without restatement of comparative information. At transition to IFRS 16, for leases previously classified as operating leases, the Group measured lease liabilities at the present value of the remaining lease payments, discounted at the incremental borrowing rate as of 1 January 2019, and right-of-use assets at an amount equal to the lease liabilities. When initially applying IFRS 16, the Group made use of some of the practical expedients that the standard allows for leases previously classified as operating leases, in particular the application of a single discount rate to a portfolio of leases with reasonably similar characteristics, the application of the exemption not to recognise lease liabilities and right-of-use assets to leases for which the underlying asset is of low value, and use of hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The most significant changes from the lessee's point of view arise in respect of leases previously classified as operating leases under IAS 17, where in the context of implementing IFRS 16 the Group recognised as of 1 January 2019 right-of-use assets within 'Tangible assets' in the amount of CZK 2,780 million and similarly lease liabilities within 'Financial liabilities at amortised cost' in the amount of CZK 2,724 million. The corresponding weighted average lessee's incremental borrowing rate as of 1 January 2019 was approximately 1.7%. The first-time application of IFRS 16 had no impact on the amount of the Group shareholders' equity. The vast majority of lease contracts relates to leases of office buildings and branches. The Group uses the option allowed by the standard not to apply the requirements of IFRS 16 to intangible assets.

Impacts on the Statement of Financial Position balances as of 1 January 2019

(CZKm)	IAS 17 as of 31 December 2018	IFRS 16 first time application impacts	IFRS 16 as of 1 January 2019
Financial assets at amortised cost	951,103	5	951,108
– Loans and advances to banks	256,268	-	256,268
– Loans and advances to customers	624,954	5	624,959
– Debt securities	69,881	-	69,881
Tangible assets	7,676	2,633	10,309
– Land	350	-	350
– Buildings	5,238	-	5,238
– Fittings, fixtures and other	1,250	(147)	1,103
– Tangible assets under construction	838	-	838
– Right-of-use assets	N/A	2,780	2,780
Financial liabilities at amortised costs	907,261	2,724	909,985
– Amounts due to banks	92,270	-	92,270
– Amounts due to customers	812,451	-	812,451
– Securities issued	2,540	-	2,540
– Lease liabilities	-	2,724	2,724
Other liabilities and accruals	13,420	(86)	13,334
– Accruals and deferred income	489	-	489
– Other liabilities	12,931	(86)	12,845
Total impact on assets	-	2,638	-
Total impact on liabilities	-	2,638	-

2.1.2. Leases under IFRS 16, policy applicable from 1 January 2019

The Group as lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease (as lessee) and the sublease (as lessor) as two separate contracts. The sublease is classified as finance or operating lease by reference to the right-of-use asset arising from the head lease.

Operating leases

The Group presents assets that are the subject of an operating lease in the appropriate lines within the Statement of Financial Position according to the nature of those assets and uses for them the accounting policies applied to the relevant asset class.

Lease payments received from operating leases are recognised as the Group's income on a straight-line basis over the term of the relevant lease under '*Other income*'.

Finance leases

In respect of assets held under finance leases, the net investment in the lease is recognised as '*Financial assets at amortised cost*' while the assets themselves (or its leased part) are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income.

Lease income is recognised over the lease term, reflecting a constant periodic rate of interest on the remaining balance of the receivable, and it is presented in the line '*Interest income*'.

The Group as lessee

In accordance with IFRS 16, as from 1 January 2019 the accounting for leases from the lessee's point of view ceases to distinguish between finance leases and operating leases. The standard newly provides a single on-balance sheet accounting model with the optional exceptions for short-term leases and leases of low-value items. The vast majority of lease contracts relates to leases of office buildings and branches.

Initial measurement

At the commencement date of a lease, a right-of-use asset is recognised in the Statement of Financial Position within '*Tangible assets*', i.e. the line item within which the Group presents underlying assets of the same nature that it owns. Simultaneously, a lease liability is recognised within '*Financial liabilities at amortised cost*' in an amount equal to the present value of the lease payments to be paid over the lease term, discounted at the incremental borrowing rate.

The lease payments considered for the measurement include fixed and variable lease payments based on an index or rate (e.g. inflation indices), plus, where applicable, the funds that are expected to be payable to the lessor under residual value guarantees, purchase options, or early termination penalties. The lease payments are considered net of value-added tax. The lease term determined according to the standard lease contracts comprises the non-cancellable period of a lease, periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. For lease contracts with indefinite period of time the lease term is determined as the expected lease term based on the estimated lease duration.

The contracts may contain both lease and non-lease components, such as supply of additional services. As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for lease and associated non-lease components as a single lease component. For these contracts in general, the Group has elected not to use this practical expedient.

Subsequent measurement

For the right-of-use asset, the Group uses similar accounting policies as for its own assets of the same nature. The right-of-use asset is measured at cost, less accumulated depreciation and impairment losses, and adjusted for any remeasurements of the lease liability. The right-of-use asset is depreciated on a straight-line basis over the lease term and the depreciation is reported in the Statement of Income in the line '*Depreciation, amortization, and impairment of operating assets*'. If the legal ownership of the asset held under a lease is transferred to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects the exercise price of a purchase option, however, the asset is depreciated on a straight-line basis over the useful life of the underlying asset.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The Group divides lease payments between amortisation recognised as the reduction of the outstanding lease liability and a finance charge recognised in the Statement of Income as '*Interest expense*'.

The amount of the lease liability may be adjusted if the lease is amended, the lease term is re-estimated, or to account for contractual changes in future lease payments arising from a change in an index or rate. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Exceptions

In case of certain short-term leases and leases of low-value items, the lease payments are recognised on a straight-line basis over the lease term and presented in the line '*General and administrative expenses*'. Short-term leases are leases with a lease term of 12 months or less. Leases of low-value items relate to leases for which the underlying asset when new is of low value, defined by the Group using a materiality threshold of CZK 100,000 per unit of the leased asset. The low-value exception is applied especially to leases of printing devices.

The Group uses the option allowed by the standard not to apply the provisions of IFRS 16 to intangible assets leases.

The Group as a lessee recognised in the Statement of Financial Position as of 30 June 2019 right-of-use assets within '*Tangible assets*' in the amount of CZK 2,981 million and lease liabilities within '*Financial liabilities at amortised cost*' in the amount of CZK 2,939 million. Related expenses for the period ended 30 June 2019 recognised in the Statement of Income included a depreciation charge for the right-of-use assets in the amount of CZK 221 million and interest expense on the lease liabilities in the amount of CZK 24 million. For detailed quantitative disclosures, refer to Notes 7 and 11. The impacts of the first-time application of IFRS 16 are specified in Note 2.1.1.

2.2. Other changes in accounting policies

As of 1 January 2019 the Group has changed the reporting of commitment fees – newly recognised in the line '*Net interest income*', previously in the line '*Net fee and commission income*'. This reclassification is without any impact on total Net profit for the period.

	Reported	Restated
(CZKm)	30 Jun 2018	30 Jun 2018
Net interest income	10,793	10,887
Net fee and commission income	3,077	2,983

The Group modified the method of presenting interest paid on securities in the Statement of Cash Flows. Previously, this was reported as part of transactions with securities and now it is reported as accrued interest. The comparable period was restated.

3. Segment reporting

(CZKm)	Retail banking		Corporate banking		Investment banking		Other		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net interest income	7,833	7,114	3,353	3,061	451	202	122	510	11,759	10,887
Net fee and commission income	2,052	2,106	937	874	(41)	(43)	13	46	2,961	2,983
Net profit on financial operations	616	507	855	720	268	103	135	77	1,338	1,407
Dividend income	0	0	0	0	0	0	3	3	3	3
Other income	75	73	(20)	(15)	126	150	(70)	(91)	111	117
Net operating income	10,576	9,800	5,125	4,640	268	412	203	545	16,172	15,397

From 1 January 2019, the Group modified its method of allocating internal interest expense between individual segments and reflected changes in accounting policies. Comparative information was restated in accordance with the reporting of the current period.

Given the specifics of banking activities, the Board of Directors of the Bank (the chief operating decision maker) is provided with information on other income, creation 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 rate conditions, including the liquidity component reflecting the existing opportunities 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 2019	31 Dec 2018
Equity instruments at FVOCI option	465	356
Debt securities at FVOCI	31,798	24,909
Financial assets at fair value through other comprehensive income	32,263	25,265

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

5. Financial assets at amortised cost

Financial assets at amortised cost comprise the following:

(CZKm)	30 Jun 2019	31 Dec 2018
Loans and advances to banks	349,218	256,268
Loans and advances to customers	641,514	624,954
Debt securities	73,137	69,881
Financial assets at amortised cost	1,063,869	951,103

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

As of 30 June 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	301,127	0	0	301,127	0	0	0	0	301,127
Government institutions	21,442	617	301	22,360	(12)	(1)	(29)	(42)	22,318
Credit institutions	47,198	848	47	48,093	0	(2)	0	(2)	48,091
Other financial institutions	37,230	335	42	37,607	(29)	(2)	(4)	(35)	37,572
Non-financial corporations	234,447	16,059	7,968	258,474	(451)	(352)	(4,969)	(5,772)	252,702
Households*	312,789	14,412	6,641	333,842	(272)	(697)	(3,951)	(4,920)	328,922
Total loans	954,233	32,271	14,999	1,001,503	(764)	(1,054)	(8,953)	(10,771)	990,732
Central banks	0	0	0	0	0	0	0	0	0
Government institutions	69,773	0	0	69,773	(7)	0	0	(7)	69,766
Credit institutions	100	0	0	100	0	0	0	0	100
Other financial institutions	351	0	0	351	0	0	0	0	351
Non-financial corporations	2,920	0	0	2,920	0	0	0	0	2,920
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	73,144	0	0	73,144	(7)	0	0	(7)	73,137

* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2018, '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	204,776	0	0	204,776	0	0	0	0	204,776
Government institutions	23,782	519	342	24,643	(14)	(1)	(33)	(48)	24,595
Credit institutions	50,534	889	71	51,494	(1)	(1)	0	(2)	51,492
Other financial institutions	29,687	344	49	30,080	(29)	0	(8)	(37)	30,043
Non-financial corporations	232,031	15,700	9,810	257,541	(416)	(428)	(5,931)	(6,775)	250,766
Households*	300,860	16,942	7,059	324,861	(269)	(762)	(4,280)	(5,311)	319,550
Total loans	841,670	34,394	17,331	893,395	(729)	(1,192)	(10,252)	(12,173)	881,222
Central banks	0	0	0	0	0	0	0	0	0
Government institutions	65,520	0	0	65,520	(7)	0	0	(7)	65,513
Credit institutions	1,129	0	0	1,129	0	0	0	0	1,129
Other financial institutions	350	0	0	350	0	0	0	0	350
Non-financial corporations	2,889	0	0	2,889	0	0	0	0	2,889
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	69,888	0	0	69,888	(7)	0	0	(7)	69,881

* This item also includes loans granted to individual entrepreneurs.

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

(CZKm)	30 Jun 2019	31 Dec 2018
Agriculture, forestry and fishing	10,724	11,187
Mining and quarrying	3,046	3,959
Manufacturing	67,631	65,405
Electricity, gas, steam and air conditioning supply	15,369	15,223
Water supply, sewerage, waste management and remediation activities	1,643	2,041
Construction	11,513	10,345
Wholesale and retail trade, repair of motor vehicles and motorcycles	41,340	47,776
Transportation and storage	15,659	18,512
Accommodation and food service activities	1,550	1,502
Information and communication	6,001	6,529
Real estate activities	49,741	45,667
Professional, scientific and technical activities	6,052	5,152
Administrative and support service activities	6,204	6,027
Public administration and defence, compulsory social security	371	347
Education	321	231
Human health and social work activities	2,057	2,065
Arts, entertainment and recreation	3,975	3,914
Other service activities	15,277	11,659
Total loans and advances to non-financial corporations	258,474	257,541

Broken out below are the types of collateral held to secure loans and advances to customers as stated in the Consolidated Statement of Financial Position as of 30 June 2019:

Loan collateral value applied to loans and advances to customers*					
(CZKm)	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	239,442	29,591	7,595	17,076	25,134
of which:					
Other financial institutions	52	1,275	0	781	7,402
Non-financial corporations	2,232	24,956	1,264	16,283	12,594
Households**	237,076	3,336	6,299	2,577	608

* 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, among 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 2018:

Loan collateral value applied to loans and advances to customers*					
(CZKm)	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	233,103	27,264	7,837	16,436	24,889
of which:					
Other financial institutions	54	324	256	476	6,988
Non-financial corporations	2,112	23,392	1,232	14,992	12,389
Households**	230,848	3,518	6,312	835	599

* 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, among 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, comprised the following as of 30 June 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
Government institutions	5,306	10	5,316	12,643	17,138	29,781	69,755	11	69,766
Credit institutions	77	0	77	0	2,017	2,017	100	0	100
Other financial institutions	40	0	40	0	0	0	351	0	351
Non-financial corporations	1	992	993	0	0	0	2,452	468	2,920
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	5,424	1,002	6,426	12,643	19,155	31,798	72,658	479	73,137

* This item also includes individual entrepreneurs.

The Group's debt securities, broken out by sector and currency, comprised the following as of 31 December 2018:

(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
Government institutions	3,144	14	3,158	5,402	17,466	22,868	65,503	11	65,514
Credit institutions	77	0	77	0	2,041	2,041	1,128	0	1,128
Other financial institutions	0	0	0	0	0	0	350	0	350
Non-financial corporations	13	0	13	0	0	0	2,437	452	2,889
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	3,234	14	3,248	5,402	19,507	24,909	69,418	463	69,881

* This item also includes individual entrepreneurs.

7. Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise the following:

(CZKm)	30 Jun 2019	31 Dec 2018
Amounts due to banks	124,838	92,270
Amounts due to customers	892,996	812,451
Securities issued	5,183	2,540
Lease liabilities	2,939	N/A
Financial liabilities at amortised cost	1,025,956	907,261

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

(CZKm)	30 Jun 2019	31 Dec 2018
Central banks	0	0
Government institutions	129,036	92,651
Credit institutions	124,838	92,270
Other financial institutions	95,832	63,805
Non-financial corporations	268,446	263,470
Households*	399,682	392,525
Total amounts due to banks and customers	1,017,834	904,721

* This item also includes amounts due to individual entrepreneurs.

Securities issued

Securities issued comprise the following:

(CZKm)	30 Jun 2019	31 Dec 2018
Mortgage bonds	1,017	1,008
Depository bills of exchange	4,166	1,532
Total securities issued	5,183	2,540

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 2019	31 Dec 2018
In less than one year	0	0
In one to five years	1,017	1,008
In five to ten years	0	0
In ten to twenty years	0	0
in twenty to thirty years	0	0
Total mortgage bonds	1,017	1,008

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

Name	Interest rate	Currency	Issue date	Maturity date	30 Jun 2019 (CZKm)	31 Dec 2018 (CZKm)
HZL Komerční banky, a.s. CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	1,017	1,008
Total mortgage bonds					1,017	1,008

8. Provisions

Provisions comprise the following:

(CZKm)	30 Jun 2019	31 Dec 2018
Provisions for contracted commitments	472	476
Provisions for other credit commitments	1,071	1,147
Provisions for restructuring	168	230
Total provisions	1,711	1,853

The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise 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 2019, the Group adjusted the amount of provisions for restructuring related to the KB Change transformation project. The change in the provisions includes use of provisions covering expenses incurred in the first half of 2019 and is reported on the Income Statement in lines 'General administrative expenses' in the amount of CZK 6 million and 'Personnel expenses' in the amount of CZK 56 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 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

(CZKm)	Retirement benefits plan	Provisions for loyalty and jubilee bonuses	Other provisions for contracted commitments	Provisions for restructuring	Total
Balance at 1 January 2018	368	0	149	0	517
Charge	13	0	28	294	335
Release	(7)	0	(40)	0	(47)
Use	0	0	(7)	0	(7)
Accrual	3	0	0	0	3
Remeasurement	0	0	0	0	0
Foreign exchange difference	0	0	1	0	1
Balance at 30 June 2018	377	0	131	294	802

9. Commitments and contingent liabilities

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 30 June 2019. 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 19 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 2019, the Group conducted a review of legal proceedings it had 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 2019	31 Dec 2018
Non-payment guarantees, including commitments to issued non-payment guarantees	37,265	34,921
Payment guarantees, including commitments to issue payment guarantees	19,431	16,718
Committed facilities and unutilised overdrafts	10,046	10,866
Undrawn credit commitments	84,083	77,149
Unutilised overdrafts and approved overdraft loans	14,290	15,756
Unutilised limits under framework agreements to provide financial services	6,033	7,930
Open customer/import letters of credit uncovered	345	426
Stand-by letters of credit uncovered	2,849	3,616
Confirmed supplier/export letters of credit	1,170	1,083
Total commitments and contingencies	175,512	168,465

As of 30 June 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
Government institutions	14,844	0	0	14,844	6	0	0	6
Credit institutions	3,807	0	0	3,807	1	0	0	1
Other financial institutions	11,675	1	2	11,678	7	0	0	7
Non-financial corporations	100,163	1,850	1,412	103,425	72	30	883	985
Households*	41,311	412	35	41,758	34	22	16	72
Total commitments and contingencies	171,800	2,263	1,449	175,512	120	52	899	1,071

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

As of 31 December 2018, 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
Government institutions	13,872	663	0	14,535	5	0	0	5
Credit institutions	2,691	0	0	2,691	1	0	0	1
Other financial institutions	6,047	108	2	6,157	5	0	0	5
Non-financial corporations	98,470	3,319	1,580	103,369	73	62	933	1,068
Households*	40,913	766	34	41,713	31	23	14	68
Total commitments and contingencies	161,993	4,856	1,616	168,465	115	85	947	1,147

* 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 2019	31 Dec 2018
Agriculture, forestry and fishing	3,298	2,738
Mining and quarrying	1,219	408
Manufacturing	24,472	25,417
Electricity, gas, steam and air conditioning supply	4,129	5,319
Water supply, sewerage, waste management and remediation activities	649	835
Construction	33,748	30,067
Wholesale and retail trade, repair of motor vehicles and motorcycles	10,910	10,123
Transportation and storage	3,931	4,980
Accommodation and food service activities	387	219
Information and communication	3,143	3,256
Real estate activities	5,266	8,078
Professional, scientific and technical activities	9,122	8,640
Administrative and support service activities	833	754
Public administration and defence, compulsory social security	160	252
Education	314	467
Human health and social work activities	369	312
Arts, entertainment and recreation	988	1,221
Other service activities	487	283
Total commitments and contingencies to non-financial corporations	103,425	103,369

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 2019		31 Dec 2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	22,425	22,425	24,851	24,851
Financial assets at amortised cost	1,063,869	1,072,911	951,103	951,518
– Loans and advances to banks	349,218	349,401	256,268	256,169
– Loans and advances to customers	641,514	648,474	624,954	624,334
– Debt securities	73,137	75,036	69,881	71,015
Financial liabilities				
Amounts due to central banks	1	1	1	1
Financial liabilities at amortised cost	1,025,956	1,025,457	907,261	906,850
– Amounts due to banks	124,838	124,799	92,270	92,197
– Amounts due to customers	892,996	892,996	812,451	812,446
– Securities issued	5,183	4,723	2,540	2,207
– Lease liabilities	2,939	2,939	N/A	N/A
Subordinated debt	2,550	2,550	2,578	2,578

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 2019				31 Dec 2018			
	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	22,425	8,367	0	14,058	24,851	8,504	0	16,347
Financial assets at amortised cost	1,072,911	71,006	3,596	998,309	951,518	66,940	3,600	880,978
– Loans and advances to banks	349,401	0	0	349,401	256,169	0	0	256,169
– Loans and advances to customers	648,474	0	0	648,474	624,334	0	0	624,334
– Debt securities	75,036	71,006	3,596	434	71,015	66,940	3,600	475
Financial liabilities								
Amounts due to central banks	1	0	0	1	1	0	0	1
Financial liabilities at amortised cost	1,025,457	0	0	1,025,457	906,850	0	0	906,850
– Amounts due to banks	124,799	0	0	124,799	92,197	0	0	92,197
– Amounts due to customers	892,996	0	0	892,996	812,446	0	0	812,446
– Securities issued	4,723	0	0	4,723	2,207	0	0	2,207
– Lease liabilities	2,939	0	0	2,939	N/A	N/A	N/A	N/A
Subordinated debt	2,550	0	0	2,550	2,578	0	0	2,578

11. Transfers between levels of the fair value hierarchy

There were no transfers between levels during the first half of 2019.

12. Events after the reporting period

No significant event occurred after the reporting period.

| Ratings

Ratings of Komerční banka as of 30 June 2019*

	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 2019, the shareholders consisted of 48,834 legal entities and private individuals, of which 43,451 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 2019
(per the extract from the issuers register taken from the Central Securities Depository)

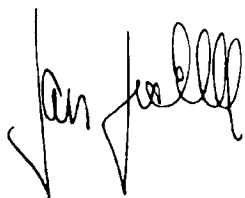
Shareholder	Proportion of share capital
Société Générale S.A.	60.35%
Chase Nominees Limited	5.36%
Nortrust Nominees Limited	4.29%
Clearstream Banking S.A.	2.26%
GIC Private Limited	1.82%
J.P. Morgan Bank	1.74%
State Street Bank and Trust Company	1.43%
Other shareholders	22.75%

| Management affidavit

To the best of our knowledge, we believe 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 2019, 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 2019

Signed on behalf of the Board of Directors:



Jan Uchelka

Chairman of the Board of Directors
and Chief Executive Officer



Vladimír Jeřábek

Member of the Board of Directors