


partnership
sustainability
responsibility

NA PARTNERSTVÍ ZÁLEŽÍ

Half-yearly report 2013

Komerční banka, a.s.

Contents

Contacts

Komerční banka, a.s.
Na Příkopě 33, 114 07 Prague 1
Telephone: (+420) 485 262 800
Facsimile: (+420) 224 243 020
Email: mojebanka@kb.cz
Internet: www.kb.cz

Contact for shareholders and investors:
Investor relations
Telephone: +420 955 532 155,
+420 955 532 156,
+420 955 532 734
Fax: +420 224 229 315
Email: investor_relations@kb.cz

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/en/about-the-bank/investor-relations/index.shtml**. Additional information on corporate social responsibility and ethics at KB is available in the section About the bank at **http://www.kb.cz/en/about-the-bank/about-us/basic-information.shtml**. Information about KB's products and services is accessible from the homepage **www.kb.cz/en**.

Profile of Komerční banka Group

Komerční banka, a.s. (hereinafter also "KB" or the "Bank") is the parent company of KB Group (hereinafter also the "Group") and is a member of the Société Générale international financial group. Komerční banka 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 fund and building society schemes, leasing, factoring, consumer lending and insurance – 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.

Komerční banka is the only listed Czech bank. As of 30 June 2013, the number of shareholders was 44,862, of which, 39,807 were individuals resident in the Czech Republic.

Vision and Mission

Long-term mutually beneficial relationships with clients and other stakeholders

Komerční banka is a universal bank based on a multi-channel model. KB presents to its clients a comprehensive range of financial products and services. Through constant innovation, the Bank endeavours to meet its customers' evolving needs while tailoring its offer to suit specific clients.

To create value for clients, shareholders and employees

KB focuses on continuously developing its business activities while prudently managing the related risks. Co-operation with other members of KB Group, with companies from SG Group, and with other, independent partners allows the Bank to provide highly sophisticated products and gives it a flexibility that is indispensable in a constantly changing environment. The excellent know-how and experience of the Group's employees ensure that the products portfolio is fully competitive. At the same time, Komerční banka is aware of the responsibilities stemming from its position as a leading Czech financial institution.

Principles of Corporate Social Responsibility

Code of conduct

Komerční banka recognises that only by taking an ethical and unimpeachable approach to doing business and providing financial services can it hope to maintain and even strengthen its position in the banking sector. The Bank also acknowledges that a fundamental prerequisite to successfully developing the company consists in the 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 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, which applies to all KB employees without exception, and to endeavour always to adhere to those standards.

Corporate governance

Komerční banka adheres to and voluntarily 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 athttp://www.mfcr.cz/cs/o-ministerstvu/spoluprace-s-institucemi/2005/oecd-organizace-pro-hospodarskou-spolup-11634.

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 should on the one hand eliminate any negative influence 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 focus is needed. Subsequently it adopts measures leading to effectively diminishing any negative influence on the environment.

Strategy

KB is developing a universal-banking model. Komerční banka strives to build long-term, mutually beneficial relationships with its clients, allowing it to precisely identify dynamic changes in clients' needs and expectations and constantly adapt its services offer according to this knowledge. KB's strategy is based on superior client knowledge and level of services as well as operational efficiency and prudent risk management. Its investment banking activities are primarily focused on serving clients while trading on the Bank's own account is a complementary activity constrained by conservative limits.

The Group's ambition in retail is to outperform market growth in the areas of consumer loans, mortgages, and lending to small business clients. KB aims to protect its deposit base and achieve profitable growth in the volume of clients' assets under management, especially by providing value-adding advisory to clients and developing a comprehensive solution for long-term savings and investments.

In the corporate segment, KB aims to reinforce its position as the reference bank for businesses as well as its strategic partnerships with clients while augmenting the Group's market shares in overall financing drawn by that clientele and in serving their financial needs. Attention is devoted to providing high added value services to corporate clients, including expert advisory capabilities developed within knowledge centres for selected areas and sectors.

KB runs on an efficient operating model founded upon disciplined cost management wherein expenditures planning is closely tied to expected revenues development.

In managing its risks, the Group takes a prudent and balanced approach to all types of risks assumed. It aims at the same time to support the development of its business activities, including sustainably to grow its lending activities while bolstering the Group's market positions. The objective is to ensure profitable credit and market activities across the business cycle while preserving a sound balance sheet with strong capital and liquidity ratios.

KB's long-term soundness and flexibility are assured by maintaining robust capital strength and an ample liquidity position, both of which are fully compliant with heightened regulatory requirements. Capital and liquidity are the foundations that reinforce KB's standing in the lending market and will allow the Bank potentially to take advantage of selected and attractive acquisition opportunities, should these present themselves in future.

Highlights from 2013's First Half

January

From 1 January 2013, KB Penzijní společnost began offering new funds and a full range of investment strategies in the second and third pillars of the Czech Republic's reformed pension system. It continues, too, in managing the transformed fund.

Since the beginning of 2013, Komerční banka has been offering mortgages and consumer loans with no loan administration fee.

February

Komerční pojišťovna presented as part of its Vital Invest life insurance new secured funds, known as Certus and Certus 2, that guarantee return of the invested amount at the funds' maturity in 6 years and offer potential gains of up to 9.3% p.a. Equity investments in the funds are directed to the food and pharmaceutical industries.

KB's corporate credit card was named the Commercial Card of 2012 in the Czech Republic by MasterCard. The KB corporate card comprises a comprehensive solution for monitoring and evaluating employees' business expenses, then exporting this data to bookkeeping systems.

March

KB introduced the new KB Bonus Aktiv savings account, which has no notice period to tie up clients' savings. Its owners can enjoy attractive returns while having instant access on demand to their deposited money. Deposits earn a two-component rate comprised of the basic interest rate and a bonus rate. To earn the bonus, clients need only to actively use any of their KB-issued payment cards to make payments at merchants.

With the new Program KB Rodina (KB Family) scheme, clients can choose anyone as a partner for jointly collecting benefits from the MojeOdměny (My Rewards) scheme. If the conditions of the scheme are met, both clients can get back their monthly fees for account maintenance or for ATM cash withdrawals, receive financial rewards for their banking activity, or accrue additional savings on their pension accounts.

KB included the Transparent Account service into its offer. This service makes it possible for a client to disclose via KB's website an overview of transactions executed through its bank accounts. While non-profit and public sector entities will particularly appreciate the new service, which is completely free of charge, any of Komerční banka's clients can request this service.

For the third consecutive year, KB Penzijní společnost has been named in 2013 the best pension fund in the Czech Republic. Again, the recognition came from World Finance magazine as well as from the Global Banking and Finance Review portal.

April

KB started financing its SME clients' innovative projects under a guarantee agreement concluded with the European Investment Fund (EIF). Clients are able to draw loans on more advantageous terms and with more permissive security requirements in total volume of up to CZK 2.5 billion for a broad range of innovations – from development of new technologies, products and services to process optimisation.

At Komerční banka's Annual General Meeting, held on 24 April 2013, the shareholders approved a dividend payment of CZK 8,742 million. That is CZK 230 per share and represents a payout ratio of 62.3%.

The shareholders approved the Board of Directors' Report for the year 2012, the annual financial statements, as well as proposals for distributing the 2012 profit and the discretionary part of remuneration for members of the Board of Directors.

In addition, the General Meeting elected members of the Supervisory Board and members of the Audit Committee.

Members of the Supervisory Board are the following: Mr Laurent Goutard, with effect from 1 May 2013; Mr Petr Laube, with effect from 1 May 2013; Mr Jean-Luc Parer, with effect from 25 April 2013; and Mr Giovanni Luca Soma, with effect from 1 May 2013.

Members of the Audit Committee are the following: Mr Petr Laube, with effect from 30 April 2013; Mr Jean-Luc Parer, with effect from 25 April 2013; and Mr Giovanni Luca Soma, with effect from 25 April 2013.

The Annual General Meeting extended KB's authorisation to acquire treasury shares representing up to 10% of its registered capital within the price range of CZK 1 to CZK 6,000.

May

Telefónica Czech Republic chose ESSOX s.r.o. (ESSOX) as provider of financing for mobile handsets for its clients. The clients can pay by instalments over as long as 24 months from the purchase date for any selected device from the Telefónica O_2 offer – and while paying no added finance charge.

June

At its meeting on 25 June 2013, the Supervisory Board of Komerční banka elected Mr Albert Le Dirac'h as a new Member of the Board of Directors with effect from 2 August 2013. On the same day, the Board of Directors of Komerční banka elected Mr Le Dirac'h Chairman of the Board of Directors and Chief Executive Officer with effect from 2 August 2013. This followed an earlier decision by Mr Henri Bonnet to retire from both positions with effect from 1 August 2013.

KB's Flexible Mortgage won the Zlatá koruna (Golden Crown) award, recognising it as the best mortgage on the Czech market.

Macroeconomic Development in the First Half of 2013

The macroeconomic picture from the first half of the year was highly unfavourable from a banking sector perspective. Development during the first quarter – a time when last year's recession continued to deepen – was especially disappointing. Preliminary reports available from the second quarter pointed to a certain stabilisation. The domestic economy was suffering due to the high proportion of industry that is in recession within the euro zone and to weak domestic demand. Meanwhile, declining inflation validated the central bank's policy of extremely low interest rates.

The longest recession in history continued also at the beginning of this year, when the Czech economy fell to a local low point. Real GDP was down by 1.2% for all of 2012, and the year-on-year decline deepened to -2.4% in the first quarter of 2013. The economy worsened by 1.3% quarter on quarter for the first quarter alone. Added value decreased not only in manufacturing but in sectors all across the economy. It should be noted that certain one-off factors in the form of extremely unfavourable weather in March and stockpiling of tobacco products in anticipation of an excise tax increase from the beginning of this year contributed to the significantly worse results. The temporary nature of the aforementioned factors thus improves the prospects for subsequent quarters this year. For the first quarter, demand-side GDP also offered hope for an end to the long-enduring recession. In comparison with the final quarter of 2012, growth was recorded in household and government consumption, investment activity was slightly higher, and net exports recorded a positive contribution. Therefore, only inventory effects were behind the contraction in economic output, and this, by contrast, should have a positive effect for the remainder of the year. KB anticipates modest year-on-year growth in real GDP from the second quarter, which probably will not be sufficient to compensate for the slump from the beginning of the year. In August, KB anticipates an average 0.8% decline year-on-year in real GDP for the year.

Recession in the euro zone contributed to decreasing foreign trade dynamics, which means a year-on-year decline in demand for Czech exports. Similarly, imports decreased due to weak domestic demand. Although in the second half of the year the situation is stabilising, total exports for 2013 will improve only minimally versus 2012. Imports will probably be even slightly lower. This should result in improvement of the foreign trade balance to a new record, but from the perspective of their contribution to the growth of real GDP the effect of net exports this year will be minimal. The automotive sector has a significant share in Czech industrial output, and it faces notable decline in Europe. Industrial production recorded a drop of 3.6% in real terms from January to May.

Shrinking domestic demand is especially contributing to the longest recession in the history of the Czech Republic. This situation should stabilise this year, however. During the course of 2013's first half, we already witnessed increasing consumer confidence, which has rebounded since hitting rock bottom last year in May. Undoubtedly contributing to this were the facts that a series of austerity measures in the public finance sphere will now end after several years and that inflation has decreased considerably while having a positive impact on real household income in comparison with last year. While retail sales were still 3.0% lower year on year in the first quarter, a slight year-on-year gain was recorded already for April and May.

The situation on the labour market is entering a stabilisation phase. The recession manifested itself in an increase in the rate of unemployed individuals, which reached a historic high of 8.1% this February. Improved offerings of seasonal jobs led to a decrease in the percentage of individuals unemployed during the spring months to 7.3% as of June. The second quarter alone has already brought the first signs of stabilisation after seasonal adjustment.

The fiscal situation developed better than anticipated in the first half of this year. In combination with the continuing recession, this enabled the government to revise fiscal policy by making it less restrictive. The VAT increase and more effective tax collection from the beginning of 2013 were especially manifested in the attainment of the smallest state budget deficit for the first half of the year since 2008. The budget shortfall was CZK 31.5 billion which compares to CZK 71.7 billion for the same period in 2012.

Inflation rapidly diminished. While average inflation reached a high of 3.3% in 2012, year-on-year growth in consumer prices was a mere 1.6% in this year's first half. Fuel prices and regulated items recorded significant price slowdown this year, but adjusted inflation was lower also due to a decrease in the cost of telephone services. The disinflationary trend should continue in the second half of the year. We anticipate average inflation will be 1.5% for 2013. Accumulation of anti-inflationary factors likely means that the central bank is maintaining its monetary policy rate at technical zero (0.05%) and that it will continue to do so.

The crown has become an instrument of monetary policy in an environment of zero interest rates, and it will remain in that role. The Czech crown has already weakened against the euro through three quarters running, and that can be attributed to the activity of the central bankers. Czech National Bank Governor Miroslav Singer stated in September 2012 that, in light of extremely low interest rates and the need for additional monetary policy easing, the exchange rate will remain a central bank instrument. Following November's decrease of the key CNB rate to "technical zero" (0.05%), we in fact witnessed successful attempts by central bankers to weaken the crown through verbal intervention. KB based on the assumption that the central bankers will try to keep the crown undervalued in the second half of the year. This should gradually be reflected also in support to exports and, consequently, to real activity in the economy as a whole.

Overview of Business Activities

Clients and network

As of the end of June 2013, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,587,000 clients (-0.9% year on year), of which 1,332,000 were individuals. The remaining 255,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 586,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 563,000. ESSOX's services were being used by 266,000 active clients.

Komerční banka's clients had at their disposal 399 banking branches (including one in Bratislava), 713 ATMs, and full-featured direct banking channels supported by two call centres. The number of clients using at least one direct banking channel (such as internet or telephone banking) reached 1,133,000 by the end of June 2013 and corresponds to 71.4% of all clients. Customers held 1,581,000 active payment cards, of which 205,000 were credit cards. The number of active credit cards issued by ESSOX came to 141,000, and consumer financing from ESSOX was available through its network of 2,900 merchants. Modrá pyramida's customers had at their disposal 208 points of sale and 1,020 advisors. SG Equipment Finance (SGEF) was providing its leasing services through nine branches (two of which are in Slovakia), as well as through KB's network.

Employees

Average number of employees in KB Group in the first half 2012 amounted to 8 624; in Komerční banka itself it was 7,690. This represents a decrease by 1.9% and 1.8%, respectively. Within the total, 50 employees worked in Slovakia (for KB's Slovak branch and for SGEF) and the remaining 8,574 worked in the Czech Republic.

Financial products and services

The total gross volume of loans provided by KB Group further increased, by 4.1% to CZK 475.0 billion. All main categories of lending expanded, with the exception of building savings loans, although growth in consumer lending was only modest.

In the segment of loans to individuals, the portfolio of mortgages to individuals expanded by 7.2% year on year to CZK 137.3 billion. KB streamlined the granting process for mortgages, which enhanced the competitiveness of KB mortgages without compromising either profitability or credit risk standards. At the same time, KB's Flexible Mortgage won the Zlatá koruna (Golden Crown) award for being the best mortgage on the Czech market. The popularity of mortgages partly affected the demand for building savings loans, and the volume in Modrá pyramida's loan portfolio thus decreased by 6.8% to CZK 46.8 billion. The demand for unsecured consumer lending exhibited a noteworthy volatility. In a year-over-year comparison, the volume of consumer loans (from KB and ESSOX) rose by a slight 0.3% to CZK 27.5 billion.

The total volume of loans provided by KB Group to businesses expanded by 5.0% to CZK 258.5 billion. Among the individual types of loans, export financing grew the most dynamically, underpinned by growth in Czech exports to Eastern Europe and Asia, as well as by KB's co-operation with EGAP, the Czech Republic's export credit insurance company. The overall volume of credit granted by KB to (medium-sized and large) corporate clients in the Czech Republic and Slovakia climbed by 5.3% to CZK 205.5 billion. Lending to small businesses expanded by 1.5% to CZK 28.6 billion. Clients appreciated factoring's advantages in the presently difficult environment, and factor finance outstanding at Factoring KB grew by a strong 33.3% to CZK 4.0 billion. Total credit and leasing amounts outstanding at SGEF were up by 2.2% year over year, at CZK 20.4 billion.

The total volume of deposits[1] on KB Group's balance sheet rose by 1.8% year on year to CZK 591.0 billion. Deposits from businesses expanded by 3.7% to CZK 323.7 billion. Deposits at KB from individual clients diminished by 3.2% to CZK 157.4 billion, influenced by a transfer of some clients' savings to such non-banking products as mutual funds and life insurance. The deposit book at Modrá pyramida gained 0.9% year on year to reach CZK 71.4 billion. Client assets in the transformed fund managed by KB Penzijní společnost grew by 9.8% to CZK 34.0 billion. These client assets continued to be consolidated into the KB Group accounts.

The volumes in newly established pension funds remained small after their first six months of operations. The volume of technical reserves in life insurance at Komerční pojišťovna rose by 20.4% to CZK 31.3 billion. The volumes in mutual funds held by KB clients (managed by IKS KB and Amundi) increased by 19.5% to CZK 29.9 billion.

In the first half of 2013, KB Group continued to bring its clients a number of innovations and improvements in products and services to benefit clients:

– in pension savings

From 1 January 2013, KB Penzijní společnost began offering a full range of funds and investment strategies in the second and third pillars of the Czech Republic's reformed pension system. It continues, too, in managing the transformed fund. In the initial year 2013, KB Penzijní společnost is charging no asset management fees in the newly established funds of the second and third pillars and no fees for change of investment strategy for those funds.

[1] Excluding repo operations with clients. Total amounts due from clients expanded by 4.2% year on year to CZK 606.9 billion

– in savings and investment
The new KB Spořicí konto Bonus Aktiv has no notice period to tie up clients' savings. Its owners can enjoy attractive growth while having instant access on demand to their deposited money. Deposits earn a two-component rate comprised of the basic interest rate and a bonus rate which is subject to the use of of a payment card issued by KB for payments at merchants.

Komerční pojišťovna is presenting as part of its Vital Invest life insurance new secured funds, known as Certus and Certus 2, that guarantee a return of the invested amount at the funds' maturity in 6 years and offer potential gains of up to 9.3% p.a. Equity investments in the funds are directed to the food and pharmaceutical industries.

– in lending
Since the beginning of 2013, Komerční banka has been offering mortgages and consumer loans with no loan administration fee.

In co-operation with SG Equipment Finance Czech Republic (SGEF), KB introduced to clients from the agricultural sector the new loan product Agroúvěr Bonus Plus with an advantageous interest rate.

Telefónica Czech Republic chose ESSOX as provider of financing for mobile handsets for its clients. The clients can pay by instalments over as long as 24 months from the purchase date for any selected device from the Telefónica's O_2 offer – and without paying an added finance charge.

– in day-to-day banking
With the new Program KB Rodina (KB Family) scheme, clients can choose anyone as a partner for jointly collecting benefits from the MojeOdměny scheme. If the conditions of the scheme are met, both clients can get back their monthly fees for account maintenance or for ATM cash withdrawals, receive financial rewards for their banking activity, or accrue additional savings on their pension accounts.

KB has included the Transparent Account service into its offer. This service makes it possible for a client to disclose via KB's website an overview of transactions executed through its bank accounts. While non-profit and public sector entities will particularly appreciate the new service, which is completely free of charge, any of Komerční banka's clients can request this service.

– in supporting KB clients' businesses
KB will finance its SME clients' innovative projects under a guarantee agreement that has been concluded with the European Investment Fund. Clients will be able to draw loans on more advantageous terms and with more permissive security requirements in total volume of up to CZK 2.5 billion for a broad range of innovations – from development of new technologies, products and services to process optimisation.

Selected awards

For the third consecutive year, KB Penzijní společnost has been named in 2013 the best pension fund in the Czech Republic. Again, the recognition came from World Finance magazine as well as from the Global Banking and Finance Review portal.

KB's corporate credit card has been named the Commercial Card of 2012 in the Czech Republic by MasterCard. The KB corporate card comprises a comprehensive solution for monitoring and evaluating employees' business expenses, then exporting this data to bookkeeping systems.

KB's Flexible Mortgage won the Zlatá koruna (Golden Crown) award, recognising it as the best mortgage on the Czech market.

Comments on Consolidated Financial Results

The published financial data are from unaudited consolidated results under IFRS (International Financial Reporting Standards).

Komerční banka continued its support to consumers, businesses and communities through growth of lending during the first half of 2013. The volume of loans provided to clients increased by 4.1% year on year to CZK 475.0 billion. Deposits from clients[2] rose by 1.8% to CZK 591.0 billion in the same period.

Despite improving commercial performance, KB Group's consolidated revenues declined by 8.3% to CZK 15.5 billion. This was due in part to several one-off items booked in the previous year. The decline in recurring revenues by 4.9% was caused by very low market interest rates which limit returns from reinvestment of liquidity, persisting subdued activity in the Czech economy, and intense competition. In this context, KB sharpened further its focus on carefully managing operating costs and enhancing operational efficiency. Operating expenditures thus declined by 1.7% to CZK 6.4 billion. The quality of the assets portfolio remained good, and the cost of risk was trimmed by 1.5% to CZK 1.0 billion. Consolidated net profit attributable to shareholders diminished by 17.0% to CZK 6.3 billion.

Komerční banka continues to manage its capital and liquidity conservatively. The Group's Core Tier 1 capital adequacy ratio ended the half at a strong 16.2% under Basel II standards, and the ratio of net loans to deposits (excluding client assets in pension funds) was an excellent 79.8%.

Income statement

Total net banking income in the first half of 2013 decreased by 8.3% year over year to CZK 15,508 million. The decline was influenced by several one-off items booked in the previous year, including income from the sale of KB's stake in Bohemian–Moravian Guarantee and Development Bank (CMZRB) and gains from adjustments in the bond portfolio of Penzijní fond KB prior to its transformation. Decline in revenues adjusted for extraordinary items reached 4.9%, despite the growing loan and deposit volumes, reflecting the very low market interest rates, subdued economic activity in the Czech Republic, and intense competition on the banking market.

Net interest income was lower by 4.2%, at CZK 10,586 million. Growing loan and deposit volumes did not fully compensate the continued pressure on yields from reinvested deposits due to very low market interest rates. Interest income was affected, too, by derisking of the asset portfolio (through divestment of government bonds from southern Europe) in 2012 and 2013. The net interest margin, measured as a percentage of interest-earning assets, declined to 2.9% in the first half of 2013 from 3.2% a year earlier.

Net income from fees and commissions diminished by 0.9% to CZK 3,526 million. Fee income from deposit products and transactions was lower as KB expanded the MojeOdměny client reward scheme and transaction activity was slower due to the stagnant economy. Income from mutual funds and life insurance got a boost from growth in the volume of client savings by means of these products. Fees from loan syndication increased year over year, but, on the other hand, demand for bank guarantees declined especially in line with developments in the construction sector.

Net gains from financial operations declined by 41.0% to CZK 1,325 million, affected by several one-off items from the previous year (mainly income from sale of KB's stake in CMZRB, gains from adjustments in the portfolio of Penzijní fond KB, and the sale of remaining Greek and Portuguese government bonds). KB recorded a small capital gain in 2013's first half from sale of Italian government bonds. Income from operations for clients decreased slightly, influenced by the low yields and low volatility prevailing on the CZK-denominated market. Net gains from FX payments reflect lower export and import turnover as well as declining average spreads.

Total operating expenditures were reduced by 1.7% to CZK 6,409 million. Within this category, personnel costs declined by 0.9% to CZK 3,315 million as the average number of employees was down by 1.9% at 8,624. General administrative expenses were cut by 3.8% to CZK 2,228 million, with the main savings being achieved in costs of mailing services (relating to the switch to electronic account statements), marketing and telecommunications. Higher expenditures were related to the rolling out of contactless payment cards and infrastructure. The category depreciation, impairment and disposal of fixed assets was up by 1.4%, as higher amortisation of software applications was only partly compensated by lower depreciation of buildings and IT hardware.

Gross operating income for the first six months of 2013 was down by 12.5%, at CZK 9,099 million.

Cost of risk declined by a slight 1.5% to CZK 964 million. The quality of KB Group's lending portfolio remained very good in both the retail and corporate segments. In relative terms, the cost of risk during the first half came to 41 basis points in comparison with 44 basis points for the same period of the previous year.

Income from shares in associated undertakings climbed by 23.3% to CZK 74 million. The proportion of profit attributable to the clients of the transformed pension fund reached CZK 259 million.

Income taxes increased by 7.4% to CZK 1,457 million.

KB Group's consolidated net profit for the half of 2013 declined by 16.0% to CZK 6,493 million. Of this amount,

[2] Excluding repo operations with clients

CZK 183 million was profit attributable to holders of minority stakes in KB's subsidiaries (+48.8%). Profit attributable to the Bank's shareholders amounted to CZK 6,310 million, which is 17.0% less than in the first half of 2012. Adjusted for one-off effects, attributable net profit decreased by 10.6%.

Statement of financial position

The comparison period for the balance sheet under IFRS is the end of the previous year. Therefore, unless otherwise indicated, the following text provides a comparison with the close of 2012.

KB Group's total assets as of 30 June 2013 had increased by 1.1% year to date to CZK 795.8 billion.

Amounts due from banks grew by 18.2% to CZK 75.8 billion. The largest components of this item are loans to central banks as part of reverse repo operations, which were higher by 70.3%, at CZK 39.0 billion, and term placements with other banks, which dropped by 21.4% to CZK 14.8 billion.

Financial assets at fair value through profit or loss decreased by 21.3% to CZK 40.6 billion. That portfolio comprises the Group's proprietary trading positions.

Total net loans and advances grew by 1.3% to CZK 457.6 billion. The gross amount of client loans and advances was higher by 1.3%, at CZK 475.0 billion. The share of standard loans within that total climbed to 92.0% (CZK 437 billion) while the proportion of watch loans was 2.3% (CZK 10.8 billion). Loans under special review (substandard, doubtful and loss) comprised 5.7% of the portfolio with volume of CZK 27.2 billion. The volume of provisions created for loans reached CZK 18.5 billion, which was 4.2% more than at the end of 2012.

The portfolio of securities available for sale diminished by 4.4% to CZK 135.6 billion. From the CZK 135.4 billion total volume of debt securities in this portfolio, Czech government bonds comprised CZK 94.9 billion and foreign government bonds CZK 17.0 billion. During the second quarter, KB sold the remaining bonds issued by Italy. KB Group thus had no exposure to the sovereign debt of any country in southern Europe, as of the end of the first half. The volume of securities in the held-to-maturity portfolio decreased by a slight 0.9% to CZK 3.3 billion. This portfolio consists entirely of bonds.

The net book value of tangible fixed assets slipped by 2.0% to CZK 7.8 billion, while that of intangible fixed assets was lower by 2.9%, at CZK 3.8 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida and SGEF, remained unchanged at CZK 3.8 billion.

Total liabilities were 2.9% higher in comparison to the end of 2012, reaching CZK 705.9 billion. Amounts due to customers grew by 4.8% to CZK 606.9 billion.The outstanding volume of issued securities expanded by 20.3% to CZK 23.6 billion. The Group's liquidity, as measured by the ratio of net loans to deposits, reached 79.8% (75.4% if including client assets in the transformed fund).

Shareholders' equity came down year to date by 10.6% to CZK 89.9 billion. KB paid out CZK 8.7 billion in dividends on 27 May, and the generation of net profit was more than offset by the lower fair value of the available-for-sale portfolio and cash flow hedges, both of which represent primarily reinvestment of client deposits. This was due to increased interest rates. As of 30 June 2013, KB held in treasury 238,672 of its own shares, constituting 0.63% of the registered capital.

Comprised solely of Core Tier 1 capital, regulatory capital for the capital adequacy calculation stood at CZK 59.3 billion as of the end of June 2013. KB Group's capital adequacy, as well as the Core Tier 1 capital ratio under Basel II standards, stood at a high level of 16.2%. Increase in this indicator compared to end of the first quarter was mainly driven by inclusion of retained earnings from the year 2012 to the regulatory capital, following the decision of the Annual general meeting of KB held in April 2013 on distribution of 2012 profit.

Return on average equity in the first half of 2013 came to 13.6% while return on average assets was 1.6%.

Expected Development and Main Risks to that Development in the Second Half of 2013

In its baseline scenario, Komerční banka expects that the Czech economy will begin during the second half of 2013 to recover modestly from the ongoing recession. The low consumer price inflation, stabilising unemployment rate and prices on the real estate market, as well as completed government austerity measures should underpin a gradual improvement in consumer confidence from the present depressed levels and thus boost demand from households for goods and services. The business sector should benefit from the very low interest rates and exporters in particular from the Czech koruna's weaker exchange rate. In aggregate, the business sector has sustained its profitability through the recessionary period and the level of capacity utilisation does not indicate a need for further decrease in fixed investments. Nevertheless, any unexpected worsening in economies of the Czech Republic's main trading partners, or specifically in the European automotive industry, would create additional headwind with which Czech businesses must contend.

At mid-year, the inflation outlook for the rest of 2013 is slightly below the CNB's 2% target. Because CNB announced its intention to maintain the policy rate at technical zero until inflation pressures increase significantly, KB anticipates no rise in the two-week repo rate during 2013. On the other hand, longer-term market rates have begun climbing from their record-low levels recorded in May 2013. This rising trend should continue in the second half, unless there would be significant changes in the monetary policies of major central banks or marked diversions from those trends observed during the first half in the global or Czech economy.

Developments in the applicable regulatory environment will largely reflect changes adopted on the EU level, including in the EU's Capital Requirements Directive or in regulation for bank crisis management and resolution regimes. Further regulatory changes currently being implemented or negotiated relate to the areas of capital markets (including review of MiFID and a proposal for a tax on financial transactions), payments and consumer protection. KB expects to be classified by the Czech National Bank as a Systemically Important Financial Institution in the Czech Republic, which may bring with it an increase in the required level of KB's capital requirements. Although the outlook for developments on the Czech political scene was less clear at the time of preparing this report, KB does not expect important new regulatory measures to be adopted during the second half of 2013. Certain legislation relating to the new Civil Code was still due to be approved by Parliament in the middle of the year, which should allow smooth implementation of the Civil Code from the beginning of 2014.

Management expects the pace of growth in KB's loan portfolio will remain similar to that in the first half of 2013. Mortgages should remain the main contributor to that portfolio's expansion. On the other hand, the clients' preference for bank mortgages will continue to weigh upon the development of credit volumes at Modrá pyramida. The dynamics of unsecured consumer lending may begin slowly to recover if the improvement in consumer confidence is confirmed. Loans to corporations are also expected to grow, while financing of exports, acquisitions and through factoring should be the relatively more dynamic components in the full-year result of business lending.

Volume growth of deposits is expected to moderate slightly from the quite swift dynamics recorded in the first half. Improving confidence levels could alter the tendency of mainly business clients to build up their cash reserves in banks. At the same time, individual clients will continue to look for opportunities to obtain better yields by utilising non-bank saving and investment products. This can lead to partial transfer of funds from bank deposits to mutual funds, life insurance products and pension policies.

KB Group's financial performance in the second half will continue to be affected by the low interest rate environment which limits returns from reinvestment of deposits, still relatively subdued activity in the Czech economy which influences income from transactions and demand for loans, and competitive pressure on prices for financial services and on product spreads. Total revenues in 2013 will therefore decline in comparison with 2012, even after the exclusion of one-off items which boosted last year's result. The impact will be partly offset by reduction in operating expenditures, as KB will continue its focus on operational efficiency and rigorous cost discipline. As of mid-2013, the quality of the asset portfolio remains good and the incidence of newly defaulted credit limited. The cost of risk in the second half should thus increase only slightly from the level booked in the first six months.

Komerční banka remains well prepared to face potential adverse developments in the economic environment and to continue supporting its clients by provision of lending, advisory and other financial services. This is possible especially due to KB's strong client franchise, robust balance sheet, capital adequacy well in excess of regulatory minimums, and ample liquidity. The Bank's management expects that KB Group's operations in 2013 will generate sufficient profit to cover the Group's capital needs and to pay dividends.

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 on making financial or operational decisions. As of 30 June 2013, 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, derivative transactions and other types of transactions. These transactions were carried out on commercial terms and at market rates.

Amounts due to and from the Group companies

As of 30 June 2013, the Group had deposits of CZK 687 million payable to the associate, Komerční pojišťovna, a.s. The positive fair value of financial derivatives of the associate Komerční pojišťovna, a.s. to the Group amounted to CZK 1,094 million and a negative fair value amounted to CZK 39 million. Interest expense from the financial derivatives totalled CZK 478 million and interest income from the financial derivatives amounted to CZK 604 million. Interest expense on deposits totalled CZK 55 million, fees paid was CZK 31 million and fee income amounted to CZK 143 million. Other amounts due, amounts owed, income and expenses with the Group were immaterial as of 30 June 2013.

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

CZKm	30 Jun 2013	31 Dec 2012
ALD Automotive s.r.o.	2,902	2,848
SGBT Luxembourg	19	0
Succursale Newedge UK	9	5
SG Express bank	3	3
Rosbank	110	87
SG Bruxelles	20	20
SG Private Banking (Suisse) SA	1	2
Belrosbank	13	11
SGA Société Générale Acceptance N. V.	3,125	3,142
SG London	152	262
SG Paris	10,907	18,038
SG Istanbul	186	0
BRD Romania	9	3
SG ORBEO	0	0
SG EQUIPMENT FINANCE SA	4	0
Lyxor International Asset Management	11	0
SG Warsaw	652	499
Total	**18,123**	**24,920**

Principal balances owed to the Société Générale Group entities include:

CZKm	30 Jun 2013	31 Dec 2012
Lyxor International Asset Management.	11	0
SG Consumer Finance d.o.o.	1	0
SG Cyprus Ltd.	52	0
BRD Romania	19	1
ESSOX SK s.r.o.	11	25
SG New York	8	2
SG Private Banking (Suisse) SA	97	100
SG Amsterdam	31	42
SGBT Luxembourg	2,428	3,213
SG Paris	8,624	15,758
SG EQUIPMENT FINANCE SA	4	0
Pema Praha	19	19
SG Warsaw	84	26
Splitska Banka	0	2
Credit du Nord SA	5	6
SG Lisabon	0	90
SG Frankfurt	61	1
Inter Europe Conseil	2	2
SG Zurich	0	1
Total	**11,457**	**19,288**

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, issued loans, interbank market loans and placements, debt securities acquired under initial offerings not designated for trading and issued bonds.

As of 30 June 2013, the Group also carried off-balance sheet exposures to the Société Générale Group, of which off-balance sheet notional assets and liabilities, respectively, amounted to CZK 197,938 million and CZK 196,446 million. These amounts principally related to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As of 30 June 2013, the Group also carried other amounts due to and from the Société Générale Group entities which are immaterial.

During the period ended 30 June 2013, the Group realised total income of CZK 14,003 million and total expenses of CZK 14,623 million in its relations within the Société Générale Group. Income included interest income from debt securities issued by Société Générale Paris, income from interbank deposits, fees from securities transactions, interest income on hedging derivatives and a gain on trading derivatives. Expenses comprised expenses of interbank deposits, loss from financial operations, interest expense on hedging derivatives, and expenses related to the provision of management, consultancy and software services.

In the period from 1 January to 30 June 2013, the Group recorded no material expenses or income with other companies in the Société Générale Group.

Amounts due from members of the Management and Supervisory Boards and Directors' Committee

In respect of loans and guarantees, as of 30 June 2013, the Bank recorded loan receivables totalling CZK 9 million granted to members of the Management Board, Directors' Committee and Supervisory Board. During the first half of 2013 there has been new borrowing in the amount of CZK 3 million. Repayments of loans in the first half of 2013 amounted to CZK 2 million. The increase in loans is affected by the arrival of a new Supervisory Board member and a new member of the Directors' Committee having loans in the amount of CZK 3 million.

Management Affidavit

To the best of our knowledge, we believe that this half-yearly report gives a fair and true view of the Bank's and Group's financial position, business activities and results from the first half of 2013, and outlook for the development of the Bank's and Group's financial situation, business activities and results.

Prague, 26 August 2013

Signed on behalf of the Board of Directors:

Albert Le Dirac'h
Chairman of the Board
of Directors and CEO

Pavel Čejka
Member of the Board of Directors
and Senior Executive Director

Report on Financial Results as of 30 June 2013 (in accordance with IFRS)

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME PERIOD ENDED 30 JUNE 2013

Consolidated Income Statement

CZKm	30 Jun 2013	Restated 30 Jun 2012
Interest income and similar income	16,254	18,420
Interest expense and similar expense	(5,670)	(7,366)
Income from dividends	2	1
Net interest income and similar income	**10,586**	**11,055**
Net fee and commission income	3,526	3,558
Net profit on financial operations	1,325	2,246
Other income	71	56
Net operating income	**15,508**	**16,915**
Personnel expenses	(3,315)	(3,346)
General administrative expenses	(2,228)	(2,317)
Depreciation, impairment and disposal of fixed assets	(866)	(854)
Total operating expenses	**(6,409)**	**(6,517)**
Profit before allowances/provision for loan and investment losses, other risk and income taxes	**9,099**	**10,398**
Allowances for loan losses	(966)	(965)
Allowances for impairment of securities	0	0
Provisions for other risk expenses	2	(14)
Cost of risk	**(964)**	**(979)**
Income from share of associated companies	74	60
Profit attributable to exclusion of companies from consolidation	0	0
Share of profit of pension scheme beneficiaries	(259)	(396)
Profit before income taxes	**7,950**	**9,083**
Income taxes	(1,457)	(1,356)
Net profit for the period	**6,493**	**7,727**
Profit attributable to the non-controlling owners	183	123
Profit attributable to Group's equity holders	6,310	7,604
Earnings per share/diluted earnings per share (in CZK)	**167.05**	**201.28**

Consolidated Statement of Comprehensive Income

CZKm	30 Jun 2013	Restated 30 Jun 2012
Net profit for the period	**6,493**	**7,727**
Items that will not be reclassified to Income Statement		
Remeasurement of retirement benefits plan, net of tax	0	(11)
Items that may be reclassified subsequently to Income Statement		
Cash flow hedging		
– Net fair value gain (loss), net of tax	(4,818)	1,869
– Transfer to net profit, net of tax	(1,366)	(876)
Foreign exchange gain/(loss) on hedge of a foreign net investment	0	2
Net value gain/(loss) on financial assets available for sale, net of tax	(1,965)	2,410
Cash flow hedging net of tax attributable to the non-controlling owners, net of tax	1	1
Net value gain on financial assets available for sale, net of tax (associated companies)	(36)	32
Other comprehensive income for the period, net of tax	**(8,184)**	**3,427**
Comprehensive income for the period, net of tax	**(1,691)**	**11,154**
Comprehensive income attributable to Group's equity holders	(1,875)	11,030
Comprehensive income attributable to non-controlling owners	184	124

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 2013

CZKm	Note	30 Jun 2013	Restated 31 Dec 2012
ASSETS			
Cash and current balances with central banks		45,780	28,057
Financial assets at fair value through profit or loss		40,627	51,593
Positive fair value of hedging financial derivative transactions		18,350	26,068
Financial assets available for sale	5	135,580	141,791
Assets held for sale		45	86
Amounts due from banks		75,781	64,111
Loans and advances to customers	6	457,551	451,547
Revaluation differences on portfolios hedge items		(38)	0
Investments held to maturity	7	3,293	3,322
Income taxes receivable		22	20
Deferred tax assets		31	34
Prepayments, accrued income and other assets		2,469	3,577
Investments in associates and unconsolidated subsidiaries		929	971
Intangible fixed assets		3,798	3,913
Tangible fixed assets		7,838	7,994
Goodwill		3,752	3,752
Total assets		**795,808**	**786,836**
LIABILITIES AND SHAREHOLDERS‘ EQUITY			
Amounts due to central banks		1	1
Financial liabilities at fair value through profit or loss		17,243	19,589
Negative fair value of hedging financial derivative transactions		9,869	11,246
Amounts due to banks		27,776	38,902
Amounts due to customers		606,859	579,067
Revaluation differences on portfolios hedge items		(240)	16
Securities issued	9	23,616	19,624
Income taxes payable		735	622
Deferred tax liability		3,494	5,473
Accruals and other liabilities		15,575	10,742
Provisions	10	967	1,016
Subordinated debt		0	0
Total liabilities		**705,895**	**686,298**
Share capital		19,005	19,005
Share premium and reserves		68,225	78,764
Minority equity		2,683	2,769
Total shareholders’ equity		**89,913**	**100,538**
Total liabilities and shareholders’ equity		**795,808**	**786,836**

The accompanying notes are an integral part of this consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY PERIOD ENDED 30 JUNE 2013

CZKm	Share capital	Capital and reserve funds and retained earnings*	Remeasurement of retirement benefits plan	Cash flow hedging	Hedge of a foreign net investment	Financial assets available for sale	Total	Non-controlling interest	Total, including non-controlling interest
Balance as of 31 December 2012	**19,005**	**56,411**	**0**	**14,271**	**3**	**8,118**	**97,808**	**2,769**	**100,577**
Changes of methods	0	(28)	(11)	0	0	0	(39)	0	(39)
Balance as of 1 January 2013	**19,005**	**56,383**	**(11)**	**14,271**	**3**	**8,118**	**97,769**	**2,769**	**100,538**
Treasury shares, other	0	78	0	0	0	0	78	1	79
Payment of dividends	0	(8,742)	0	0	0	0	(8,742)	(271)	(9,013)
Transactions with owners	**0**	**(8,664)**	**0**	**0**	**0**	**0**	**(8,664)**	**(270)**	**(8,934)**
Profit for the period	0	6,310	0	0	0	0	6,310	183	6,493
Other comprehensive income for the period, net of tax	0	(36)**	0	(6,184)	0	(1,965)	(8,185)	1	(8,184)
Comprehensive income for the period	**0**	**6,274**	**0**	**(6,184)**	**0**	**(1,965)**	**(1,875)**	**184**	**(1,691)**
Balance as of 30 June 2013	**19,005**	**53,993**	**(11)**	**8,087**	**3**	**6,153**	**87,230**	**2,683**	**89,913**

Note: * Capital and reserve funds and undistributed profit consist of statutory reserve funds, other funds created from profit, share premium, purchased treasury shares, undistributed net profit from the period and retained earnings. Retained earnings amount to 30 June 2013 is CZK 43,463 million and statutory reserve fund CZK 3,621 million.
** This amount represents the gain/(loss) from revaluation of financial assets available for sale (the impact from consolidation of an associated company using the equity method).

CZKm	Share capital	Capital and reserve funds and retained earnings*	Remeasurement of retirement benefits plan	Cash flow hedging	Hedge of a foreign net investment	Financial assets available for sale	Total	Non-controlling interest	Total, including non-controlling interest
Balance as of 31 December 2011	**19,005**	**48,368**	**0**	**9,760**	**2**	**2,082**	**79,217**	**2,633**	**81,850**
Changes of methods	0	(29)	0	0	0	0	(29)	0	(29)
Balance as of 1 January 2012	**19,005**	**48,339**	**0**	**9,760**	**2**	**2,082**	**79,188**	**2,633**	**81,821**
Treasury shares, other	0	59	0	0	0	0	59	1	60
Payment of dividends	0	(6,082)	0	0	0	0	(6,082)	(144)	(6,226)
Transactions with owners	**0**	**(6,023)**	**0**	**0**	**0**	**0**	**(6,023)**	**(143)**	**(6,166)**
Profit for the period	0	7,604	0	0	0	0	7,604	123	7,727
Other comprehensive income for the period, net of tax	0	32**	(11)	993	2	2,410	3,426	1	3,427
Comprehensive income for the period	**0**	**7,636**	**(11)**	**993**	**2**	**2,410**	**11,030**	**124**	**11,154**
Balance as of 30 June 2012	**19,005**	**49,952**	**(11)**	**10,753**	**4**	**4,492**	**84,195**	**2,614**	**86,809**

Note: * Capital and reserve funds and undistributed profit consist of statutory reserve funds, other funds created from profit, share premium, purchased treasury shares, undistributed net profit from the period and retained earnings. Retained earnings amount to 30 June 2012 is CZK 38,207 million and statutory reserve fund CZK 3,854 million.
** This amount represents the gain/(loss) from revaluation of financial assets available for sale (the impact from consolidation of an associated company using the equity method).

The accompanying notes are an integral part of this statement of changes in shareholders' equity.

CONSOLIDATED CASH FLOW STATEMENT PERIOD ENDED 30 JUNE 2013

CZKm	30 June 2013	Restated 30 June 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	14,324	15,866
Interest payments	(12,914)	(6,770)
Commission and fee receipts	4,414	4,484
Commission and fee payments	(850)	(889)
Net income from financial transactions	7,637	1,949
Other income receipts	557	457
Cash payments to employees and suppliers, and other payments	(6,743)	(5,790)
Operating cash flow before changes in operating assets and operating liabilities	**6,425**	**9,307**
Due from banks	(17,657)	1,565
Financial assets at fair value through profit or loss	10,675	(8,086)
Loans and advances to customers	(6,997)	(6,238)
Other assets	1,160	(1,209)
Total (increase)/decrease in operating assets	**(12,819)**	**(13,968)**
Amounts due to banks	(6,148)	188
Financial liabilities at fair value through profit or loss	(1,962)	(1,059)
Amounts due to customers	28,675	20,878
Other liabilities	4,541	3,153
Total increase/(decrease) in operating liabilities	**25,106**	**23,160**
Net cash flow from operating activities before taxes	18,712	18,499
Income taxes paid	(1,515)	(1,340)
Net cash flows from operating activities	**17,197**	**17,159**
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received	83	1
Purchase of investments held to maturity	0	0
Maturity of investments held to maturity*	102	102
Purchase of financial assets available for sale	(12,689)	(16,740)
Sale and maturity of financial assets available for sale*	17,245	14,016
Purchase of tangible and intangible assets	(594)	(1,849)
Sale of tangible and intangible assets	1,081	3
Purchase of investments in subsidiaries and associated undertakings	0	0
Net cash flow from investing activities	**5,228**	**(4,467)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Paid dividends	(8,609)	(5,982)
Paid dividends (non-controlling interest)	(270)	(144)
Securities issued	0	224
Securities redeemed*	3,669	(185)
Subordinated debt repaid*	1,801	(6,002)
Net cash flow from financing activities	**(3,409)**	**(12,089)**
Net increase/(decrease) in cash and cash equivalents	**19,016**	**603**
Cash and cash equivalents at beginning of the period	26,391	14,642
FX differences on cash and cash equivalents at beginning of year	29	3
Cash flow of acquired company	0	0
Cash and cash equivalents at end of the period	**45,436**	**15,248**

Note: * The amount also includes received and paid coupons.

The accompanying notes are an integral part of this unconsolidated cash flow statement.

NOTES TO THE CONSOLIDATED FINANCIAL RESULTS

1 Events for the period ended 30 June 2013

Dividends declared in respect of the year ended 31 December 2012

In accordance with a resolution of the Bank's Annual General Meeting of shareholders' held on 24 April 2013, the Bank paid out CZK 8,742 million (CZK 230 per share before tax) in dividends and the remaining balance of the net profit was allocated to retained earnings. Moreover, the Group paid out CZK 271 million in dividends to non-controlling owners (ESSOX s.r.o.: CZK 211 million; SG Equipment Finance Czech Republic s.r.o.: CZK 60 million).

Changes in equity investments in subsidiaries and associates in 2013

In May 2013, the Bank decreased the shareholders' equity in Bastion European Investments S.A. by EUR 2.7 million (CZK 77 million). The decrease was initiated only by the Bank, as the majority shareholder of Bastion European Investments S.A. The shareholders' equity decrease had been planned.

Based on legislation issued on 28 December 2011, the Czech Republic's pension system has been reformed. Under Act No. 427/2011 Coll., on Supplementary Pension Savings, the Bank's fully owned subsidiary Penzijní fond Komerční banky, a.s., was transformed at 1 January 2013 into KB Penzijní společnost, a.s., with its registered office at náměstí Junkových 2772/1, Stodůlky, 155 00, Prague 5 and registered capital of CZK 300 million.

Uncertainty in capital markets

In the first half of 2013, the effects of the global financial and economic crisis persisted, in particular the increased uncertainty in capital markets caused by problems of some states of the European Union. The Group could, therefore, be at increased risk in the subsequent period, and particularly in relation to the uncertainty associated with valuation, potential impairment of assets, contingent liabilities and future developments in the markets. The potential risks may have an impact on the financial statements of the Group in future.

The presented consolidated financial statements for the period ended 30 June 2013 are based on the current best estimates, and management of the Group believes that they present the truest and fairest 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 2013 no unusual transaction occurred.

2 Principal accounting policies

These consolidated financial statements were neither audited nor reviewed by an auditor. The presented information is consistent with the requirements of IAS 34 Interim Financial Reporting.

3 Reclassification

From 1 January 2013, the Group has changed the presentation of certain items in the financial statements arising from the revision of IAS 19, or refined reporting of these items. Data for 2012 have been restated to reflect the presentation of the current period. Reconciliation of the categories is shown in the tables below.

Reconciliation of categories in the Income Statement for the period ended 30 June 2012:

	As reported 2012	After reclassification 2012	Reference
Net interest and similar income	11,044	11,055	1, 3
Net fee and commission income	3,580	3,558	1, 2, 3
Personnel expenses	(3,347)	(3,346)	4
General administrative expenses	(2,328)	(2,317)	2

1. Income from penalties for early withdrawals in the amount of CZK 1 million were reclassified from *Net fee and commission* to *Net interest and similar income.*

2. Fees related to provided banking services in the amount of CZK 11 million were reclassified from *General administrative expenses* to *Net fees and commissions.*

3. Income from late fees in the amount of CZK 10 million were reclassified from *Net fee and commissions* to *Net interest and similar income.*

4. The impact from the application of IAS 19 Employee Benefits – revised Defined Benefit Plans was a reduction of *Personnel expenses* by CZK 1 million.

Reconciliation of categories in the Statement of Financial Position as of 31 December 2012:

	As reported 2011	After reclassification 2011	As reported 2012	After reclassification 2012	Reference
Deferred tax liability	3,097	3,090	5,482	5,473	1
Provisions	1,067	1,103	968	1,016	1
Share premium and reserves	60,212	60,183	78,803	78,764	1

1. The impact from application of revised IAS 19 Employee Benefits is an increase in *Provisions* of CZK 48 million (2011: CZK 36 million) and in *Deferred tax liability* of CZK 9 million (2011: CZK 7 million). In the category of *Share premium and reserves*, there was a decrease in *Retained profit* of CZK 28 million (2011: CZK 29 million), a remeasurement of the retirement benefits plan, net of tax in *Other comprehensive income* of CZK 11 million (2011: CZK 0 million) and increase in *Profit for the period* of CZK 1 million (2011: CZK 0 million).

4 Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total	
CZKm	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Net interest income and similar income	6,267	6,515	3,420	3,232	58	9	841	1,299	10,586	11,055
Net fee and commission income	2,396	2,488	1,048	1,177	(22)	(28)	104	(79)	3,526	3,558
Net profit on financial operations	404	703	590	763	212	333	119	447	1,325	2,246
Other income	54	52	(6)	(26)	103	70	(80)	(40)	71	56
Net operating income	**9,121**	**9,758**	**5,052**	**5,146**	**351**	**384**	**984**	**1,627**	**15,508**	**16,915**

From 1 January 2013, the Group has changed the manner of allocating revenues from investment banking products between segments. Data for 2012 have been restated to reflect the presentation 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 the information on other income, recognition of provisions, 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 to 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 expenses.

5 Financial assets available for sale

Financial assets available for sale comprise:

	30 Jun 2013		31 Dec 2012	
CZKm	**Fair value**	**Cost***	**Fair value**	**Cost***
Shares and participation certificates	**2**	**2**	**2**	**2**
Fixed income debt securities	113,838	103,682	122,911	109,001
Variable yield debt securities	21,740	21,287	18,878	18,238
Total debt securities	**135,578**	**124,969**	**141,789**	**127,239**
Total financial assets available for sale	**135,580**	**124,971**	**141,791**	**127,241**

Note: * Acquisition cost for shares and participation certificates, amortised acquisition cost for debt securities

Debt securities available for sale at fair value, allocated by issuers, comprise:

CZKm	**30 Jun 2013**	**31 Dec 2012**
Debt securities available for sale issued by		
– State institutions in the Czech Republic	95,084	96,859
– Foreign state institutions	17,012	24,251
– Financial institutions in the Czech Republic	20,907	17,057
– Foreign financial institutions	1,026	2,522
– Other entities in the Czech Republic	590	502
– Other foreign entities	959	598
Total debt securities available for sale	**135,578**	**141,789**

During the first half of 2013, the Group acquired bonds with a nominal value of CZK 11,530 million. With the exception of bonds from Czech Export Bank with nominal value EUR 115 million, in CZK equivalent 2,984 million, the whole amount was comprised of bonds issued by state institutions in the Czech and Slovak republics. The volume of Czech government bonds was equal to CZK 5,892 million and volume of Slovak government bonds was EUR 102 million, in CZK equivalent 2,654 million.

During the first half of 2013, the Group had regular repayment of debt securities at maturity in the aggregate nominal amount of CZK 7,345 million and EUR 40 million, a total CZK equivalent of CZK 8,373 million, of which CZK 6,345 million had been issued by state institutions in the Czech Republic, CZK 1,000 million of bonds had been issued by European Investment Bank, EUR 20 million by foreign state institutions and EUR 20 million by foreign financial entities.

During the first half of 2013, the Group sold Italian government bonds with total nominal of CZK 7,470 million. The effect from the bond sale totalled to a profit of CZK 64 million and is reported on the line *Net profit on financial operations.*

6 Loans and advances to customers

Loans and advances to customers comprise:

CZKm	30 Jun 2013	31 Dec 2012
Loans to customers	472,258	466,439
Bills of exchange	349	421
Forfaits	1,915	1,776
Total loans and advances to customers excluding bonds and other amounts due from customers, gross	**474,522**	**468,636**
Debt securities	451	461
Other amounts due from customers	1,081	200
Total loans and advances to customers, gross	**476,054**	**469,297**
Allowances for loans to customers		
– individuals	(6,901)	(6,794)
– corporates*	(11,584)	(10,939)
Total allowances for loans to customers	**(18,485)**	**(17,733)**
Allowances for other amounts due from customers	(18)	(17)
Total allowances for loans and other amounts due from customers	**(18,503)**	**(17,750)**
Total loans and advances to customers, net	**457,551**	**451,547**

Note: * This item includes loans granted to individual entrepreneurs.

The loan portfolio of the Group as of 30 June 2013 (excluding other amounts due from customers and debt securities) comprises the following breakdown by classification:

CZKm	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	436,537	203,868	232,669	0	436,537	0%
Watch	10,785	4,570	6,215	(1,068)	9,717	17%
Substandard	6,451	3,244	3,207	(1,403)	5,048	44%
Doubtful	2,127	717	1,410	(972)	1,155	69%
Loss	18,622	1,226	17,396	(15,042)	3,580	86%
Total	**474,522**	**213,625**	**260,897**	**(18,485)**	**456,037**	

The loan portfolio of the Group as of 31 December 2012 (excluding other amounts due from customers and debt securities) comprises the following breakdown by classification:

CZKm	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	430,523	196,175	234,348	0	430,523	0%
Watch	11,121	4,587	6,534	(806)	10,315	12%
Substandard	6,450	3,251	3,199	(1,317)	5,133	41%
Doubtful	2,569	720	1,849	(1,099)	1,470	59%
Loss	17,973	1,136	16,837	(14,511)	3,462	86%
Total	**468,636**	**205,869**	**262,767**	**(17,733)**	**450,903**	

Note: * The nominal value of the collateral is determined based on internal rules of the Bank (e.g. internal property valuation, the current value of collateral, the market value of securities, etc.).
** The nominal value of the collateral is reduced using a coefficient taking into account the time value of money, the cost of selling of the collateral, the risk of falling prices in the market, the risk of insolvency, etc..
*** The applied collateral value is the discounted collateral value reduced up to the actual amount of the hedged exposure balance.

Set out below is a breakdown of loans by sector (net of other amounts due from customers and debt securities):

CZKm	30 Jun 2013	31 Dec 2012
Food industry and agriculture	16,500	17,595
Mining and extraction	3,624	1,482
Chemical and pharmaceutical industry	5,548	6,009
Metallurgy	9,304	9,649
Automotive industry	4,846	2,941
Manufacturing of other machinery	9,230	8,518
Manufacturing of electrical and electronic equipment	3,396	3,638
Other processing industry	9,699	9,208
Power plants, gas plants and waterworks	22,736	21,925
Construction industry	10,902	10,792
Retail	12,198	12,519
Wholesale	28,269	28,137
Accommodation and catering	1,090	1,056
Transportation, telecommunication and warehouses	18,490	19,462
Banking and insurance industry	21,321	21,713
Real estate	28,232	28,023
Public administration	35,423	34,228
Other industries	22,497	22,088
Individuals	211,217	209,653
Loans to customers	**474,522**	**468,636**

7 Investments held to maturity

Investments held to maturity comprise:

	30 Jun 2013		31 Dec 2012	
CZKm	Carrying value	Cost*	Carrying value	Cost*
Fixed income debt securities	3,293	3,201	3,322	3,211
Total investments held to maturity	**3,293**	**3,201**	**3,322**	**3,211**

Note: * Amortised acquisition cost

Investments held to maturity in the amount of CZK 3,105 million are issued by state institutions in the Czech Republic and CZK 188 million by foreign state institutions.

In the first half of 2013, there were neither purchases nor sales and no debt securities were redeemed.

8 Bonds issued by foreign state institutions

Bonds issued by foreign state institutions designated as financial assets held for sale and as investments held to maturity as of 30 June 2013:

CZKm			Amortised cost			Fair value
Country of Issuer	**Financial assets available for sale**	**Investments held to maturity**	**Total**	**Financial assets available for sale**	**Investments held to maturity**	**Total**
Italy	0	0	0	0	0	0
Poland	5,221	0	5,221	5,653	0	5,653
Slovakia	8,918	0	8,918	9,420	0	9,420
EIB	1,250	0	1,250	1,403	0	1,403
ESFS	531	0	531	536	0	536
France	0	183	183	0	191	191
Total	**15,920**	**183**	**16,103**	**17,012**	**191**	**17,203**

Bonds issued by foreign state institutions designated as financial assets held for sale and as investments held to maturity as of 31 December 2012:

CZKm			Amortised cost			Fair value
Country of Issuer	**Financial assets available for sale**	**Investments held to maturity**	**Total**	**Financial assets available for sale**	**Investments held to maturity**	**Total**
Italy	7,580	0	7,580	7,907	0	7,907
Poland	5,545	0	5,545	6,223	0	6,223
Slovakia	5,950	0	5,950	6,578	0	6,578
EIB	3,279	0	3,279	3,543	0	3,543
France	0	177	177	0	189	189
Total	**22,354**	**177**	**22,531**	**24,251**	**189**	**24,440**

Bonds issued by foreign state institutions designated as financial assets at fair value through profit or loss:

CZKm	30 Jun 2013	31 Dec 2012
Country of Issuer	**Fair value**	**Fair value**
Italy	0	13
Germany	5	0
Poland	98	129
Slovakia	1,793	2,361
Total	**1,896**	**2,503**

9 Securities issued

Securities issued comprise mortgage bonds of CZK 23,616 million. Publicly tradable mortgage bonds are issued to fund the Group's mortgage activities.

Debt securities are repayable, according to remaining maturity, as follows:

CZKm	30 Jun 2013	31 Dec 2012
In less than one year	0	0
In one to five years	15,804	13,370
In five to ten years	1,025	400
In ten to twenty years	0	0
in twenty to thirty years	6,787	5,854
Total debt securities	**23,616**	**19,624**

During the first half of 2013, the Group repurchased mortgage bonds in the aggregate nominal amount of CZK 6 million and increased the nominal volume by CZK 3,047 million.

The debt securities detailed above include the following bonds and notes issued by the Group:

Name	Interest rate	Currency	Issue date	Maturity date	30 Jun 2013 CZKm	31 Dec 2012 CZKm
Mortgage bonds of Komerční banka, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% value of 3M PRIBID	CZK	2 Aug 2005	2 Aug 2015	2,195	2,200
Mortgage bonds of Komerční banka, a.s., CZ0002000664	4.40%	CZK	21 Oct 2005	21 Oct 2015	11,855	11,169
Mortgage bonds of Komerční banka, a.s., CZ0002001456	4.14% for the first 3M interest period, then relevant reference rate minus 0.20%	CZK	30 Nov 2007	30 Nov 2037	2	0
Mortgage bonds of Komerční banka, a.s., CZ0002001753	Rate of the interest swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	6,785	5,855
Mortgage bonds of Komerční banka, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	1,025	400
Mortgage bonds of Komerční banka, a.s., CZ0002003064	6M PRIBOR plus 50 bps	CZK	14 Mar 2013	14 Mar 2018	1,754	0
Total debt securities					**23,616**	**19,624**

Note: Three-month PRIBID was 14 basis points as of 30 June 2013 (18 bps as of 31 December 2012).
The 10-year average value of the interest rate swap CZK sale as of 30 June 2013 was 193 bps (137 bps as of 31 December 2012).

10 Provisions

Provisions comprise:

CZKm	30 Jun 2013	31 Dec 2012
Provisions for contracted commitments	528	524
Provisions for other credit commitments	439	482
Provision for restructuring	0	10
Total provisions	**967**	**1,016**

The amount of the provisions for contracted commitments at the end of the previous period has been adjusted by CZK 48 million due to revision of IAS 19 (see Note 3 *Reclassification*).

In the first half of 2013, the Group adjusted the amount of the provision for restructuring in connection with reorganisation of the distribution network. The change in the provision includes release and use of the provision to cover the expenses in the first half of 2013 and is recognised in the Income Statement under the *Personnel expenses* item.

The provisions for other credit commitments are held to cover credit risks associated with issued credit commitments. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, termination of rental agreements, jubilee bonuses and retirement bonuses.

Set out below is an analysis of the provisions for other credit commitments:

CZKm	30 Jun 2013	31 Dec 2012
Provision for off-balance sheet commitments	344	409
Provision for undrawn loan facilities	95	73
Total	**439**	**482**

Movements in the provisions for contracted commitments are as follow:

CZKm	Balance at the beginning of the period	Additions	Disposals	Accrual	Foreign exchange difference	Balance at the end of the period
Provisions for retirement bonuses	160	5	(6)	2	0	161
Provisions for loyalty and jubilee bonuses	2	0	0	0	0	2
Other provisions for contracted commitments	362	22	(21)	0	2	365
Provisions for restructuring	10	0	(10)	0	0	0
Total	**534**	**27**	**(37)**	**2**	**2**	**528**

11 Commitments and contingent liabilities

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 30 June 2013. 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 279 million for these legal disputes. The Group has also recorded an accrual of CZK 46 million for costs associated with a potential payment of interest on the pursued claims.

As of 30 June 2013, the Group assessed lawsuits 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:

CZKm	30 Jun 2013	31 Dec 2012
Non-payment guarantees, incl. commitments to issue non-payment guarantees	36,756	35,235
Payment guarantees, including commitments to issue payment guarantees	9,414	10,296
Received bills of exchange/acceptances and endorsements of bills of exchange	0	0
Committed facilities and unutilised overdrafts	12,353	17,802
Undrawn credit commitments	49,455	46,309
Unutilised overdrafts and approved overdraft loans	34,571	32,809
Unutilised limits under framework agreements to provide financial services	11,902	9,516
Open customer/import letters of credit uncovered	566	517
Stand-by letters of credit uncovered	555	551
Confirmed supplier/export letters of credit	258	131
Total contingent revocable and irrevocable commitments	**155,830**	**153,166**

Set out below is a breakdown of financial commitments and contingencies by sector:

CZKm	30 Jun 2013	31 Dec 2012
Food industry and agriculture	7,637	6,674
Mining and extraction	2,336	1,588
Chemical and pharmaceutical industry	2,338	2,065
Metallurgy	4,482	5,191
Automotive industry	1,934	874
Manufacturing of other machinery	7,648	8,246
Manufacturing of electrical and electronic equipment	2,213	2,126
Other processing industry	3,628	4,364
Power plants, gas plants and waterworks	13,028	13,878
Construction industry	32,367	32,963
Retail	3,991	4,110
Wholesale	11,146	12,452
Accommodation and catering	466	493
Transportation, telecommunication and warehouses	8,464	7,262
Banking and insurance industry	6,707	5,781
Real estate	4,620	2,976
Public administration	7,688	9,699
Other industries	17,634	16,873
Individuals	17,503	15,551
Contingent liabilities	**155,830**	**153,166**

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

12 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 balance sheet at their fair values:

	30 Jun 2013		31 Dec 2012	
CZKm	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	45,780	45,780	28,057	28,057
Amounts due from banks	75,781	76,055	64,111	64,361
Loans and advances to customers	457,551	469,309	451,547	464,388
Investments held to maturity	3,293	3,534	3,322	3,775
Financial liabilities				
Amounts due to central banks and banks	27,777	27,848	38,903	38,936
Amounts due to customers	606,859	606,944	579,067	579,179
Securities issued	23,616	26,120	19,624	21,360

13 Transfers between levels of the fair value hierarchy

During the first half of 2013 there were no transfers between levels.

14 Events after the reporting period

No significant event occurred after the reporting period.

Rating

As of 30 June 2013

Rating agency	Long-term	Short-term
Standard & Poor's	A	A-1
Fitch Ratings	A*	F1
Moody's Investors Service	A2	Prime-1

*As of 26 August at A-

Shareholder Structure

Major shareholders of Komerční banka as of 30 June 2013