2019 Half-Year Report
UniCredit Bank Czech Republic and Slovakia, a.s.

Issued on 25 September 2019

UniCredit Bank Czech Republic and Slovakia, a.s.
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UniCredit Bank Czech Republic and Slovakia, a.s., Company Reg. No. 64948242, with its registered seat at Želetavská 1525/1, Prague 4, as an issuer of listed securities, submits to the public this Half-Year Report prepared in accordance with Section 119 of Act No. 256/2004 Coll. on Capital Market Undertakings as amended.

The Half-Year Report has not been audited.

Contents

1. Commentary on the Bank’s financial results

The income of UniCredit Bank Czech Republic and Slovakia (hereinafter referred to as the “Group”) increased by 13.96% on a year-on-year basis compared to the half-year results of last year, namely from CZK 4,291 million as of 30 June 2018 to CZK 4,890 million as of 30 June 2019. Very sound results are reported by net interest income and administrative expenses are being successfully controlled as well.

Statement of Comprehensive Income

Compared to the first half of 2018, net interest income rose by 7.09% to CZK 7,716 million (CZK 6,701 million as of 30 June 2018). This very sound result in net interest income reflects the positive interest-rate environment in CZK, i.e. growth of interest rates in CZK on loans does not entail growth of interest rates on the Bank’s insensitive client deposits.

Net income from fees and commissions were at CZK 1,972million (as of 30 June 2018: CZK 1,923 million), representing a 2.55% growth.

Net income from the sale of financial assets and liabilities rose to CZK 305 million (as of 30 June 2018: CZK 169 million).

Income from trading rose by 5.25% from CZK 1,104 million as of 30 June 2018 to CZK 1,162 million as of 30 June 2019.

Operating income amounted to CZK 10,751 million, rising by 7.88% compared to CZK 9,966 million as of 30 June 2018, which reflects the Group’s strategy on the growth of its client base, higher volumes and number of transactions.

Administrative expenses were reported at CZK 3,689 million (as of 30 June 2018: CZK 4,019 million), which represents a year-on-year decline of 8.21%. The main contributor to this decline was the contribution to the Resolution Fund, lower by CZK 212.1 million in 2019.

The losses from decreased loan and receivable values rose from CZK 631 million as of 30 June 2018 to CZK 877 million as of 30 June 2019.

Statement of Financial Position

Assets

Total assets of the Group were at CZK 869.0 billion as of 30 June 2019, representing an increase by 29.39% compared to the end of 2018, when the balance sheet sum was at CZK 671.6 billion.

From the end of 2018, the financial assets at fair value through profit and loss rose by 5.48% from CZK 10.0 billion to CZK 10.6 billion.

Financial assets at fair value recognised through comprehensive income dropped by 8.14% to CZK 26.8 billion (as of the end of 2018, this value was CZK 29.1 billion). The decline in volume of these securities was caused by the sale of part of the Czech sovereign bonds.

Receivables from clients increased by 1.32% to a total of CZK 417.5 billion compared to the level at the end of 2018 (CZK 412.0 billion). In particular, leasing is doing well in renewing the repaid parts of loans and introducing new loan volumes.

The growth dynamics of the credit portfolio focuses on the retail segment (mostly owing to the growth of mortgage loans) and on the segment of small and medium-sized enterprises (SME).

Receivables from banks rose by 95.26% compared to the level as of 31 December 2018 (CZK 390.6 billion as of 30 June 2019 compared to CZK 200.1 billion at the end of 2018), in particular owing to the increase in receivables from reverse repurchase transactions.

The increase in the value of property and equipment and right-of-use assets under IFRS 16 from CZK 4,749 million as of 31 December 2018 to CZK 6,650 million as of 30 June 2019 is caused mostly by the implementation of the new IFRS 16 international accounting standard (Leases) from 1 January 2019.

Growth of the value of intangible assets from CZK 2,179 million as of 31 December 2018 to CZK 2,212 million as of 30 June 2019 represents capitalisation of assets associated with the common IT architecture of Czech and Slovak entities within the Group.

Liabilities

Liabilities to banks grew by 14.19% as of mid-2019 from CZK 172.2 billion at the end of 2018 to CZK 196.6 billion at mid-2019. Here, the growth is also mainly due to the increase in liabilities from repurchase transactions.

Compared to the end of 2018, liabilities to clients increased by 44.31% to a total of CZK 540.8 billion (from CZK 374.7 billion as of 31 December 2018). The growth is caused mostly by the increase in liabilities from repurchase transactions and the increase in term deposits with public-sector entities.

Debt securities issued dropped by 6.15% to a total of CZK 21.4 billion (from CZK 22.8 billion as of 31 December 2018).

The Group is looking mostly for cheap forms of financing for its activities on the part of assets, which results in increased liabilities to banks. The client deposit base (current accounts and term deposits) reported only a moderate year-on-year increase, nevertheless, strong growth was reported by the retail segment. This increase in the stable deposit base creates room for further development of credit business and other services to clients. The Group always takes into account the Bank’s prudential liquidity management (both short-term and structural).

Equity

As of 30 June 2019, the Group’s equity was at CZK 74.3 billion, which represents a decline by CZK 1.4 billion compared to the end of 2018, because this year the Group paid a dividend of CZK 6.1 billion from the 2018 profit.

2. Expected development in 2019

The Group will report another successful year, achieving a year-on-year increase in net profit in the second as well as in the first half of 2019. The positive development is and will be driven mostly by growth in income, which reports a year-on-year growth in all categories, but mostly in net interest income and trading income.

The growth of client loans and client deposits has been and will be reflected in a year-on-year increase of net interest income, which is also positively affected by the environment of increasing interest rates. Client loans and deposits report a year-on-year growth in retail and corporate banking as well as in leasing, and the Group continues to grow in terms of its number of clients in all segments.

Operating expenses reported a year-on-year increase due to increasing personnel expenses in line with the macroeconomic environment. On the contrary, non-personnel expenses and write-offs are declining on a year-on-year basis owing to the successful optimisation and implementation of activities within the UniCredit Group's Transform 2019 programme. Owing to the increasing income and effective cost management, the cost-to-income ratio is improving on a year-on-year basis. This trend will continue in the second half of 2019.

A moderate deceleration of the growth rate of economies has been expressed in a slightly higher need for creating loan loss provisions; however, the cost-of-risk ratio has been and will remain at record lows.

The environment of low EUR interest rates may be identified as the main risk affecting the Bank's profitability, mostly on the part of income. On the part of expenses, there will be continued pressure on personnel expenses due to low unemployment, strong competition on the labour market and pressure on the growth of wages and employee benefits. Moreover, signals suggesting a slowdown in economic growth are increasing the pressure on the cost of risk as well as uncertainty in global developments, whether due to Brexit or due to the introduction of tariffs in international trade. Also, the CNB is tightening its macroprudential policy, increasing the countercyclical capital buffer requirement by 25 basis points to 1.50% as of 1 July 2019. The countercyclical capital buffer requirement will be further increased as of 1 January 2020 and as of 1 July 2020, each time by 25 basis points.

Long-term sustainable growth is based on increasing the number of clients, particularly in retail banking and in the SME segment, and 2019 will confirm the successful course of the Group. Positive development is reflected in further improvement in return on capital and other performance indicators.

3. Interim financial statements under IFRS (consolidated)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 Jun 2019 CZK million	31 Dec 2018 CZK million
ASSETS		
Cash in hand and cash balances	4,336	4,842
Financial assets at fair value through profit or loss, including:	10,569	10,020
- held for trading	10,119	9,674
- other than held for trading mandatorily at fair value	450	346
Financial assets at fair value recognised through comprehensive income	26,812	29,188
Financial assets at amortised cost, of which:	808,138	612,101
- receivables from banks	390,643	200,065
- receivables from clients	417,495	412,036
Positive fair value of hedging derivatives	7,834	5,636
Equity investments in associates	339	332
Property and equipment and right-of-use assets under IFRS 16	6,650	4,749
Intangible Assets	2,212	2,179
Tax receivables, including:	739	889
- current income tax	66	57
- deferred tax	673	832
Non-current assets held for sale	14	-
Other assets	1,388	1,679
Total assets	**869,031**	**671,615**
LIABILITIES		
Financial liabilities at amortised cost, of which:	758,795	569,736
- liabilities to banks	196,575	172,151
- liabilities to clients	540,784	374,745
- debt securities issued	21,436	22,840
Financial liabilities held for trading	10,250	8,714
Negative fair value of hedging derivatives	7,099	5,657
Changes in fair value of the portfolio of hedged instruments	1,562	608
Tax liabilities, including:	1,320	1,108
- current income tax	557	406
- deferred tax	763	702
Other liabilities	14,709	8,733
Provisions	1,042	1,320
Total liabilities	**794,777**	**595,876**
EQUITY		
Issued capital	8,755	8,755
Share premium	3,495	3,495
Reserve funds from revaluation of financial instruments	648	912
Retained earnings and reserve funds	56,466	53,530
Profit for the period	4,890	9,047
Total shareholder equity	**74,254**	**75,739**
Total liabilities and shareholder equity	**869,031**	**671,615**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1 Jan - 30 Jun 2019 CZK million	1 Jan - 30 Jun 2018 CZK million
Interest income	9,324	7,151
Interest expense	(2,148)	(450)
Net interest income	**7,176**	**6,701**
Fee and commission income	2,609	2,468
Fee and commission expenses	(637)	(545)
Net fee and commission income	**1,972**	**1,923**
Dividend income	1	1
Net income/loss from financial assets and liabilities held for trading	1,162	1,104
Net income/loss from hedging against risk of changes in fair value	28	(5)
Net income/loss from the sale of financial assets and liabilities	305	169
Net income/loss from financial assets and liabilities at fair value through profit or loss not held for trading	107	73
Operating income	**10,751**	**9,966**
Impairment losses on financial assets	(877)	(631)
Administrative expenses	(3,689)	(4,019)
Creation and release of provisions	232	155
Depreciation and impairment of property and equipment	(524)	(415)
Amortisation and impairment of intangible assets	(205)	(129)
Other operating income and expenses	362	344
Operating expenses	**(3,824)**	**(4,064)**
Profit/loss from investments in associates	37	28
Profit/loss from the sale of non-financial assets	1	-
Profit before income tax	**6,088**	**5,299**
Income tax	(1,198)	(1,008)
Net profit	**4,890**	**4,291**
Other comprehensive income		
Items that cannot be subsequently derecognised to profit or loss:		
Reserve from revaluation of financial assets through comprehensive income:	-	1
Change in revaluation reported in other comprehensive income	-	1
Items that may be subsequently reclassified to profit or loss:		
Reserve from revaluation of hedging instruments:	**13**	**(601)**
Changes in net fair values of derivatives in cash flow hedges reported in other comprehensive income	13	(601)
Net fair value of derivatives in cash flow hedges transferred to profit or loss	-	-
Reserve from revaluation of financial assets through comprehensive income:	**(131)**	**(448)**
Change in revaluation reported in other comprehensive income	66	(362)
Revaluation transferred to profit or loss	(197)	(86)
Foreign exchange rate gains from the consolidation of a foreign branch	**(146)**	**248**
Other comprehensive income	**(264)**	**(800)**
Total comprehensive income for the period	**4,626**	**3,491**

CONSOLIDATED STATEMENT OF CASH FLOWS

	1 Jan - 30 Jun 2019 CZK million	1 Jan - 30 Jun 2018 CZK million
Profit after tax	**4,890**	**4,291**
Adjustments for non-cash items:		
Impairment of loans and receivables and financial investments	631	465
Revaluation of securities and derivatives	(537)	2,360
Creation and release of other provisions	8	(119)
Depreciation and amortisation of property and equipment and intangible assets and right-of-use assets under IFRS 16	729	544
Profit/loss from sale of financial assets at fair value recognised through comprehensive income	217	113
Profit (loss) from property and equipment and intangible assets sold	(1)	-
Taxation	1,198	1,008
Other non-monetary changes	(977)	(1,541)
Operating profit before change in operating assets and liabilities	**6,158**	**7,121**
Financial assets and liabilities held for trading	808	(4,920)
Receivables from banks	(190,665)	(115,712)
Loans and receivables from clients	(7,608)	(13,389)
Other assets	291	(4)
Liabilities to banks	24,488	121,445
Liabilities to clients	165,984	3,101
Other liabilities	6,004	2,875
Income tax paid	(837)	(756)
Net cash flows from operating activities	**4,623**	**(239)**
Change in the volume of fin. assets at fair value recognised through comprehensive income and other financial assets	2,345	5,222
Acquisition of a subsidiary	-	-
Gains from the sale of property and equipment and intangible assets	505	490
Acquisition of property and equipment and intangible assets	(223)	(1,373)
Dividends received	1	1
Net cash flows from investment activities	**2,628**	**4,340**
Dividends paid	(6,070)	-
Debt securities issued	(1,490)	(4,075)
Cash payments for liability arising from a lease under IFRS 16	(197)	n/a
Net cash flows from financial activities	**(7,757)**	**(4,075)**
Cash and other highly liquid funds at the start of the period	4,842	4,008
Net cash flows from operating activities	4,623	(239)
Net cash flows from investment activities	2,628	4,340
Net cash flows from financial activities	(7,757)	(4,075)
Cash and other highly liquid funds at the end of the period	**4,336**	**4,034**
Interest received	8,836	7,444
Interest paid	(1,579)	(800)

For the purposes of statement of cash flows, the balances as of 30 June 2018 are compared with balances as of 1 January 2018, including the effects of the initial application of IFRS 9.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CZK million	Issued capital	Share premium	Reserve from revaluation of hedging instruments	Reserve from revaluation of fin. assets through comprehensive income	FX differences of a foreign branch	Retained earnings and reserve funds: Reserve funds and other cap. funds	Special-purpose reserve fund	FX differences from consolidation	Retained profit	Profit for the period	Equity
Balance as of 31 Dec 2017	**8,755**	**3,495**	**539**	**1,555**	**(220)**	**5,217**	**11,611**	**(99)**	**33,017**	**7,626**	**71,496**
Transition to IFRS				(30)					(96)		(126)
Balance as of 1 Jan 2018	**8,755**	**3,495**	**539**	**1,525**	**(220)**	**5,217**	**1,611**	**(99)**	**32,921**	**7,626**	**71,370**
Transactions with owners, contributions from and distributions to owners											
Allocation of the 2017 profit							812		6,814	(7,626)	-
Dividend payment									(3,732)		(3,732)
Other									(6)		(6)
Consolidation impact								32	(2)		30
Total comprehensive income for the period											
Net profit for the period										4,291	4,291
Other comprehensive income											
Change in revaluation of financial assets through comprehensive income											
Change in revaluation reported in other comprehensive income				(431)							(431)
Revaluation transferred to profit or loss				(102)							(102)
Deferred tax				86							86
Change in net fair values of derivatives in cash flow hedges											
Change in net fair values of derivatives in cash flow hedges reported in other comprehensive income			(741)								(741)
Net fair value of derivatives in cash flow hedges transferred to profit or loss			-								-
Deferred tax			140								140
Foreign exchange rate gains from the consolidation of a foreign branch					248						248
Total comprehensive income for the period			**(601)**	**(477)**	**248**						**(830)**
Balance as of 30 Jun 2018	**8,755**	**3,495**	**(62)**	**1,078**	**28**	**5,217**	**14,423**	**(67)**	**35,995**	**4,291**	**71,153**

CZK million	Issued capital	Share premium	Reserve from revaluation of hedging instruments	fin. assets through comprehensive income	FX differences of a foreign branch	Retained earnings and reserve funds Reserve funds and other cap. funds	Special-purpose reserve fund	FX differences from consolidation	Retained profit	Profit for the period	Equity
Balance as of 31 Dec 2018	**8,755**	**3,495**	**203**	**828**	**(119)**	**5,240**	**12,423**	**(88)**	**35,955**	**9,047**	**75,739**
Transactions with owners, contributions from and distributions to owners											
Allocation of the 2018 profit						9	817		8,221	(9,047)	-
Dividend payment									(6,070)		(6,070)
Other									(5)		(5)
Consolidation impact								(17)	(19)		(36)
Total comprehensive income for the period										4,890	4,890
Net profit for the period											
Other comprehensive income											
Change in revaluation of financial assets through comprehensive income											
Change in revaluation reported in other comprehensive income				96							
Revaluation transferred to profit or loss				(208)							
Deferred tax				(19)							
Change in net fair values of derivatives in cash flow hedges											
Change in net fair values of derivatives in cash flow hedges reported in other comprehensive income			14								
Net fair value of derivatives in cash flow hedges transferred to profit or loss			-								
Deferred tax			(1)								
Foreign exchange rate gains from the consolidation of a foreign branch					(146)						
Total comprehensive income for the period											
Balance as of 30 Jun 2019	**8,755**	**3,495**	**216**	**697**	**(265)**	**5,249**	**13,240**	**(105)**	**38,082**	**4,890**	**74,254**

Notes to the interim financial statements (consolidated)

CONSOLIDATION GROUP

On 14 February 2014, the Bank signed contracts for the purchase of a 100% equity investment in UniCredit Leasing CZ, a.s. of CZK 3,211 million and a 71.3% equity investment in UniCredit Leasing Slovakia, a.s. with a cost of EUR 16 million. Principal activities of both entities include leases and instalment sale. The contracts were signed between the Bank and UniCredit Leasing SpA.; these are transactions under common control. At the same time, both lease companies purchased Czech and Slovak real estate project companies from their original owner UniCredit Leasing SpA, these are also transactions under common control. Both entities were sold within UniCredit Group due to the reorganisation of the equity investments in UniCredit Group in order to create a strong financial group on local markets with stronger sales potential.

The Bank subsequently transferred a 91.2% equity investment in UniCredit Leasing Slovakia, a.s. (the purchased equity investment of 71.3% and the equity investment of 19.9% that had already been held by the Bank at the end of 2013) as a non-cash investment in the share capital of UniCredit Leasing CZ, a.s. and the investment of the Bank in UniCredit Leasing CZ, a.s. consequently increased by CZK 570 million.

As part of the purchase of real estate project companies, UniCredit Leasing CZ, a.s. acquired CA-Leasing Praha s.r.o. and CAC IMMO, s.r.o., which had been merged with HVB Leasing Czech Republic s.r.o. on 1 November 2014.

On 8 October 2014, UniCredit Leasing Insurance Services, s.r.o. was established, which is fully owned by UniCredit Leasing Slovakia, a.s. The company’s principal business activity is mediation of services.

UniCredit Leasing Real Estate s.r.o., which was acquired by UniCredit Leasing Slovakia, a.s. as part of the purchase of real estate project companies, merged with UniCredit Leasing Slovakia, a.s. on 8 January 2015.

On 20 January 2015, the acquisition of a 100% equity investment in Transfinance, a.s. was completed. The entity was acquired from an owner outside UniCredit Group and the investment amounted to CZK 197 million. The principal activities of the acquired entity include the financing, collection and securing of short-term receivables of clients from various industry segments. The objective of this acquisition for the Group primarily involves further extending the range of products and services of corporate banking to include factoring that is intended primarily for small and medium-sized enterprises. The name of the acquired entity changed to UniCredit Factoring Czech Republic and Slovakia, a.s. in May 2015.

CAC Real Estate, s.r.o., owned by UniCredit Leasing CZ, a.s., was sold outside UniCredit Group in June 2015.

In February 2016, INPROX Poprad, spol. s.r.o. and INPROX SR I., spol. s.r.o. merged with UniCredit Leasing Slovakia, a.s. with effect from 1 January 2016.

BACA Leasing Gama s.r.o., owned by UniCredit Leasing CZ, a.s., was sold outside UniCredit Group in March 2016.

In August 2016, INPROX Chomutov, s.r.o. and INPROX Kladno, s.r.o. were merged with UniCredit Leasing CZ, a.s. with effect from 1 January 2016.

CA-Leasing EURO, s.r.o., owned by UniCredit Leasing CZ, a.s., was sold outside UniCredit Group in February 2017.

Notes to the interim financial statements (consolidated) (continued)

CONSOLIDATION GROUP (continued)

As of 30 June 2019, the consolidation group includes the following entities:

Name of the entity	Business activities	Registered office	Owner	Group's percentage	Consolidation method
UniCredit Factoring Czech Republic and Slovakia, a.s.	Factoring	Prague	UniCredit Bank Czech Republic and Slovakia, a.s.	100%	Full
UniCredit Leasing CZ, a.s.	Leases	Prague	UniCredit Bank Czech Republic and Slovakia, a.s.	100%	Full
UniCredit Fleet Management s.r.o.	Lease of motor vehicles	Prague	UniCredit Leasing CZ, a.s.	100%	Full
UniCredit pojišťovací makléřská spol. s.r.o.	Mediation of services	Prague	UniCredit Leasing CZ, a.s.	100%	Full
RCI Financial Services, s.r.o.	Financing of motor vehicles	Prague	UniCredit Leasing CZ, a.s.	50%	Equity
ALLIB Leasing s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
BACA Leasing Alfa s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
CA-Leasing OVUS s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
HVB Leasing Czech Republic s.r.o.	Real estate project company	Prague	UniCredit Leasing CZ, a.s.	100%	Full
UniCredit Leasing Slovakia, a.s.	Leases	Bratislava	UniCredit Leasing CZ, a.s.	100%	Full
UniCredit Fleet Management s.r.o.	Lease of motor vehicles	Bratislava	UniCredit Leasing Slovakia, a.s.	100%	Full
UniCredit Broker, s.r.o.	Mediation of services	Bratislava	UniCredit Leasing Slovakia, a.s.	100%	Full
UniCredit Leasing Insurance Services, s.r.o.	Mediation of services	Bratislava	UniCredit Leasing Slovakia, a.s.	100%	Full

Notes to the interim financial statements (consolidated) (continued)

ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the International Financial Reporting Standard of *IAS 34 Interim Financial Reporting* as adopted by the European Union and these financial statements have not been audited.

Accounting rules and policies identical to the ones in the last annual financial statements as of 31 December 2018 have been applied to the interim financial statements. The amounts are in millions of Czech korunas (CZK million), unless stated otherwise.

Besides the below-mentioned implemented new IFRS standards, accounting estimates and assumptions identical to those in the last annual financial statements as of 31 December 2018 have been applied to the interim financial statements.

As of 1 January 2019, the Group has implemented new IFRS 16 Leases, amending the current international accounting principles and interpretations concerning leasing and, in particular, IAS 17.

IFRS 16

IFRS 16 introduced a new definition of lease and confirmed the current distinction between two types of lease (operating and finance) with reference to the accounting treatment to be applied by the lessor. As regards the accounting practices used by the lessee, the accounting standard provides that all types of lease are recognised as an asset representing the right of use of the underlying asset (hereinafter referred to as the "right-of-use asset under IFRS 16") and also as a liability taking into account future payments in line with the lease contract (hereinafter referred to as the "liability arising from a lease under IFRS 16").

The Group decided that in accordance with IFRS 16, it will not convert comparative data for the period prior to 1 January 2019 and, for the purposes of initial recognition as of 1 January 2019, the Group accounted for the value of the right-of-use asset under IFRS 16 in the amount corresponding to the liability arising from a lease under IFRS 16.

As of 1 January 2019, the impact of the implementation of the IFRS 16 accounting standard amounted to CZK 2,213 million, representing a right-of-use asset under IFRS 16, and CZK 2,297 million, representing a liability arising from a lease under IFRS 16.

The different value of the right of use under IFRS 16 and the liability arising from a lease under IFRS 16 is caused mostly by derecognition of accrued expenses in relation to the economic lease concerning select lease contracts and hence the impairment of the right-of-use asset under IFRS 16.

As of 1 January 2019, liabilities from a lease under IFRS 16 were calculated as the present value of the remaining lease payments discounted using the incremental borrowing rate as of 1 January 2019. As of 1 January 2019, the weighted average incremental borrowing rate amounted to 1.00%.

The relevant important accounting method below reflects a new approach of the standard for the accounting practice used by a lessee.

Lease received

All types of lease received are recognised as a right-of-use asset under IFRS 16 and also as a liability arising from a lease under IFRS 16. At the initial recognition, such an asset and such a liability are measured based on cash flows arising from a lease contract.

In line with the IFRS 16 accounting standard, the Group does not apply the relevant accounting standard to the lease of intangible assets, short-term leases of less than 12 months and to leases with low-value underlying assets.

In order to calculate the liability arising from a lease and related assets under the right of use, the Group discounts future lease payments using an incremental borrowing rate. It is determined based on the cost of financing of a liability of duration and security similar to those contained in the lease contract.

Future lease payments to be discounted are determined based on the contractual arrangements and exclusive of VAT, because the obligation to pay such tax commences at the moment of issuance of the invoice by the lessor rather than as of the date of commencement of the lease contract.

Notes to the interim financial statements (consolidated) (continued)

ACCOUNTING POLICIES (continued)

To determine the duration of the lease, it is necessary to take into account the non-cancellable period set in the contract, when the lessee is entitled to use the underlying asset, while taking into account the possibility of potential extension if the lessee is reasonably certain to use the possibility of extension.

Especially for contracts that allow the extension of the lease contract after the end of the first period without the necessity to explicitly express the intention to use this extension, the period is determined with respect to factors such as the length of the first period, the existence of plans to change the use of/abandon the asset and any other circumstances having an impact on the reasonable certainty of the extension of the lease contract.

Besides the present value of lease payments, the value of a right-of-use asset under IFRS 16 also contains initial direct costs attributable to the lease and any other costs required for the dismantling/removing of the underlying asset at the end of the contract.

The value of a right-of-use asset under IFRS 16 is included in property and equipment; the value of a liability arising from a lease under IFRS 16 is included in the value of financial liabilities at amortised cost. As of 30 June 2019, liabilities arising from a lease represent only liabilities to clients.

After the initial recognition, the right-of-use asset under IFRS 16 is measured based on assumptions determined for tangible assets using the cost model less the provisions and potential accumulated impairment losses. The period of depreciation of the right of use of an underlying asset corresponds to the determined duration of lease.

Changes made as of 1 January 2019

The following charts sum up the changes in the statement of financial position in relation to the initial application of IFRS 16.

Approval of liabilities arising from an operating lease provided in an annex to the consolidated financial statements for the year ended 31 December 2018 and liabilities arising from a lease under IFRS 16 as of 1 January 2019	
Liabilities arising from an operating lease provided in an annex to the consolidated financial statements for the year ended 31 December 2018	1,455
Present value of liabilities arising from an operating lease discounted using an incremental borrowing rate of 1.00%	1,424
(minus): short-term leases recognised equally within other operating expenses	(13)
plus: value adjustments given the differing approach to the possibility of potential extension	886
Liability arising from a lease under IFRS 16 as of 1 January 2019	**2,297**

Impact of the implementation of IFRS 16 as of 1 January 2019 on the consolidated statement of financial position as of 31 December 2018 (increase/(decrease) of the items below)	
Assets	
Right-of-use asset under IFRS 16 within item *"Property and equipment and right-of-use assets under IFRS 16"*	2,213
Deferred expenses within item *"Other assets"*	(17)
Liabilities	
Liability arising from a lease under IFRS 16 within item "*Financial liabilities at amortised cost – liabilities to clients"*	2,297
Accrued expenses within item *"Other liabilities"*	(101)
Net impact on Equity	**-**

Notes to the interim financial statements (consolidated) (continued)

CASH IN HAND AND CASH BALANCES

CZK million	30 Jun 2019	31 Dec 2018
Cash in hand	4,140	4,601
Other balances with central banks	196	241
Total	**4,336**	**4,842**

For cash flow reporting purposes, cash is defined as cash in hand and highly-liquid funds.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Held for trading

(i) Based on the quality of the input data used for valuation at fair value

CZK million	Level 1	Level 2	Level 3	Total
30 Jun 2019				
Debt securities	1,981	-	-	1,981
Derivatives	33	8,030	75	8,138
Total	**2,014**	**8,030**	**75**	**10,119**

CZK million	Level 1	Level 2	Level 3	Total
31 Dec 2018				
Debt securities	1,246	-	990	2,236
Derivatives	30	6,067	1,341	7,438
Total	**1,276**	**6,067**	**2,331**	**9,674**

(ii) By type of issuer

CZK million	30 Jun 2019	31 Dec 2018
Debt securities		
Government sector	1,981	1,246
Other	-	990
Total	**1,981**	**2,236**

Notes to the interim financial statements (consolidated) (continued)

FINANCIAL ASSETS AT FAIR VALUE RECOGNISED THROUGH COMPREHENSIVE INCOME

(a) Based on the quality of the input data used for valuation at fair value

CZK million	Level 1	Level 2	Level 3	Total
30 Jun 2019				
Debt securities	22,672	4,070	64	26,806
Shares	-	-	6	6
Total	**22,672**	**4,070**	**70**	**26,812**

CZK million	Level 1	Level 2	Level 3	Total
31 Dec 2018				
Debt securities	24,889	4,229	64	29,182
Shares	-	-	6	6
Total	**24,889**	**4,229**	**70**	**29,188**

(b) By type of issuer

CZK million	30 Jun 2019	31 Dec 2018
Debt securities		
Banking	765	909
Governments and other public sector	18,869	21,244
Other	7,172	7,029
Shares		
Other	6	6
Total	**26,812**	**29,188**

(c) Participation interests

Business name	Registered office	Date of acquisition	Acquisition price	Net book value 2019	Net book value 2018	Share of the Group as of 30 Jun 2019	Share of the Group as of 31 Dec 2018
CBCB - Czech Banking Credit Bureau, a.s. (bank register)	Prague	10 Oct 2001	0.24	0.24	0.24	20%	20%
Total			**0.24**	**0.24**	**0.24**	**-**	**-**

Notes to the interim financial statements (consolidated) (continued)

FINANCIAL ASSETS AT AMORTISED COST - RECEIVABLES FROM CLIENTS

(a) Analysis of net receivables from clients by type

CZK million	Stage 1	Stage 2	Stage 3	Total
30 Jun 2019				
Current accounts	36,492	4,710	397	41,599
Reverse repurchase transactions	-	-	-	-
Mortgage loans	191,513	7,263	1,400	200,176
Credit cards and consumer loans	8,497	726	127	9,350
Financial lease	21,263	1,732	338	23,333
Factoring	4,855	930	40	5,825
Debt securities	-	-	-	-
Other loans	130,158	6,385	669	137,212
Total	**392,778**	**21,746**	**2,971**	**417,495**

CZK million	Stage 1	Stage 2	Stage 3	Total
31 Dec 2018				
Current accounts	35,620	4,062	418	40,100
Reverse repurchase transactions	-	-	-	-
Mortgage loans	175,968	6,512	1,431	183,911
Credit cards and consumer loans	8,173	657	122	8,952
Financial lease	20,845	666	346	21,857
Factoring	6,285	11	24	6,320
Debt securities	177	-	-	177
Other loans	144,443	5,729	547	150,719
Total	**391,511**	**17,637**	**2,888**	**412,036**

Notes to the interim financial statements (consolidated) (continued)

FINANCIAL ASSETS AT AMORTISED COST - RECEIVABLES FROM CLIENTS (continued)

(b) Classification of receivables from clients and impairment

CZK million	Gross amount	Impairment losses	Net amount
30 Jun 2019			
Stage 1	393,889	(1,111)	392,778
Stage 2	22,526	(780)	21,746
Stage 3	10,796	(7,825)	2,971
Total	**427,211**	**(9,716)**	**417,495**

CZK million	Gross amount	Impairment losses	Net amount
31 Dec 2018			
Stage 1	392,648	(1,137)	391,511
Stage 2	18,255	(618)	17,637
Stage 3	11,282	(8,394)	2,888
Total	**422,185**	**(10,149)**	**412,036**

(c) Analysis of net receivables from clients by sector

CZK million	30 Jun 2019	31 Dec 2018
Financial institutions	10,965	8,253
Non-financial institutions	278,701	280,141
Governments and other public sector	3,676	3,859
Individuals and others	124,153	119,783
Total	**417,495**	**412,036**

Notes to the interim financial statements (consolidated) (continued)

FINANCIAL LIABILITIES AT AMORTISED COST

(a) Liabilities to clients

Analysis of liabilities to clients by liability type

CZK million	30 Jun 2019	31 Dec 2018
Current accounts	345,826	350,294
Term deposits	35,013	20,841
Repurchase transactions	86,533	-
Other	71,261	3,610
Liability arising from a lease under IFRS 16	2,151	n/a
Total	**540,784**	**374,745**

(b) Debt securities issued

Analysis of debt securities issued

CZK million	30 Jun 2019	31 Dec 2018
Covered bonds	17,572	18,677
Structured bonds	3,748	3,918
Other issued debt securities	116	245
Total	**21,436**	**22,840**

PROVISIONS

Provisions include the following items:

CZK million	30 Jun 2019	31 Dec 2018
Provisions for off-balance sheet credit items	876	1,118
- Stage 1	111	146
- Stage 2	55	43
- Stage 3	710	929
Legal disputes	73	70
Provision for restructuring	8	12
Other	85	120
Total provisions	**1,042**	**1,320**

Notes to the interim financial statements (consolidated) (continued)

PROVISIONS (continued)

CZK million	Provisions for off-balance sheet credit items	Legal disputes	Provision for restructuring	Other	Total
Balance as of 1 Jan 2019	1,118	70	12	120	1,320
Charge during the year	352	19	-	8	379
Usage during the year	-	(10)	(1)	(35)	(46)
Release of redundant provisions and other	(594)	(6)	(3)	(8)	(611)
Total as of 30 Jun 2019	**876**	**73**	**8**	**85**	**1,042**

DEPRECIATION AND IMPAIRMENT OF PROPERTY AND EQUIPMENT

In the first half of 2019 and in the first half of 2018, the Group did not release an impairment of property and equipment.

DIVIDEND

In the first half of 2018, the Group did not pay a dividend.

In the first half of 2019, the Group paid a dividend of CZK 6,070 million.

Notes to the interim financial statements (consolidated) (continued)

SEGMENT ANALYSIS

IFRS 8 Operating segments states that the presentation and reporting of operating segments shall be in accordance with the performance criteria monitored by the one responsible for operational decisions. In the Group, that responsibility lies with the Board of Directors of the Bank.

The Group's primary segment reporting is broken down by types of clients: retail and private banking, corporate and investment banking, and other. The performance of all the segments is monitored monthly by the Board of Directors and other members of the Group's management. The reporting segments generate income primarily from the provision of loans and other banking products.

Retail and private banking encompasses in particular providing loans, mortgages, account keeping, payment services (including payment cards), term and saving deposits, and investment advisory.

Corporate and investment banking includes especially the following products and services: providing banking services to companies and public institutions, including loans, bank guarantees, account maintenance, payment services, opening documentary letters of credit, term deposits, derivative and foreign currency operations, and capital market activities inclusive of securities underwriting for clients, investment advisory, and consulting on mergers and acquisitions.

Other includes banking services that are not included within the aforementioned segments.

(a) Information on segments by client category

CZK million	Retail and private banking	Corporate and investment banking, leasing	Other	Total
As of 30 Jun 2019				
Net interest and dividend income	1,820	4,646	711	7,177
Other net income	929	2,363	681	3,973
Depreciation/impairment losses of property and equipment and intangible assets	(293)	(261)	(175)	(729)
Impairment of assets and provisions	(136)	(519)	10	(645)
Segment expenses	(1,722)	(2,206)	240	(3,688)
Profit before tax	598	4,023	1,467	6,088
Income tax			(1,198)	(1,198)
Result of segment	598	4,023	269	4,890
Segment assets	141,014	716,773	11,244	869,031
Segment liabilities	243,375	528,942	22,460	794,777

CZK million	Retail and private banking	Corporate and investment banking, leasing	Other	Total
As of 30 Jun 2018				
Net interest and dividend income	1,703	4,170	828	6,701
Other net income	878	2,695	90	3,663
Depreciation/impairment losses of property and equipment and intangible assets	(72)	(440)	(59)	(571)
Impairment of assets and provisions	(108)	(348)	(20)	(476)
Segment expenses	(1,839)	(2,164)	(16)	(4,019)
Profit before tax	562	3,913	824	5,299
Income tax			(1,008)	(1,008)
Result of segment	562	3,913	(184)	4,291
Segment assets	128,006	659,085	12,023	799,114
Segment liabilities	168,714	522,830	36,417	727,961

Income tax for all segments is recognised in the segment "Other".

The Group does not have a client or a group of clients that would comprise more than 10 percent of the Group's income.

Notes to the interim financial statements (consolidated) (continued)

SEGMENT ANALYSIS (continued)

(b) Information on geographical areas

CZK million	Czech Republic	Slovak Republic	Total
As of 30 Jun 2019			
Net interest and dividend income	5,828	1,349	7,177
Other net income	2,976	997	3,973
Depreciation/impairment losses of property and equipment and intangible assets	(496)	(233)	(729)
Impairment of assets and provisions	(774)	129	(645)
Segment expenses	(2,675)	(1,013)	(3,688)
Profit before tax	4,859	1,229	6,088
Income tax	(878)	(320)	(1,198)
Result of segment	3,981	909	4,890
Segment assets	740,280	128,751	869,031
Segment liabilities	683,187	111,590	794,777

CZK million	Czech Republic	Slovak Republic	Total
As of 30 Jun 2018			
Net interest and dividend income	5,289	1,413	6,702
Other net income	2,726	937	3,663
Depreciation/impairment losses of property and equipment and intangible assets	(384)	(187)	(571)
Impairment of assets and provisions	(281)	(195)	(476)
Segment expenses	(2,907)	(1,112)	(4,019)
Profit before tax	4,443	856	5,299
Income tax	(850)	(158)	(1,008)
Result of segment	3,593	698	4,291
Segment assets	660,252	138,862	799,114
Segment liabilities	623,433	104,528	727,961

Notes to the interim financial statements (consolidated) (continued)

CONTINGENT ASSETS AND CONTINGENT LIABILITIES

In the ordinary course of business, the Group conducts various financial transactions that are not reported on the face of the Group's balance sheet and that are designated as off-balance-sheet financial instruments. Unless stated otherwise, the information below represents the nominal values of the off-balance-sheet transactions.

Contingent liabilities

Legal disputes

As of 30 June 2019, the Group assessed the legal disputes in which it acted as a defendant. The Group established provisions for these legal disputes. In addition to these disputes, legal action arising from ordinary business activities were taken against the Group. The management does not anticipate the result of these legal disputes to have a material impact on the Group's financial position.

Liabilities arising from guarantees, credit commitments and other contingent liabilities

Contingent liabilities predominantly include amounts of undrawn credit commitments. Credit commitments issued by the Group include issued credit and guarantee commitments, and undrawn amounts of credits and overdraft loan facilities. Revocable commitments include credits and guarantees that may be revoked by the Group at any time without stating the reason. On the contrary, irrevocable commitments represent the Group's liability to provide a credit or issue a guarantee, the performance of which, even though bound on meeting the contractual terms by the client, is to a certain extent independent of the Group's will.

Liabilities arising from financial guarantees include irrevocable confirmation made by the Group to perform payments, under the condition that the terms defined under individual guarantee certificates are met. As such confirmation bears a similar risk as credits, the Group creates the relevant provisions using a similar algorithm as for credits.

Documentary letters of credit represent an irrevocable written commitment of the Group issued based on a client's request (orderer) to provide a third party or to its order (recipient, beneficiary) with certain performance under the condition that the terms of the letter of credit are met by a specified deadline. For these financial instruments, the Group creates provisions using a similar algorithm as applied for credits.

The Group created provisions for off-balance-sheet items to cover losses incurred and arising from the impairment of the off-balance-sheet items due to credit risk. As of 30 June 2019, the aggregate provisions amounted to CZK 878 million (as of 31 December 2018: CZK 1,118 million).

CZK million	30 Jun 2019	31 Dec 2018
Letters of credit and financial guarantees	**41,808**	**40,255**
- Stage 1	40,798	38,920
- Stage 2	829	1,164
- Stage 3	181	171
Other contingent liabilities (undrawn credit facilities)	**138,995**	**119,720**
- Stage 1	134,256	116,046
- Stage 2	4,463	3,277
- Stage 3	276	397
Total	**180,803**	**159,975**

Notes to the interim financial statements (consolidated) (continued)

RELATED PARTY TRANSACTIONS

Entities are deemed to be entities under special arrangements in the event that one entity is able to control the activities of the other or is able to exercise significant influence over the other entity's financial or operational policies. As part of its ordinary business, the Bank enters into transactions with related entities. These transactions principally comprise loans, deposits and other types of transactions and are concluded under arm's length conditions and at arm's length prices in order to prevent any detriment to any party.

Related parties principally include the parent companies and fellow subsidiaries as part of UniCredit Group, subsidiaries and affiliates, members of the Board of Directors and other members of the Bank's management.

The Group has prepared an equity programme for the employees of UniCredit Group under which the employees may purchase investment shares of UniCredit Group at a discounted price in the form of discount shares. Discount shares may not be sold over the commitment period. Tied shares will be forfeited if the respective employee terminates his/her employment in the group or sells his/her investment shares before the end of the commitment period. The provided discount is allocated to individual group companies that are involved in the programme and these companies recognise and defer the discount over the commitment period.

Notes to the interim financial statements (consolidated) (continued)

RELATED PARTY TRANSACTIONS (continued)

(a) Related party transactions

CZK million	30 Jun 2019	31 Dec 2018
Assets		
Receivables from banks	1,517	2,474
Financial assets held for trading	536	598
Fin. assets at fair value recognised through comprehensive income	765	774
Positive fair value of hedging derivatives	1,195	996
Total	**4,013**	**4,842**

CZK million	30 Jun 2019	31 Dec 2018
Liabilities		
Liabilities to banks	91,174	123,403
Financial liabilities held for trading	357	312
Negative fair value of hedging derivatives	923	859
Total	**92,454**	**124,574**

CZK million	30 Jun 2019	31 Dec 2018
Off-balance-sheet items		
Issued guarantees	1,435	963
Irrevocable credit facilities	96	132
Total	**1,531**	**1,095**

CZK million	1.1.-30.6.2019	1.1.-30.6.2018
Interest and similar income	149	174
Interest and similar expenses	(95)	(20)
Net income/loss from financial assets and liabilities held for trading	783	272
Net income/loss from hedging against risk of changes in fair value	(3)	2
Administrative expenses	4	(9)
Total	**838**	**419**

Notes to the interim financial statements (consolidated) (continued)

RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with key management members

CZK million	30 Jun 2019	31 Dec 2018
Assets		
Receivables from clients	98	98
of which:		
Board of Directors	9	8
Other executives	89	90
Total	**98**	**98**

CZK million	30 Jun 2019	31 Dec 2018
Liabilities		
Liabilities to clients	198	223
of which:		
Board of Directors	84	113
Other executives	114	109
Total	**198**	**223**

CZK million	30 Jun 2019	31 Dec 2018
Off-balance-sheet items		
Irrevocable credit facilities	8	4
of which:		
Board of Directors	1	1
Other executives	7	3
Total	**8**	**4**

Notes to the interim financial statements (consolidated) (continued)

RELATED PARTY TRANSACTIONS (continued)

(c) Transactions with other related parties

CZK million	30 Jun 2019	31 Dec 2018
Assets		
Financial assets held for trading	1,457	1,020
of which:		
UniCredit Bank AG	1,457	1,020
Receivables from banks	719	991
of which:		
UniCredit Bank AG	321	823
UniCredit Bank Austria AG	321	95
Yapi ve Kredi Bankasi AS	39	31
UniCredit Bank Hungary Zrt.	14	6
AO UniCredit Bank	9	20
Receivables from clients	749	724
of which:		
UCTAM Czech Republic s.r.o.	399	404
UCTAM SVK, s.r.o.	350	320
Positive fair value of hedging derivatives	3,955	1,915
of which:		
UniCredit Bank AG	3,955	1,915
Total	**6,880**	**4,650**

CZK million	30 Jun 2019	31 Dec 2018
Liabilities		
Liabilities to banks	47,776	20,626
of which:		
UniCredit Bank Austria AG	42,530	19,933
UniCredit Bank AG	5,167	649
UniCredit Bank Hungary Zrt.	69	5
Liabilities to clients	348	501
of which:		
UniCredit Services S.C.p.A.	42	80
Financial liabilities held for trading	2,687	2,378
of which:		
UniCredit Bank AG	2,687	2,378
Negative fair value of hedging derivatives	3,007	1,500
of which:		
UniCredit Bank AG	3,007	1,500
Total	**53,818**	**25,005**

Notes to the interim financial statements (consolidated) (continued)

RELATED PARTY TRANSACTIONS (continued)

CZK million	30 Jun 2019	31 Dec 2018
Off-balance sheet items		
Issued guarantees	1,244	1,240
of which:		
UniCredit Bank AG	699	623
UniCredit Bank Austria AG	322	311
UniCredit Bank Hungary Zrt.	4	19
AO UniCredit Bank	51	102
Irrevocable credit facilities	197	287
of which:		
UniCredit Bank AG	110	119
Total	**1,441**	**1,527**

CZK million	1 Jan-30 Jun 2019	1 Jan-30 Jun 2018
Interest and similar income	54	542
of which:		
UniCredit Bank AG	1	321
Yapi ve Kredi Bankasi AS	-	19
UniCredit Bank Austria AG	45	194
Interest and similar expenses	(268)	(75)
of which:		
UniCredit Bank AG	(156)	(1)
UniCredit Bank Austria AG	(108)	(69)
Fee and commission income	89	37
of which:		
UniCredit Bank AG	81	28
UniCredit Bank Hungary Zrt.	1	1
UniCredit Bank Austria AG	6	7
Fee and commission expenses	(3)	(10)
of which:		
UniCredit Bank Austria AG	(2)	(2)
Net income from financial assets and liabilities held for trading	(714)	(1,682)
of which:		
UniCredit Bank AG	(714)	(1,629)
UniCredit Bank Austria AG	-	(53)
Net income from hedging against risk of changes in fair value	224	10
of which:		
UniCredit Bank AG	224	11
General administrative expenses	(457)	(620)
of which:		
UniCredit Services S.C.p.A.	(459)	(622)
Total	**(1,075)**	**(1,798)**

Notes to the interim financial statements (consolidated) (continued)

SUBSEQUENT EVENTS

The Group's management is not aware of any post balance sheet events that would require adjustment to the Group's interim financial statements.

4. Statement of the Issuer’s authorised persons

To the best of our knowledge, this Half-Year Report gives a true and fair view of the financial situation, business activities and results of operations of the Issuer and the Issuer’s consolidation group for the last half-year and of the outlook of future development of the financial situation, business activities and results of operations of the Issuer and the Issuer’s consolidation group.

Prague, 25 September 2019

Ing. Aleš Barabas

Member of the Board of Directors

Ljubiša Tešić

Member of the Board of Directors