Česká spořitelna

Half-Year Report 2020

International Financial Reporting Standards,
Consolidated & Unaudited

ČESKÁ spořitelna

Content

Macroeconomic Development of the Czech Republic

in the First Half of 2020

The favourable development of the Czech economy continued at the very beginning of 2020, due to both domestic and foreign demand. However, this development was disrupted by the COVID-19 pandemic, which led to government restrictions and caused severe slump of the economy. Labour market remained in a good condition, as unemployment rate stayed low. Inflation significantly exceeded the upper bound of the tolerance band around inflation target at the beginning of 2020, although it started slowing down gradually during the first half of the year. During the first half of 2020, the ČNB decreased interest rates three times in order to loose monetary conditions and mitigate adverse economic impacts of the pandemic. Economic risks remained high, as the most important of them was a possible return of the pandemic and thus deeper slump of the economy.

In the second quarter of 2020, y/y growth of the gross domestic product of the Czech economy reached -10.7%[1], vs. the +2.5%[2] reached in 2019 (average). With the exception of government consumption, all other main GDP components contributed negatively to GDP growth. Investment activity was hit the most; however, also foreign trade and household consumption lowered significantly. On the other hand, higher government consumption in a form of several fiscal stimulus mitigated the decrease of the economy. This was affected not only by restrictive measures in the economy, but also by uncertainty stemming from future impacts of the crisis on income of households and firms. Economic performance thus fell significantly during the first half of 2020, when the coronavirus pandemic was the reason behind the unfavourable development.

> Economic performance fell significantly during the first half of 2020, when the coronavirus pandemic was the reason behind.

At the beginning of 2020, inflation was close to the upper band of the inflation target, with annual inflation arriving at 3.6%[3]. Such a high number was caused by solid domestic demand, high growth of labour costs of firms and a significant increase of food prices. After the outbreak of the pandemic and launching restrictive measures, inflation started slowing down gradually. However, this was influenced mainly by lowering oil prices partly offset by pro-inflationary development in food prices, affected also by higher domestic demand for them. At the end of the second quarter, inflation arrived at 3.3 %[4].

Despite the recession of the Czech economy, labour market development remained favourable also during the first half of 2020. This was caused by a lag between labour market and GDP developments. Thus, unemployment rate, which arrived at 2.6%[5] in June corresponded to GDP development at the beginning of 2020. Moreover, high demand for new available workers significantly exceeded their supply and this development remained also during the first half of the year. However, during H1 2020, the crisis has started to spill over into the labour market gradually.

During the first half of 2020, the ČNB decreased interest rates three times: the main two-week repo rate was set at 0.25%[6] at the end of June, which helped to loosen monetary conditions and thereby mitigate the negative impact of the coronavirus pandemic. At the end of the first quarter, the koruna significantly weakened due to higher uncertainty on the markets to close to EUR/CZK 27.60[7]. This depreciation was mainly due to the outflow of capital to the so-called safe harbours and lower demand for the koruna. At the end of the first half of the year, however, market sentiment began to improve gradually and the koruna strengthened slightly, with its exchange rate hovering around EUR/CZK 26.80[8].

The recession and following decreasing of the ČNB interest rates have moved the yield curve downwards. Moreover, this was reinforced by market expectations, as several market participants were expecting a long period of low rates. This also affected the slope of the curve, as it became relatively flat.

1. Source: Czech Statistical Office, 31. 7. 2020, https://www.czso.cz/csu/czso/ari/gdp-preliminary-estimate-2nd-quarter-of-2020
2. Source: Czech Statistical Office, 31. 3. 2020, https://www.czso.cz/csu/czso/ari/quarterly-sector-accounts-4-quarter-of-2019
3. Source: Czech Statistical Office, 10. 6. 2020, https://www.czso.cz/csu/czso/inflation_consumer_prices_ekon
4. Source: Czech Statistical Office, 10. 7. 2020, https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-june-2020
5. Source: Czech Statistical Office, 30. 7. 2020, https://www.czso.cz/csu/czso/ari/rates-of-employment-unemployment-and-economic-activity-june-2020
6. Source: Czech National Bank, 11. 5. 2020, https://www.cnb.cz/en/monetary-policy/instruments/changes-in-2020
7. Source: Czech National Bank, 30. 6. 2020, https://www.cnb.cz/central-bank-exchange-rate-fixing
8. Source: Czech National Bank, 30. 6. 2020, https://www.cnb.cz/central-bank-exchange-rate-fixing

Consolidated Financial Results of Česká spořitelna[9]

for the First Half of 2020

Income Statement

Česká spořitelna reported an unaudited consolidated net profit (net result attributable to owners of the parent) of CZK 4.6 bn in the first half of 2020, according to International Financial Reporting Standards (IFRS). Net profit for the same period of 2019 amounted to CZK 8.7 bn which meant a decrease of 47.1% in a year-on-year comparison.

Return on equity (ROE) substantially decreased to 6.5% from 14.4% in the first half of 2019, due to decrease in net profit. Return on assets also declined and stood at 0.6% (vs 1.2% in H1 2019).

Operating result recorded a decline of 10.1% in a year-on-year comparison to CZK 10.2 bn. Decrease in operating result was the reason behind the growth of cost/income ratio to 49.0% from 45.7% in H1 2019.

Net interest income was in line with H1 2019 and amounted to CZK 14.7 bn. This item was supported by strong business growth in the last quarters but heavily stressed by rate cuts by the Czech National Bank in 2020. Net interest margin related to interest bearing assets decreased from 2.08% in H1 2019 to 1.98% in H1 2020.

> Net interest income was in line with H1 2019 and amounted to CZK 14.7 bn.

Net fee and commission income decreased by 10.6% year-on-year to CZK 4.0 bn. The decline was caused by impact of payment transfers (SEPA regulation) effective from December 2019, lower new business due to impact of COVID-19 crisis and reduction of fees for current accounts reflecting higher number of customers benefiting from My Healthy Finances concept. On the other hand, these effects were partly offset by growth of securities transactions (mainly due to increase in asset management, e.g. mutual funds were up by 6.9% y/y and 7.7% q/q).

Net trading result significantly declined by 46.8% compared to H1 2019, to CZK 793 m. This result was affected by decline of FX business and negative valuation effects.

Total operating expenses rose by 2.7% in a year-on-year comparison, to CZK 9.8 bn. Personnel expenses grew by 3.1%, mainly due to an increase in salaries. Other administrative expenses remained almost flat compared to H1 2019. Depreciation increased by 9.4% because of the asset deployment and an adjustment of parameters related to IFRS 16.

Impairment result from financial instruments (i.e., creation of risk provisions and reserves for loans and advances, guarantees and commitments) reached CZK -3.6 bn. It meant a year-on-year decline of CZK 3.8 bn, driven by expected credit losses as a consequence of further economic deterioration. However, loan portfolio is still in a very good condition with a low inflow of new defaults and low portfolio of non-performing loans.

Other operating result of CZK -0.8 bn consisted mainly of other income and costs not directly related to main operating activities of the Group. Year-on-year worsening of other result was attributed to higher contribution to Recovery and Resolution Fund in Q1 2020.

Statement of Financial Position

As at 30 June 2020, total consolidated assets amounted to CZK 1,667.3 bn, which meant a 14.3% increase compared to 31 December 2019. On the assets side, the growth was driven mainly by loans to banks. The dominant driver of growth on liability side of the balance sheet was customer deposits.

Customer loan portfolio continued to grow also amid COVID-19 crisis in H1 2020. The volume of ČS Group net loans and advances to customers increased by 4.8% to CZK 764.5 bn, which meant CZK 35.3 bn in absolute value. Excluding reverse repo operations, which the Bank does not consider as a main business activity, net customer loans and advances increased by 2.8%.

> Customer loan portfolio continued to grow also amid COVID-19 crisis in H1 2020.

The portfolio of retail loans (bank only) amounted to CZK 422.8 bn, representing a 3.0% increase in the first half of 2020. The biggest

9. Definitions of below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 57.

contributors to retail loan growth were private mortgages (up by 4.0% to CZK 291.6 bn) and loans to small companies (+2.1%). Consumer loans remained in line with the end of 2019 and reached CZK 73.6 bn. Building loans of Stavební spořitelna ČS (Building Society) also rose. The gross loan portfolio of SSČS reached the level of CZK 47.4 bn by a rise of 4.9% during first six months of 2020.

The gross volume of loans to corporate customers and to the Group Markets segment (wholesale loans, bank only), excluding reverse repo operations, increased by 4.1% to CZK 267.4 bn in the first half of 2020. The growth was due to strong growth in loans to large corporate customers (up by 5.4%), public sector (growth of 3.2%) and corporate real estate (up by 9.5%), that was also partly affected by FX fluctuations. The reported figure rose by 9.8% to CZK 284.1 bn.

The loan portfolio of Česká spořitelna continues to be in an excellent quality. This can be seen in the share of non-performing loans to the overall volume of client loans which was stable at 1.9%. Provision coverage was close to 112%.

> The loan portfolio of Česká spořitelna continues to be in an excellent quality.

Loans to banks rose by 28.1% to the amount of CZK 528.3 bn in the first half of 2020. The growth was caused by growth of reverse repo operations with ČNB.

Group deposits from customers recorded a 14.8% increase compared to the end of 2019 and reached CZK 1,148.3 bn. (Excluding the impact of repo operations they grew by 7.0%.) Household (retail) deposits went up by 7.2% to CZK 760.8 bn and Group corporate deposits declined by 3.9% to CZK 210.8 bn in the first half of 2020. Public sector deposits increased to CZK 176.7 bn due to inflow of volatile short-term deposits.

Deposits from banks went up by 15.4% in H1 2020 to CZK 337.1 bn. The main reason behind that was an increase in loans received within repo operations.

Equity attributable to owners of the parent grew by 6.4% from the end of 2019 and reached CZK 145.9 bn. The total capital ratio (Tier I and II) for Česká spořitelna Group as at 30 June 2020 reached 25.3%. Following the recommendation published by the ČNB, Česká spořitelna has decided to retain the originally planned dividend amount for the time being. However, even without this effect, capital adequacy would have been comfortably above minimum regulatory capital requirements.

Major Events and Business Activities

in the First Half of 2020

Retail Banking

Measures aimed at restricting the spread of coronavirus had a major impact on all activities in the first half of the year. Česká spořitelna was able to respond quickly to the new needs of its clients during the coronavirus crisis, greatly helping its clients adapt to the new conditions. During the coronavirus crisis, some 100,000 clients who had, until that time, preferred cash transactions, started to take advantage of the possibility of making card payments. Those clients had accounted for a third of the total number of Spořitelna's purely cash-based customers. The share of cashless payments in all payments made by Spořitelna's clients was roughly 40% at the end of the first half of 2020. The use of George mobile banking also increased by 20% during the coronavirus crisis, and, on average, people have started using it every day.

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The sharp increase in interest in cashless payments and steady growth in interest in advisory services, which today account for some 90% of all client interactions at Česká spořitelna's branches, has accelerated the transition of some branches to a cashless mode, creating yet more room for advisory services.

George

George digital banking is the most widely used banking application on the Czech market. Česká spořitelna continued to improve its application and to expand its functionalities. In the first half of 2020, clients were given the option to enter the most frequent requests with respect to mortgages through George – a mortgage draw-down request, request for an adjustment in the instalment amount, change in property insurance, extraordinary payment, or change in the number of the account from which the mortgage is being paid off.

Since February, George has made it possible to invest in more than 80 mutual funds online. In stage one, George will enable active online transactions involving mutual funds. At the next stage, it will support active transactions with bonds and shares. Another innovation presented by George in the first half of 2020 was supplementary pension savings that clients can arrange via their Internet banking. Clients can also newly adjust their pension savings through George (e.g., changes in monthly contributions, changes in authorised and designated persons).

Loans

Česká spořitelna made it possible for its clients to postpone three payments between April and June and subsequently also started to provide so-called "protective period", in line with the law. The pandemic influenced also household demand for consumer loans, however, during May and June, Spořitelna started to note a gradual return to normal.

Mortgages

Despite the pandemic, the first half of 2020 was successful in terms of mortgage lending at Česká spořitelna that remains one of the largest players on the mortgage market. With all mortgages, the Bank is newly offering its clients the service of Arranging the Filing of a Pledge Registration Request at the Land Register, which saves clients a trip to the Land Register. The Bank continues to provide a successful proposition for starter homes, with clients needing to put up only 10% of their own funds for their first home and the Spořitelna's mortgage taking care of the rest.

Another innovation that Česká spořitelna has prepared for its mortgage clients is the possibility of servicing one's mortgage through George, where clients can set up a mortgage draw-down request, as well as request an extraordinary payment, make a change in insurance, or request other changes.

Česká spořitelna – Corporate Banking

The domestic economy nearly ground to a halt in the first half of the year. Many companies found themselves in trouble and needed help as fast as possible. Česká spořitelna, as well as other banks and the government, made it possible for companies to postpone instalments and to draw loans in the COVID programmes designed to help companies overcome the adverse impact of anticoronavirus measures on their business.

> Česká spořitelna made it possible for companies to postpone instalments and to draw loans in the COVID programmes.

Česká spořitelna was able to adapt its application, product, as well as process environments in record time. Spořitelna started to process postponements of instalments for large and medium-sized clients purely digitally.

15 regional corporate centres across the country played a key role in serving small and medium-sized companies during the crisis. They were open to clients the entire time, furthermore bankers intensified their electronic communication with clients. While the country was under lockdown, Spořitelna also organised its first-ever virtual conference for its clients, which was received very favourably.

Mutual Funds

The situation on the financial markets in the first half of 2020 was deeply marked by the coronavirus crisis. A significant drop occurred in financial markets at the end of the first quarter, but the vast majority of our clients did not give in to immediate panic and resisted selling off their portfolio. Client patience was rewarded with stabilisation and a rebound of stock markets, which successfully offset during Q2 most of the drop from the end of Q1. An important role in this played the seniority of bankers, the quality of investment solutions and their proper set-up vis-à-vis client expectations.

Despite the very turbulent first half of 2020, significant uncertainty, and worries about very slow global economic revival, Česká spořitelna has managed to remain number one in the market of mutual fund brokers and even slightly increase its market share to 27.3% (as at 30 June 2020). Total assets under management, notwithstanding a significant drop in the capital markets in the first half of the year, have also remained stable, with no significant drop.

General Meeting

Česká spořitelna's General Meeting took place in the form of a Decision of its Sole Shareholder acting in the capacity of the General Meeting. Česká spořitelna's sole shareholder is Erste Group Bank AG, which obtained all shares on the basis of a decision of Česká spořitelna's General Meeting on 3 October 2018.

The sole shareholder acting in the capacity of a General Meeting decided on 23 April 2020 to distribute the Company's 2019 profit and retained profits from previous years, amounting in the aggregate to CZK 100,656.2 m. Furthermore, it decided about an allocation of CZK 1,075 m to a special fund created from profit, for paying yield to holders of Additional Tier 1 instruments issued by the Company. The amount of CZK 99,581.2 m will be retained for time being. Based on the ČNB expectations, the General Meeting has not yet decided about dividend payment.

How Česká spořitelna helped fight the coronavirus pandemic

Employees:

- The Bank enabled people to work from home to the greatest possible extent.
- For working from home, branch-based bankers were able to connect their home computers to the corporate network.
- Counters at branches were equipped with disinfectants and protective shields.

Individual clients:

- Česká spořitelna was the first to offer its clients a postponement on their loan instalments by three to six months.
- Bankers cared for their clients over the telephone and online, thereby limiting the adverse impact of restricted opening hours or partial closure of branches.
- Česká spořitelna is the only bank on the market to use voice biometrics, thanks to which people can be identified and give payment orders by telephone.
- Spořitelna temporarily did away with some fees, to alleviate the situation of clients in need – for example, the fee for the My Healthy Finances, if the client temporarily does not comply with the minimum income condition, or a fee for transactions entered by telephone.
- Clients were able to make an online request for the issuance of a payment card

Entrepreneurs and corporations:

- Česká spořitelna in co-operation with Global Payments started to offer micro and small entrepreneurs payment terminals for fast and contactless acceptance of payments free of charge for 8 months.
- Česká spořitelna got involved in COVID programmes in which small and medium-sized companies can draw operating loans on concessional terms.
- To large corporations, Spořitelna offers operating loans with an EGAP guarantee on concessional terms.
- In co-operation with the blockchain start-up company Tatum, Česká spořitelna launched the non-profit project "Zachraň svou firmu" ("Save Your Company"), to support self-employed people and small companies. It aims to help them overcome the period when they cannot run their business due to COVID-19, suffering from restrictions or a customer outage.

Corporate Social Responsibility

Česká spořitelna supported the launch of mass production of protective masks designed by the Czech Technical University, with a donation of CZK 500,000, in co-operation with the National Centre for Industry 4.0 and the Czech Institute of Informatics, Robotics, and Cybernetics. It also contributed to Czech Technical University projects, in the form of a ČISOK COVID-19 collection of the Czech – Israeli Mutual Chamber of Commerce. Spořitelna also supported the initiative "Tiskne celé Česko" ("The Whole Czechia Prints"), by donating CZK 200,000 for the purchase of material for 3D printers, for making protective shields for healthcare professionals.

Česká spořitelna's Seed Starter supported the newly established Virtual Waiting Room, with a donation of CZK 500,000. The project for an online connection to doctors for patients from across the country was initiated by Tomáš Šebek. With pro bono technical solutions, the Bank contributed to the development and start-up of several other platforms: zachransvoufirmu.cz ("Save Your Company"), zachranhospodu.cz ("Save a Pub") or podporime.cz ("We Are Supporting").

In co-operation with the Via Foundation, the Bank distributed a total of CZK 204,000 in micro-grants among 24 individuals and non-profits that got actively involved in helping others, most of them by sewing masks. In the next round of micro-grants, titled "Vraťme život do ulic" ("Let's Return Life to the Streets"), the Bank supported 66 projects across the country, with a total of CZK 535,800. Both micro-grants were announced under the wings of the Bank's community programme "Dokážeme víc" ("We Can Do More").

In April, Spořitelna's employees contributed a total of CZK 150,120 through Cafeteria to the project "Energii lékařům" ("Energy for Doctors"), having sent 1,151 packages to medical professionals. They also got actively involved in the sewing of masks, using also their two "Dny jinak" ("Days Differently") – the corporate volunteering programme – for that purpose. Employees also used their "Days Differently" to help plant trees and for other seasonal work in agriculture that could not be postponed until the end of the pandemic.

The Bank provided financial support to the Czech Television educational programme "UčíTelka" (school via television) and "Máme na to" ("We Can Do It"). Moreover, in its "Abeceda peněz" ("Money Alphabet") programme, it created a series of leisure-time educational activities and competitions. Česká spořitelna got involved in the "Chráním tebe" ("Protecting You") campaign and also supported online sports programmes of its partners, such as the Czech Athletic Federation or "Kolo pro život" ("Bike for Life").

Thanks to Spořitelna, CZK 7,461,258 was successfully raised in co-operation with the Czech Philharmonic, for five hospitals that handle the most serious COVID-19 cases.

The Česká spořitelna Foundation decided to donate CZK 25 million for helping vulnerable children and another CZK 5 million was divided among the Foundation's partners in the rapid assistance fund. For example, CZK 5 million was given in support of the organisation Česko.Digital and its "Učíme online" ("Online Teaching") project; non-profit organization "Člověk v tísni" ("People in Need") received CZK 6 million, and the Fund for the Kutná Hora District CZK 1 million.

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Česká spořitelna - penzijní společnosti (Pension Company) donated CZK 100,000 to "Život 90" ("Life 90"). The ČS Foundation contributed CZK 50,000 to the "Teachers Printing Protective Equipment for Medical Professionals" initiative. This is an activity initiated by a community of teachers involved in "Elixir do škol" ("Elixir for Schools") – an organisation established within the ČS Foundation. The Foundation also offered tips for parents on how to teach their children at home, on its website and in the "Chytré Česko" ("Smart Czechia") programme.

The Bank actively communicates with clients with disabilities. The Barrier-Free Bank site features basic information and tips, including video versions in sign language.

For its employees, Spořitelna not only gradually obtained protective gear and disinfectants, arranged the possibility of working on alternating shifts and from home, but also secured free access to the "U lékaře" ("At the Doctor") service, an online medical platform of Tomáš Šebek's team.

Česká spořitelna's Expected Development

in the Second Half of 2020

Česká spořitelna's long-standing goal is to lead its clients and the entire Czech society to prosperity. The main instrument that will help it attain that objective is its advisory concept My Healthy Finances (MHF). MHF services are currently being used by nearly 1.5 million satisfied clients. The main benefit that clients derive from the service is the ability to see a breakdown of their expenditures by group and subsequently obtain advice that will lead to their optimisation. In the second half of the year, Česká spořitelna plans further development, standardisation, and delivery of the service in real time, including new types of channels for delivering tips to clients. Whether by tablet devices at branches or push notification in clients´ mobile phones.

Given the shift in customer paradigm triggered by COVID-19, ČS plans to significantly accelerate its digital services for clients, through online onboarding, digital sales in some product areas or digital servicing of client products. Apart from digitisation, ČS will also focus on delivering the valued concept of advisory services for a broader client base, as well as on starting to use financial advisory services in the corporate segment.

Furthermore, Česká spořitelna plans to provide corporate clients with what is in this period very valuable liquidity, which was drained by the impact of COVID-19, mainly by utilising the government guarantees.

In terms of the balance of assets and liabilities in the second half of 2020, the Bank expects continued growth of the volume of loans to clients in both retail and corporate banking. Primary deposits will also continue to increase.

In the profit and loss statement, the second half of 2020 will reflect the impact of COVID-19. The volume of net interest income will be affected by a decrease of interest rates in the first half of the 2020 that will be partly offset by the volume growth. Revived client activity in the area of investments in mutual funds and securities will make a positive contribution to net fee and commission income, while at the same time the continuing pressure of competition on the Czech market will have a negative impact. The development of credit risk provisions will be affected by the impact of COVID-19. The benefits of implementing selected Group and local projects and efforts to improve operational efficiency will also play an important role. The main source of uncertainty stems from a possible second wave of COVID-19.

Selected Financial Indicators[10]

Key Ratios

	30 June 2020	30 June 2019
Return on equity (ROE)	6.5%	14.4%
Return on assets (ROA)	0.6%	1.2%
Cost / Income	49.0%	45.7%
Net interest margin in relation to interest-earning assets	1.98%	2.08%
Non-interest income / operating income	26.4%	29.7%
Loans and advances to customers / amounts owed to customers	66.6%	70.1%
Consolidated capital adequacy (BASEL III, Tier I and II)	25.3%	20.6%

Selected Operating Figures

	30 June 2020	30 June 2019
Headcount of Česká spořitelna Financial Group	9,946	9,821
Total number of clients	4,461,248	4,577,813
Number of cards	2,931,882	2,887,290
of which: credit cards	168,160	173,435
Number of ATMs and payment machines	1,836	1,778
Number of Česká spořitelna branches	456	487

Net Profit of Selected Subsidiaries of Česká spořitelna

under International Financial Reporting Standards (IFRS)

in CZK million	H1 2020	H1 2019
Česká spořitelna – penzijní společnost, a.s.	174	148
Erste Leasing, a.s.	50	29
Factoring České spořitelny, a.s.	41	20
REICO investiční společnost České spořitelny, a.s.	49	45
s Autoleasing, a.s.	40	54
Stavební spořitelna České spořitelny, a.s.	422	490

Affidavit

The signatories of this document represent that according to their best knowledge the consolidated interim report provides a true and fair view of the financial position, business operations and financial results of Česká spořitelna and its consolidated group for the six months just ended and on the future prospects of its financial position, business operations and financial results.

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-chairman of the Board of Directors

10. Definitions of below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 57.

Financial Statements

Interim Consolidated Financial Statements

for the Period Ended 30 June 2020

Prepared in Accordance with International Accounting Standard IAS 34: Interim Financial Reporting (Unaudited)

I. Consolidated Condensed Statement of Income

in CZK million	Notes	01-06 2020	01-06 2019 reclassified
Net interest income	1	14,688	14,657
Interest income		17,637	18,501
Other similar income		2,403	1,679
Interest expenses		(3,115)	(3,841)
Other similar expenses		(2,237)	(1,682)
Net fee and commission income	2	3,977	4,450
Fee and commission income*		4,769	5,034
Fee and commission expense*		(792)	(584)
Dividend income	3	9	48
Net trading result	4	793	1,492
Gains/losses from financial instruments measured at fair value through profit or loss	5	391	55
Net result from equity method investments		1	42
Rental income from investment properties & other operating leases	6	109	109
Personnel expenses	7	(5,163)	(5,009)
Other administrative expenses	7	(3,284)	(3,295)
Depreciation and amortisation	7	(1,345)	(1,230)
Gains/losses from derecognition of financial assets measured at amortised cost		-	8
Impairment result from financial instruments	8	(3,577)	199
Other operating result	9	(804)	(680)
Pre-tax result from continuing operations		**5,795**	**10,846**
Taxes on income	10	(1,189)	(2,136)
Net result for the period		**4,606**	**8,710**
Net result attributable to non-controlling interests		-	(10)
Net result attributable to owners of the parent		**4,606**	**8,700**

* For detail to the prior year reclassification refer to Note 2 Net fee and commission income.

II. Consolidated Condensed Statement of Other Comprehensive Income

in CZK million	Notes	01-06 2020	01-06 2019
Net result for the period		**4,606**	**8,710**
Other comprehensive income			
Items that may not be reclassified to profit or loss		**29**	**311**
Fair value reserve of equity instruments		-	383
Own credit risk reserve		4	1
Deferred taxes relating to items that may not be reclassified		25	(73)
Items that may be reclassified to profit or loss		**4,721**	**500**
Fair Value reserve of debt instruments		(72)	175
Gain/(loss) during the period		(134)	174
Credit loss allowances		62	1
Cash flow hedge reserve		5,868	451
Gain/(loss) during the period		5,868	451
Currency reserve		26	(7)
Gain/(loss) during the period		26	(7)
Deferred taxes relating to items that may be reclassified		(1,101)	(119)
Gain/(loss) during the period		(1,101)	(119)
		-	-
Total other comprehensive income		**4,750**	**811**
Total comprehensive income		**9,356**	**9,521**
Total comprehensive income attributable to non-controlling interests		-	10
Total comprehensive income attributable to owners of the parent		**9,356**	**9,511**

III. Consolidated Condensed Statement of Financial Position

in CZK million	Notes	June 2020	December 2019
Assets			
Cash and cash balances	11	54,606	40,526
Financial assets held for trading		13,670	9,705
Derivatives	12	12,541	9,568
Other financial assets held for trading	13	1,129	137
Thereof pledged as collateral		-	8
Non-trading financial assets at fair value through profit or loss	14	3,315	3,531
Equity instruments		982	744
Debt securities		1,293	1,347
Loans and advances to banks		203	645
Loans and advances to customers		837	795
Financial assets at fair value through other comprehensive income	15	21,595	21,166
Debt securities		21,595	21,166
Financial assets at amortised cost	16	1,538,939	1,351,296
Thereof pledged as collateral		96,813	99,677
Debt securities		254,608	218,907
Loans and advances to banks		528,053	411,650
Loans and advances to customers		756,278	720,739
Finance lease receivables	17	1,651	1,875
Hedge accounting derivatives	18	4,208	980
Fair value changes of the hedged items in portfolio hedge of interest rate risk		21	-
Property, equipment and right-of-use asset		11,922	12,543
Investment property		2,282	2,282
Intangible assets		5,671	5,801
Investments in associates		931	929
Current tax assets		1,317	9
Deferred tax assets		385	1,110
Assets held for sale		222	242
Trade and other receivables	19	5,721	5,797
Other assets	20	869	858
Total assets		**1,667,325**	**1,458,650**

in CZK million	Notes	June 2020	December 2019
Liabilities and equity			
Financial liabilities held for trading	12	14,135	9,794
Derivatives		14,105	9,794
Other financial liabilities	21	30	-
Financial liabilities at fair value through profit or loss	22	4,657	3,557
Deposits from customers		4,657	3,557
Financial liabilities at amortised cost	23	1,489,040	1,294,989
Deposits from banks		337,120	292,111
Deposits from customers		1,140,628	993,257
Debt securities issued		6,067	5,634
Other financial liabilities		5,225	3,987
Lease liabilities		3,027	3,187
Hedge accounting derivatives	18	262	2,180
Provisions	24	2,870	2,697
Current tax liabilities		175	327
Deferred tax liabilities		607	192
Other liabilities	25	6,417	4,388
Total equity		146,133	137,339
Equity attributable to non-controlling interests		210	210
Equity attributable to owners of the parent		145,923	137,129
Share capital		15,200	15,200
Additional paid-in capital		12	12
Additional equity instruments		17,147	17,147
Retained earnings and other reserves		113,564	104,770
Total liabilities and equity		**1,667,325**	**1,458,650**

These interim condensed consolidated financial statements were prepared by the Financial Group of Česká spořitelna, a.s. and authorized for issue by the Board of Directors on 8 September 2020.

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-chairman of the Board of Directors

IV. Consolidated Condensed Statement of Changes in Equity

in CZK million	Share capital	Additional paid-in capital	Retained earnings	Additional equity instruments	Statutory reserve	Cash flow hedge reserve	Fair value reserve	Own credit risk reserve	Currency translation	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 1 January 2019	**15,200**	**12**	**99,689**	**8,107**	**387**	**(1,612)**	**877**	**4**	**(191)**	**122,473**	**184**	**122,657**
Dividends paid	-	-	(11,660)	-	-	-	-	-	-	(11,660)	-	(11,660)
Capital increases	-	-	-	9,040	-	-	-	-	-	9,040	-	9,040
Other changes	-	-	7	-	-	-	-	-	-	7	-	7
Total comprehensive income	-	-	8,700	-	-	365	452	1	(7)	9,511	10	9,521
Net result for the period	-	-	8,700	-	-	-	-	-	-	8,700	10	8,710
Other comprehensive income	-	-	-	-	-	365	452	1	(7)	811	-	811
Change in fair value reserve	-	-	-	-	-	-	558	-	-	558	-	558
Change in tax	-	-	-	-	-	(85)	(106)	-	-	(191)	-	(191)
Change in cash flow hedge reserve	-	-	-	-	-	450	-	-	-	450	-	450
Change in currency translation reserve	-	-	-	-	-	-	-	-	(7)	(7)	-	(7)
Change in own credit risk reserve	-	-	-	-	-	-	-	1	-	1	-	1
As of 30 June 2019	**15,200**	**12**	**96,736**	**17,147**	**387**	**(1,247)**	**1,329**	**5**	**(198)**	**129,371**	**194**	**129,565**
As of 1 January 2020	**15,200**	**12**	**106,373**	**17,147**	**387**	**(2,128)**	**332**	**5**	**(200)**	**137,128**	**210**	**137,338**
AT1 distribution	-	-	(536)	-	-	-	-	-	-	(536)	-	(536)
Capital increases	-	-	(7)	-	-	-	-	-	-	(7)	-	(7)
Other changes	-	-	7	-	-	-	(25)	-	-	(18)	-	(18)
Total comprehensive income	-	-	4,606	-	-	4,753	(33)	4	26	9,356	-	9,356
Net result for the period	-	-	4,606	-	-	-	-	-	-	4,606	-	4,606
Other comprehensive income	-	-	-	-	-	4,753	(33)	4	26	4,750	-	4,750
Change in fair value reserve	-	-	-	-	-	-	(33)	-	-	(33)	-	(33)
Changes in tax	-	-	-	-	-	(1,115)	-	-	-	(1,115)	-	(1,115)
Change in cash flow hedge reserve	-	-	-	-	-	5,868	-	-	-	5,868	-	5,868
Change in currency translation reserve	-	-	-	-	-	-	-	-	26	26	-	26
Change in own credit risk reserve	-	-	-	-	-	-	-	4	-	4	-	4
As of 30 June 2020	**15,200**	**12**	**110,443**	**17,147**	**387**	**2,625**	**274**	**9**	**(174)**	**145,923**	**210**	**146,133**

V. Consolidated Statement of Cash Flows

in CZK million	Notes	June 2020	June 2019
Pre-tax result from continuing operations		**5,795**	**10,846**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation and net impairment of non-financial assets	7	2,045	953
Net allocation to provisions (including risk provisions)		3,589	(285)
Gains/(losses) from the measurement and derecognition of financial assets and financial liabilities		26	407
Gains/(losses) from the sale of non-financial assets		(1)	(31)
Change in fair values of derivatives		1,337	156
Other adjustments		(1,094)	(10)
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Financial assets held for trading		(991)	(53)
Non-trading financial assets at fair value through profit or loss			
Equity instruments		(238)	-
Debt securities		54	(72)
Loans and advances to customers		400	(2)
Financial assets - at fair value through other comprehensive income: debt instruments		(597)	(693)
Financial assets at amortized cost			
Debt securities		(35,702)	(19,223)
Loans and advances to banks		(116,462)	(24,169)
Loans and advances to customers		(38,831)	(41,569)
Finance lease receivables		223	60
Hedge accounting derivatives		720	(718)
Other assets from operating activities		(668)	(375)
Financial liabilities at amortised cost			
Deposits from banks		45,009	(25,053)
Deposits from customers		147,371	89,148
Financial liabilities held for trading		-	14
Financial liabilties at fair value through profit or loss		1,074	1,296
Payments for taxes on income		(1,510)	(1,835)
Other liabilities from operating activities		3,298	1,804
Cash flow from operating activities		**14,847**	**(9,404)**
Financial assets - at fair value through other comprehensive income: equity instruments		-	(385)
Proceeds of disposal			
Property, equipment and intangible assets		(56)	151
Acquisition of			
Property and equipment, intangible assets and investment properties		(264)	(771)
Disposal of joint ventures and associates		(1)	(42)
Cash flow from investing activities		**(321)**	**(1,047)**
Capital increase		(7)	9,040
Dividends paid to equity holders of the parent		(536)	(11,660)
Payments of lease liability		(318)	-
Sale of bonds in issue		415	2,434
Cash flow from financing activities		**(446)**	**(186)**
Cash and cash equivalents at beginning of period	**11**	**40,526**	**63,914**
Cash flow from operating activities		14,847	(9,404)
Cash flow from investing activities		(321)	(1,047)
Cash flow from financing activities		(446)	(186)
Effect of currency translation		-	(1,262)
Cash and cash equivalents at end of period	**11**	**54,606**	**54,869**
Payments for taxes on income (included in cash flow from operating activities)		(1,510)	(1,835)
Interest received		20,443	19,190
Dividends received		9	48
Interest paid		(5,336)	(4,935)
Dividends paid to equity holders of the parent		(536)	(11,660)

VI. Consolidated Condensed Notes to the Interim Group Financial Statements of Česká spořitelna, a.s.

for the Period from 1 January to 30 June 2020

General information

Česká spořitelna, a.s. ("the Bank"), having its registered office address at Olbrachtova 1929/62, Prague 4, 140 00, Corporate ID 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic on 30 December 1991. The Bank is a universal bank offering retail, corporate and investment banking services within the Czech Republic.

The Bank together with its subsidiaries and associated companies forms the Group. The Group is subject to the regulatory requirements of the Czech National Bank ("CNB"), the Banking Act and EU guidelines/regulations. These regulations include those pertaining to minimum capital adequacy requirements, categorization of exposures and off-balance sheet commitments, credit risk connected with clients of the Group, liquidity, interest rate risk, foreign currency positions and operational and other risk.

In addition to the banking entities, other Group companies are subject to regulatory requirements, specifically in relation to retirement, collective investment and brokerage services.

The Group offers a complete range of banking and other financial services, such as savings and current accounts, asset management, consumer credit and mortgage lending, investment banking, securities and derivatives trading, portfolio management, project finance, foreign trade financing, corporate finance, capital and money market services and foreign exchange trading.

Basis of preparation

The condensed consolidated interim financial statements ("interim financial statements") of the Group for the period from 1 January to 30 June 2020 were prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and are presented in accordance with the requirements of IAS 34 "Interim Financial Reporting".

These interim financial statements were neither audited nor reviewed by an auditor.

Basis of consolidation

Subsidiaries are consolidated from the date upon which control is obtained until the date when control is lost. Control is achieved when the bank is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

In January 2020, new companies BP Poláčkova, s.r.o., BP Budějovická, s.r.o., BP Olbrachtova, s.r.o. joined the Česká spořitelna Group. In April 2020, Erste Corporate Finance, a.s. changed its name to ČS Seed Starter, a.s.

Covid-19 disclosures

In the condensed interim consolidated financial statements of the Group, considerations and significant impacts of the Covid-19 outbreak are presented in those chapters to which they can be assigned thematically. An overview about these disclosures is presented in the following:

- The chapter "Accounting and measurement methods" contains information about the key sources of estimation uncertainty in the light of the Covid-19 outbreak.
- The chapter "Accounting treatment of issues related to Covid-19" discusses the accounting and measurement methods used for public moratoria and payment holidays, including significant effects of those topics on interim consolidated financial statements from 1 January to 30 June 2020.
- Note 28 Risk Management contains a separate sub-chapter "Covid-19" which explains the considerations of the pandemic on the ECL measurement and information on credit exposures subject to certain Covid-19 measures.

Accounting and measurement methods

The interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" and are presented in Czech koruna, which is the functional currency of Group.

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results. Except as described in the following paragraph related to Covid-19, judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the group's last annual financial statements for the year ended 31 December 2019, with the exception of the calculation of the current income taxes for the interim reporting period for which the estimated effective tax rate for the group is applied.

The Covid-19 pandemic increased the level of uncertainty. The consequences for the economy as well as the measures taken by governments and regulators are likely to affect the Group's financial performance and position, including potentially significant impacts for expected credit losses, as well as impacts on operating income. All negative effects that could be reasonable estimated were recognised in the first half of 2020. The Group will further follow the developments closely and will recognise any effects as the situation further unfolds in the second half of 2020. The Group's accounting and measurement methods in the specific context of the Covid-19 outbreak are described in the following section.

The interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Therefore, the interim financial statements should be read in conjunction with Česká spořitelna Group's consolidated financial statements as of 31 December 2019.

Accounting treatment of issues related to Covid-19 (State supporting measures on impairment of financial instruments)

At the beginning of 2020, there was a significant spread of the disease Covid-19 caused by a new type of coronavirus, which disrupted many business and economic activities. In view of the expected cash-flow shortfalls the Group offered its clients, who got into difficulties with repayment as a result of the coronavirus pandemic, a voluntary (individual) deferral of repayments of 3 months in March 2020 in the case of a housing loans (i.e. mortgage and consumer loans and loans from building society).

Subsequently, this program was replaced by a public moratorium under the Act 177/2020 Coll. on Certain Measures for Repayment of Loans in Connection with the Covid-19 Pandemic. Under the state program, clients who are in financial difficulties in direct connection with the coronavirus epidemic can request a deferral of payments and can choose from two options of the protection period duration (deferral period until 31 July 2020 or 31 October 2020). Interest on loans is not discontinued in the public moratorium. In case of the loans for consumers the nominal amount of interest accrued during the period is repaid after the original principal repayment and the interest may not exceed the interest rate determined by the interest rate in the amount of the repo rate announced by the CNB increased by 8 percentage points. In case of the loans to other subjects the interest is to be repaid also during the moratorium according to the contractual terms.

In cooperation with Českomoravská záruční a rozvojová banka, a.s. ("ČMZRB"), the Group also enables entrepreneurs to quickly draw bridging loans supported by the ČMZRB guarantee (Covid II., Covid Prague, Covid III.) And in cooperation with the state Exportní garanční a pojišťovací společnost, a.s. ("EGAP"), the Group also offers its clients loans supported by the EGAP guarantee (Covid Plus).

Due to the different levels of impact on individual sectors, the Group adjusted its policy for classifying receivables into three levels of impairment, depending on the client's industry, internal rating, days past due and whether the client requested a deferral of payments due to the coronavirus epidemic.

For loans with deferred instalments (i.e. public and state moratoria), the Group recognized an modification loss on the gross carrying amount of the asset in the amount of the difference between the pre-contractual gross carrying amount and the present value of cash flows based on adjusted terms discounted at the original effective interest rate (in compliance with IFRS 9.5.4.3). The Group recognized this loss in the statement of income under "Net interest income" (line "Interest income" or "Interest expense") in the case of financial assets classified in Stage 1 or in the item "Impairment of financial instruments" in the case of financial assets classified as to Stage 2 or 3.

The Group further adjusted the forward looking information (FLI) in the calculation of expected credit losses (ECL), which was reflected in portfolio allowances for credit losses, and at the same time adjusted individual allowances for credit losses for selected exposures to significant defaulted customers in Stage 3.

The Group regularly reviews impairment indicators on Property, equipment and right-of-use assets, Intangible assets, no significant impact on the level of impairment due to the Covid-19 has been identified.

The Notes to the Statement of Income, Statement of Other Comprehensive Income and the Statement of Financial Position of Česká spořitelna, a.s.

1. Net interest income

in CZK million	01-06 2020	01-06 2019
Interest and other similar income		
Financial assets at fair value through other comprehensive income	216	299
Financial assets at amortised costs	17,421	18,202
Interest income	**17,637**	**18,501**
Financial assets held for trading	2,382	1,749
Non-trading financial assets at fair value through profit or loss	10	7
Derivatives - Hedge accounting, interest rate risk	(165)	(198)
Other assets	68	40
Negative interest from financial liabilities	108	81
Other similar income	**2,403**	**1,679**
Total interest and other similar income	**20,040**	**20,180**
Interest and other similar expense		
Financial liabilities measured at amortised cost	(3,115)	(3,841)
Interest expenses	**(3,115)**	**(3,841)**
Financial liabilities held for trading	(2,145)	(1,557)
Derivatives - Hedge accounting, interest rate risk	10	6
Other liabilities	(27)	(77)
Negative Interest from financial assets	(75)	(54)
Other similar expenses	**(2,237)**	**(1,682)**
Total interest and other similar expense	**(5,352)**	**(5,523)**
Net interest income	**14,688**	**14,657**

2. Net fee and commission income

in CZK million	01-06 2020		01-06 2019 reclassified	
	Income	Expenses	Income	Expenses
Securities	704	(51)	621	(45)
Clearing and settlement	-	(2)	-	-
Asset management	654	(9)	552	(9)
Custody	121	(17)	117	(17)
Payment services	1,787	(268)	2,276	(164)
Customer resources distributed but not managed	605	(4)	260	(72)
Insurance products	605	(4)	74	(4)
Building society brokerage	-	-	186	(68)
Lending business	572	(171)	985	(144)
Other	326	(270)	223	(133)
Total fee and commission income and expenses	**4,769**	**(792)**	**5,034**	**(584)**
Net Fee and commission income	**3,977**		**4,450**	

The Group has decided to unify the reporting of insurance fees and clearing and settlement fees with Erste Group Bank and consequently change their classification for the comparable period. Fees related to intermediation of insurance services are recognized on a net basis and grouped together based on the nature of the service rather than the basis of individual banking products. As a result of this change, both items “Fee and commission expense” and “Fee and commission income” decreased by CZK 800 million. The structure of the adjustment is detailed in the table below:

in CZK million	01-06 2019		Adjustments		01-06 2019 reclassified	
	Income	Expenses			Income	Expenses
Clearing	37		(37)	-	-	-
Payment services	2,276	(402)	-	238	2,276	(164)
Insurance products	312	(4)	(238)	-	74	(4)
Lending business	1,510	(706)	(525)	562	985	(144)
Total			**(800)**	**800**		

3. Dividend income

in CZK million	01-06 2020	01-06 2019
Non-trading financial assets at fair value through profit or loss	9	45
Financial assets at fair value through other comprehensive income	-	3
Dividend income	**9**	**48**

4. Net trading and fair value result

in CZK million	01-06 2020	01-06 2019
Securities and derivatives trading	(4)	461
Foreign exchange transactions	848	877
Gains or losses from hedge accounting	(51)	154
Net trading result	**793**	**1,492**

5. Gains/losses from financial instruments measured at fair value through profit or loss

in CZK million	01-06 2020	01-06 2019
Result from measurement/sale of financial assets designated at fair value through profit or loss	13	(9)
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(26)	(30)
Result from financial assets and liabilities designated at fair value through profit or loss	**(13)**	**(39)**
Result from measurement/repurchase of financial assets mandatorily at fair value through profit or loss	404	94
Gains/losses from financial instruments measured at fair value through profit or loss	**391**	**55**

6. Rental income from investment properties & other operating leases

in CZK million	01-06 2020	01-06 2019
Investment properties	86	84
Other operating leases	23	25
Rental income from investment properties & other operating leases	**109**	**109**

7. General administrative expenses

in CZK million	01-06 2020	01-06 2019
Personnel expenses	**(5,163)**	**(5,009)**
Wages and salaries	(3,693)	(3,598)
Compulsory social security	(1,190)	(1,161)
Other personnel expenses	(280)	(250)
Other administrative expenses	**(3,284)**	**(3,295)**
Deposit insurance contribution	(268)	(266)
IT expenses	(1,528)	(1,420)
Expenses for office space	(368)	(326)
Office operating expenses	(302)	(333)
Advertising / marketing	(400)	(433)
Legal and consulting costs	(125)	(134)
Sundry administrative expenses	(293)	(383)
Depreciation and amortization	**(1,345)**	**(1,230)**
Software and other intangible assets	(482)	(462)
Owner occupied real estate	(328)	(290)
Investment property	(32)	(32)
Office furniture and equipment and sundry property and equipment	(217)	(194)
Right of use asset	(286)	(252)
General administrative expenses	**(9,792)**	**(9,534)**

8. Impairment result from financial instruments

in CZK million	01-06 2020	01-06 2019
Financial assets at fair value through other comprehensive income	(62)	(1)
Financial assets at amortised cost	(3,292)	(256)
Net allocation to risk provisions	(3,504)	(759)
Direct write-offs	(5)	(12)
Recoveries recorded directly to the income statement	300	515
Modification gain and losses	(83)	-
Finance lease receivables	(1)	25
Net allocation of provisions for commitments and guarantees given	(222)	431
Impairment result from financial instruments	**(3,577)**	**199**

9. Other operating result

in CZK million	01-06 2020	01-06 2019
Other operating expenses	**(775)**	**(694)**
Allocation to other provision	-	(7)
Other taxes	(5)	(5)
Recovery and resolution fund contributions	(770)	(682)
Other operating income	**45**	**12**
Release of other provision	45	12
Result from properties/movables/other intangible assets other than goodwill	**(38)**	**44**
Result from other operating expenses/income	**(36)**	**(42)**
Other operating result	**(804)**	**(680)**

10. Taxes on income

Group's consolidated net tax expense for the first six months of 2020 amounted to CZK 1,189 million (Jun 2019: CZK 2,136 million), thereof CZK 40 million net deferred tax expense (Jun 2019: expense CZK 210 million).

11. Cash and cash balances

in CZK million	June 2020	December 2019
Cash on hand	23,518	25,348
Cash balances at central banks	28,849	13,254
Other deposits on demand	2,239	1,924
Cash and cash balances	**54,606**	**40,526**

12. Derivatives – held for trading

	June 2020			December 2019		
in CZK million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**734,066**	**12,013**	**(11,620)**	**793,372**	**9,003**	**(8,387)**
Interest rate	419,620	8,578	(8,286)	400,945	5,619	(5,125)
Foreign exchange	314,446	3,435	(3,334)	392,427	3,384	(3,262)
Derivatives held in the banking book	**78,974**	**528**	**(2,485)**	**56,524**	**565**	**(1,407)**
Interest rate	12,567	229	(13)	7,579	413	(11)
Foreign exchange	66,407	299	(2,472)	48,945	152	(1,396)
Total	**813,040**	**12,541**	**(14,105)**	**849,896**	**9,568**	**(9,794)**

13. Other financial assets held for trading

in CZK million	June 2020	December 2019
Debt securities	1,129	137
General governments	1,050	91
Credit institutions	65	44
Other financial corporations	14	2
Other trading assets	**1,129**	**137**

14. Non-trading financial assets at fair value through profit or loss

	June 2020		December 2019	
in CZK million	Designated	Mandatorily	Designated	Mandatorily
Equity instruments	-	982	-	744
Debt securities	-	1,293	265	1,082
Credit institutions	-	-	265	-
Other financial corporations	-	1,293	-	1,082
Loans and advances to banks	-	203	-	645
Loans and advances to customers	-	837	-	795
Non-financial corporations	-	837	-	795
Financial assets designated and mandatorily at fair value through profit or loss	**-**	**3,315**	**265**	**3,266**
Non-trading financial assets at fair value through profit or loss		**3,315**		**3,531**

15. Financial assets at fair value through other comprehensive income

in CZK million	Gross carrying amount (GCA) Stage 1	Stage 2	Stage 3	Total	Credit loss allowance (CLA) Stage 1	Stage 2	Stage 3	Total	Accumulated fair value changes	Fair value
June 2020										
Debt securities	**13,838**	**7,542**	**-**	**21,380**	**(5)**	**(116)**	**-**	**(121)**	**215**	**21,595**
General governments	8,644	-	-	8,644	-	-	-	-	171	8,815
Credit institutions	2,665	-	-	2,665	(2)	-	-	(2)	(4)	2,661
Other financial corporations	697	1,221	-	1,918	(1)	(22)	-	(23)	(8)	1,910
Non-financial corporations	1,832	6,321	-	8,153	(2)	(94)	-	(96)	56	8,210
Total	**13,838**	**7,542**	**-**	**21,380**	**(5)**	**(116)**	**-**	**(121)**	**215**	**21,595**
December 2019										
Debt securities	**18,278**	**2,537**	**-**	**20,815**	**(13)**	**(47)**	**-**	**(60)**	**351**	**21,166**
General governments	7,567	-	-	7,567	(1)	-	-	(1)	204	7,771
Credit institutions	3,307	-	-	3,307	(2)	-	-	(2)	13	3,320
Other financial corporations	1,148	708	-	1,856	(1)	(16)	-	(17)	87	1,943
Non-financial corporations	6,256	1,829	-	8,085	(9)	(31)	-	(40)	47	8,132
Total	**18,278**	**2,537**	**-**	**20,815**	**(13)**	**(47)**	**-**	**(60)**	**351**	**21,166**

Development of credit loss allowances

in CZK million	As of	Additions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	January 2020					**June 2020**
Stage 1	(12)	-	-	7	-	(5)
Stage 2	(47)	-	(58)	(12)	-	(117)
Total	**(59)**	**-**	**(58)**	**(5)**	**-**	**(122)**
	January 2019					**June 2019**
Stage 1	(11)	(3)	-	-	-	(14)
Stage 2	(40)	-	-	2	1	(37)
Total	**(51)**	**(3)**	**-**	**2**	**1**	**(51)**

16. Financial assets at amortized cost

Debt securities

in CZK million	GCA Stage 1	GCA Stage 2	GCA Stage 3	Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	Total	Carrying amount
June 2020									
General governments	243,269	-	-	243,269	(12)	-	-	(12)	243,257
Credit institutions	9,761	1,590	-	11,351	(5)	(2)	-	(7)	11,344
Non-financial corporations	7	-	-	7	-	-	-	-	7
Total	**253,037**	**1,590**	**-**	**254,627**	**(17)**	**(2)**	**-**	**(19)**	**254,608**
December 2019									
General governments	206,643	-	-	206,643	(10)	-	-	(10)	206,633
Credit institutions	12,274	-	-	12,274	(7)	-	-	(7)	12,267
Non-financial corporations	3	4	-	7	-	-	-	-	7
Total	**218,920**	**4**	**-**	**218,924**	**(17)**	**-**	**-**	**(17)**	**218,907**

Development of credit loss allowances for debt securities

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	As of
	January 2020					**June 2020**
Stage 1	(17)	(1)	2	-	(1)	(17)
Stage 2	-	-	-	(2)	-	(2)
Total	**(17)**	**(1)**	**2**	**(2)**	**(1)**	**(19)**
	January 2019					**June 2019**
Stage 1	(16)	(1)	2	-	(2)	(17)
Stage 2	-	-	-	-	-	-
Total	**(16)**	**(1)**	**2**	**-**	**(2)**	**(17)**

Loans and advances to banks

in CZK million	GCA Stage 1	GCA Stage 2	GCA Stage 3	Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	Total	Carrying amount
June 2020									
Central banks	511,234	-	-	511,234	(3)	-	-	(3)	511,231
Credit institutions	16,828	-	60	16,888	(6)	-	(60)	(66)	16,822
Total	**528,062**	**-**	**60**	**528,122**	**(9)**	**-**	**(60)**	**(69)**	**528,053**
December 2019									
Central banks	393,062	-	-	393,062	(2)	-	-	(2)	393,060
Credit institutions	18,598	-	-	18,598	(8)	-	-	(8)	18,590
Total	**411,660**	**-**	**-**	**411,660**	**(10)**	**-**	**-**	**(10)**	**411,650**

Development of credit loss allowances for loans and advances to banks

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	As of
	January 2020					**June 2020**
Stage 1	(10)	(178)	66	-	113	(9)
Stage 2	-	(2)	-	(2)	4	-
Stage 3	-	-	-	-	(60)	(60)
Total	**(10)**	**(180)**	**66**	**(2)**	**57**	**(69)**
	January 2019					**June 2019**
Stage 1	(12)	(492)	467	-	26	(11)
Stage 2	-	(4)	1	-	1	(2)
Total	**(12)**	**(496)**	**468**	**-**	**27**	**(13)**

Loans and advances to customers

	GCA					CLA					
in CZK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
June 2020											
General governments	20,709	998	-	-	21,707	(14)	(9)	-	-	(23)	21,684
Other financial corporations	31,304	52	4	-	31,360	(46)	(6)	(2)	-	(54)	31,306
Non-financial corporations	215,209	53,794	6,493	917	276,413	(921)	(2,196)	(4,543)	(514)	(8,174)	268,239
Households	408,444	27,247	6,507	81	442,279	(639)	(2,090)	(4,477)	(24)	(7,230)	435,049
Total	**675,666**	**82,091**	**13,004**	**998**	**771,759**	**(1,620)**	**(4,301)**	**(9,022)**	**(538)**	**(15,481)**	**756,278**
December 2019											
General governments	20,184	1,117	-	-	21,301	(13)	(11)	-	-	(24)	21,277
Other financial corporations	16,968	55	3	-	17,026	(26)	(1)	(2)	-	(29)	16,997
Non-financial corporations	240,013	18,323	6,109	748	265,193	(954)	(783)	(4,130)	(466)	(6,333)	258,860
Households	406,891	16,529	5,906	63	429,389	(716)	(1,048)	(3,999)	(21)	(5,784)	423,605
Total	**684,056**	**36,024**	**12,018**	**811**	**732,909**	**(1,709)**	**(1,843)**	**(8,131)**	**(487)**	**(12,170)**	**720,739**

Development of credit loss allowances for loans and advances to customers

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan. 2020							Jun. 2020
Stage 1	**(1,709)**	**(572)**	**184**	**477**	**7**	**5**	**(12)**	**(1,620)**
General governments	(13)	(4)	1	3	-	-	(1)	(14)
Other financial corporations	(26)	(19)	26	10	(36)	-	(1)	(46)
Non-financial corporations	(954)	(465)	99	148	257	4	(10)	(921)
Households	(716)	(84)	58	316	(214)	1	-	(639)
Stage 2	**(1,843)**	**(391)**	**180**	**(2,304)**	**86**	**3**	**(32)**	**(4,301)**
General governments	(11)	-	1	(3)	5	-	(1)	(9)
Other financial corporations	(1)	(31)	1	(4)	29	-	-	(6)
Non-financial corporations	(783)	(11)	135	(1,186)	(321)	-	(31)	(2,197)
Households	(1,048)	(349)	43	(1,111)	373	3	-	(2,089)
Stage 3	**(8,131)**	**(13)**	**311**	**(383)**	**(924)**	**148**	**(30)**	**(9,022)**
Other financial corporations	(2)	-	7	–	(12)	5	-	(2)
Non-financial corporations	(4,130)	(1)	158	(108)	(510)	77	(29)	(4,543)
Households	(3,999)	(12)	146	(275)	(402)	66	(1)	(4,477)
POCI	**(487)**	**-**	**38**	**-**	**(34)**	**-**	**(55)**	**(538)**
Non-financial corporations	(466)	-	37	-	(30)	-	(55)	(514)
Households	(21)	-	1	-	(4)	-	-	(24)
Total	**(12,170)**	**(976)**	**713**	**(2,210)**	**(865)**	**156**	**(129)**	**(15,481)**
	Jan. 2019							Jun. 2019
Stage 1	**(1,962)**	**(1,045)**	**386**	**771**	**(49)**	**-**	**4**	**(1,895)**
General governments	(4)	(2)	3	14	(26)	-	-	(15)
Other financial corporations	(27)	(66)	55	-	3	-	-	(35)
Non-financial corporations	(1,163)	(834)	260	377	277	-	4	(1,079)
Households	(768)	(143)	68	380	(303)	-	-	(766)
Stage 2	**(1,905)**	**(243)**	**189**	**(765)**	**923**	**2**	**3**	**(1,796)**
General governments	(39)	-	3	(19)	27	-	-	(28)
Other financial corporations	(3)	(28)	-	(1)	30	-	-	(2)
Non-financial corporations	(770)	(104)	143	(244)	275	-	3	(697)
Households	(1,093)	(111)	43	(501)	591	2	-	(1,069)
Stage 3	**(7,934)**	**(53)**	**394**	**(300)**	**(687)**	**405**	**19**	**(8,156)**
Other financial corporations	(6)	-	-	-	1	-	-	(5)
Non-financial corporations	(4,508)	(27)	177	(87)	(277)	62	19	(4,641)
Households	(3,420)	(26)	217	(213)	(411)	343	-	(3,510)
POCI	**(244)**	**-**	**32**	**-**	**24**	**-**	**1**	**(187)**
Non-financial corporations	(242)	-	32	-	27	-	1	(182)
Households	(2)	-	-	-	(3)	-	-	(5)
Total	**(12,045)**	**(1,341)**	**1,001**	**(294)**	**211**	**407**	**27**	**(12,034)**

17. Finance lease receivables

in CZK million	Gross carrying amount Stage 1	Stage 2	Stage 3	POCI	Total	Credit loss allowances Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
June 2020											
General governments	2	-	-	-	2	-	-	-	-	-	2
Other financial corporations	5	-	-	-	5	-	-	-	-	-	5
Non-financial corporations	1,354	36	168	-	1,558	(5)	(3)	(108)	-	(116)	1,442
Households	196	3	18	-	217	(1)	-	(14)	-	(15)	202
Total	**1,557**	**39**	**186**	**-**	**1,782**	**(6)**	**(3)**	**(122)**	**-**	**(131)**	**1,651**
December 2019											
General governments	3	-	-	-	3	-	-	-	-	-	3
Other financial corporations	6	-	-	-	6	-	-	-	-	-	6
Non-financial corporations	1,555	38	145	-	1,738	(6)	(3)	(103)	-	(112)	1,626
Households	230	12	17	-	259	(2)	(1)	(16)	-	(19)	240
Total	**1,794**	**50**	**162**	**-**	**2,006**	**(8)**	**(4)**	**(119)**	**-**	**(131)**	**1,875**

Development of credit loss allowances for finance lease receivables

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	As of
	January 2020					**June 2020**
Stage 1	(8)	-	-	1	1	(6)
Stage 2	(4)	-	-	(1)	2	(3)
Stage 3	(119)	-	6	(14)	5	(122)
Total	**(131)**	**-**	**6**	**(14)**	**8**	**(131)**
	January 2019					**June 2019**
Stage 1	(11)	(3)	1	6	(5)	(12)
Stage 2	(15)	-	-	(3)	6	(12)
Stage 3	(140)	-	11	(1)	15	(115)
Total	**(166)**	**(3)**	**12**	**2**	**16**	**(139)**

18. Hedge accounting derivatives

	June 2020			December 2019		
in CZK million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	**9,559**	**187**	**(21)**	**9,194**	**154**	**(3)**
Interest rate	9,559	187	(21)	9,194	154	(3)
Cash flow hedge	**109,878**	**4,021**	**(241)**	**118,383**	**826**	**(2,177)**
Interest rate	79,794	3,931	(23)	84,482	508	(1,834)
Foreign exchange	30,084	90	(218)	33,901	318	(343)
Total	**119,437**	**4,208**	**(262)**	**127,577**	**980**	**(2,180)**

19. Trade and other receivables

in CZK million	Gross carrying amount					Credit loss allowance					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
June 2020											
General governments	47	2	-	-	49	-	(2)	-	-	(2)	47
Credit institutions	17	12	6	-	35	-	(12)	(6)	-	(18)	17
Other financial corporations	125	1	-	-	126	-	(1)	-	-	(1)	125
Non-financial corporations	4,303	1,172	215	-	5,690	(16)	(14)	(214)	-	(244)	5,446
Households	78	114	28	-	220	-	(107)	(27)	-	(134)	86
Total	**4,570**	**1,301**	**249**	**-**	**6,120**	**(16)**	**(136)**	**(247)**	**-**	**(399)**	**5,721**
December 2019											
General governments	84	2	-	-	86	-	(2)	-	-	(2)	84
Credit institutions	18	12	6	-	36	-	(12)	(6)	-	(18)	18
Other financial corporations	277	1	-	-	278	-	(1)	-	-	(1)	277
Non-financial corporations	4,279	1,082	225	-	5,586	(21)	(10)	(222)	-	(253)	5,333
Households	78	115	30	-	223	-	(109)	(29)	-	(138)	85
Total	**4,736**	**1,212**	**261**	**-**	**6,209**	**(21)**	**(134)**	**(257)**	**-**	**(412)**	**5,797**

Development of credit loss allowances for trade and other receivables

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	January 2020							**June 2020**
Stage 1	(21)	(1)	-	5	1	-	-	**(16)**
Stage 2	(134)	(5)	-	-	2	1	-	**(136)**
Stage 3	(257)	-	17	-	(2)	1	(6)	**(247)**
Total	**(412)**	**(6)**	**17**	**5**	**1**	**2**	**(6)**	**(399)**
	January 2019							**June 2019**
Stage 1	(13)	(7)	4	3	(3)	-	-	**(16)**
Stage 2	(278)	-	-	(3)	(2)	146	-	**(137)**
Stage 3	(312)	-	21	(12)	16	-	1	**(286)**
Total	**(603)**	**(7)**	**25**	**(12)**	**11**	**146**	**1**	**(439)**

20. Other assets

in CZK million	June 2020	December 2019
Prepayments	308	307
Assets under construction/unfinished goods/inventory	56	57
Sundry assets	505	494
Other assets	**869**	**858**

21. Other financial liabilities held for trading

in CZK million	June 2020	December 2019
Short positions	30	-
Debt securities	30	-
Other financial liabilities held for trading	**30**	**-**

22. Financial liabilities at fair value through profit and loss

	Carrying amount		Amount repayable		Delta between carrying amount and amount repayable	
in CZK million	June 2020	December 2019	June 2020	December 2019	June 2020	December 2019
Deposits	4,657	3,557	4,657	3,402	-	155
Financial liabilities at FVPL	**4,657**	**3,557**	**4,657**	**3,402**	**-**	**155**

23. Financial liabilities at amortised cost

in CZK million	June 2020	December 2019
Deposits	**1,477,748**	**1,285,368**
Deposits from banks	337,120	292,111
Deposits from customers	1,140,628	993,257
Debt securities issued	**6,067**	**5,634**
Bonds	6,067	5,634
Other financial liabilities	**5,225**	**3,987**
Financial liabilities measured at amortised costs	**1,489,040**	**1,294,989**

Deposits from banks

in CZK million	June 2020	December 2019
Overnight deposits	9,420	6,262
Term deposits	46,563	21,276
Repurchase agreements	281,137	264,573
Deposits from banks	**337,120**	**292,111**

Deposits from customers

in CZK million	June 2020	December 2019
Current accounts/Overnight deposits	912,653	817,981
General governments	85,335	63,258
Other financial corporations	21,110	27,618
Non financial corporations	138,018	119,227
Households	668,190	607,878
Term deposits	116,178	143,864
General governments	1,852	7,016
Other financial corporations	16,763	18,039
Non financial corporations	9,608	20,097
Households	87,955	98,712
Repurchase agreements	111,797	31,412
Other financial corporations	22,300	31,176
Non financial corporations	89,497	236
Deposits from customers	**1,140,628**	**993,257**
General governments	176,684	70,510
Other financial corporations	60,173	76,833
Non financial corporations	147,626	139,324
Households	756,145	706,590

Debt securities issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Bonds traded on regulated market	June 2020	December 2019
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	Yes	451	440
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	No	50	51
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	No	5,154	4,729
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	No	412	414
Bonds issued						**6,067**	**5,634**

24. Provisions

in CZK million	June 2020	December 2019
Restructuring	69	79
Pending legal issues	1,771	1,815
Loan commitments and financial guarantees given	989	765
CLA for loan commitments and financial guarantees in Stage 1	281	217
CLA for loan commitments and financial guarantees in Stage 2	423	105
CLA for loan commitments and financial guarantees in Stage 3	285	443
Provision for onerous contracts	2	2
Other provisions	39	36
Provisions	**2,870**	**2,697**

25. Other liabilities

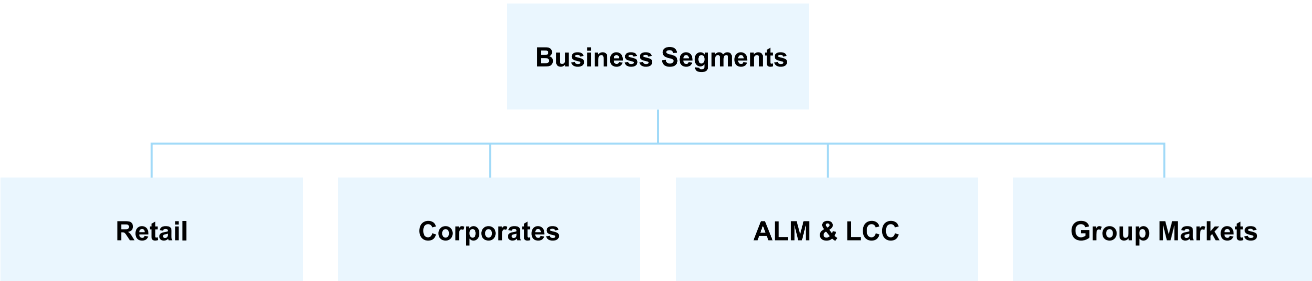
in CZK million	June 2020	December 2019
Deferred income	364	376
Sundry liabilities	6,053	4,012
Other liabilities	**6,417**	**4,388**

26. Segment reporting

The Group's segment reporting is compliant with IFRS 8 Operating Segments, which adopts the management approach. Segment information is prepared on the basis of internal management reporting that is regularly reviewed by the chief operating decision maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within the Group the function of the chief operating decision maker is exercised by the Management Board of Česká spořitelna, a.s.

Structure of Business Segments

The segment reporting comprises four operating segments reflecting the Group's management structure.



Retail

Retail segment comprises the business activities which are in the responsibility of account managers in the Retail network. Targeted customers are mainly privates, micros and free professionals. This business is mainly operated in cooperation with subsidiaries such as Leasing, Asset Management with the focus on simple products ranged from loans, investment products, current accounts and savings products to credit cards and cross selling products such as leasing, insurance, building society products.

In addition, the retail segment contains the results of the subsidiaries Stavební spořitelna České spořitelny, a.s., Česká spořitelna penzijní společnost, a.s., VĚRNOSTNÍ PROGRAM IBOD, a.s. v likvidaci, Energie ČS, a.s., Holding Card Service, s.r.o. and MOPET CZ, a.s.

Corporates

Corporates segment comprises the business activities done with corporate customers of different turnover size and public sector.

Small and medium-sized enterprises (SME) are clients which are under the responsibility of the corporate commercial center network, mainly consisting of companies with an annual turnover from CZK 60 million to CZK 2 billion.

Local Large Corporates are clients with a consolidated annual turnover threshold above CZK 2 billion which are not defined as Group Large Corporate customers.

Group Large Corporates are large corporate customers/client groups with substantial operations in core markets/extended core markets of Erste Group with an indicative consolidated annual turnover generally of at least EUR 500 million.

Public Sector consists of the following three sets of customers: public sector, public corporations and non-profit sector.

Public sector includes such customers as central ministries and state funded funds and agencies, non-profit entities established by or under control of central government entities, regional governments and organizations funded by them, state capitals, public health and social insurance companies. In general, Public sector excludes banks and non-bank financial institutions (FI), pension funds, bond issuing agencies (incl. government debt agencies), asset management based organizations which are part of the Group Markets segment.

Public corporations includes all non-financial state companies and corporations with more than 50% share of state or regional governments or municipals excluding stock exchange listed companies.

Non-profit sector comprises the following private non-profit companies: central authorities of churches, labor unions and nationally significant foundations, private schools and humanitarian organizations.

Commercial Real Estate covers commercial property projects financed by the Group.

In addition, the segment Corporates contains the results of the subsidiaries Factoring České spořitelny, a.s., Erste Leasing, a.s., REICO investiční společnost České spořitelny, a.s., s Autoleasing, a.s., s Autoleasing SK, s.r.o. and Erste Grantika Advisory, a.s.

Asset and Liability Management & Local Corporate Center (ALM & LCC)

Asset Liability Management (ALM) comprises the management of bank assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions.

Local Corporate Center (LCC) comprises all non-core banking business activities such as non-profit servicing participations (e.g. IT, Procurement, Facility Management), intragroup eliminations within the Group, dividends, refinancing costs of participations, all non-banking statement of financial position (e.g. fixed assets, intangible assets) which cannot be allocated to other business segments as well as the profit and loss positions resulting from these statement of financial position items. Apart from that the Corporate Center includes Free Capital of the Group defined as the difference of the total IFRS equity and the economical equity allocated to all operating segments.

Corporate center also includes results of the subsidiaries brokerjet České spořitelny, a.s. v likvidaci, Czech TOP Venture Fund B.V. and CS NHQ, s.r.o.

Group Markets

Group Markets segment comprises trading and markets services as well as business with financial institutions.

Trading and Market services includes all activities related to active risk taking and managing in regulatory trading books of the Group, additional to that the execution of trades against the market using the trading books of the Group for market making and short-term liquidity management. Specifically revenues and fair value results not directly attributable to client transactions and generally risk premiums and execution fees are taken into account.

Financial institutions are companies that provide financial services for their clients or members and act as professional and active participant on financial markets for the purpose of proprietary trading or on behalf of their clients (banks, central banks, development banks, investment banks, investment funds, brokerages, insurance companies, pension funds, credit unions, building societies, asset management companies, government debt agencies, sovereign wealth funds, exchanges).

Business connected with serving financial institutions as a client including custody, depository services, commercial business (loans, cash management, trade & export finance) and capital markets business belongs to FI.

Measurement

Intersegment transactions are conducted on an arm's length basis. Intersegment settlements are subject of funds transfer pricing dependent on market interest rates. Due to the specifics of the banking business the internal charges are not reported separately and Board of Directors primarily refers to net interest income of operating segments. Non-manageable general administrative expenses are reallocated to operating segments as indirect costs.

Business segments

	Retail		Corporates		Group Markets		ALM&LCC		Total Group	
in CZK million	**01-06 2020**	**01-06 2019**	**01-06 2020**	**01-06 2019**	**01-06 2020**	**01-06 2019**	**01-06 2020**	**01-06 2019**	**01-06 2020**	**01-06 2019**
Net interest income	9,551	10,074	3,476	3,309	274	444	1,387	830	14,688	14,657
Net fee and commission income	2,867	3,337	701	734	650	626	(241)	(247)	3,977	4,450
Dividend income	-	-	-	-	-	-	9	48	9	48
Net trading result	484	616	146	470	240	279	(77)	127	793	1,492
Gains/losses from financial instruments at FVPL	2	(30)	-	63	-	36	389	(14)	391	55
Net result from equity method investments	-	-	-	-	-	-	1	42	1	42
Rental income from investment properties & other operating leases	4	5	86	84	-	-	19	20	109	109
General administrative expenses	(7,686)	(7,479)	(1,493)	(1,481)	(295)	(305)	(318)	(269)	(9,792)	(9,534)
thereof: depreciation and amortization	-	-	-	(210)	-	(8)	-	(46)	-	(2,001)
Gains/losses from financial assets and liabilities not at FVPL, net	-	-	-	-	-	-	-	-	-	-
Gains/losses from derecognition of financial assets at AC	-	-	-	-	-	-	-	8	-	8
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	-	-	-	-	-	-	-	-
Net impairment loss on financial assets	-	-	-	-	-	-	-	-	-	-
Impairment result from financial instruments	(1,948)	(127)	(1,402)	339	(71)	(2)	(156)	(11)	(3,577)	**199**
Other operating result	(27)	76	(175)	(142)	(159)	(125)	(443)	(489)	(804)	(680)
Pre-tax result from continuing operations	**3,247**	**6,472**	**1,339**	**3,376**	**639**	**953**	**570**	**45**	**5,795**	**10,846**
Taxes on income	(606)	(1,210)	(256)	(652)	(121)	(181)	(206)	(93)	(1,189)	(2,136)
Net result for the period	**2,641**	**5,262**	**1,083**	**2,724**	**518**	**772**	**364**	**(48)**	**4,606**	**8,710**
Net result attributable to non-controlling interests	-	-	-	-	-	-	-	(10)	-	(10)
Net result attributable to owners of the parent	**2,641**	**5,262**	**1,083**	**2,724**	**518**	**772**	**364**	**(58)**	**4,606**	**8,700**
Operating income	12,908	14,002	4,409	4,660	1,164	1,385	1,487	806	19,968	20,853
Operating expenses	(7,686)	(7,480)	(1,493)	(1,480)	(295)	(305)	(319)	(269)	(9,793)	(9,534)
Operating result	**5,222**	**6,522**	**2,916**	**3,180**	**869**	**1,080**	**1,168**	**537**	**10,175**	**11,319**
Risk-weighted assets (credit risk, pillar 1, eop)	149,080	167,741	304,098	266,261	15,841	8,089	10,269	31,656	479,288	473,747
Average allocated capital	23,150	25,972	27,275	24,252	2,959	2,824	103,621	84,047	157,005	137,095
Cost/income ratio	59.50%	53.40%	33.90%	31.80%	25.40%	22.00%	21.40%	33.40%	49.00%	45.70%
Return on allocated capital	22.80%	40.50%	7.90%	22.50%	35.00%	54.70%	0.70%	-0.10%	5.90%	12.70%
Total assets (eop)	511,149	482,030	300,408	303,435	37,260	345,062	818,508	373,998	1,667,325	1,504,525
Total liabilities excluding equity (eop)	794,204	725,973	303,538	269,038	351,309	295,922	72,141	84,027	1,521,192	1,374,960

eop = end of period. The majority of revenue from external customers is generated in the Czech Republic

27. Related party transactions

Related parties involve connected entities or parties that have a special relationship to the Group.

Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other in making financial or operational decisions. The Group is controlled by Erste Group Bank AG.

The parties that have a special relationship to the Group are considered to be members of the Group's statutory and supervisory bodies and management, legal entities exercising control over the Group (including entities with a qualified interest in these entities and management of these entities), persons closely related to the members of the Group's statutory and supervisory bodies, management, and entities exercising control over the Group, legal entities in which any of the parties listed above holds a qualified interest, entities with a qualified interest in the Group and any other legal entity under their control, members of the CNB's Banking Board, and legal entities which the Group controls.

Pursuant to the definitions outlined above, the categories of the Group's related parties principally comprise Erste Group Bank, members of its Board of Directors and Supervisory Board, and other related parties, which include companies directly or indirectly controlled by Erste Group Bank.

A number of banking transactions are entered into with related parties in the normal course of business. These principally include loans, deposits and other transactions. These transactions were carried out on an arm's length basis and were settled exclusively in cash. The interest rates charged to and by related parties are at normal commercial rates. Outstanding balances at the year-end are unsecured.There were no provisions for doubtful debts related to the outstanding balances with Related Parties reported by the Group.

	Erste Group Bank AG	Other related parties	Members of the Board of Directors and Supervisory Board	Erste Group Bank AG	Other related parties	Members of the Board of Directors and Supervisory Board
	June 2020			December 2019		
Assets						
Cash and cash balances	846	64	-	1,151	56	-
Financial assets - held for trading	3,415	-	-	4,221	-	-
Financial assets – amortised costs	12,282	225	-	14,710	267	28
Derivatives Hedge Accounting	780	-	-	589	-	-
Other assets	-	1	-	-	2	-
Liabilities						
Financial liabilities held for trading	6,161	-	-	2,969	-	
Financial liabilities measured at amortised costs	287,290	648	-	263,757	768	54
Derivatives Hedge Accounting	213	-	-	204	-	
Other Liabilities	-	-	-	-	1	
Profit&Loss statement			**01-06 2020**			**01-06 2019**
Net interest income	(1,093)	2	-	(1,254)	1	-
Net fee and commision income	31	407	-	25	391	-
Dividend income	-	9	-	-	-	-
Net trading result and fair value result	(6,722)	-	-	2,006	-	-
Other administrative expenses	(104)	(457)	-	(127)	(347)	-
Other operating result	31	20	-	14	9	-
Loans commitments, financial guarantees and other commitments given	**1,003**	**13,000**	**-**	**498**	**285**	**-**

28. Risk management

Risk management is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. The Risk management strategy of the Group aims to achieve an optimal balance of risk and return in order to achieve a sustainable, high return on equity. Concerning risk policy and strategy as well as regarding risk management organization, reference is made to the chapter of the same name in the annual consolidated financial statements as of 31 December 2019.

28.1 Credit risk

The classification of credit assets into risk grades is based on the Group's internal ratings. For the purpose of external reporting, internal rating grades of the Group are grouped into the following four risk categories:

Low risk

Typically regional customers with well-established and rather long-standing relationships with the Group or large internationally recognized customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the bank, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally with clients in this risk category.

Management attention

Vulnerable non-retail clients, which may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term. Retail clients with possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Substandard

The borrower is vulnerable to short term negative financial and economic developments and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place. As a rule, such loans are managed in specialized risk management departments.

Non-performing

One or more of the default criteria under Article 178 of the CRR are met: among others, full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realization of a loan loss, or initiation of bankruptcy proceedings. The Group applies the customer view for all customer segments, including retail clients;

if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. Furthermore, non-performing exposures also comprise non-performing forborne transactions even in cases where the client has not defaulted.

Credit risk exposure

- Credit risk exposure relates to the sum of the following balance sheet items:
- cash and cash balances – other demand deposits to credit institutions;
- debt instruments held for trading;
- non-trading debt instruments at fair value through profit or loss (FVPL);
- debt instruments at fair value through other comprehensive income (FVOCI);
- financial assets at amortised cost (AC), other than trade and other receivables;
- debt instruments held for sale in disposal groups;
- finance lease receivables;
- trade and other receivables (for disclosure purposes in the tabular summaries below, any contract assets are also included in this category)
- positive fair value of derivatives;
- off-balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account loan loss allowances, provisions for guarantees, any collateral held (including risk transfer to guarantors), netting effects, other credit enhancements or credit risk mitigating transactions.

The gross carrying amount of the credit risk exposure increased to increased to CZK 1,741 billion from CZK 1,544 billion.

Reconciliation between the gross carrying amount and the carrying amount of the credit risk exposure components

in CZK million	Credit risk exposure	Credit loss allowances	Adjustments	Net carrying amount
June 2020				
Cash and cash balances - demand deposits to credit institutions	2,240	(1)	-	2,239
Debt instruments held for trading	13,670	-	-	13,670
Non-trading debt instruments at FVPL	2,333	-	-	2,333
Debt securities	1,293	-	-	1,293
Loans and advances to banks	203	-	-	203
Loans and advances to customers	837	-	-	837
Debt instruments at FVOCI	21,380	(122)	215	21,595
Debt securities	21,380	(122)	215	21,595
Debt instruments at AC	1,554,508	(15,569)	-	1,538,939
Debt securities	254,627	(19)	-	254,608
Loans and advances to banks	528,122	(69)	-	528,053
Loans and advances to customers	771,759	(15,481)	-	756,278
Trade and other receivables	6,120	(399)	-	5,721
Finance lease receivables	1,782	(131)	-	1,651
Positive fair value of hedge accounting derivatives	4,208	-	-	4,208
Off balance-sheet exposures	134,618	(1,027)	-	-
Total	**1,740,859**	**(17,249)**	**215**	**1,590,356**
December 2019				
Cash and cash balances - demand deposits to credit institutions	1,925	(1)	-	1,924
Debt instruments held for trading	9,705	-	-	9,705
Non-trading debt instruments at FVPL	2,787	-	-	2,787
Debt securities	1,347	-	-	1,347
Loans and advances to banks	645	-	-	645
Loans and advances to customers	795	-	-	795
Debt instruments at FVOCI	20,815	(60)	350	21,166
Debt securities	20,815	(60)	350	21,166
Debt instruments at AC	1,363,493	(12,197)	-	1,351,296
Debt securities	218,924	(17)	-	218,907
Loans and advances to banks	411,660	(10)	-	411,650
Loans and advances to customers	732,909	(12,170)	-	720,739
Trade and other receivables	6,209	(412)	-	5,797
Finance lease receivables	2,006	(131)	-	1,875
Positive fair value of hedge accounting derivatives	980	-	-	980
Off balance-sheet exposures	135,979	(799)	-	N/A
Total	**1,543,899**	**(13,600)**	**350**	**1,395,530**

Credit risk provisions comprise impairments for financial assets measured at amortised cost (including finance lease and trade receivables) and at fair value through other comprehensive income (FVOCI), as well as provisions for off-balance sheet exposures. Adjustments refer to the fair value changes of the carrying amount for financial assets at FVOCI.

The gross carrying amount of contingent liabilities refers to the nominal value, while credit risk provisions refer to provisions for guarantees. A carrying amount is not presented in the case of contingent liabilities.

Credit risk volume is presented by:

- counterparty sector and financial instrument;
- industry and risk category;
- business segment and risk category;
- business segment and IFRS 9 treatment.

Credit risk exposure by counterparty sector and financial instruments

in CZK million	Cash and cash balances - demand deposits to credit institutions	Financial assets held for trading	Non-trading financial assets at FVPL	Financial assets at FVOCI	At amortised cost: Debt securities	At amortised cost: Loans and advances to banks	At amortised cost: Loans and advances to customers	Finance lease receivables	Positive fair value of derivatives	Trade and other receivables	Off balance-sheet exposures	Gross exposure
June 2020												
Central banks	-	-	-	-	-	511,233	-	-	-	-	-	511,233
General governments	-	2,973	-	8,644	243,269	-	21,707	49	2	-	10,450	287,094
Credit institutions	2,240	5,824	203	2,665	11,351	16,889	-	34	-	4,187	1,535	44,928
Other financial corporations	-	1,138	1,293	1,918	-	-	31,359	127	5	-	2,679	38,519
Non-financial corporations	-	3,725	837	8,153	7	-	276,414	5,690	1,559	21	68,804	365,210
Households	-	10	-	-	-	-	442,279	220	216	-	51,150	493,875
Total	**2,240**	**13,670**	**2,333**	**21,380**	**254,627**	**528,122**	**771,759**	**6,120**	**1,782**	**4,208**	**134,618**	**1,740,859**
December 2019												
Central banks	-	-	-	-	-	393,062	-	-	-	-	-	393,062
General governments	-	1,990	-	7,567	206,643	-	21,300	86	3	-	8,689	246,278
Credit institutions	1,925	6,159	910	3,307	12,274	18,598	-	37	(1)	959	1,395	45,563
Other financial corporations	-	189	509	1,856	-	-	17,026	278	6	-	4,913	24,777
Non-financial corporations	-	1,367	1,368	8,085	7	-	265,193	5,585	1,739	21	71,440	354,805
Households	-	-	-	-	-	-	429,390	223	259	-	49,542	479,414
Total	**1,925**	**9,705**	**2,787**	**20,815**	**218,924**	**411,660**	**732,909**	**6,209**	**2,006**	**980**	**135,979**	**1,543,899**

Credit risk exposure by industry and risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
June 2020					
Agriculture and forestry	11,034	7,059	2,676	482	21,251
Mining	215	645	8	7	875
Manufacturing	34,229	39,372	9,853	2,988	86,442
Energy and water supply	18,075	6,203	1,096	656	26,030
Construction	18,194	8,179	2,579	767	29,719
Development of building projects	7,750	3,106	1,187	224	12,267
Trade	28,445	24,691	6,672	2,115	61,923
Transport and communication	20,554	4,875	4,102	366	29,897
Hotels and restaurants	2,984	5,390	1,255	348	9,977
Financial and insurance services	559,404	33,514	1,196	98	594,212
Holding companies	5,168	1,049	33	-	6,250
Real estate and housing	69,614	30,541	9,759	290	110,204
Services	9,762	11,002	3,070	642	24,476
Public administration	282,173	1,290	566	-	284,029
Education, health and art	6,689	1,266	655	433	9,043
Households	423,573	15,969	7,454	5,785	452,781
Total	**1,484,945**	**189,996**	**50,941**	**14,977**	**1,740,859**
December 2019					
Agriculture and forestry	11,387	7,135	2,200	381	21,103
Mining	779	96	8	6	889
Manufacturing	57,508	17,449	2,317	3,037	80,311
Energy and water supply	23,918	2,113	247	626	26,904
Construction	19,658	6,427	1,984	1,445	29,514
Development of building projects	8,610	3,022	651	902	13,185
Trade	39,804	13,844	3,218	1,868	58,734
Transport and communication	23,109	5,319	752	163	29,343
Hotels and restaurants	5,055	1,654	1,040	277	8,026
Financial and insurance services	461,761	2,156	74	10	464,001
Holding companies	5,134	1,186	-	-	6,320
Real estate and housing	65,097	33,693	7,524	381	106,695
Services	16,208	8,158	1,941	439	26,746
Public administration	243,122	1,224	24	-	244,370
Education, health and art	6,572	1,354	473	124	8,523
Households	409,529	16,146	7,696	5,369	438,740
Total	**1,383,507**	**116,768**	**29,498**	**14,126**	**1,543,899**

Credit risk exposure by business segment and risk category

The segment reporting is based on the business segments as described in Note 26.

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total
June 2020					
Retail	480,344	31,369	22,502	7,205	541,420
Corporates	219,637	127,205	27,269	7,647	381,758
Group Markets	17,328	15,537	1,060	88	34,013
ALM & LCC	767,636	15,885	110	37	783,668
Total	**1,484,945**	**189,996**	**50,941**	**14,977**	**1,740,859**
December 2019					
Retail	453,294	45,263	24,348	6,686	529,591
Corporates	286,707	69,884	5,043	7,407	369,041
Group Markets	20,999	1,206	-	-	22,205
ALM & LCC	622,507	415	107	33	623,062
Total	**1,383,507**	**116,768**	**29,498**	**14,126**	**1,543,899**

Credit risk exposure by business segment and IFRS 9 treatment

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
June 2020							
Retail	496,022	38,099	7,149	107	541,378	43	541,420
Corporates	305,942	61,068	6,852	895	374,757	7,001	381,758
Group Markets	25,031	737	88	1	25,855	8,156	34,013
ALM & LCC	776,273	1,719	37	-	778,029	5,639	783,668
Total	**1,603,268**	**101,623**	**14,126**	**1,003**	**1,720,019**	**20,839**	**1,740,859**
December 2019							
Retail	500,936	21,885	6,643	98	529,562	29	529,591
Corporates	334,963	21,710	7,243	715	364,631	4,410	369,041
Group Markets	14,583	642	-	-	15,225	6,980	22,205
ALM & LCC	620,792	131	34	-	620,957	2,105	623,062
Total	**1,471,274**	**44,368**	**13,920**	**813**	**1,530,375**	**13,524**	**1,543,899**

Stage 1 and Stage 2 comprise not impaired credit risks, while Stage 3 includes impaired credit risks. POCI (purchased or originated credit impaired) consists of credit risks already impaired when purchased or originated.

General principles for credit loss allowances

The general principles and standards for credit loss allowances are governed by internal policies in the Group. According to IFRS 9, credit loss allowances are calculated for all components of the credit risk exposure which are measured at amortized cost (AC) or at fair value through other comprehensive income and include other demand deposits, debt securities, loans and advances as well as finance lease and trade receivables. Provisions for loan commitments and financial guarantees are calculated if they are IFRS 9 impairment relevant.

In the area of expected credit loss (ECL) modelling and calculation of ensuing credit loss allowances (CLA), the Group has concluded that one of the key drivers of the expected impact from adopting the ECL model required by IFRS 9 is the assessment of significant increase in credit risk (SICR) for exposures that are not identified as credit-impaired as at the date of initial application of IFRS 9 (for retrospective application) or as at any given reporting period after transition to IFRS 9 (for prospective application). In this respect, across portfolios and product types, quantitative and qualitative indicators are defined for assessing SICR, including the indicator of 30 days-past-due.

Quantitative indicators include adverse changes in annualized lifetime probability of default and in 12-month probability of defaults with significance being assessed by reference to a mix of relative and absolute change thresholds. Generally the indicators for probability of default are determined to reflect the risk as a "point-in-time" measure and with consideration of forward-looking information ("FLI"). The thresholds are established at PD segment level or client rating level, as necessary, and are subject to initial and on-going validation.

Qualitative SICR indicators include forbearance-type flags, work-out transfer flag, information from early-warning-system (if it is not sufficiently considered in rating) and fraud indicators. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and timely. The related group-wide and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework.

The "low credit risk exemption" allowed by IFRS 9 for "investment grade" assets or other assets deemed "low risk" (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) has been implemented with limitations in Erste Group. Thus, the potential activation of this exemption is limited to particular types of debt instruments and counterparty categories, and only if supported by sufficient "low risk" evidence. On this basis, the "low risk exemption" is expected to occasionally apply to some debt security exposures and only exceptionally to loans.

The calculation of credit loss allowances is done on a daily basis on single exposure level and in the contractual currency of the exposure. To compute the credit loss allowance, the Group applies an expected credit loss (ECL) model based on a three stages approach that either leads to a twelve-month ECL or to a lifetime ECL.

The three stages approach applies to financial instruments which are not categorized as purchased or originated credit-impaired financial assets which form a category on their own. Depending on the impairment status and the assessment of the development of credit risk, the financial instruments are assigned to one of three stages.

Stage 1 includes financial instruments at initial recognition and financial assets without a significant increase in credit risk since initial recognition irrespective of their credit quality. In stage 1, the credit risk loss allowances are calculated as twelve-months ECL.

Stage 2 includes financial instruments with a significant increase in credit risk but not credit-impaired at the reporting date. In stage 2, the credit risk loss allowances are calculated as lifetime ECL.

Stage 3 includes financial assets which are credit-impaired at the reporting date. In principle, a financial instrument becomes credit-impaired when the customer defaults. The Group generally applies a customer view which leads to an impairment of all claims even if the customer defaults only on one of several transactions. On the other side, an upgrade to a non-defaulted rating grade implies that the total exposure ceases to be impaired. In stage 3, the credit loss allowances are calculated as lifetime ECL.

Credit loss allowances are calculated individually or collectively. The individual approach is applied in case of exposures to significant defaulted customers and consists of the individual assessment of the difference between the gross carrying amount and the net present value of the expected cash flows which are estimated by workout or risk managers. The discounting of the cash flows is based on the effective interest rate.

A customer is classified as significant if the total on- and off-balance exposure exceeds a predefined materiality limit. Otherwise, the customer is considered as insignificant and a rule-based approach is used for the calculation of the specific allowance. Under this approach, allowances are calculated as the product of gross carrying amount and loss given default (LGD), where LGD depends on characteristics such as time in default or the stage of the workout process.

Collective allowances are calculated for exposures to non-defaulted customers according to a rule-based approach irrespective of the significance of the customer. The level of collective allowances depends on the gross carrying amount, the probability of default, the loss given default and the credit conversion factor in case of off-balance-sheet exposures. The result of discounting future cash flows to their present values is taken into consideration in the LGD calculation.

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of collective allowances may differ from the risk parameters compliant to capital requirement regulations if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

Effect of Covid-19 on credit loss allowances

As described above, an increase of ECL depends on re-assessment of the credit risk parameters and / or stage downgrades via significant increase in credit risk (SICR) or a default.

The Group concluded that moratoria introduced in the Czech republic fulfil the conditions as defined in the EBA guidelines published on 25 March and 2 April 2020. Thus, relief offered to credit owners did not result in an automatic transfers from Stage 1 to Stage 2. However, Group continues to perform rather individual assessments whether there are other circumstances that would lead to stage transfers (i.e. forbearance or default classification).

The Group has re-assessed the credit risk parameters based on the new macro-scenarios FLI overlay, which were used for calculation of credit loss allowances. The Group will continue monitoring the macro and the macro-prediction development in order to further reflect up-to-date information in our credit risk parameters. The effect of the FLI in the ECL calculation as of 30 June 2020 amounted to CZK 1.0 bn.

The Group has also addressed expected SICR by introducing Covid-19 portfolio overlays. The Group divided the portfolio into private individuals (PIs) and non-private individuals (non-PIs) and further assessed the customers by taking into account any Covid-19 related relieve measures granted as well as the internal industry heat-map. The industry heat-map splits the industry segments to high, medium and yellow risk (i.e. higher risk in the table below). Based on such assessment and individual reviews, customers, if applicable, were migrated to stage 2, i.e. life-time ECL measure. The industry heat map and the portfolio overlays are subject to regular reviews. The effect of Covid-19 portfolio overlays in the ECL calculation as of 30 June 2020 amounted to CZK 0.9 bn.

In case of PI portfolios, the Group will monitor the development of Covid-19 portfolio overlays once the moratoria are lifted and the credit risk assessment will not be distorted by them. In case of non-PI portfolios, release of the overlays will be assessed after a consistent improvement of the macro indicators is observed.

The Group cannot preclude further ECL increases in the following quarters mainly due to:
– rating migrations of the portfolios,
– potential FLI updates and related changes in credit risk parameters,
– an increase in defaults especially after state aid measures, in particular moratoria, are lifted.

Credit risk exposure by industry and related credit loss allowances

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Credit Risk Exposures (AC & FVOCI)	Not subject to IFRS9 impairment	Total	Credit Loss Allowances
June 2020								
Agriculture, forestry and fishing	18,749	1,935	462	20	21,166	85	21,251	(550)
of which high risk	-	-	-	-	-	-	-	-
Mining and quarrying	276	572	7	-	855	20	875	(16)
of which high risk	50	528	6	-	584	-	584	(14)
Manufacturing	61,433	20,698	2,566	417	85,114	1,328	86,442	(2,791)
of which high risk	21,776	11,090	1,884	527	35,277	148	35,425	(1,860)
Electricity, gas, steam and air conditioning supply	18,315	3,862	606	40	22,823	391	23,214	(572)
of which high risk	-	-	-	-	-	-	-	-
Water supply	2,624	171	10	-	2,805	11	2,816	(24)
of which high risk	-	-	-	-	-	-	-	-
Construction	26,925	1,816	683	231	29,655	64	29,719	(956)
of which high risk	-	-	-	-	-	-	-	-
Wholesale and retail trade	50,343	8,917	2,036	49	61,345	579	61,924	(2,417)
of which high risk	13,560	4,534	952	18	19,064	30	19,094	(1,137)
Transport and storage	13,108	8,455	312	2	21,877	399	22,276	(506)
of which high risk	11,926	8,225	297	2	20,450	56	20,506	(441)
Accommodation and food service activities	4,410	5,106	344	9	9,869	108	9,977	(459)
of which high risk	4,146	4,726	334	7	9,213	36	9,249	(400)
Information and communication	5,512	1,390	35	14	6,951	670	7,621	(99)
of which high risk	-	-	-	-	-	-	-	-
Financial and insurance services	578,951	2,932	98	-	581,981	12,230	594,211	(260)
of which high risk	-	-	-	-	-	-	-	-
Real estate activities	93,176	15,057	287	3	108,523	1,681	110,204	(1,295)
of which high risk	11,006	6,010	11	-	17,027	872	17,899	(151)
Professional, scientific and technical activities	10,226	3,133	311	158	13,828	89	13,917	(351)
of which high risk	-	-	-	-	-	-	-	-
Administrative and support service activities	5,534	1,346	134	2	7,016	24	7,040	(177)
of which high risk	2,933	1,242	77	-	4,252	-	4,252	(102
Public administration and defence, compulsory social security	280,010	1,047	-	-	281,057	2,972	284,029	(36)
of which high risk	-	-	-	-	-	-	-	-
Education	585	66	4	-	655	-	655	(13)
of which high risk	-	-	-	-	-	-	-	-
Human health services and social work activities	3,589	293	62	2	3,946	19	3,965	(62)
of which high risk	-	-	-	-	-	-	-	-
Arts, entertainment and recreation	3,183	719	365	-	4,267	156	4,423	(258)
of which high risk	3,006	719	356	-	4,081	32	4,113	(254)
Other services	3,213	257	37	-	3,507	11	3,518	(50)
of which high risk	38	2	-	-	40	-	40	-
Private households	423,106	23,851	5,767	55	452,779	2	452,781	(6,358)
Total	**1,603,268**	**101,623**	**14,126**	**1,002**	**1,720,019**	**20,839**	**1,740,858**	**(17,250)**

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Credit Risk Exposures (AC & FVOCI)	Not subject to IFRS9 impairment	Total	Credit Loss Allowances
December 2019								
Agriculture, forestry and fishing	19,672	1,040	377	5	21,094	9	21,103	478)
Mining and quarrying	275	607	6	-	888	1	889	(14)
Manufacturing	70,696	6,155	2,644	406	79,901	411	80,312	(2,388)
Electricity, gas, steam and air conditioning supply	19,401	3,846	575	41	23,863	193	24,056	(538)
Water supply	2,738	92	9	-	2,839	9	2,848	(15)
Construction	26,979	1,079	1,232	215	29,505	9	29,514	(949)
Wholesale and retail trade	52,368	4,170	1,795	51	58,384	350	58,734	(2,081)
Transport and storage	20,144	611	136	-	20,891	235	21,126	(166)
Accommodation and food service activities	7,152	555	277	7	7,991	35	8,026	(202)
Information and communication	8,070	115	27	-	8,212	5	8,217	(36)
Financial and insurance services	453,632	790	583	-	455,005	8,996	464,001	(142)
Real estate activities	99,569	5,528	350	31	105,478	1,217	106,695	(771)
Professional, scientific and technical activities	11,730	2,380	251	1	14,362	16	14,378	(277)
Administrative and support service activities	6,976	762	90	-	7,828	7	7,835	(121)
Public administration and defence, compulsory social security	241,247	1,134	-	-	242,381	1,990	244,371	(35)
Education	491	31	6	-	528	-	528	(7)
Human health services and social work activities	3,290	208	58	-	3,556	4	3,560	(31)
Arts, entertainment and recreation	3,975	365	59	-	4,399	35	4,434	(36)
Other services	4,318	116	97	-	4,531	2	4,533	(102)
Private households	418,551	14,784	5,348	56	438,739	-	438,739	(5,214)
Total	**1,471,274**	**44,368**	**13,920**	**813**	**1,530,375**	**13,524**	**1,543,899**	**(13,600)**

Loans and advances to customers

The tables on the following pages present the structure of the customer loan book, excluding loans to central banks and credit institutions broken-down by different categories. Loans and advances to customers comprise:

- loans to customers at FVPL;
- loans and advances to customers at AC;
- finance lease receivables;
- trade and other receivables.

On the next pages loans and advances to customers are presented by:

- business segment and risk category;
- business segment and IFRS 9 treatment;
- business segment and coverage of non-performing loans to customers by loan loss allowances;
- business segment and coverage by loan loss allowances and IFRS 9 treatment;

Loans and advances to customers by business segment and risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total
June 2020					
Retail	413,053	28,320	20,054	7,126	468,553
Corporates	164,244	97,694	22,245	7,068	291,251
Group Markets	9,864	9,617	581	-	20,062
ALM&LCC	416	41	108	32	597
Total	**587,577**	**135,672**	**42,988**	**14,226**	**780,463**
December 2019					
Retail	384,676	41,093	22,188	6,609	454,566
Corporates	211,767	57,363	4,572	6,544	280,246
Group Markets	4,445	702	-	-	5,147
ALM&LCC	1,629	163	105	27	1,924
Total	**602,517**	**99,321**	**26,865**	**13,180**	**741,883**

Loans and advances to customers by business segment and IFRS 9 treatment

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Gross customer loans (AC)	Not subject to IFRS 9 impairment	Total
June 2020							
Retail	426,561	34,816	7,073	103	468,553	-	468,553
Corporates	235,438	47,753	6,328	895	290,414	837	291,251
Group Markets	19,329	733	-	-	20,062	-	20,062
ALM&LCC	449	117	31	-	597	-	597
Total	**681,777**	**83,419**	**13,432**	**998**	**779,626**	**837**	**780,463**
December 2019							
Retail	428,286	19,618	6,566	95	454,565	-	454,565
Corporates	255,993	16,900	5,842	715	279,450	797	280,247
Group Markets	4,510	637	-	-	5,147	-	5,147
ALM&LCC	1,779	119	27	-	1,925	(1)	1,924
Total	**690,568**	**37,274**	**12,435**	**810**	**741,087**	**796**	**741,883**

Non-performing loans and advances to customers by business segment and coverage by loan loss allowances

	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL		NPL ratio		NPL coverage	NPL collateralisation ratio	
in CZK million	Total	AC	Total	AC	AC	Total	AC	Total	AC	AC	Total	AC
June 2020												
Retail	7,127	7,127	468,553	468,553	8,588	1,898	1,898	1.52%	1.52%	120.50%	26.63%	26.63%
Corporates	7,068	7,068	290,414	290,414	7,222	1,765	1,765	2.43%	2.43%	102.17%	24.97%	24.97%
Group Markets	-	-	20,062	20,062	24	-	-	0.00%	0.00%	-	-	-
ALM&LCC	31	31	597	597	159	-	-	5.19%	5.19%	536.80%	0.00%	0.00%
Total	**14,226**	**14,226**	**779,626**	**779,626**	**15,993**	**3,663**	**3,663**	**1.82%**	**1.82%**	**112.42%**	**25.75%**	**25.75%**
December 2019												
Retail	6,610	6,610	454,565	454,565	6,657	1,601	1,601	1.50%	1.50%	100.70%	24.20%	24.20%
Corporates	6,544	6,544	280,246	279,450	5,875	1,557	1,557	2.30%	2.30%	89.80%	23.80%	23.80%
Group Markets	-	-	5,147	5,147	16	-	-	0.00%	0.00%	-	-	-
ALM&LCC	27	27	1,925	1,925	147	-	-	1.40%	1.40%	536.80%	0.00%	0.00%
Total	**13,181**	**13,181**	**741,883**	**741,087**	**12,695**	**3,158**	**3,158**	**1.80%**	**1.80%**	**96.30%**	**24.00%**	**24.00%**

Loans and advances to customers at AC and coverage by loan loss allowances by business segment and IFRS 9 treatment

	Loans to customers				Loan loss allowances						
in CZK million	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 2 coverage ratio	Stage 3 coverage ratio	POCI coverage ratio
June 2020											
Retail	426,561	34,816	7,073	103	852	2,960	4,736	39	8.50%	66.96%	37.66%
Corporates	235,438	47,753	6,328	895	761	1,342	4,619	499	2.81%	72.99%	55.78%
Group Markets	19,328	733	-	-	12	15	-	-	2.04%	N/A	N/A
ALM&LCC	449	117	31	-	17	111	31	-	94.66%	98.57%	N/A
Total	**681,776**	**83,419**	**13,432**	**998**	**1,642**	**4,428**	**9,386**	**538**	**5.31%**	**69.87%**	**53.91%**
December 2019											
Retail	428,286	19,618	6,566	95	926	1,362	4,338	31	6.90%	66.10%	33.00%
Corporates	255,993	16,900	5,842	715	800	483	4,136	456	2.90%	70.80%	63.70%
Group Markets	4,510	637	-	-	4	12	-	-	1.90%	N/A	N/A
ALM&LCC	1,779	119	27	-	7	112	27	-	94.80%	100.00%	N/A
Total	**690,568**	**37,274**	**12,435**	**810**	**1,737**	**1,969**	**8,501**	**487**	**5.30%**	**68.40%**	**60.10%**

28.2 Market Risk

The table below summarizes the VaR values as at 31 December 2019 and 30 June 2020 on the confidence level of 99%. The table shows only the Bank's amounts:

in CZK million	Total Market Risk	Correlation Effect	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Volatility Risk	Credit Spread risk
June 2020							
Trading book							
Daily value	10	(1)	10	-	-	-	1
Monthly value	45	(4)	45	1	1	-	6
Average of daily values per year	11	(1)	11	-	-	-	1
Average of monthly values per year	50	(4)	50	2	1	-	4
Banking book							
Daily value	303	(223)	176	-	-	306	44
Monthly value	1,421	(1,048)	824	-	-	1,436	209
Average of daily values per year	250	(117)	226	4	-	106	32
Average of monthly values per year	1,173	(549)	1,058	21	-	495	148
December 2019							
Trading book							
Daily value	7	-	6	-	-	-	1
Monthly value	31	(1)	30	-	1	-	3
Average of daily values per year	14	(1)	14	1	-	-	1
Average of monthly values per year	66	(5)	66	4	1	-	3
Banking book							
Daily value	283	(139)	314	6	-	76	26
Monthly value	1,330	(650)	1,472	29	-	357	121
Average of daily values per year	129	(51)	140	7	-	3	31
Average of monthly values per year	605	(239)	655	31	-	14	144

In addition, the Bank uses stress testing or an analysis of impacts of adverse developments in market risk factors on the market value of the trading book and on the parts of the banking book revalued to market values. Scenarios are developed on the basis of historical experience and expert opinions of the Macroeconomic Analyses Department. The stress testing is undertaken on a monthly basis and its results are reported to Financial Markets Risk Management Committee (FMRMC).

28.3 Liquidity Risk

The liquidity risk is defined in line with the principles set out by the Basel Committee on Banking Supervision and the CNB. Accordingly, a distinction is made between market liquidity risk, which is the risk that the entity cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that a credit institution will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting daily operations and its financial condition.

The Bank reports Liquidity Coverage Ratio („LCR") to the national regulator according to the Delegated Act. Both LCR and Net Stable Funding Ratio ("NSFR") for the Bank have been significantly above 100% for a long time due to good health and high liquidity in the Czech banking system. The Bank also regularly reports Additional Liquidity Monitoring Metrics (ALMM) to the national regulator, which complements already existing Basel III liquidity risk ratios in the form of several detailed liquidity risk reports/measures.

29. Fair value of financial instruments

All financial instruments are measured at fair value on recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments carried at fair value

The measurement of fair value at the Bank is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which the fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Description of valuation models and parameters

The Bank uses valuation models that have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently. As a consequence of the negative interest environment, shifted Black Scholes valuation model is used for interest rate options for the respective currencies. For this model negative interest rates are no restriction.

Loans. IFRS 9 regulation significantly changed accounting classification of assets. Not SPPI (solely payments of principal and interest) compliant loans are to be valued at fair value. The methodology to compute fair value of these assets corresponds to the basic present value technique where expected cash flows of assets are discounted by the full rate including risk premium required for non-market risk based part of the interest rate to be compliant with fair value definition. The credit risk is recognized by adjusting contractual cash flows to come to expected cash flows accounting for customer's probability of default and loss given default. These adjusted cash flows are then discounted by effective discount rate incorporating other risk/cost components. The complex interest rate assets are valued by Monte Carlo simulation approach to include convexity correction and time value of embedded options.

Securities. For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features such as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash flow models and more sophisticated modeling techniques including methods described for OTC-derivatives.

Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price (bid for long position, ask for short position). For other investments in non-trading equity instruments the fair value is determined by standard valuation models using also unobservable input parameters.

OTC-derivative financial instruments. Derivative instruments traded in OTC markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices) are valued by using standard valuation models. These models include discounting cash flow models, option models of the Black-Scholes. Models are calibrated on quoted market data (including implied volatilities). Valuation models for more complex instruments also use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used.

The Bank values derivatives at mid-market levels. The derivatives position value is adjusted of close-out adjustment to take into account impact of bid/ask spread to the valuation. Parameters are reviewed on a regular basis or in case of significant market moves.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA, the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Group's credit quality. Modelling of the expected exposure is based on option replication strategies for most of the counterparties and the products. For Ministry of Finance of the Czech Republic and for counterparties with Credit Support Annex ('CSA') agreements in place with higher threshold amounts Monte Carlo approach is applied, netting is considered. For CSA counterparties with small threshold amounts no CVA/DVA was taken into account. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices.

Validation and control

The responsibility for valuation of financial instruments measured at fair value is independent from the trading units. In addition, The Bank has implemented an independent validation function in order to ensure separation between units responsible for model development, fair value measurement and validation. The aim of independent model validation is to evaluate model risks arising from the models' theoretical foundation, the appropriateness of input data (market data) and model calibration.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to Level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. More particular, the evaluated fair value can qualify as Level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

These include exchange traded derivatives (futures, options), shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as Level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as Level 2 of the fair value hierarchy. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

These include OTC derivatives, less liquid shares, bonds and funds as well as own issues.

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor on the basis of valuation models that rely entirely on observable market data. In these cases individual valuation parameters which are not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as Level 3 of the fair value hierarchy. For Level 3 valuations besides observable parameters typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters. Furthermore, internally calculated cost of equity and adjustments made on the equity (in the adjusted net asset value method) are unobservable parameters for the valuation of non-trading equity instruments.

These include shares, participations and funds not quoted, illiquid bonds as well as loans, own issues and deposits.

	Quoted market prices in active markets		Marked to model based on observable market data		Marked to model based on non-observable inputs			
	Level 1		Level 2		Level 3		Total	
in CZK million	June 2020	December 2019	June 2020	December 2019	June 2020	December 2019	June 2020	December 2019
ASSETS								
Financial assets - held for trading	49	82	12,848	9,452	773	171	13,670	9,705
Derivatives	-	-	11,813	9,397	728	171	12,541	9,568
Other trading assets	49	82	1,035	55	45	-	1,129	137
Non-trading financial assets - FVPL	51	39	-	265	3,264	3,227	3,315	3,531
Equity instruments	-	-	-	-	982	744	982	744
Debt securities	51	39	-	265	1,242	1,043	1,293	1,347
Loans and advances	-	-	-	-	1,040	1,440	1,040	1,440
Financial assets - FVOCI	11,966	12,636	8,177	7,169	1,452	1,361	21,595	21,166
Debt securities	11,966	12,636	8,177	7,169	1,452	1,361	21,595	21,166
Derivatives Hedge Accounting	-	-	4,189	961	19	19	4,208	980
Total assets	**12,066**	**12,757**	**25,214**	**17,847**	**5,508**	**4,778**	**42,788**	**35,382**
LIABILITIES								
Financial liabilities held for trading	30	-	14,088	9,777	17	17	14,135	9,794
Derivatives	-	-	14,088	9,777	17	17	14,105	9,794
Other trading liabilities	30	-	-	-	-	-	30	-
Financial liabilities designated at fair value through profit or loss	-	-	4,657	3,557	-	-	4,657	3,557
Deposits from customers	-	-	4,657	3,557	-	-	4,657	3,557
Debt securities issued	-	-	-	-	-	-	-	-
Derivatives Hedge Accounting	-	-	262	2,180	-	-	262	2,180
Total liabilities	**30**	**-**	**19,007**	**15,514**	**17**	**17**	**19,054**	**15,531**

The allocation of the appropriate level of positions is determined at the end of the reporting period.

Changes in volumes of Level 1 and Level 2

This paragraph describes the changes in Volumes of Level 1 and Level 2 of financial instruments measured at fair value in the statement of financial position.

	June 2020		December 2019	
In CZK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	-	-	622
Net transfer from Level 2	-	-	(622)	-
Net transfer from Level 3	-	-	-	-
Purchases/sales/expiries	(691)	1,723	(16,281)	(409)
Changes in derivatives	-	5,644	-	(503)
Total year-to-date change	**(691)**	**7,367**	**(16,903)**	**(290)**

Movements in Level 3 of financial instruments measured at fair value

The following tables show the development of fair value of securities for which valuation models are based on non-observable inputs:

in CZK million		Gains/losses profit or loss	Gains/ losses OCI	Purchases	Sales/ Settlements	Transfer into Level 3	Transfer out of Level 3	Currency translation	
	January 2020								June 2020
Assets									
Financial assets HfT	171	52	-	2	-	548	-	-	773
Derivatives	171	52	-	2	-	503	-	-	728
Other financial assets held for trading	-	-	-	-	-	45	-	-	45
Non-trading financial assets at FVPL	3,227	601	-	62	(648)	-	(20)	42	3,264
Equity instruments	744	259	-	-	-	-	(21)	-	982
Debt securities	1,043	139	-	62	(3)	-	1	-	1,242
Loans and advances	1,440	203	-	-	(645)	-	-	42	1,040
Financial assets at FVOCI	1,361	-	(20)	41	-	222	(152)	-	1,452
Debt securities	1,361	-	(20)	41	-	222	(152)	-	1,452
Hedge accounting derivatives	19	-	-	-	-	-	-	-	19
Total assets	**4,778**	**653**	**(20)**	**105**	**(648)**	**770**	**(172)**	**42**	**5,508**
	January 2019								June 2019
Assets									
Financial assets - HfT	349	(16)	-	45	(1)	55	(68)	-	363
Derivatives	349	(16)	-	45	(1)	55	(68)	-	363
Non-trading financial assets at fair value through profit or loss	1,160	94	-	33	(41)	2	-	-	1,248
Equity instruments	755	-	-	-	-	-	-	-	755
Debt securities	337	93	-	33	(41)	-	-	-	422
Loans and advances	68	1	-	-	-	2	-	-	71
Financial assets at FVOCI	3,229	-	388	-	(21)	1,421	-	(10)	5,008
Equity instruments	1,252	-	382	-	-	-	-	-	1,634
Debt securities	1,977	-	6	-	(21)	1,421	-	(10)	3,374
Hedge accounting derivatives	33	-	-	23	-	-	(33)	-	23
Total assets	**4,771**	**78**	**388**	**101**	**(63)**	**1,478**	**(101)**	**(10)**	**6,642**

A part of the OTC derivatives was categorized as Level 3 / was recategorized into Level 3 because credit valuation adjustment (CVA) has a material impact on the market value for these derivatives and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs). Part of Level 3 derivatives was recategorized into Level 2 because CVA has not a material impact on the market value of these derivatives any more. In 2020 and in 2019 FVOCI/available for sale financial assets (equities and bonds) for which valuation models are based on non- observable inputs were transferred into Level 3.

The gains or losses of Level 3 financial instruments classified as 'Financial assets – held for trading', 'Non-trading financial assets at fair value through profit or loss' and 'Hedge accounting derivatives' is disclosed in the income statement line item 'Net trading result'. Gains or losses from derecognition of 'Financial assets at fair value through other comprehensive income' is shown in the income statement line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'. Impairment of 'Financial assets at fair value through other comprehensive income' is disclosed in the line item 'Impairment result from financial instruments'. Level 3 gains or losses in other comprehensive income disclosed in the balance sheet line item 'Financial assets at fair value through other comprehensive income' are reported directly in equity under 'Change in fair value reserve'.

Level 3 movements. The reclassification of securities to Level 3 was caused by a decrease in market liquidity.

Gains or losses on Level 3 instruments held at the reporting period's end and which are included in profit or loss are as follow:

	June 2020	December 2019
in CZK million	Unrealized gain/loss in profit or loss	Unrealized gain/loss in profit or loss
ASSETS		
Financial assets - held for trading	52	(16)
Derivatives	52	(16)
Non-trading financial assets at fair value through profit or loss	601	94
Equity instruments	259	-
Debt securities	139	93
Loans and advances	203	1
Total	**653**	**78**

Sensitivity analysis for Level 3 measurements

The following table shows the sensitivity analysis using reasonably possible alternatives per product type:

	Positive fair value changes when applying alternative valuation parameters		Negative fair value changes when applying alternative valuation parameters	
in CZK million	**June 2020**	**December 2019**	**June 2020**	**December 2019**
Derivatives	31	4	(23)	(5)
Income statement	31	4	(23)	(5)
Debt securities	25	29	(33)	(38)
Other comprehensive income	25	29	(33)	(38)
Equity instruments	110	59	(221)	(118)
Income statement	110	59	(221)	(118)
Other comprehensive income	-	-	-	-
Total	**166**	**92**	**(277)**	**(161)**
Income statement	**141**	**63**	**(244)**	**(123)**
Other comprehensive income	**25**	**29**	**(33)**	**(38)**

In estimating these impacts, mainly changes in credit spreads (for bonds), PDs, LGDs (for CVA of derivatives) and market values of comparable equities were considered. An increase (decrease) of spreads, PDs and LGDs result in a decrease (increase) of the corresponding market values.

Following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:
– For debt securities range of credit spreads between +100 basis points and – 75 basis points;
– For equity related instruments the price range between -10% and +5%;
– For CVA on derivatives PDs rating upgrade/downgrade by one notch, the range for LGD between -5% and +10%.

The Group has considered the impact of the revaluation of Visa Europe Ltd. equity instrument and recalculated the fair value of its holding in Visa Europe Ltd. to reflect the market conditions (the movement is reported in the line Equity insrtuments Other comprehensive income of the above mentioned sensitivity analysis).

Fair value of financial instruments not recognised at fair value

The following table shows fair values and fair value hierarchy of financial instruments whose fair value is disclosed in the notes for 30 June 2020 and for the year-end 2019. For assets without contractual maturities (e.g. cash and cash equivalents), the carrying amount approximates their fair value.

in CZK million	Carrying amount (balance sheet)	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
June 2020					
ASSETS					
Cash and cash balances	54,606	54,606	-	-	-
Financial assets at amortised costs	1,538,939	1,579,365	239,280	29,089	1,310,996
Loans and advances to banks	528,053	528,306	-	-	528,306
Loans and advances to customers	756,278	781,084	-	-	781,084
Debt securities	254,608	269,975	239,280	29,089	1,606
Finance lease receivables	1,651	1,651	-	-	1,651
Trade and other receivables	5,721	5,536	-	-	5,536
LIABILITIES					
Financial liabilities measured at amortised costs	1,489,040	1,488,069	-	6,176	1,481,893
Deposits from banks	337,120	337,042	-	-	337,042
Deposits from customers	1,140,628	1,139,746	-	-	1,139,746
Debt securities issued	6,067	6,176	-	6,176	-
Other financial liabilities	5,225	5,105	-	-	5,105
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	(61)	-	-	(61)
Irrevocable commitments	n/a	571	-	-	571
December 2019					
ASSETS					
Cash and cash balances	40,526	40,526	-	-	-
Financial assets at amortised costs	1,351,296	1,363,580	211,717	12,107	1,139,757
Loans and advances to banks	411,650	411,975	-	-	411,975
Loans and advances to customers	720,739	727,773	-	-	727,773
Debt securities	218,907	223,832	211,717	12,107	9
Finance lease receivables	1,875	1,875	-	-	1,875
Trade and other receivables	5,797	5,966	-	-	5,966
LIABILITIES					
Financial liabilities measured at amortised costs	1,294,989	1,294,808	-	5,538	1,289,270
Deposits from banks	292,111	295,295	-	-	295,295
Deposits from customers	993,257	989,988	-	-	989,988
Debt securities issued	5,634	5,538	-	5,538	-
Other financial liabilities	3,987	3,987	-	-	3,987
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	911	-	-	911
Irrevocable commitments	n/a	1,908	-	-	1,908

In the table above, positive fair values of financial guarantees and commitments are shown with a positive sign whereas negative fair values are shown with a negative sign.

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets at amortised cost are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair value of deposits and other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spreads. These positions are assigned to the Level 3 category. For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available. For issued securities where the fair value cannot be retrieved from quoted market prices, the fair value is calculated by discounting the future cash flows.

30. Contingent assets and liabilities

in CZK million	June 2020	December 2019
Amounts owed under guarantees and letters of credit	24,490	23,025
Undrawn loan commitments	110,128	112,954
Total	**134,618**	**135,979**

There have not been any material changes since year-end 2019 in the assessment of the influence of the outcome of the litigation cases in which Česká spořitelna, a.s. and some of its subsidiaries are involved with respect of the financial and/or earnings situation of the Group.

31. Events after the balance sheet date

There are no significant events after the balance sheet date.

Definitions of Alternative Performance Indicators

In line with the General Directive issued by ESMA (European Securities and Markets Authority) are Alternative Performance Indicators defined as financial indicators of historical or future financial performance, financial position or cash flow.

Alternative Performance Indicators that Can Be Determined Directly from the Consolidated Financial Statement

Alternative Performance Indicator		Financial Statement
Net interest income	A	Consolidated income statement
Net fee and commission income	B	Consolidated income statement
Dividend income	C	Consolidated income statement
Net trading result	D	Consolidated income statement
Gains/losses from financial instruments measured at fair value through profit or loss	E	Consolidated income statement
Net result from equity method investments	F	Consolidated income statement
Rental income from investment properties and other operating leases	G	Consolidated income statement
Operating income	**H=A+B+C+D+E+F+G**	**Consolidated income statement**
Personnel expenses	I	Consolidated income statement
Other administrative expenses	J	Consolidated income statement
Depreciation and amortisation	K	Consolidated income statement
Operating expenses	**L=I+J+K**	**Consolidated income statement**
Operating result	**H+L**	**Consolidated income statement**
Cost/Income ratio	**-L/H**	**Consolidated income statement**
Non-interest income/Operating income	**(B+C+D+E+F+G)/H**	**Consolidated income statement**
Non-trading financial assets at fair value through profit or loss – loans and advances to customers	M	Consolidated statement of financial position
Financial assets at amortised costs – loans and advances to customers	N	Consolidated statement of financial position
Finance lease receivables	O	Consolidated statement of financial position
Trade and other receivables	P	Consolidated statement of financial position
Financial liabilities at fair value through profit or loss – deposits from customers	Q	Consolidated statement of financial position
Financial liabilities at amortised cost - deposits from customers	R	Consolidated statement of financial position
Lease liabilities (volume attributable to customers)	S	Consolidated statement of financial position
Loans and advances to customers	**T=M+N+O+P**	**Consolidated statement of financial position**
Deposits from customers	**U=Q+R+S**	**Consolidated statement of financial position**
Loans and advances to customers/deposits from customers	**V=T/U**	**Consolidated statement of financial position**

The Purpose of the Alternative Performance Indicators:

Operating Income shows the amount of bank income from common business activities.

Operating Expenses express the volume of bank costs used for common business activities.

Operating Result gives information about the success rate of common business activity. It shows the amount of financial resources that was earned from common business activity.

Cost/Income Ratio - This indicator expresses the volume of operating expenses consumed to achieve the operating income. The ratio gives a clear view of how efficiently the bank is being run – the lower it is, the more profitable the bank is.

Non-interest Income/Operating Income - The indicator shows the share of income other than interest income on total income from common business activity.

Loans to Customers/Deposits from Customers - The indicator shows the share of customer deposits used for funding of customer loans.

Alternative Performance Indicators that Cannot Be Determined Directly from the Consolidated Financial Statements

ROA

The ROA (Return on Assets) indicator shows how efficient a Bank's management is at using its assets to generate earnings. It is calculated as a ratio of consolidated net profit in the accounting period attributable to the owners of the parent company (Consolidated income statement) to the average monthly volume of total assets (internal figure for 13 periods – calculates with balances as at 1 January of the corresponding year and the last days of all months of the corresponding year).

ROE

The ROE (Return on Equity) indicator measures the efficiency of equity utilization, and its final value expresses the share of the net profit attributed to one Czech koruna of the equity. It is calculated as a ratio of the consolidated net profit in the accounting period attributable to the owners of the parent company (Consolidated income statement) reduced by Additional Tier 1 (AT1) coupons to the average monthly volume of equity attributable to the owners of the parent (internal figure for 13 periods – calculates with balances as at 1 January of the corresponding year and the last days of all months of the corresponding year) reduced by Additional Tier 1 (AT1) capital. Compared to the Half-Year Report of Česká spořitelna for the first half of 2019 the numerator is newly reduced by Additional Tier 1 (AT1) coupons and denominator is reduced by Additional Tier 1 (AT1) capital. The change was caused by harmonisation with Erste Group Bank methodology.

Net Interest Margin

Česká spořitelna uses the indicator as the representation of the profitability of interest-bearing assets. It is calculated as a ratio where the numerator is the sum of the consolidated Net interest income, Dividend income, Net result from equity method investments and Rental income from investment properties and other operating leases decreased by the depreciation of these assets (Consolidated income statement), and the denominator is the average monthly volume (internal figure for 13 periods – calculates with balances as at 1 January of the corresponding year and the last days of all months of the corresponding year) of the sum of Non-trading financial assets at fair value through profit or loss, Financial assets at fair value through other comprehensive income, Financial assets at amortised costs, Finance lease receivables to customers, Trade and other receivables, Investments in associates and Investment property (Consolidated statement of financial position).

Ratio of Defaulted Receivables from Clients to Total Volume of Receivables from Clients

The indicator is the basic indicator of the quality of bank loan portfolio. It is calculated as a ratio of consolidated gross loans and advances to defaulted customers to consolidated gross loans and advances to customers.

Ratio of Loss Allowances to NPL Coverage

The indicator expresses the volume of provisions relative to risk loans and is used by the Bank as one of the basic indicators for monitoring of the credit risk coverage. It is calculated as a ratio of consolidated impairment loss allowances to customers to consolidated gross loans and advances to defaulted customers.

Česká spořitelna, a.s.

Olbrachtova 1929/62, 140 00 Prague 4, Czech Republic
IČ: 45244782
LEI code: 9KOGW2C2FCIOJQ7FF485
Telephone: 956 711 111
Telex: 121010 SPDB C,
121624 SPDB C,
121605 SPDB C
Swift: GIBA CZ PX
Information Line: 800 207 207
E-mail: csas@csas.cz
Internet: www.csas.cz

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