Česká spořitelna

Annual Report 2018

ČESKÁ spořitelna

Key Consolidated Figures

in accordance with International Financial Reporting Standards (IFRS)[1]

Financial Position Indicators

CZK million	2018	2017	2016	2015	2014
Total assets	1,426,465	1,329,223	1,066,526	959,584	902,589
Loans and advances to banks, net	389,844	157,525	22,328	34,717	38,533
Loans and advances to customers, net	694,065	638,694	577,453	532,524	500,039
Securities[2]	246,781	219,501	257,183	240,678	256,565
Deposits from banks	318,861	295,232	114,282	83,915	54,570
Deposits from clients[3]	952,506	881,997	786,876	709,817	671,565
Equity attributable to owners of the parent	122,473	120,810	121,564	119,986	107,809

Income Statement Indicators

CZK million	2018	2017	2016	2015	2014
Net interest income	27,821	25,350	25,512	25,864	26,673
Net fee and commission income	8,540	8,803	9,308	10,254	11,306
Operating income	39,088	37,227	38,227	39,743	41,139
Operating expenses	(18,327)	(18,240)	(18,146)	(18,586)	(18,234)
Operating result	20,761	18,987	20,081	21,157	22,905
Net profit attributable to owners of the parent	15,362	14,610	15,457	14,293	15,071

Basic Ratios

	2018	2017	2016	2015	2014
ROE	12.8%	12.1%	12.9%	13.0%	14.5%
ROA	1.1%	1.1%	1.5%	1.5%	1.7%
Cost/income ratio	46.9%	49.0%	47.5%	46.8%	44.3%
Non-interest income/operating income	28.8%	31.9%	33.3%	34.9%	35.2%
Net interest margin on interest-bearing assets	2.2%	2.6%	3.1%	3.3%	3.5%
Loan/deposit ratio	72.7%	72.2%	73.2%	74.6%	73.5%
Capital adequacy (unconsolidated)[4]	19.0%	18.6%	20.1%	21.7%	18.8%

Key Operating Indicators

Počet:	2018	2017	2016	2015	2014
staff (average headcount)	10,244	10,248	10,371	10,536	10,471
branches	501	517	561	621	644
clients	4,634,337	4,674,173	4,707,094	4,786,644	4,920,744
private accounts	2,700,629	2,679,015	2,670,719	2,713,012	2,534,094
active cards	2,867,262	2,828,439	2,946,449	3,118,624	3,144,314
of which: credit cards	177,349	185,242	209,948	268,615	289,722
ATMs and payment machines	1,783	1,704	1,642	1,589	1,561

Rating

Rating agency	Long-term rating	Short-term rating	Outlook
Fitch	A	F1	stable
Moody's	A1	Prime-1	stable
Standard & Poor's	A	A-1	positive

(1) Definitions of below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 318

(2) Calculation for 2014–2017 equals to "Other trading assets" + "Financial assets–designated at fair value through profit or loss" + "Financial assets–available for sale" + "Financial assets-held to maturity". Calculation for 2018 equals to "Other financial assets held for trading" + "Non-trading financial assets at fair value through profit or loss (excl. Loans and advances both to banks and customers)" + "Financial assets at fair value through other comprehensive income" + "Debt securities at amortised cost"

(3) "Deposits from customers at amortised costs"

(4) Detailed calculation of Capital adequacy is stated in the chapter Capital adequacy, on the page 49

Content

Profile of Česká spořitelna

Česká spořitelna is the bank with the longest tradition in the Czech market. It has been one of the fundamental pillars of the Czech banking system for 193 years. Currently, the Bank provides services to 4.67 million clients. Since 2000, Česká spořitelna has been part of Erste Group Bank, a multinational financial group.

Česká spořitelna is a modern bank focused on retail clients, small and medium-sized enterprises, large corporations, and also municipalities.

Thanks to the largest network of branches, as well as ATMs and payment machines, Česká spořitelna is the most accessible bank on the domestic market from the retail clients' perspective. It holds a leading position in the market for mortgage loans, consumer loans including credit cards and overdrafts, and in total deposits. Česká spořitelna is also the leader in the distribution of mutual funds and life insurance mediation.

The Bank also puts emphasis on the introduction and expansion of digital services. In 2018, Česká spořitelna presented its new internet banking known as George, which serves as a modern internet portal for comprehensive family finance management. Spořitelna also became the first bank in the Czech Republic to be able to implement so-called instant payments, when money sent from one bank is credited to an account in another bank within a few seconds.

Under the Česká spořitelna – Korporátní bankovnictví brand, the Bank provides comprehensive solutions for entrepreneurs and companies and is the largest provider of corporate loans in the Czech Republic. It is the market leader in the area of providing financial services to municipalities and to the public sector. Thanks to a wide range of foreign exchange, interest rate, commodity, and money market products, Česká spořitelna also holds a dominant position in treasury services and products for large, small and medium-sized businesses. The Bank also places an emphasis on management support and financial risk analysis. Česká spořitelna participated in almost every successful equity offerings on the Prague Stock Exchange, whether they be primary (IPO) or secondary (SPO) offerings. Thanks to the strong backing of Erste Group Bank, the Bank is also able to provide services to clients on foreign markets.

Building the prosperity of the country

Česká spořitelna has been historically involved in building and strengthening the country's prosperity. Traditionally, the Bank ranks among the largest and most awarded employers in the domestic market. At the same time, it is one of the largest taxpayers in the Czech Republic.

The Bank's social engagement is also reflected in its services. In its offering for retail clients, Česká spořitelna takes into consideration the needs of people with different types of handicaps. More than 760 ATMs are adapted for the visually impaired, and 29 branches offer a simultaneous transcription service for the hearing-impaired; and moreover, 239 branches are wheelchair-accessible.

Traditionally, attention is also paid to the non-profit sector and, within the framework of social banking, also to businesses and non-profit companies offering socially responsible services.

The Bank's role in education is also significant. Česká spořitelna is engaged in strengthening the population's financial literacy on a long-term basis.

Česká spořitelna co-operates with universities across the country and is involved in increasing their quality and competitiveness.

The Bank is also active in promoting innovation. Česká spořitelna is setting a trend in the introduction of modern technologies in the local market. It is a partner to many business talent pools focused on innovation and supports corporate and public sector co-operation in the field of innovation.

The Year 2018 in Review

JANUARY 2018

In co-operation with EDITEL, a leading international provider of electronic document exchange services, Česká spořitelna launched its new **ediFACTORING service**. Thanks to this, Česká spořitelna was the first to automate the market with short-term corporate receivables, which generates an annual turnover of approximately **CZK 130 bn**.

The Česká spořitelna Foundation and the Depositum Bonum Foundation have joined forces. Since January 2018, they have been operating as one towards the external world, under the Česká spořitelna Foundation brand. Newly, one of the areas it will be involved in are systemic changes in education.

Nadace Depositum Bonum

NADACE ČESKÉ SPOŘITELNY

The Česká spořitelna Foundation bestowed **the Floccus Awards**, rewarding the work of people who devote their time and energy to seniors, mentally handicapped people, and to drug addiction prevention.

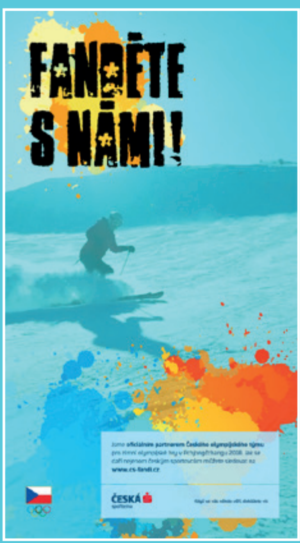
ČS is the first bank in the Czech Republic that can boast **voice biometry**. With this innovation, a telephone banker can verify a caller's identity by his voice.

For the Fortuna Entertainment Group, Česká spořitelna arranged and maintained a secured priority club facility amounting to **EUR 162 million**. The Bank's share was EUR 68 mil. (another EUR 13 mil. was provided by Erste Group in Romania).

FORTUNA

FEBRUARY 2018

Česká spořitelna was a General Partner to the Czech Olympic Committee, accompanying our athletes at the XXIII Olympic Winter Games in South Korea.



Česká spořitelna received three silver medals at the seventh annual competition **Finparáda – Financial Product of the Year 2017**: for loan consolidation, mortgages, and supplementary pension savings.

3

Finparáda.cz

Our branches were flooded by **2,700 tablets**. They will serve as aids for advising our clients and for clients to get to know the new Internet banking named George. New applications and advisory tools will be gradually installed on the tablets.

Since the beginning of February 2018, all regional corporate centres have been using a second-generation digital credit application and the **Standard Lending Process**.

MARCH 2018

Česká spořitelna was the first bank in the Erste Group to open its **API interface on the www.ersteapihub.com portal**. The unique banking development portal provides comprehensive documentation and a testing environment for Česká spořitelna's API interface. It allows developers and third parties to develop further functionalities for personal as well as corporate accounts and add further information (FX price lists, information about branches and others).

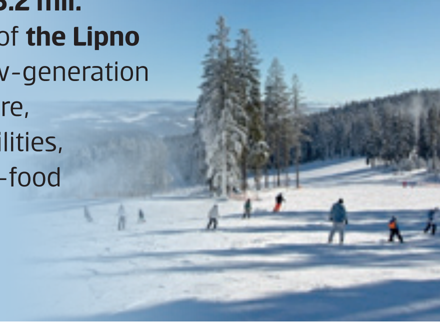
Česká spořitelna has become the main bank for the Karlovy Vary Region County Council, yet again strengthening its role as the **leader in providing financial services to the public sector**.

Erste Premier is a **long-term partner of the Czech Design Academy's annual awards** – the Czech Grand Design awards. These are bestowed on individuals for the best works in the fields of design, fashion, photography, jewellery, and graphic design.

APRIL 2018

Česká spořitelna expanded its long-term co-operation with the European Investment Fund (EIF). Czech social enterprises have thereby obtained **access to European money for the first time ever**. The EIF grants a guarantee for the financing of their investments amounting to a total of **EUR 12 mil.** (CZK 300 mil).

Česká spořitelna provided **CZK 316.2 mil.** to the Conduco Group, the owner of **the Lipno Ski Resort**, for enhancing its snow-generation system, improving its infrastructure, building new accommodation facilities, and expanding its dining and fast-food facilities.



Following changes in the branch network and regional corporate centres, Česká spořitelna is beginning to change its head office, building **a Future Bank**.

Česká spořitelna has been a partner of the **Bike for Life race series** on an extended basis. Throughout the year, cyclists competed in 15 different venues. The Česká spořitelna Blue Zone commemorated the 100th anniversary of the establishment of Czechoslovakia in 2018.

MAY 2018

George, our new Internet banking, has introduced itself to the public. In a TV campaign, it claimed that it represents the banking of the future and makes life easier. Using clever slogans such as *"Let George move into your mobile"*, or *"A try will not cost you anything. On the contrary, you will save money"*, George invited clients to test it.

ČS helped the corporation **Karlovarské minerální vody** obtain financing of **EUR 240 mil.** (ČS' share was EUR 100 mil.) for the purchase of bottling and distribution operations from Pepsi in the Czech Republic, Slovakia, and Hungary.

ČS' clients have got another option for paying at shops with Poketka application in their mobiles. All that is required is a telephone with the Android operating system and terminals that support **NFC payments**.

The **Stock Small Caps** mutual equity fund celebrated its first year. In that time, it drew in over 21,800 investors, who have invested over **CZK 2.55 bn**. The fund has therefore quickly become the third-largest equity fund in the Czech Republic.

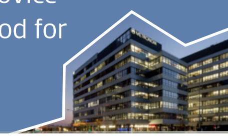
JUNE 2018

ČS helped PPF Group secure financing for purchasing the telecommunication assets of the Telenor Group of Norway in Hungary, Bulgaria, Montenegro, and Serbia, amounting to a total of **EUR 3.025 bn. This had been the largest syndicated corporate loan in the Central and East European region** since 2011. Together with Erste Group, Česká spořitelna provided the client with EUR 504 mil., which is one of the largest corporate transaction limits in Erste Group's history.

Česká spořitelna Financial Group again scored in **Zlatá koruna competition**, taking gold for corporate social responsibility, mortgages, and the Visa Infinite debit card accompanying the Premier Account, as well as silver for New Blood. In addition, Stavební spořitelna ČS and Erste Asset Management celebrated as well.

Since 11 June, **Top Stocks**, the largest equity fund in the Czech Republic, has offered investors the option to receive proceeds in the form of a dividend.

In mid-June, **ČS nemovitostní fond** purchased the Metronom Business Center building in Prague's Butovice neighbourhood for **CZK 2.3 bn**.



Prague's Holešovice neighbourhood again came alive with **the Metronome Festival Prague**. Česká spořitelna was the General Partner of this festival, as well as of Smetana's Litomyšl Festival.

JULY 2018

The international architectural competition for Česká spořitelna's new head office reached the final stage, as the jury chose the three best designs from among the total of 166 architectural studies entered. ČS' new head office should be a part of the new Prague Smíchov City neighbourhood, which is to arise in Smíchov within five years.

When visiting ČS branches, hearing-impaired clients can use the **Silent Line** application in their mobile, which newly features links to all ČS branches. The application will enable them to "talk" to a banker easily through an on-line connection to an interpreter.

TICHÁ LINKA

Zlepšujeme životy půl milionu lidí

Biometric Signature in Tablets. A signature, but without a pen. Česká spořitelna continues to enhance digital service. Clients have begun to sign key documents directly on the screen of a tablet.

Česká spořitelna has traditionally been a partner to the international music **festival Colours of Ostrava**. Estimates say that some 40-50,000 people visited it. Great interest was generated by the George taxi that drove visitors.

AUGUST 2018

Over one million clients have experienced consulting through **My Healthy Finances**. Spořitelna advises every tenth citizen of the Czech Republic on how to save and how to better manage their money.

Česká spořitelna piloted the first **contactless ATMs** in Prague.

Together with Global Payments, ČS **won a tender held by the Czech Financial Administration**, to equip cash desks at Financial offices throughout the country with payment terminals. Overall, this will involve 224 mobile payment terminals.

Bankers have started to offer **loans via tablets**. This is a new method for interactive loan offers.

SEPTEMBER 2018

Česká spořitelna launched the **largest client migration** on the Czech banking market. By the end of the year, over

1.5 million clients

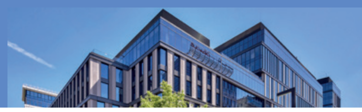
will be switched from their original Internet banking system, Servis 24, to the new George banking system.

George

ČS is the first bank in the country to have successfully implemented an exchange and redemption of a part of an existing CZK bond issue, for a new issue with a longer maturity term (known as Liability Management), for **NET4GAS**. Furthermore, the transaction is the first in Europe in which international bonds were exchanged for domestic bonds.

ČS provided **CZK 1.25 bn** to the Spanish corporation **Gestamp Automoción** for developing its business in the Czech Republic.

In mid-September, ČS nemovitostní fond purchased stage two of the **Proximo office complex** in Warsaw, for EUR 77.3 mil. (CZK 1.98 bn).



In September, the **volume of client investments in ČS nemovitostní fond** crossed the magical threshold of **CZK 20 bn**. The fund managed by CS' subsidiary REICO thus became the largest domestic fund in the Czech Republic.

REICO ČESKÉ SPOŘITELNY

OCTOBER 2018

For the first time in the ten years of the Hospodářské noviny Awards, ČS was selected as the Best Bank of the Year in 2018. According to the competition criteria, the award goes to the bank that is able to offer its clients the most advantageous products and services, can communicate with them, is accessible for them, and at the same time, reports sound financial results.

The largest client migration from one Internet banking system to another in the history of Czech banking is in full swing. One million clients have already tried out **George**.

250

billions in the Mortgage Portfolio is a reason to celebrate. Česká spořitelna crossed the magical threshold of CZK 250 bn in its mortgage portfolio.

NOVEMBER 2018

Instant payments, when money sent from one bank is credited to another within seconds, even on the weekend, have arrived. **Spořitelna is the first bank on the market** ready to implement such single domestic payments, amounting to up to **CZK 400,000**.

ČS scored high in three categories of the **Bank of the Year** competition – Bank of the Year, Banker of the Year, and Bank Without Barriers.

Banka roku 2018 | Bankéř roku 2018 | Banka bez bariér 2018

Iva Lorencová became the new Ombudsman of Česká spořitelna.

At the beginning of November, ČS began offering a **new mixed mutual fund, Universum**, designed primarily for conservative investors.

The industry magazines **World Finance and The Banker** appreciated the work of private bankers and the services that the Bank offers to its clients.

PWM The Banker GLOBAL PRIVATE BANKING AWARDS 2018 BEST PRIVATE BANK IN CENTRAL AND EASTERN EUROPE

WORLD FINANCE BEST PRIVATE BANK, CZECH REPUBLIC 2018 CESKA SPORITELNA

Together with Erste Group, ČS took part in financing of CZK 1.2 bn, helping to build a **diagnostic and surgical centre** for a provincial hospital in the city of Goroka in **Papua - New Guinea**.

DECEMBER 2018

No theoretical memorizing of lessons on financial literacy, but going straight into their own business. That is the **Money Alphabet, Česká spořitelna's financial literacy project** for primary schools. Nearly 250 classes took part in the first year of the project, and children earned nearly CZK 3 mil.

Česká spořitelna's Client Centre got a gold and two bronze medals in **the Czech Contact Center Award** competition organised by the ADMEZ association.

The Hospic sv. Zdislavy will receive a special premium in the Česká spořitelna Foundation Grant Programme that ČS is granting for the first time this year. Thanks to the grant, the organisation received **CZK 50,000**, and now another **CZK 100,000**.

At the beginning of December 2018, ČS nemovitostní fond purchased the Ostrava Forum **Nová Karolina Shopping Centre** for CZK 5.4 bn.

Foreword by the Chairman of the Board of Directors

Tomáš Salomon
Chairman of the Board
of Directors of Česká spořitelna

Dear Ladies and Gentlemen,

The Czech Republic celebrated its centennial in excellent condition. I am glad that Česká spořitelna contributed to the result.

2018 was a very successful year for us. For the second year, we continued to provide active advisory at our branches through the My Healthy Finances service, which is now used by more than a million of our clients on a regular basis. This number confirms that inhabitants of the Czech Republic have a need and also interest in qualified advisory on their household budgets and sound financial management. Our clients' positive experience with consultancy at branches was reflected in the increase of the indicator Net Promoter Score (NPS), as the Bank achieved its best-ever NPS. We have also noted an increase in our loan portfolio, both among retail and corporate clients. During 2018, we satisfied housing needs through 23,289 new mortgage loans, in an aggregate volume of CZK 51.2 bn. The volume of mortgage portfolio crossed CZK 250 bn for the very first time.

In the sphere of corporate loans, Česká spořitelna confirmed its position as the largest corporate bank in terms of loan volume arranged. The volume of deposits in retail as well as in corporate sector grew at more than eight-percent rate. 2018 was also the year of the largest-ever client migration on the Czech banking market – as at the end of the year, 1.3 million clients were using our new digital platform George. Evidence of the fact that users are satisfied with George is the speed with which clients switch to George's mobile version. Whereas approximately 14% of all Spořitelna's digital clients used the previous Servis 24 service in their mobiles, in the case of George, it is every third one. In 2018, we were the first bank on the Czech market to offer the execution of instant single domestic payments of up to CZK 400,000. We have also introduced "Poketka", a new application for payments via mobile phones.

Industry professionals also recognized our excellent business results and our introduction of innovations in 2018. For the first time ever, Česká spořitelna earned the Hospodářské noviny Best Bank award. Spořitelna also came out as the winner from a vote by professionals in the Bank of the Year survey. These achievements are due to the excellent work of the entire team of colleagues from Spořitelna, whom I would like to thank.

Whereas in 2016 and 2017, we internally focused on effective changes in our sales network, in the second half of 2018, we launched organizational changes in our head office. We have started to replace the traditional hierarchical structure with new teams (tribes) that are organised predominantly around the needs of our customers. The outcome should be rapid delivery of comprehensive services to clients. This whole change is also a necessary condition for the new functioning of teams, so that our mission – leading to prosperity – would be fulfilled in practice and our unique story of nearly 200 year history may continue.

Good financial results also allow us to provide sustained support to non-profit projects. In 2018, we supported dozens of them. We have developed experiential financial education at primary schools and two hundred schools have already got involved. In our Money Alphabet, students learn about the world of money by inventing and managing their own company that offers its products at a fair after a few weeks in operation. The students then invest the earnings, CZK 14,000 on average, in their dreams or donate it to a good cause.

To conclude, I would like to thank our clients and shareholders for their confidence throughout the whole year.

Respectfully,

Tomáš Salomon
Chairman of the Board of Directors, Česká spořitelna

Board of Directors

Bohuslav Šolta, Karel Mourek, Tomáš Salomon, Daniela Pešková, Pavel Kráčmar, Wolfgang Schopf

Board of Directors of Česká spořitelna

in the Year 2018

Tomáš Salomon

Chairman of the Board of Directors
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Salomon is a graduate of Faculty of Economics of Services and Tourism of Slovak University of Economics in Bratislava. He started banking career in 1997 at GE Capital Multiservis where he worked at the end as the Chairman of the Board of Directors and CEO. In 2000 he was appointed Director of Retail Banking and Member of the Board of Directors at GE Capital Bank with responsibility for Sales and Marketing.

In 2004–2007 he worked as the Chairman of the Board of Directors and CEO of Poštová Banka, a.s. in Slovakia. In the period 2008–2012 he focused on private investment projects and initiated a project for the formation of a platform for the realization of mobile payments in the Czech Republic and participated in the establishment of MOPET CZ, where he worked as a member of the Board of Directors and CEO. In 2013 he began working in Slovenská sporiteľňa, where he was later appointed Member of the Board of Directors responsible for Retail. In 2015, Mr. Salomon was a member of the Board of Directors of Česká spořitelna responsible for Retail Banking.

Mr. Salomon has been the Chairman of the Board of Directors of Česká spořitelna responsible for Staff Function Division since January 2016.

Membership in other companies: Kooperativa pojišťovna, a.s., Vienna Insurance Group, Nadace Depositum Bonum, Nadace České spořitelny.

Wolfgang Schopf

Vice-Chairman of the Board of Directors
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

In 1980, after graduation at the high school and the Business College, Mr. Schopf started his career in Girocentrale and Bank der Österreichischen Sparkassen AG where he was responsible for accounting and reporting. From 1997 he worked in Erste Bank as Director of Accounting. In 2004, he became Director of the Controlling Division of Erste Group Bank, later responsible also for Performance Management Program. He held these positions until July 2013.

Mr. Schopf has been the Vice-Chairman of the Board of Directors of Česká spořitelna responsible for Financial Division since August 2013.

Membership in other companies: Nadace Depositum Bonum, Nadace České spořitelny.

Pavel Kráčmar

Member of the Board of Directors
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Kráčmar graduated from the Nuclear Science and Physical Engineering in Czech Technical University in Prague. Over further years he completed internships and training courses with major financial institutions (The World Bank, Bank of England, EBRD, J.P. Morgan, UBS,...). He began his banking career in 1991 in the Czechoslovak State Bank, where he held over 7 years several positions, primarily in the management of foreign reserves and operations on financial markets. At that time, simultaneously lectured professional topics in the Banking Institute in Prague. In 1998, he joined GE Capital Bank as Treasury Director. Between 2000 and 2001 he was the CEO of Savings Investment Company. Since 2001 has been working in Česká spořitelna, where he subsequently managed trading on financial markets, sale of financial market products to corporate and institutional clients, relationships with financial institutions, assets and liabilities of the group and subsequently investment products for retail.

Since February 2016 Mr. Kráčmar has been member of the Board of Directors of Česká spořitelna responsible for financial markets and corporate banking.

Membership in other companies: none

Karel Mourek

Member of the Board of Directors
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Mourek is a graduate of the Czech Technical University in Prague and Thunderbird University in USA, where he obtained MBA. His professional career began in 1992 at Creditanstalt, later in Bank Austria Creditanstalt Czech Republic in Corporate Banking Division, where he worked until 2001. In 2001–2011 he worked in Česká spořitelna in the management of Commercial Centers. From 2011 to July 2013, he worked at Erste Group Immorent as the member of the Board of Directors responsible for Risk Management.

Since August 2013 Mr. Mourek has been member of the Board of Directors of Česká spořitelna responsible for the Risk Management Division.

Membership in other companies: Erste Reinsurance S.A.

Daniela Pešková

Member of the Board of Directors
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mrs. Pešková is a graduate of the University of Economics in Prague, Faculty of International Relations. She began her banking career in 1998 in GE Capital Bank as an early collections team leader. Over the next five years she worked at GE Capital Bank on management positions primarily in early collections and operations. In September 2003, she accepted an offer to work abroad and became mortgage division director in Budapest Bank in Hungary within the GE Money Financial Group. From October 2004 she worked in the Raiffeisen International Group in the Slovak Tatrabanka as director of project, process and organizational department. In December 2007, she began working for the Erste Group Bank in Česká spořitelna starting as a director of retail operations. From April 2012 she led the entire operations. Since January 2015 she worked as the director of the branch distribution network and external sales. As part of her professional growth Mrs. Pešková successfully completed among others Leadership program at the Katz Graduate School of Business in Pittsburgh, McKinsey Lean Academy in Santiago de Chile and Green Belt certification in project management quality based on the philosophy of Six Sigma.

Since February 2016 Mrs. Pešková has been member of the Board of Directors of Česká spořitelna responsible for retail banking.

Membership in other companies: Stavební spořitelna České spořitelny, a.s., Česká spořitelna-penzijní společnost, a.s.

Bohuslav Šolta

Member of the Board of Directors
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Šolta is a graduate of Slovak University of Economics in Bratislava. After his studies he worked for several years in financial management. He started his banking career in 1993 in Slovakia in Banka Haná, a.s. where he was later appointed to the Board of Directors. From 1998 to 2005 Mr. Šolta was member of the Board of Directors in Všeobecná úvěrová banka responsible, beside other, for IT and Operations. In the period between 2006 and 2016 he casted as advisor for key development project and strategic planning in Slovak companies Eclyps and IQUAP. At the same time Mr. Šolta was a Board Advisor in Slovenská sporiteľňa and also IT Manager. In 2016 he began working for Česká spořitelna, a.s. as the Executive Director for IT and Operations.

Since 13 March 2017 Mr. Šolta has been member of the Board of Directors of Česká spořitelna responsible for IT and Operations Division.

Membership in other companies: none.

Supervisory Board

Maximilian Hardegg, Zlata Gröningerová, Peter Bosek, Petr Brávek, John James Stack, Andreas Treichl, Margita Čermáková, Aleš Veverka, Helena Černá

Supervisory Board and Audit Commitee of Česká spořitelna

in the Year 2018

Supervisory Board of Česká spořitelna

John James Stack

Chairman of the Supervisory Board
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Stack is an American citizen. He studied at Iona College majoring in Mathematics and Economics (BA, 1968) and the Harvard Graduate School of Business Administration specializing in Finance and Management (MBA, 1970). From 1970 until 1976 Mr. Stack worked in municipal government in New York. From 1977 until 1999 he served at Chemical Bank, which merged into Chase Manhattan Bank, in a variety of increasingly important positions including Executive Vice-President. Between 2000 and 2007 Mr. Stack held the position of Chairman of the Board of Directors and CEO in Česká spořitelna. In 2005–2007 he was the Member of the Presidium of Czech Banking Association. Since 2008 Mr. Stack has been the Member of the Supervisory Board of Erste Group Bank.

Mr. Stack has been the Chairman of the Supervisory Board of Česká spořitelna since 2013.

Membership in other companies: Erste Group Bank AG, Ally Bank, Ally Financial Inc., Mutual of America Capital Management Corp., Nadace Depositum Bonum, Nadace České spořitelny.

Andreas Treichl

Vice-Chairman of the Supervisory Board
Reference Address: Am Belvedere 1, 1100 Vienna, Austria

From 1971 to 1975 Mr. Treichl studied economic sciences at Vienna University. After completing a training program in New York, he began his career at Chase Manhattan Bank in 1977. He was later seconded to Brussels (1979–1981) and Athens (1981–1983). In 1983, he first worked for Erste. In 1986, he became CEO at Chase Manhattan Bank in Vienna, which was purchased by Credit Lyonnais in 1993. In 1994, he was appointed to the Board of Directors of Erste. In July 1997, he was appointed CEO. In August 1997, the shareholders approved a merger with GiroCredit, in which Erste acquired a majority interest in March 1997. Under his management, Erste, which until that time had been strictly a local savings bank, became a leading financial services provider in central and eastern Europe with a focus on retail and SME clients. In addition to serving as Board of Directors Chairman and CEO of Erste Group Bank, Mr. Treichl's other responsibilities include strategy, Group communications, human resources, audit and investor relations.

Mr. Treichl has been the Vice-Chairman of the Supervisory Board of Česká spořitelna since September 2013.

Membership in other companies: Banca Comerciala Romana SA, Erste Bank der oesterreichischen Sparkassen AG, Erste Group Bank AG, Felima Privatstiftung, Ferdima Privatstiftung, Haftungsverbund GmbH, Österreichischer Sparkassenverband, Leoganger Bergbahnen, BeeOne GmbH, Zweite Wiener Vereins-Sparkasse.

Peter Bosek

Member of the Supervisory Board
Reference Address: Am Belvedere 1, 1100 Vienna, Austria

Mr. Bosek is a graduate of Faculty of Law, University of Vienna where he also started his career as an Assistant, later as a Lecturer also at the School of Finance, Accounting and Taxes, as well as at the Federal Academy of Public Administration. He is an author of various publications. Mr. Bosek joined Erste Bank der oesterreichischen Sparkassen AG in 1996. He started in Law department, later worked in Real Estate and Retail departments. He was appointed the Member of the Management Board of Erste Bank Oesterreich in 2007, where he was until 2015 responsible for Retail Business, Corporate Business, Public Sector Business, Large Customer Business, Marketing, Private Banking and Asset Management, Real Estate Business, Product and Channel Management. Since 2015 Mr. Bosek has been the Member of the Managing Board of Erste Group Bank AG with responsibility for Retail Banking.

Mr. Bosek has been the Member of the Supervisory Board of Česká spořitelna since 2013.

Membership in other companies: aws Gründerfonds Beteiligungs GmbH & Co KG, aws Gründerfonds Equity Invest GmbH & Co

KG, BeeOne GmbH, ERP-Fond, Erste Group Bank AG, Wiener Städtische Versicherung AG Vienna Insurance Group, Forum Wien – Wirtschaftsgespräche, Haftungsverbund GmbH, Erste Group Card Processor d.o.o.

Petr Brávek
Member of the Supervisory Board
Reference Address: Am Belvedere 1, 1100 Vienna, Austria

Mr. Brávek is a graduate of the Czech Technical University in Prague, where he specialised on Automated Control Systems in Electrical Engineering and Project Management. He began his banking career in 1993 in Creditanstalt/Bank Austria as the Head of Operations Division responsible for IT management and was also responsible for the merger project of Bank Austria and Creditanstalt in the Czech Republic. In 2001- 2005, worked as Chief Financial Officer and later the Member of the Board in HVB Czech Republic. Between 2005 and 2007, he worked as Chief Financial Officer in the Prague Airport. Mr. Brávek started to work in Česká spořitelna in 2007 as Chief Information Officer. After 5 years he became the Chairman of the Board of Directors and Executive Officer of s IT Solutions Holding. Between 2012 and 2015 he was the Member of the Board of Directors in Slovenská sporiteľňa again responsible for IT. Since 2015, he has worked in the Erste Group Bank AG as the Member of the Board of Directors responsible for Group Organization & IT and Group Banking Operations.

Mr. Brávek has been the Member of the Supervisory Board of Česká spořitelna since April 2016.

Membership in other companies: Erste Group Bank AG, s IT Solutions at Spardat GmbH, Erste Group IT International GmbH, Erste Group Card Processor d.o.o., Haftungsverbund GmbH.

Margita Čermáková
Member of the Supervisory Board
Reference Address: Jugoslávská 136/19, Prague 2, Czech Republic

Mrs. Čermáková graduated from the grammar school in Dobříš. After completing her studies, she joined Česká spořitelna in 1994, where she worked as an advisor for retail, private and corporate banking and mortgages. She currently works in a branch Jugoslávská in Prague. Mrs. Čermáková serves as Chairwoman of Trade Union organization for Prague region and holds the position of the Member of the Group-wide Trade Union Committee of Česká spořitelna.

Mrs. Čermáková has been the Member of the Supervisory Board of Česká spořitelna since October 2016.

Membership in other companies: none.

Helena Černá
Member of the Supervisory Board
Reference Address: Tř. Svobody 401/19, Olomouc, Czech Republic

Mrs. Černá graduated from the secondary school of Economics in Olomouc. After completing her studies, she joined Česká spořitelna in 1985, where she worked in loan department. Later she worked as an advisor for commercial, investment and private banking. She currently works in a branch in Olomouc as Premier banker. Mrs. Černá serves as Chairwoman of the Trade Union organization for Olomouc region and holds the position of the Member of the Group-wide Trade Union Committee of Česká spořitelna.

Mrs. Černá has been the Member of the Supervisory Board of Česká spořitelna since October 2016.

Membership in other companies: none.

Zlata Gröningerová
Member of the Supervisory Board
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mrs. Gröningerová completed her studies at the University of Economics in Prague, where she assumed the role of academic assistant in the Department of Finance and Credit after graduating in 1982. From 1991 to 1993 she was deputy CEO of the company SUEZ INVESTIČNÍ, a.s., specialising in advisory and consulting in enterprise search and acquisitions. From 1995 to 2004 she held several senior positions (director of the Equity Investment Financing department, senior director of the department of Credit Transactions and Business Specialists) and was the Member of the Board of Directors of the Consolidation Bank Prague and the Czech Consolidation Agency. From 2005 to 2007 she was the CEO and Chairwoman of the Board of Directors of Technometra Radotín. During 2007–2009 she was a financial and administrative consultant and then held an office of Section Director of the Ministry of Finance. From 2011 to 2016 she worked in the International Division of ČEZ, three years in the position of CFO of ČEZ Bulgaria. Now she provides economical and organisational consultancy services. Her professional residencies and courses include a Management Development Programme and a corporate finance and financial management residency at universities in Paris and Lyon.

Mrs. Gröningerová has been the Member of the Supervisory Board of Česká spořitelna since 26 April 2017.

Membership in other companies: none.

Maximilian Hardegg
Member of the Supervisory Board
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Hardegg graduated from the Agricultural Sciences in Weinhenstephan, Germany. In 1991–1993, he worked at AWT Trade and Finance Corp., which was part of the Creditanstalt Group. He also worked as an advisor to the Czech Ministry of Agriculture in respect of the privatisation of agriculture. Since 1993, he has been engaged in agriculture management. He has participated in the Phare, Sapard and Leader + titles projects, which are designed to support co-operation among agricultural systems within the EU. He is also the Member of lobbyist groups in Austria and the EU, which are focused on supporting sustainable development in land utilisation and agriculture.

Mr. Hardegg has been the Member of the Supervisory Board of Česká spořitelna since May 2002.

Membership in other companies: Erste Stiftung, Erste Group Bank AG, Nadace Depositum Bonum, Nadace České spořitelny.

Aleš Veverka

Member of the Supervisory Board
Reference Address: Národních hrdinů 3127/7, Břeclav, Czech Republic

Mr. Veverka graduated from the grammar school in Břeclav before doing a Business Academy qualification course in Economics. After completing his studies and his military service, he joined the Břeclav branch of Česká spořitelna in 1993 as an advisor to corporate clients. He has continued to devote his time to MSE clients. Since 2014 he has been the Chairman of the Group-wide Trade Union Committee of Česká spořitelna. He is also the Vice-President of the Financial and Insurance sector Trade Union organization. He served as the Member of the Supervisory Board of Česká spořitelna between 2011 and 2015. In 2017 he obtained Bachelor degree in Finance, Tax and Economic Informatics at the European Polytechnic Institute.

Mr. Veverka has been the Member of the Supervisory Board of Česká spořitelna since September 2016.

Membership in other companies: none.

Members of the Managing and Supervisory Boards declare not to be aware of any possible conflicts of business, private and other interests or duties.

Audit Committee of Česká spořitelna 2018

John James Stack

Chairman of the Audit Committee
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

More info in chapter Supervisory Board of Česká spořitelna 2018, page 20.

Mr. Stack has been the Chairman of the Audit Committee of Česká spořitelna since 2014.

Maximilian Hardegg

Vice-Chairman of the Audit Committee
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

More info in the chapter Supervisory Board of Česká spořitelna 2018, page 21.

Mr. Hardegg has been the Member of the Audit Committee of Česká spořitelna since 2009.

Mario Catasta

Member of the Audit Committee
Reference Address: Am Belvedere 1, 1100 Vienna, Austria

Mr. Catasta completed his studies at the University of Economics in Vienna in 1980. After his dissertation work was accepted in 1982, he joined an audit firm affiliated with the Austrian National Bank as an independent auditor. He has worked at Erste Group Bank since 1987, first as an internal auditor and then, from 1993 as the Head of Compliance. In 1994 he assumed the position of Internal audit department head. After the merger of Erste Bank der Österreichischen Sparkassen and GiroCredit he became the Head of the Corporate Client department. He has been the Internal audit director at Erste Group Bank since 2003.

Mr. Catasta has been the Member of the Audit Committee of Česká spořitelna since 2009.

Zlata Gröningerová

Member of the Audit Committee
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

More info in chapter Supervisory Board of Česká spořitelna 2018, page 21.

Mrs. Gröningerová has been the Member of the Audit Committee of Česká spořitelna since 2009.

Pavel Závitkovský

Member of the Audit Committee
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Závitkovský graduated from the University of Economics in Prague. In 1990 became Certified auditor of the Chamber of Auditors of the Czech Republic and in 2002 Certified Internal Auditor of the Institute of Internal Auditors (CIA). Mr. Závitkovský has more than 25 years of experience in the audit of financial and industrial companies while working for KPMG. He has also been in charge of specific engagements, such as due diligence, privatisation projects, mergers, acquisitions and internal audits. He was one of the founders of the Czech Chamber of Auditors, holding the position of Chairman of the Supervisory Committee of the Czech Chamber of Auditors from 1998 to 2001. In 2001–2003 he was a Vice-President of the Czech Institute of Internal Auditors.

Mr. Závitkovský has been the Member of the Audit Committee of Česká spořitelna since 2016.

Macroeconomic Development of the Czech Republic

in 2018

The development of the Czech economy remained favourable in 2018. Strong domestic and foreign demand contributed to relatively high GDP growth. However, compared to 2017, this growth slowed down markedly. However, it was a ‘soft landing’ - the Czech economy slowed down towards long-term sustainable growth rates. In 2018, there was also a further decline in unemployment and acceleration in wage growth. Although price growth exceeded the ČNB's 2%(5) inflation target, it remained within the tolerance band around this target. The Czech economy continued its economic convergence towards the developed countries of Western Europe and among EU countries is also characterized by very low macroeconomic imbalances.

In 2018, GDP growth of the Czech economy reached 3.0%(6). Compared to 2017 (4.5%(7)), there was a noticeable slowdown. The main drivers of this slowdown were the ČNB's interest rate increases, capacity limits (especially in the area of human resources) in many sectors of the Czech economy and the economic slowdown in the Euro Area. Due to the ongoing decrease in the (already very low) unemployment rate and resulting shortage of available labour force, Czech companies significantly increased their investment in robotics and plant automation. These investments will positively affect labour productivity and thus increase the potential growth rate of the Czech economy in the following years.

GDP Y-o-Y growth(8)

2018	2017	2016	2015	2014
3.0%(9)	4.5%	2.4%	5.4%	2.7%

Compared to the situation in previous years, price growth in the Czech economy moderated slightly in 2018, when average inflation reached 2.1%(10). The main pro-inflationary factors were food prices, strong domestic demand and labour cost growth. The anti-inflationary factors were higher ČNB rates and stronger koruna exchange rate (on whole-year average) compared to 2017.

Price growth (inflation)(11)

2018	2017	2016	2015	2014
2.1%	2.4%	0.7%	0.4%	0.4%

In 2018, the labour market in the Czech Republic tightened further. The general unemployment rate reached 2.2%(12) in December, which helped to accelerate the wage growth. On the one hand, the strong labour market has significantly contributed to the strengthening of domestic demand and improving consumer sentiment. On the other hand, businesses in the Czech economy began to feel a lack of free labour, which started to act as a brake on their further development and contributed to high investment in productivity. Among the EU countries, the Czech unemployment rate was clearly the lowest.

Unemployment rate(13)

2018	2017	2016	2015	2014
2.2%	2.9%	4.0%	5.1%	6.2%

Due to the pro-inflationary risks to wage developments as well as the overbought status of koruna and high real estate price growth, the ČNB raised interest rates five times in 2018. However, the effect of these interest rate hikes on the koruna-euro rate was diminished by increasing risks in the world economy, mainly linked to the threat of trade wars. The exchange rate of the koruna thus remained weaker than would correspond to the positive development of the Czech economy and the gradually rising interest rates.

Yields on Czech government bonds increased in 2018. The five-fold increases in ČNB rates contributed to their growth; some part could be possibly attributed to the aforementioned worsening of sentiment in the world economy.

(5) Source: Czech National Bank, 16.1.2019: https://www.cnb.cz/en/monetary_policy/inflation_targeting.html
(6) Source: Czech Statistical Office, 16.1.2019: https://www.czso.cz/csu/czso/ari/gdp-resources-and-uses-3rd-quarter-of-2018
(7) Source: Czech Statistical Office, 16.1.2019: https://www.czso.cz/csu/czso/ari/gdp-resources-and-uses-3rd-quarter-of-2018
(8) Source: Czech Statistical Office, 18.2.2019: https://www.czso.cz/csu/czso/hdp_ts
(9) Source: Czech Statistical Office, 18.2.2019: https://www.czso.cz/csu/czso/ari/gdp-preliminary-estimate-4th-quarter-of-2018
(10) Source: Czech Statistical Office, 16.1.2019: https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-december-2018
(11) Source: Czech Statistical Office, 18.2.2019: https://www.czso.cz/csu/czso/inflation_rate
(12) Source: Czech Statistical Office, 18.2.2019:https://www.czso.cz/csu/czso/ari/rates-of-employment-unemployment-and-economic-activity-december-2018
(13) Source: Czech Statistical Office, 18.2.2019: https://www.czso.cz/csu/czso/zam_cr

Report of the Board of Directors

Report of the Board of Directors on the Company's Business Activities and Financial Position

for 2018

Consolidated Financial Results[14]

2018 was a successful year for Česká spořitelna. As of 31 Dec. 2018, Česká spořitelna reported an audited consolidated net profit of CZK 15.4 bn, according to International Financial Reporting Standards (IFRS). Net profit for the year 2017 amounted to CZK 14.6 bn. The net profit thus increased by 5.1% in a year-on-year comparison. The operating result went up more significantly, by 9.3% to CZK 20.8 bn, due to a strong growth in net interest income and stable operating expenses.

The largest contributor to the growth of net profit and operating result was net interest income in connection with strong growth in lending and gradual rising of interest rates. An important component of the operating result was also stable development of operating expenses. The increase of operating result directly contributed to improvement of the Cost/Income ratio to 46.9% from 49.0% in 2017.

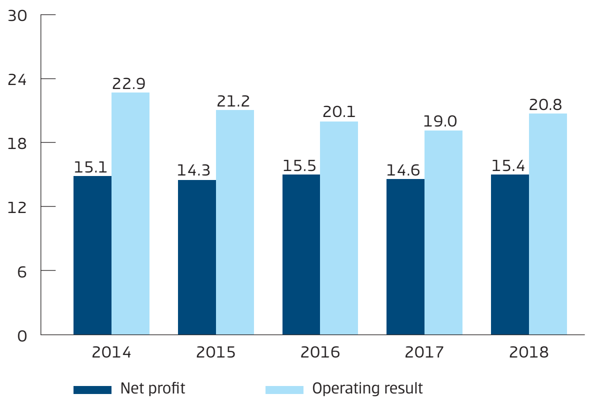
Net interest income amounted to CZK 27.8 bn in 2018, which is 9.7% more than in 2017. The increase in net interest income, a major contributor to the operating income, was mainly influenced by strong loan growth and the interest rate hikes of the Czech National Bank. Despite rising interest rates, the net interest margin related to interest-bearing assets decreased from 2.58% to 2.17%, the reason behind was high volume of low interest earning transactions with ČNB and continued pressure on market interest margins. Excluding exceptional growth of low interest earning assets, the net interest margin would decline from 2.92% to 2.71% in 2018.

Net fee and commission income decreased by 3.0% to CZK 8.5 bn year-on-year, driven by shrinking income from payment services associated with a growing share of advantageous programmes in current accounts. However, Česká spořitelna succeeded in raising fee income from investment products, asset management, sale of insurance products and from lending.

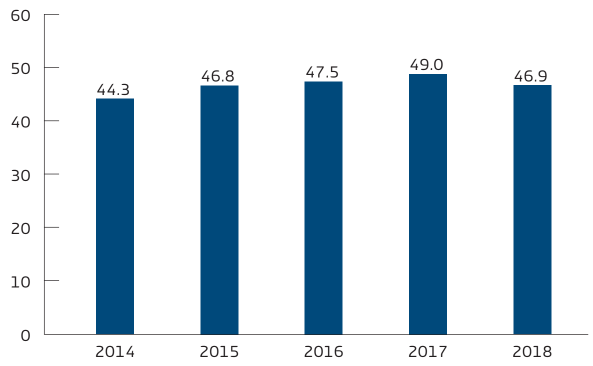
Net trading result decreased by 21.4%, to CZK 2.2 bn year-on-year. This result was affected by lower income from FX transactions, from derivatives and by extraordinary demand for hedging activities in Q1 2017 in connection with the termination of the ČNB's currency interventions.

The total operating expenses remained flat in a year-on-year comparison at CZK 18.3 bn even though inflation is growing in the

Net profit and operating result (CZK billion)



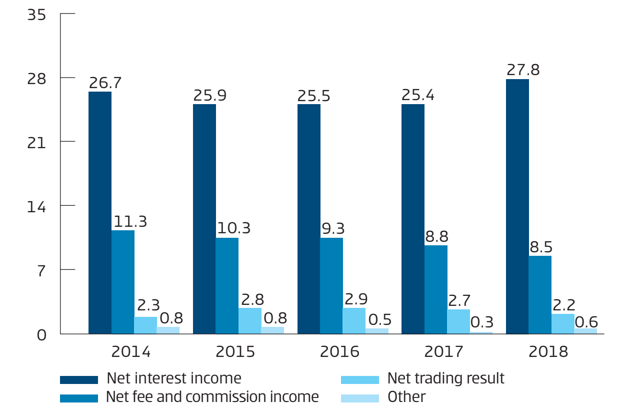
Cost/Income (%)



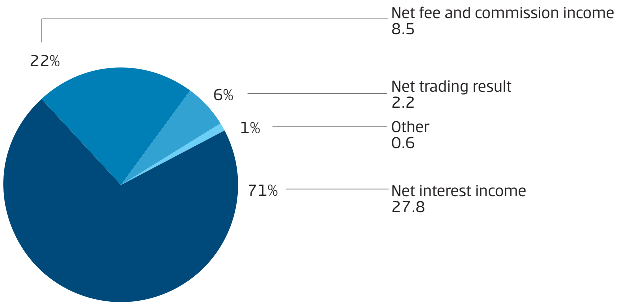
(14) Definitions of the below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 318

Czech economy. Higher personnel expenses due to an increase in salaries were offset by a decline in other administrative expenses and depreciation. Other administrative expenses declined by 2.8% despite a higher contribution to the Deposit Insurance Fund. Costs for office space and marketing were reduced. Depreciation of tangible and intangible assets decreased as a result of lower depreciation of buildings.

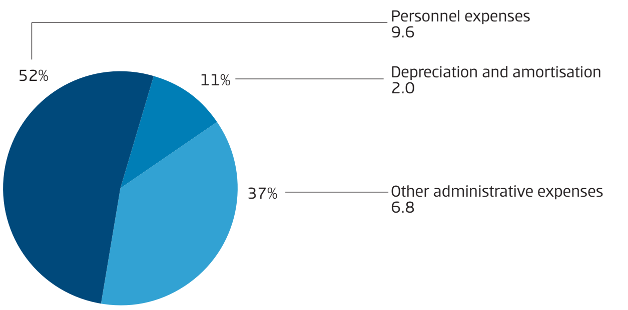
Composition of operating income (CZK billion)



Structure of operating income (CZK billion)



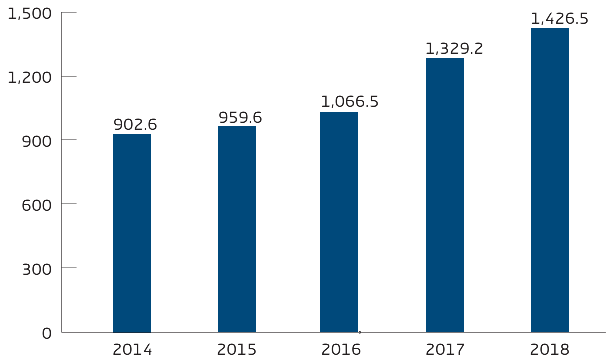
Structure of operating expenses (CZK billion)



Impairment result on financial instruments (i.e., creation of risk provisions and reserves for loans and advances, guarantees and commitments) reached CZK −0.3 bn. Loan portfolio quality is still on a very high level and continued to improve in 2018, with the share of non-performing loans on total loans at only 1.8%. Coverage of non-performing loans by credit risk provisions further increased to strong 101%.

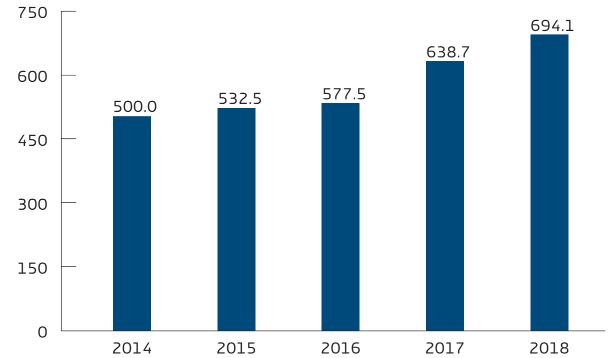
As of 31 December 2018, total consolidated assets amounted to CZK 1,426.5 bn. Compared to 1 January 2018 they increased by 7.4%. There was a change in the structure of assets throughout the year 2018. The volume of loans and advances to customers and banks, including reverse repo operations with the ČNB, went up significantly. Also debt securities at amortised costs showed an increase. On the contrary, cash and deposits with the Czech National Bank dropped sharply. On the liability side of the balance sheet, deposits from customers particularly increased, the same as deposits from banks, including repo operations.

Total assets (CZK billion)



As of 31 December 2018, equity attributable to owners of the parent stood at CZK 122.5 bn, which is 2.4% more than at the beginning of the year 2018. The total capital ratio (Tier 1+2) for Česká spořitelna Group as of 31 December 2018 strengthened by 50bps to 19.2%.

Net loans and receivables to customers (CZK bn)



Customer loans continued their dynamic growth. The net volume of loans and receivables to customers increased by 9.0% to CZK 694.1 bn in 2018. The portfolio of gross retail loans grew from the beginning of 2018 mainly due to private mortgages (up by 11.2%), loans to small companies (up by 8.6%) and consumer loans (up by 5.7%). During 2018 the net volume of loans to companies and corporate clients increased by 7.6% to CZK 276.9 bn.

Group deposits from customers grew by 8.1% to CZK 954.4 bn compared to 1 January 2018. Household (retail) deposits went up by 9.3% to CZK 672.0 bn. Group corporate deposits grew by 5.2% to CZK 218.6 bn. Public sector deposits increased by 5.4% to CZK 63.8 bn from 1 January 2018.

	FINANCIAL DATA	**2017**	**2018**	**Year-on-Year Change**
Income statement (CZK mil.)	Net interest income	25,350	27,821	9.7%
	Net fee and commission income	8,803	8,540	−3.0%
	Net trading result	2,736	2,150	−21.4%
	Rental income, dividends and other income	338	577	70.7%
	Operating income	**37,227**	**39,088**	**5.0%**
	Operating expenses	**−18,240**	**−18,327**	**0.5%**
	Operating result	**18,987**	**20,761**	**9.3%**
	Gains/losses from derecognition of financial instruments not measured at FV through profit or loss	271	25	−90.8%
	Impairment result from financial instruments	−33	−288	>100%
	Other operating result	−1,198	−1,335	11.4%
	Taxes on income	−3,415	−3,801	11.3%
	Post-tax result from continuing operations	14,612	15,362	5.1%
	Net profit attributable to non-controlling interests	2	0	−100.0%
	Net profit attributable to owners of the parent	**14,610**	**15,362**	**5.1%**
Balance sheet (CZK mil.)	Loans and receivables to customers*	636,750	694,065	9.0%
	Deposits from customers	883,237	954,441	8.1%
	Equity attributable to owners of the parent*	119,583	122,473	2.4%
Ratios	Return on equity (ROE)	12.1%	12.8%	0.7pp
	Cost/income	49.0%	46.9%	−2.1pp
	Loan to deposit ratio	72.2%	72.7%	0.5pp
	Total capital ratio	18.7%	19.2%	0.5pp

Note: 2017 structure adjusted in order to ensure comparability with 2018 (IFRS 9). No restatement for 2017 has been done.
*** Figure as at 31 December 2018 in comparison with figures as at 1 January 2018**

Business Activities

Retail Banking

As at the end of 2018, 4.63 million customers were using the retail banking services of Česká spořitelna and its subsidiaries. Česká spořitelna is the most accessible bank on the domestic market, having the largest network of branches (501) as well as ATMs and transactional terminals (1,783). It holds first place on the consumer loan market, including credit cards and overdrafts, total deposits, and mutual fund distribution. It is also a leader in providing mortgages and life insurance mediation.

My Healthy Finances

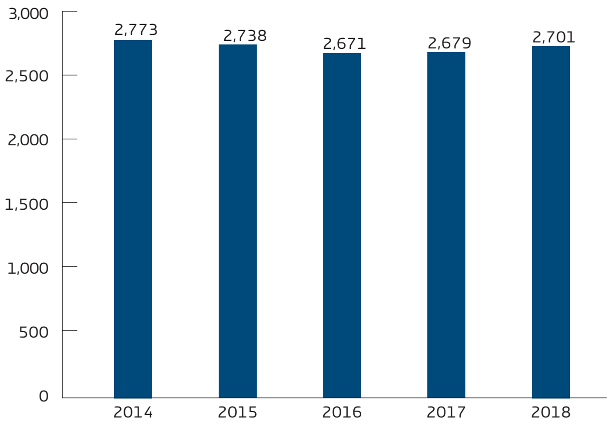
The My Healthy Finances (MHF) service offers households optimisation of family budgets. The concept is based on consulting and it leads clients to savings, sound set-up of financial products and more efficient family budget management.

Over one million clients have tried out MHF consultancy. That means that Česká spořitelna advises every tenth person in the Czech Republic on how to save and better manage money. MHF consultancy has fundamentally changed clients' view on Česká spořitelna once they tried it. And this was fundamentally demonstrated in their satisfaction with the Bank's services.

In the frame of the MHF service, a banker regularly meets with clients to address their current financial needs. Over 450,000 clients have experienced follow-up consultancy meetings at a branch. The consultancy dialogue with clients is interactive – the banker newly leads the consultation using a tablet, on which clients can see information pertaining to their particular financial situation.

Česká spořitelna has prepared 'MHF Lifecycle' for those clients who have arranged the My Healthy Finances service, which has received a very positive response from clients. 'MHF Lifecycle' is represented by regular e-mail communication summarising the value and all benefits of the MHF service and explaining the system of benefits in MHF. This way, clients can clearly see what they have arranged, and at what price.

Number of personal accounts (in thousands)



Digital Banking

George is Česká spořitelna's new face in the digital world and the future backbone of the digital bank. In 2018, George started to replace the existing Servis 24.

Česká spořitelna began to migrate clients from the original Servis 24 internet banking to its new digital platform, George. The largest client migration on the Czech banking market was accompanied by a massive communication campaign explaining to the public the advantages of digital banking.

Evidence of the success of the campaign is not only **1.3 million George users** but also the fact that the successful education campaign for George was one of the reasons why Česká spořitelna was selected as the Bank of the Year, for the first time in the 10-year history of the Hospodářské noviny competition.

The fact that clients appreciate the new Internet banking is demonstrated by speed which they switch to its mobile version. Whereas only 14% of all of Spořitelna's digital clients used the old Servis 24, in case of George, it is every third client (500,000 users).

Customer satisfaction is also developing very positively. Whereas, on average, clients used mobile Servis 24 twice a week, they access their George in the Mobile banking every third day.

George should fully substitute Servis 24 for individual clients using Internet Banking (1.6 million clients) in the first half of 2019. Business 24 for corporate clients will continue to operate.

In addition to the George mobile application, Česká spořitelna clients can also use other mobile applications:

- **My Balance** – an application for clients who want to keep track of their financial situation but do not need to make payments;
- **Poketka** – an application that enables payments by mobile phone. Aside from mobile payments, Poketka can also generate a one-time payment card for safe payments in e-shops and offers a cash-back based discount programme;
- **Investment Centre** – an application that allows clients to see developments on the stock exchange and in addition provides market analyses and currency and commodity prices;
- **Friends 24** – an application that offers a new method of paying small amounts without knowing the account number;
- **BUSINESS 24 Mobile Bank** – an application allowing account management via BUSINESS 24 while on the road;
- **Servis 24** – George's predecessor (Internet banking).

The **Erste API Hub** developed successfully and thus Česká spořitelna's API (Application Programming Interface) is now actively used by more than twenty corporate clients, from e-shops to the largest donations' portal Darujme.cz, to the fintechs Upvest and Lime. Another about eighty developers representing both fintechs and large corporate clients, such as retail chains, utility distributors, or mobile operators, are using the Erste API Hub for testing solutions that can develop into real products and services for Česká spořitelna's corporate and non-corporate customers in the future.

Housing Financing

In 2018, Česká spořitelna provided a **high volume of mortgages**, despite the fact that real estate prices continued to grow, and interest rates also went up. In addition, Česká spořitelna successfully coped with other regulatory measures whereby the ČNB restricts demand for mortgages.

During 2018, Česká spořitelna signed **23,289 new mortgage contracts for housing in an aggregate volume of CZK 51.2 bn**. The volume of outstanding mortgage portfolio exceeded CZK 250 bn and reached CZK 259.9 bn at the end of 2018, which means an increase of CZK 24.3 bn as compared to 2017.

During 2018, Česká spořitelna simplified and improved the mortgage process for clients and continued in digitisation with its **online mortgage**. Throughout the entire process, an online mortgage specialist is available to clients. In the sphere of fixed interest rates, Česká spořitelna was the first on the market to offer the unique **20-year fixed rate** to accommodate current client demand for long-term fixed-rate periods. By rate fixing, clients can obtain the certainty of a low rate and unchanging payments for many more years to come, which allows them to better plan and manage their household budget.

Financing the Needs of Private Individuals

In 2018, the growing demand for consumer loans continued thanks to the positive development of the country's economy and optimistic household expectations. For Česká spořitelna, this market continues to be among the most important, which is why it pays due attention to it in line with its healthy finance bank strategy.

Česká spořitelna manifests its responsible approach to the financing of its clients' needs not only in its product offering, but also in its client service method, which is based on consultancy. The fundamental prerequisite for providing of a healthy loan is knowledge of the specific situation and need of the client. The possibility of flexible loan set-up, even during the repayment time (reduction, increase, postponement of an instalment, or a change of instalment payment date, free of charge) have become a standard.

A strong topic of 2018 was Czech National Bank regulation of mortgages, which also has an impact on providing of consumer loans. With the regulation, new conditions were introduced for assessing the income and indebtedness of a loan applicant including an applicant with a mortgage. Česká spořitelna's extensive product portfolio that allows the combination of a loan with an unsecured housing loan, in line with legislation, constitutes a great advantage for the Bank.

An increasing number of clients is using digital channels for arranging a loan. Through these channels Česká spořitelna offers loan arrangement, to be completed either online or at branches. The possibilities for arranging a loan are extensive – from the website to ATMs to the client centre and, last but not least, George mobile or Internet banking. The share of consumer loans arranged online amounts to nearly 30% of all consumer loans arranged.

The Distribution Network

Transforming consumer behaviour is also reflected in the **new branch network concept**. The concept includes three types of branches – **small, medium-sized and large ones (flagship branches). They differ in complexity of the services provided** that is given by local demand. Whereas small cashless branches offer fast products and services only (personal account, overdraft, loans to individuals, Money a Click Away, saving accounts), large flagship branches provide the broadest possible scale of products and services for all segments, and their design enhances the role of consultancy. In addition to the provision of banking services these branches offer premises for meeting with clients at community events as well.

Česká spořitelna opened its first two flagship branches in 2017, in Prague and then in Pardubice. In 2018, flagship branches in Karlovy Vary and Olomouc were added, as part of the 84 new-concept branches (4 flagship branches, 32 medium-sized, and 48 small branches) that Česká spořitelna opened across the country between autumn 2016 and the end of 2018. The change goes hand in hand with the My Healthy Finances service and with service digitisation. The new attractive branch environment supplemented with modern technologies (client tablets, iPads for advisors, biometrics, digital advertising) helps to enhance the overall client experience. The accessibility of services at branches is also enhanced by building of self-service zones that operate on a 24/7 basis, where clients can withdraw or deposit cash or make payments at any time. The new-concept branches are built as wheelchair accessible, to make them truly accessible to all clients. The number of client visits to branches is supported through events and community projects for clients – for example, the Money Alphabet for Students, education for seniors, lectures on investments or leisure-time activities for the public can be held at medium-sized and large branches.

In order to optimally cover client demand, Česká spořitelna continued to adapt the deployment of its branches throughout the country in 2018, which is why it opened branches, closed branches, or relocated them to places where demand concentration is strong.

Investment Products for Retail Clients

In developing investment products for retail clients, Česká spořitelna has been focusing on fulfilling client needs, requirements, and expectations in the long-term. ČS also places great emphasis on comprehensibility, simplicity, and transparency of investment solutions, while maintaining the highest possible probability of attaining an attractive yield.

Conservative investment products have traditionally been very popular with clients, as **clients prefer, above all, a lower market risk to maximum possible yield attainable**. This trend is documented by the volume of **bonds and structured debt securities** sold, which **exceeded CZK 9 bn**. The volume of sales of the most conservative **structured deposits amounted to CZK 1.86 bn**.

Stock markets offered an interesting investment opportunity for more dynamic investors in 2018, which is why **direct equity investments** were popular among them. The aggregate turnover in equity transactions through such orders exceeded **CZK 2.8 bn** in 2018.

The **investment certificates** offered by Česká spořitelna were also successful. Above all, Bonus Certificates, Index Certificates, Turbo Long, Turbo Short were popular among clients. **In 2018, clients traded certificates in an aggregate volume in excess of CZK 70 mil.** The sale of physical gold was also popular with clients, who purchased **gold bullion worth CZK 120 mil.** through Česká spořitelna in 2018.

Erste Asset Management Mutual Funds

In terms of developments on financial markets, 2018 was, overall, one of the most challenging years. Investors did not have much room for achieving positive performance. Bonds were knocked down by growing inflation and central bank interest rates, and equity markets were dropping due to fears related to the outlook of the global economy, a trade war between the US and China, and also due to the duration of the growth cycle.

In 2018, the amount of aggregate net sales of mutual funds amounted to CZK 9 bn, which is a weaker result than in the year 2017, primarily due to increased volatility of asset prices and nervousness among investors, primarily in the last months of the year. In 2018, investor demand for mixed mutual funds continued, and they constituted the strongest component of aggregate sales, followed by equity funds.

In 2018, the inflow of funds again rested on the important component of regular investments – it can be stated that more than every third investor invests with Česká spořitelna regularly.

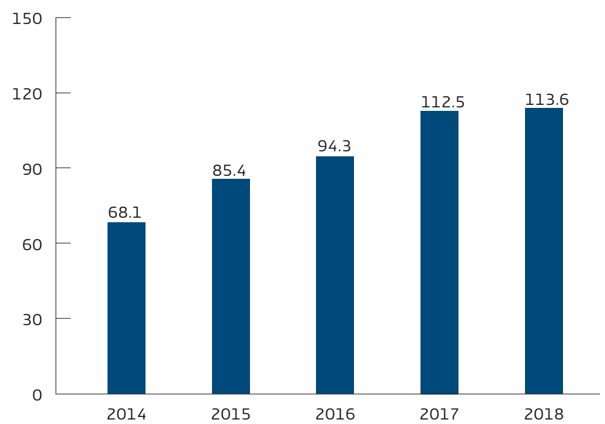
All asset classes in mixed funds ended 2018 with negative performance, which means that the funds themselves did not perform well, either. From the sales point of view, the mixed fund **Optimum** was the most successful, as it has a real estate component represented in its portfolio. The fund drew in more than CZK 3 bn in new client funds. After several positive years, the largest mixed fund **Konzervativní mix**, which manages assets worth more than CZK 17.9 bn, noted negative net sales in 2018. The value of its share certificates dropped by 2.62% year-on-year. Newly, the mixed fund **Universum** was included in ČS´s offer in November, which drew in CZK 270 mil. in new investments.

Stock markets right across world exchanges ended 2018 in negative figures. In spite of this development, Česká spořitelna's two largest equity funds, **Top Stocks** and **Stock Small Caps**, noted positive sales. After six years of positive annual performance, **Top Stocks**, which invests on developed markets, noted a drop in the value of its share certificates by 14.4%. More than CZK 2.2 bn flowed into the fund's portfolio in 2018.

The relatively small equity fund **Stock Small Caps**, which invests in companies from developed markets with a lower market capitalisation, also remained popular among clients. In spite of the drop at stock exchanges, it reported positive performance of +0.94%. In 2018, the fund gained over CZK 2.9 bn in new funds.

In 2018, the Czech National Bank increased interest rates five times. The two-week repo rate increased from 0.50% to 1.75%. As a consequence of that, funds primarily focused on the Czech bond market recorded negative performance – the **Sporobond** fund thus weakened by 0.79%.

Volume of fund assets managed by the Czech branch of Erste Asset Management (CZK billion)



Corporate bond market dropped as well in 2018. **ČS korporátní dluhopisový** lost 4.46% and the **High Yield dluhopisový** fund lost 3.35%.

The aggregate volume in the assets of retail funds managed by the Czech branch of **Erste Asset Management** as at the end of 2018 amounted to more than **CZK 113.6 bn**, which represents a year-on-year increase by nearly 1%. This slight increase in asset volume was caused by the continued interest among investors who were looking for higher yields primarily by purchasing mixed funds.

ČS nemovitostní fond

In co-operation with its subsidiary **REICO investiční společnost České spořitelny**, Česká spořitelna offers retail clients the possibility of investing in commercial properties through the **ČS nemovitostní fond, which is an open-end mutual fund. ČS nemovitostní fond is the largest real estate fund for retail clients in the Czech Republic, with equity capital in the value of CZK 21.6 bn.** In 2018, ČS nemovitostní fond also became the largest Czech mutual fund.

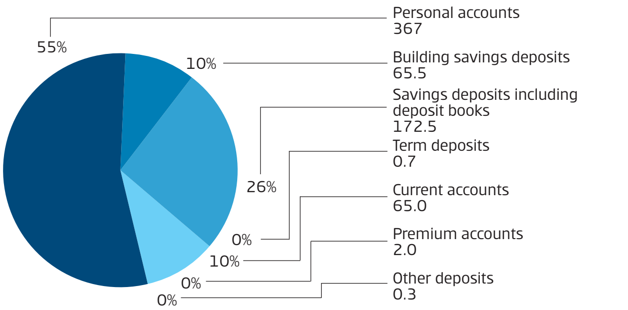
In 2018, ČS nemovitostní fond carried on in its expansive strategy, completing a total of 4 acquisitions and one divestment. This had been the Fund's greatest number of transactions in a single year since its establishment. First, in February, the Fund sold its building on Táborská 31 in Prague 4; in March, it bought the logistical building Industrial Park Dubnica in Dubnica nad Váhom in Slovakia; at the end of June, it expanded its portfolio by adding the Metronom office building in Prague 5; in September, it bought the second part of the Proximo complex in Warsaw; and in December it completed its acquisitions of 2018 with the purchase of the Forum Nová Karolina shopping centre in Ostrava. The total number of properties in the portfolio of ČS nemovitostní fond as at the end of 2018 increased to 16 commercial buildings, out of which 9 were in the Czech Republic, 4 in Slovakia, and 3 in Poland.

In 2018, ČS nemovitostní fond appreciated the funds invested by 3.4%, and in the last five years by 2.8% p. a. This yield again confirmed the stable performance of the Fund in a longer timeframe. That is also evident from its performance curve, which has manifested positive growth for nearly 10 years. In 2018, nearly 12,000 new share certificate holders invested in the Fund. The value of buildings in the Fund's portfolio was stable in 2018, with a significant potential for holding them in the long-term.

Savings

Another popular retail product is **Spoření ČS (ČS Savings)**, designed for regular as well as irregular savings, with clients having the money always available on their accounts. The aggregate amount saved with Spoření ČS and other savings products amounts to CZK 112 bn. **In a low interest rate environment, clients prefer demand deposits** and thus term deposits and deposits with a termination period are noting a decline. Although Česká spořitelna did not change interest rates on its savings products in 2018, the number of newly opened savings accounts doubled compared to the number of accounts closed.

Household savings (CZK billion)



Building savings with Stavební spořitelna České spořitelny (known also as Buřinka „Bowler Hat"), is the most popular savings product on the market. The number of new building savings contracts, including increased target amounts, **went up by 21% in 2018 in a year-on-year comparison, reaching the number of 87,334 contracts**. The value of target amounts in new contracts, including increased contracts, went up by 33% in a year-on-year comparison, reaching the volume of CZK 28.5 bn in 2018. In the building savings market, Buřinka achieved the highest growth in new contracts, including increases. Overall, Buřinka manages 545 thousand building savings accounts, with CZK 62.5 bn in the amount saved and CZK 158 bn of target amount.

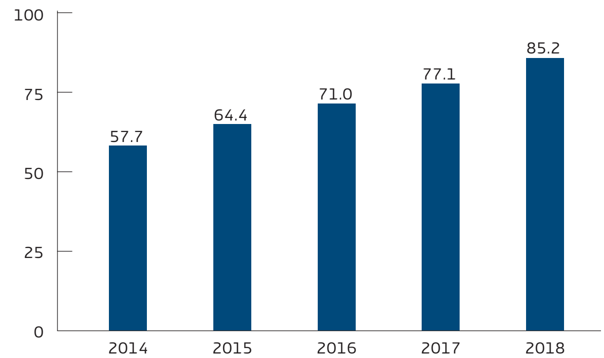
With Buřinka, clients can also arrange building savings agreements online, thus they can enter into building savings contracts on their computer, mobile telephone, or tablet from anywhere, for example, from their office or the comfort of their home. This product won Buřinka first place in the Golden Crown competition in 2018, an excellent award from an independent jury. The number of new building savings contracts **concluded online reached nearly 33 thousand**.

With Česká spořitelna – penzijní společnost, 920 thousands unique members are saving up for their pension, with an aggregate volume of funds of CZK 85.2 bn, which means a year-on-year growth by 10.5%.

Supplementary Pension Savings (SPS) are designed for new clients. The volume of funds continued to grow significantly in all funds under management. The sum of the balances of all SPS funds went up by 39% in a year-on-year comparison, reaching CZK 14.4 bn. Konzervativní účastnický fond is the largest fund on the SPS market – the volume of client funds grew by 29% in 2018, to CZK 8.4 bn. Česká spořitelna - penzijní společnost (ČSPS) maintained its position as the SPS market leader, with its share being 30.8%.

Even though supplementary pension insurance in the Transformovaný fond ČSPS is closed for new clients and the number of participants is gradually dropping, the volume of client funds in Transformovaný fond ČSPS again noted a significant year-on-year increase, by 6%, to CZK 70.8 bn. In 2018, ČSPS launched a unique portal available for its business partners, where they can get a quick overview of the status of savings, arrange new pension savings or enables existing clients to make a change in their accounts, easily, safely, and paper-free.

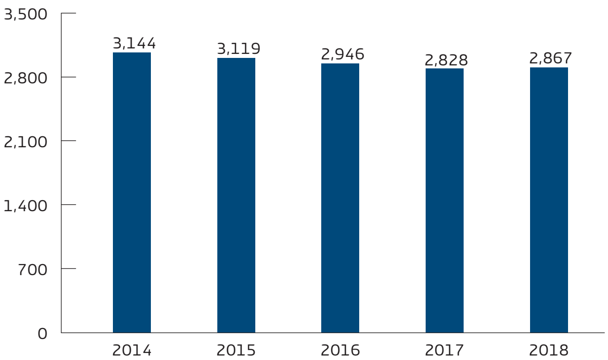
The volume of assets managed by ČS – penzijní společnost (CZK billion)



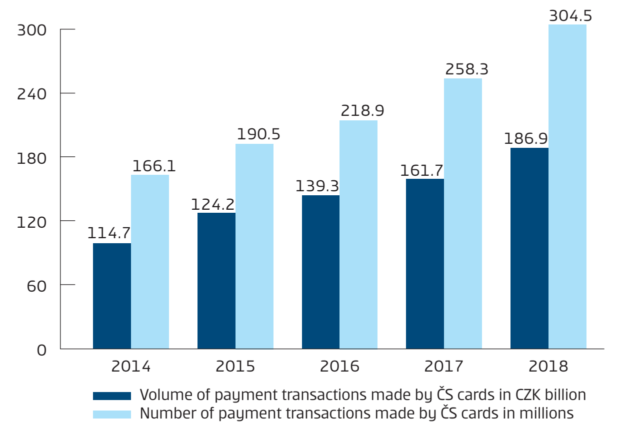
Payment Cards

As at the end of 2018, the aggregate number of active payment cards of Česká spořitelna amounted to 2.87 million, out of which 0.17 million were credit cards. **The aggregate volume of payments made by Česká spořitelna cards with retailers grew by significant 13.5%** in a year-on-year comparison **to CZK 186.9 bn**. The average spending was CZK 614. There was a total of 304.5 million transactions made by Česká spořitelna cards with retailers, thereof 262.5 million transactions were contactless, i.e. more than 86.2%. This indicates a stabilisation in usage of contactless card payments in a year-on-year comparison.

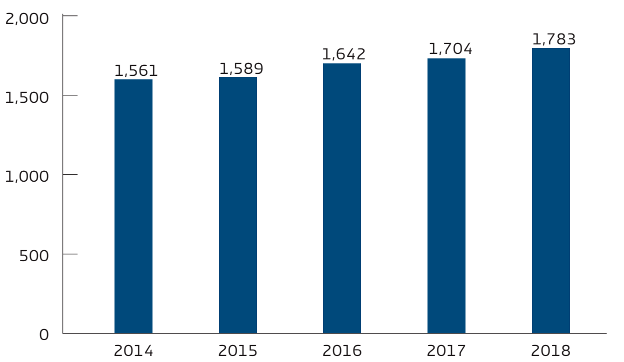
Number of active cards (thousand)



Card transactions involving ČS cards at retailers (issuing)

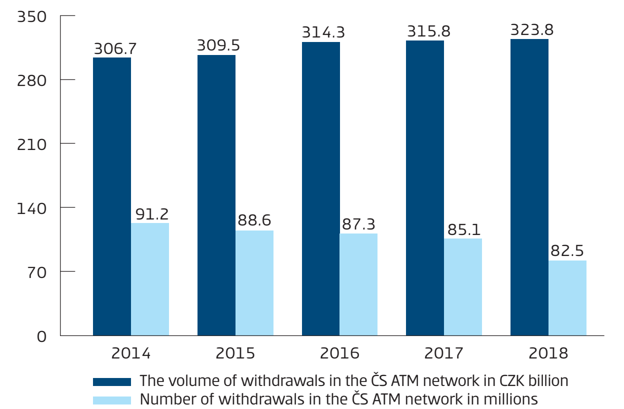


Number of withdrawal, deposit and dual ATMs and transactional terminals



In terms of the scope of its ATM network, Česká spořitelna retained its leading position. As at the end of 2018, it operated a total of 1,783 ATMs, deposit ATMs, and transactional terminals. During the year 2018, card holders made 82.5 million withdrawals from Česká spořitelna ATMs, in the volume of CZK 323.8 bn. The average amount withdrawn was CZK 3,925.

Cash withdrawals in the ČS ATM network



Again, Česká spořitelna expanded services of its network of deposit and dual ATMs by allowing clients to deposit cash not only in accounts or passbooks with Česká spořitelna, but also in accounts at other banks in the Czech Republic. A total of 229 deposit ATMs and deposit terminals is in operation. In these ATMs, clients made 2.64 million of deposit transactions in the amount of CZK 36.4 bn. In 2018, Česká spořitelna also put 218 contactless ATMs into operation.

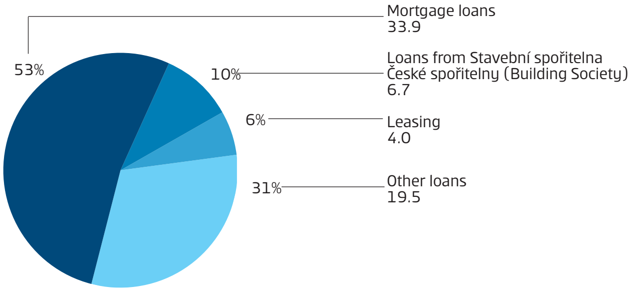
Small Enterprises and Entrepreneurs (MSE)

The structure of clients in the segment of small enterprises and entrepreneurs (MSE) is very diverse. The clients include sole proprietors, entrepreneurs, self-regulating professions, and smaller enterprises, as well as condominiums and housing co-operatives.

Česká spořitelna's objective in the MSE segment is to build a long-term relationship with the client based on the Bank's ability to understand the company's business and how it works, and to gain the client's confidence for the banker's expertise as the company's advisor for financing. That is one of the reasons why Spořitelna introduced, in the second half of 2018, the new position of specialist for entrepreneurs, who should further strengthen the expertise and quality of advice provided to entrepreneurs and introduce them the concept My Healthy Company (analogical to the My Healthy Finances service for retail clients). Up to 92% of the clients who receive this care have left their meetings with specialists for entrepreneurs satisfied. Companies and major entrepreneurs are served by corporate bankers. Each corporate banker has a client portfolio, and, likewise, each client has its corporate banker. They work with clients on a long-term basis, which is manifested in them being mutual partners. High-quality consultancy should contribute to building long-term partnerships with clients and enhancing their prosperity.

The number of entrepreneurial and corporate accounts exceeded 178,000. The aggregate balance was up by 4% year-on-year, to CZK 71.5 bn. Corporate accounts are used not only by entrepreneurs, but also by legal entities and by the non-profit sector. The aggregate volume of loans in the small-enterprise and entrepreneur segment as at 31 December 2018 amounted to CZK 64.1 bn (almost +12% compared to 2017) and carried on in the rapid expansion of previous years.

Structure of the portfolio of loans to small companies and entrepreneurs (CZK billion, gross value)



The **concept "Hledá se nová krev"** ("Looking for New Blood") for Czech business developed successfully. Since the start of the campaign, in 2017, Česká spořitelna had lent starting entrepreneurs funds amounting to nearly CZK 800 mil., thereby becoming the most successful start-up bank on the market. The campaign won the competition for the most effective advertising in the category of financial services.

Corporate Banking

Corporate banking services, which the Bank previously provided under the Erste Corporate Banking brand, were united under the **Česká spořitelna – Korporátní bankovnictví** brand in 2017. The **change reflected the opinions of clients, primarily from the small and medium-sized enterprise segment (SME)**. The new brand Česká spořitelna – Korporátní bankovnictví should further strengthen the Bank's position in the segment. The Bank will continue to communicate actively its affiliation with Erste Group Bank to certain large corporate clients.

Under the Česká spořitelna – Korporátní bankovnictví brand, the Bank offers **complex solutions to entrepreneurs and companies - from investment, acquisition, and project financing, to support for export activities, merger and acquisition consulting, to placement on bond or equity capital markets**.

Česká spořitelna is the market leader in providing financial **services to municipalities and public sector** and also in financing energy projects, including renewable resources, in export financing, and in **using advantageous funds** in co-operation with the European Investment Bank (EIB), Kreditanstalt für Wiederaufbau (KfW), and the European Investment Fund (EIF), but also with national agencies such as the Czech-Moravian Guarantee and Development Bank (ČMZRB) and Export Guarantee and Insurance Corporation (EGAP).

Over the long term, the Bank has maintained its strong position on the structured transactions market, and it is the absolute top in acquisition (or debt recapitalisation), export, and syndicated (club) financing. Its experienced team of specialised experts with unique know-how took an active part in the financing of the vast majority of important transactions that appeared on the Czech market, often in the crucial role of the arranger. The Bank's strong position, its foreseeability, and positive references from already executed transactions resulted in an increase in structured transactions in 2018, which has, in terms of the volume and revenues generated, become a benchmark for future years. Addressing client's financial needs by a combination of a bond issue and a bank loan has already become a regular component of offer of Česká spořitelna.

Strategic Emphasis on the SME Segment

Česká spořitelna's **strategy for the development of corporate banking is** based on **three main pillars**: the attainment of a **leading position in the segment of small and medium-sized enterprises (SME), growth in large corporate business, and utilisation of the position as the main player on the financial market** for corporate business growth.

In its corporate banking, Česká spořitelna puts **emphasis on the segment of small and medium-sized enterprises (SME)**. It serves them through its fifteen regional corporate centres. The Bank has developed specialised programmes and solutions for the SME segment. With electronic banking and corporate cash management products, the Bank is available to corporate clients online.

In its lending process, Česká spořitelna has introduced a "Standard Process" that links into the Easy Loan process introduced in 2017. "Standard" brings a further simplification of work for sales representatives, thanks to the automated loading of the financing terms in the drafting a loan proposal, and also **better foreseeability for clients**. Whereas the Easy Loan brought a rapid approval process for loans with an engagement of up to CZK 50 mil., the "Standard Process" deals with more complex cases with a higher engagement. Thus, client should be aware from the very first offer of which financing terms he can obtain. In 2018, the Bank generated more than 50% of its lending production through standardised Easy Loan and "Standard Process".

In terms of service digitisation, the above-mentioned lending process includes a **second-generation digital credit application** that will bring a simplification of work for sales representatives and gradual digitisation of the lending process. Subsequently, it will also lead to faster approvals and faster drafting of contracts. In December, the Bank started to test **automated generation of product agreements** for the Easy Loan and "Standard Process".

In addition to the digital credit application, the Bank also offers its clients a **combination of personal and digital** service based on the client's specific needs in a way that the final model is as pleasant and efficient for the client as possible.

Focusing on changes, Spořitelna also paid intensive attention to the **customer experience and its improvement**. The activities included **banker rotations** in corporate clients' companies. The objective of rotations is to learn to view the service provided by the Bank through the client's eyes. And, in a specific rotation, also to improve the relationship with the client, to better understand its needs and business in a greater context, and to obtain feedback with respect to the client's services. That means that sales representatives spend more time with clients and get to know key employees of their companies in person. Thanks to better knowledge of the client and its needs, they can far better recognise the opportunities for helping the specific company. Last but not least, a rotation is a useful experience both for the company and the sales representative who tries out real work of employees in the company.

In co-operation with EDITEL, a leading international provider of services in the sphere of electronic document exchange, the Bank launched a new service, **ediFACTORING**. By doing so Spořitelna was the first in the Czech Republic to **automate the market in short-term corporate receivables**, in which more than CZK 130 bn revolve every year. The service is designed primarily for companies involved in larger supplier-customer chains as it helps with financing throughout the chain. Its advantages also include simpler work with documents, minimisation of the risk of fraud, but, above all, faster inflow of money for the client.

Corporate Clientele

Corporate clientele of Česká spořitelna is represented also by large supranational corporations. Česká spořitelna - Korporátní bankovnictví offers a broad range of top-level corporate banking products to its corporate clients, including specialised investment banking products and services. In co-operation with Erste Group Bank, Česká spořitelna is prepared to accompany those of its corporate clients who operate outside of the Czech Republic and serve them in the countries in which they operate.

In 2018, the volume of credit transactions in the large corporate client segment again increased significantly, thereby confirming the good condition of the Czech economy and the optimistic mood of Czech companies. In addition to the increase in operating financing, there was a revival in investments, corporate acquisitions, and export financing, which was significantly manifested in an increase of loan activity. Česká spořitelna is very well prepared to respond to this development and provide companies assistance in their development plans with debt or capital market financing and offer them consultancy services.

Public and Non-profit Sector

Česká spořitelna maintained its position as the leading bank in providing of financial services to the public sector. In the Public and Non-profit Sector segment, ČS has successfully maintained a sustained high level of client satisfaction measured by the NPS (Net Promoter Score) indicator, which is comparable to the value of TOP global technological companies.

Česká spořitelna's project Smart City, focused primarily on the electronification of public administration in the sphere of payment systems, carried on successfully. In the Smart City project, Česká spořitelna has successfully installed payment terminals in many towns and municipalities, and it has also successfully implemented GSM payment terminals for the General Financial Directorate. Thanks to them, people can use payment cards to make payments at financial authorities.

Česká spořitelna was also successful in the sphere of client acquisitions, including higher self-governing territorial units (regions). It also financed a number of important public sector infrastructure projects, in particular for Ústí nad Labem Region, Pilsen Region, and many others.

Real Estate Financing

In the sphere of corporate real estate financing, 2018 was, as previous years, influenced by excess liquidity, which was manifested by a relatively high proportion of prematurely repaid loan instalments and great competitive pressure due to the existence of alternative forms of financing. In spite of these adverse aspects, the volume of loans provided in the real estate segment was successfully increased, and co-operation started with many new locally as well as internationally operating clients thereby confirming Česká spořitelna's strong lead in this area.

The financed portfolio has maintained the desired diversity on a stable basis, both in terms of the type of asset or the loan provided and in terms of the overall concentration profile.

Trading in Financial Instruments for Corporate Clients

Česká spořitelna provides services in the sphere of financial markets to international and local corporations and companies from the small and medium-sized enterprise segment. Česká spořitelna has good-quality analytical and business facilities and infrastructure that enable it to provide clients reliable processing of their orders as well as analysis and consultancy concerning the structuring and timing of hedging transactions. **Česká spořitelna's strategic business model is focused on offering a broad range of customised hedging financial instruments and on currency conversion trading via trading platforms.** Every year, clients rate this model as one of the best on the market, which is reflected in their sustained satisfaction with the services offered.

For the Czech crown exchange rate 2018 was a year of stability with the only significant fluctuation being its weakening in early July. On the contrary medium and long-term CZK rates had lively year – until the first ten days of November, they grew on a continuous basis, to correct to their summer levels at the end of 2018. It was probably the fluctuation in rates or, more precisely, the growing interest-rate differential as compared to euro rates that kept demand for medium-term exchange rate hedging among corporate clients at the previous year's levels in spite of the peaceful development of the crown's interest rate. Interest rate hikes by the Czech National Bank further strengthened demand for interest-rate hedging.

Trading in Debt Securities and Equity Instruments

In 2018, **Česká spořitelna affirmed its position among securities traders for institutional clients**. The volume traded in combination with the high quality of its services **made Česká spořitelna the leader among all banks that provide asset management on the capital market**.

The main factor influencing bond trading was the environment following the discontinuation of ČNB interventions concerning the Czech crown, increased yields along the full length of the interest-rate curve, and in the last part of 2018, stabilisation and a partial drop in yields at the long end of the interest-rate curve. Quantitative easing by the European Central Bank (ECB) in the form of purchases of government and corporate bonds was discontinued at the end of 2018. Short-term CZK government bonds were, as in 2017, under sustained buying pressure primarily from the side of foreign investors. **Česká spořitelna was again one of the most active traders in CZK bonds on the primary market and was one of the most important primary dealers in government bonds of the Czech Republic.**

Asset Management for Institutional Clients

The volume of funds under asset management for institutional clients amounted to nearly CZK 120 bn as at 31 December 2018. The most important clients from this point of view were definitely from the financial institutions sector, i.e., pension funds and life and non-life insurance companies.

Aside from the financial institutions mentioned above, clients of asset management included dozens of foundations, municipal clients, as well as housing co-operatives, unions, and corporate entities. Several companies, foundations, and church entities were added to the client portfolio in 2018.

The performance of the portfolio in 2018 was influenced by increasing volatility in financial markets. **The maintenance of a shorter maturity of the bond component of the portfolio worked as a stabilisation factor**, as did the use of short-term term deposits and **excellent timing of investments**. The value of equity investments declined, especially towards the end of 2018. On the other hand, the real estate component used in the vast majority of portfolios under management, rendered a very solid income. Overall, the yield attained in 2018 was very diverse, based on strategic allocation (the shorter the duration and risk-free aspect, the better the performance, and vice versa). **Compared to the market yield and comparative benchmarks allocated, the vast majority of portfolios ended 2018 above benchmark. That documents the high quality of the asset manager in the application of tactical allocation.**

Financial Institutions

In 2018, Česká spořitelna continued to develop and deepen its co-operation with insurance companies, pension funds, investment companies, payment institutions, banks and other regulated and registered financial market entities. Česká spořitelna continued to successfully sell its products and services both to existing and new clients, thereby confirming its strong position in the financial institutions segment. Its strategy in providing services to the financial institutions segments increasingly focuses on innovative payment methods in the sphere of cash management, with added value not only for clients from this segment, but above all, for their end customers. In 2018, Česká spořitelna developed the sphere of open banking in connection with new PSD2 legislation which is closely linked to the segment of financial institutions. Financial market products and specialised services themselves, such as depositary, custody, and intermediation of the payment of the yield from security, undergo many innovations in order to satisfy increasing demands of clients.

In the sphere of correspondent banking, Česká spořitelna continued to serve important banking clients who use products focused on payment solutions in Czech crowns and foreign currencies. Spořitelna closely co-operates with other members of Erste Group Bank, using a joint platform to offer clients comprehensive payment solutions both on the domestic market and throughout the Central-European region.

Depositary

2018 was marked by the continued growth of the collective investments market. According to ČNB statistics, 48 new funds were formed, in the segment of qualified investor funds in particular. Thanks to its sustained high quality of depositary services, Česká spořitelna successfully strengthened its position on the depositary service market, when 18 new funds became its clients. Overall, the number of funds to which Česká spořitelna provided its depositary services reached 127 as at 31 December 2018. Total assets of those funds exceeded CZK 308 bn.

Custody

Česká spořitelna provides custody and investment instrument management services not only as a depositary bank for funds, but also for asset managers within the framework of client portfolio management and also as an independent custody service. The client portfolio comprises primarily financial institutions, but also many public sector companies and entities. For Česká spořitelna, 2018 was another year of increasing aggregate volume of assets. This growth was mostly driven by investments by foreign clients in domestic instruments. In 2018, Česká spořitelna acted as an intermediary in several public stock offerings of companies listed on the Prague Stock Exchange and was a Czech market leader in providing of these services.

Social Banking

Česká spořitelna is not only the leader in supporting the non-profit sector on the Czech market, but it also enjoys a very strong position in the financing of social enterprises. In its Social Banking programme, the Bank offers to clients not only consultancy and education, but also advantageous financing supported from the European Investment Fund, as one of the very few banks on the market. By the end of 2018, Česká spořitelna had financed eight loans worth a total of CZK 16.5 mil.[15] (EUR 624,000) with this

(15) ČNB exchange rate as at 31.12.2018 EUR/CZK 25.725.

guarantee. For non-profit clients, the Social Banking Academy has been newly created. The basic pillars of the Academy are regular educational workshops, individual consultancy with specialists, and a new mentoring programme. Emphasis is also placed on sharing experience between organisations and on networking.

Relationships with Financial Institutions

In 2018, Česká spořitelna continued in co-operation with domestic as well as foreign financial institutions.

Spořitelna expanded its co-operation with the Czech-Moravian Guarantee and Development Bank beyond guarantees, in the **Expansion** lending programme. Thus clients can receive a contribution for the payment of interest on loans provided by Česká spořitelna. Spořitelna is preparing for further use of financial instruments from the national development bank in its planned guarantee programme Expansion, which aims to increase the accessibility of funding for small and medium-sized Czech enterprises.

With the European Investment Bank, Spořitelna signed a **new global loan** which enables Česká spořitelna to carry on in providing loans with advantageous interest rates to companies employing young people under 30 years and to other companies. The volume of advantageous loans has reached approximately CZK 38.6 bn[16] (EUR 1.5 bn) since the start of the co-operative venture which makes ČS the leader in brokerage services in Central Europe.

High-level co-operation with the European Investment Fund carries on in the InnovFin programme of guarantees for innovative small and medium-sized enterprises, in guarantees for start-up enterprises and guarantees for social enterprises. All these programmes fulfil their objective to provide loans in these segments; particularly programmes for financing of start-up companies and social enterprises are rather rare on the Czech market.

Awards

In 2018, Česká spořitelna won many awards confirming the quality of products and services offered:

Best Bank of 2018

For the first time in ten year history of Hospodářské noviny awards, Česká spořitelna was selected as the Bank of the Year for 2018. According to the criteria of the competition, the winner is the bank that can offer the most advantageous products and services to its clients, can communicate with them, is accessible and also achieves good financial results. Česká spořitelna reached the best results of all banks that had been evaluated.

Bank of the Year

The Bank of the Year 2018 competition rewards retail products and services of banks and insurance companies. For the first time, Governor of the Czech National Bank Jiří Rusnok took auspices over the competition. Česká spořitelna also won awards in the Banker of the Year and Barrier-free Bank categories.

Grand Prix (Golden Drum festival)

Česká spořitelna's marketing campaign concerning renewal of Neratov and employment of people with handicaps were rewarded by silver in Grand Prix competition at Golden Drum festival.

Finparáda.cz

Česká spořitelna received three silver medals at the seventh annual competition **Finparáda – Financial Product of the Year 2017**: for loan consolidation, mortgages, and supplementary pension savings.

Golden Crown 2018 – Zlatá koruna 2018

- For the third time in a row, Česká spořitelna defended the social responsibility award;
- Česká spořitelna also won gold in the competition among mortgages;
- Stavební spořitelna České spořitelny had two reasons to celebrate – its Loan from Buřinka won first place in the building savings category and the Company also took bronze for its online building savings;
- Česká spořitelna – penzijní společnost also took bronze for its supplementary pension savings.

World Finance and The Banker for Private Banking

Česká spořitelna defended two major awards in private banking sector. The industry magazines 'World Finance' and 'The Banker' rewarded the work of its private bankers and services that the Bank offers to clients. The World Finance magazine again awarded the „Best Private Banking" award to Česká spořitelna in 2018.

Consensus Economics 2017 Forecast Accuracy Awards

In 2018, Česká spořitelna earned the Consensus Economics 2017 Forecast Accuracy Awards for the best prognoses of Czech economy development. Consensus Economics has followed the prognoses of more than twenty domestic and foreign institutions that attempt to forecast course of the Czech economy.

Clio Awards

The Neratov advertising spot which was filmed for Česká spořitelna by the Young & Rubicam agency won bronze at the prestigious festival of creative excellence in advertising, the CLIO Awards.

Non-commercial Activities

People

Employees are the foundation of the sound development of the Bank and its success in a competitive environment. For Česká spořitelna, **qualified and well-motivated employees** constitute a major competitive advantage, which is why the Bank keeps creating and improving their **work environment and possibilities**

(16) ČNB exchange rate as at 31.12.2018 EUR/CZK 25.725.

to obtain further education and development, both professionally and personally. Therefore a number of initiatives supporting integration of personal and work life and equal opportunities are organised every year in order to enhance conditions for lasting and satisfied partnership between Česká spořitelna and its employees.

ČS's comprehensive offer of development not only helps employees to be more successful in what they currently do, but it also helps them to prepare for what future brings for the Bank and the market. Effective development lies in focusing on development of work itself and taking advantage also of other possibilities such as participation in interesting projects within the Bank, shadowing, or rotations. A broad range of training courses, electronic courses and increasing interactive methods of education with digital environment (webinars, etc.) are also available for employees. This comprehensive system of education will be further developed by orientation and training programmes that prepare employees for management roles in future. Furthermore employees can also participate in variety of coaching, mentoring and networking programmes and inspiring meetings with representatives of other successful companies.

In its promotion of diversity, **Česká spořitelna continues as a partner for important local activities**. These include, for example, active co-operation with the British Chamber of Commerce, where it is a partner to a mentoring programme for women known as the **Equilibrium**, or of the **"Festival Všem ženám" ("For All Women")**. Both activities promote **diversity in top management**. In its development and work with talent, the Bank involves women with potential in special programmes, such as **Satori**, helping female experts and women in lower management positions to succeed. Women can share experience, obtain professional mentoring from experienced managers from Česká spořitelna as well as from other companies on the Czech market, or make a career move.

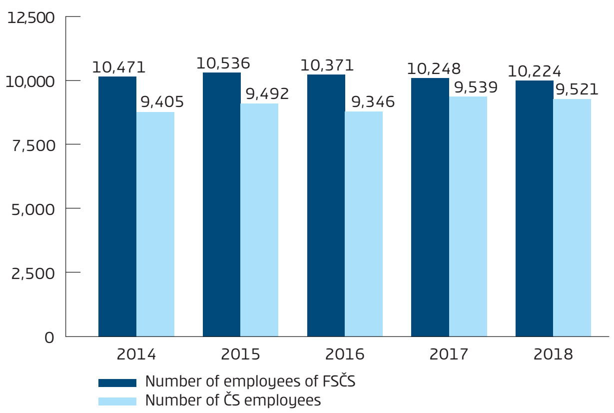
In the sphere of supporting people with physical handicaps, the Bank has extended the option of **providing ergonomic aids**, not only to staff members with physical handicaps, but also to employees who suffer from serious health problems but have not been classified as persons with handicaps. The Bank carries on with its successful **Health Days** held in Prague and throughout the regions for all employees. It has also introduced a new benefit – **ELA** (Employee Life Assistant), through which employees can take advantage of professional legal, psychological, medical, and execution consulting while they deal with complex situations in live.

The Bank continues to support return of parents to work by supporting expansion of various partner facilities that provide care for pre-school children in Prague and in the regions. The comprehensive **"Čáp" ("Stork") Programme** is available for parents who are on maternity and parental leave. Within this programme, an informational portal with job offers and news from Bank was launched and is regularly updated, also a special discussion community for parents has been established on internal social network and various e-learning options have been made available and extended. The Bank organises regular **meetings in Prague and throughout the regions** for parents on parental and maternity leave, at which they learn about what is going on at the Bank, how the process concerns them personally, and what they should do in order to start working again. In 2018, a total of 5 meetings were held for approximately 180 mothers and fathers. The partnership with Byznys pro společnost (Business for Society) continues – among others, the Bank's representatives attended a panel discussion at **"Matky a otcové vítáni" ("Mothers and Fathers Welcome")** conference, discussing the "Čáp" Programme and its advantages.

Česká spořitelna is strongly aware of the need to **approach talented people across generations and across the market**, by diverse means of communication. Traditionally, the Bank takes part in important student fairs, such as **Šance** in Prague or **JobChallenge** in Brno where students can try ČS's virtual reality and open not only a virtual, but also a real door to the Bank for themselves. For secondary school students, there is still the popular development programme **"Můj potenciál" ("My Potential")**, which is gradually being rolled out in new regions. Newly, the Bank ventures into the online space in recruitment and HR marketing, with **HR chatbot**, where a potential applicant can identify his or her popular work day using a game form, which allows applicant to learn more about certain positions offered. **Česká spořitelna co-operates with university clubs**, with which it organises the **'Visit Company'** project, so that students might perceive the Company as a relevant and attractive partner for their future development. Bank experts also regularly visit universities, where they lecture not only about what is done at a Bank, but also about what a route to a successful career may be.

The average consolidated headcount dropped by 0.2%, to 10,224. The average headcount of ČS alone was 9,521. Women account for 70% of all employees. 8% of employees work part-time. **The Bank has successfully integrated 134 employees returning from parental leave.** The average duration of employment remains at 9.8 years, the average age is 40 years. Employees older than fifty years account for 22% of Česká spořitelna's population.

Average headcount



Strategic Objectives and Plans for the Future

Strategic Objectives and Plans for the Future

Strategic Objectives

Česká spořitelna's DNA has always included one persisting objective, which is to guide clients, and also the entire Czech society, to prosperity. This objective was set for the Bank at the time of its establishment more than 190 years ago. The breakthrough service My Healthy Finances was launched in 2017 in order to attain this ambitious objective. Using modern technologies, the service democratises, for broad masses of clients, consulting that had often been exclusive. In 2018, the number of clients using the My Healthy Finances service crossed the magical threshold of 1 million. In the My Healthy Finances service, clients together with their advisor at a branch, first analyse the structure of the client's expenditures and then go through possible steps that will ultimately result in a financial saving for the client, whether it be consolidation of client's existing loans or obtaining more advantageous supplies of utilities, such as electricity or gas.

The main market on which Spořitelna will fight for client satisfaction is again the Czech Republic, with the necessary overlap towards the entire territory of Central and Eastern Europe in the corporate segment, thanks to the utilisation of synergies in the Erste Group Bank, of which Česká spořitelna is a member. In terms of the product offering for clients, Česká spořitelna will focus primarily on continued development of its mobile banking known as George, including the desktop version. Furthermore, Česká spořitelna will strive to expand and advance its My Healthy Finances concept to a higher level, thereby expanding the number of its satisfied clients.

Macroeconomic Assumptions

In 2019, the ČNB Banking Board will most likely significantly reduce the pace of interest rate hikes. Specifically, only one increase is expected in the first half of the year. Continuing to work against a more rapid growth in rates will be relaxed monetary policy in the Eurozone (although the ECB can be expected to increase its rates for the first time in the second half of the year) and the slowing growth in foreign demand. The development of Czech interest rates will, however, strongly depend on the extent to which the ČNB's current expectation of a significant strengthening of the exchange rate of the Czech crown will be fulfilled. The less the rate strengthens, the more space there will be for tightening currency conditions in the Czech economy through interest rate hikes.

For 2019, Česká spořitelna operates on the basis of the following macroeconomic assumptions:

- Real GDP growth will approximately remain at the level expected for 2018 (i.e., at 3.0%)[17]. Operating against stronger growth will be, above all, a stronger exchange rate of the Czech crown, slightly higher interest rates, and also strong imports due to high domestic demand. On the other hand, a positive effect on the economy will come in the form of strong domestic as well as foreign demand;
- Inflation in 2019 will be close to the 2%[17] ČNB inflation target. Strong domestic demand, higher energy prices, and higher wage costs for companies will operate in the direction of higher prices. Operating in the opposite direction will be a stronger exchange rate of the Czech crown, slightly higher ČNB rates, and also currently high investments that will boost productivity and hence operate to counter inflation;
- The labour market will remain strong. The unemployment level will remain extremely low, and as compared to 2018, it will grow by only three-tenths of a percentage point, to 2.5%[17] and growth in nominal wages will relax to around 7%[17]. The lack of available workforce will continue to be a problem of the Czech economy, to which companies respond by greater investments in automation, robotization, etc.;
- In light of the above factors, the ČNB's repo rate could reach 2.0% at the end of the year[17];
- The exchange rate of the Czech crown to the euro will gradually strengthen due to the favourable development of the Czech economy and growth in ČNB rates. At the end of 2019, the exchange rate of the Czech crown to the euro should be at around 24.7 EUR/CZK[17].

(17) Forecast of Česká spořitelna, a. s. dated 6 December 2018. https://research.erste-group.com/ERSTE/external/download?q=1ee9770d52e796000ff5f3352c77e9184471da45dw33Ayp7CHHvY2cDBqfnRe77l1D%2FieOeNyXp0Igre6%2Bo8aoYV%2F5dcaeFw2i4gb2Qzk61fDYns2sC8MA4JkGPmDZm4WfBebrfdz5sND70LvDUVY%2BUh%2B8fxvAeghAl4borbRL%2BDqI4%2B%2F4qdZWWSZSYfLhhVH0YXX9KEK41sP3Ko6 UVYRUkQtjbb3if5YkAX3dfbXFfgqVrJK4p301B7VnsnNBWI0wqgW0fEKNrUFSf9Myr7m4SRENTjCk7yITzHH%2FgWGu0DaBRyY2JqtqQPPkImLQ%3D%3D

Outline of Business Policy and Expected Economic and Financial Situation in 2019, and an Outlook for Upcoming Years

Česká spořitelna's retail banking will carry on in fulfilling its three key long-term priorities in 2019:

- To expand its fan base, primarily through the well-tested unique financial advisory concept My Healthy Finances and an offering of its products at the place where the client's need arises, in the increasingly pleasant environment of Česká spořitelna's branch network;
- Expansion of the digital world (George) for managing personal as well as corporate finance, by adding further service and trading operations and improvements;
- Enhancement of Česká spořitelna's image as a pleasant, safe, smart, high-quality, and quickly accessible partner for addressing a broad range of client needs.

In the sphere of **personal finance** administration and management, Spořitelna strives both to expand its general client base and to focus on greater and more frequent utilisation of its services by its existing clients, by offering attractive (i.e., quickly accessible and well-secured) current accounts with support for traditional as well as modern payment methods.

In **consumer financing**, its ambition is to remain the Czech market leader in the future and be a sought-after partner for existing as well as new clients. It will strive to increase its market share, not only through traditional products, but also through successful second-generation digital innovations.

In **housing financing**, it strives to build on its extraordinary achievements in 2018, when the Bank strengthened its market share, and to offer, through its employees and partners, dreams fulfilment to those of its clients who long for a pleasant home to attain their desired lifestyle, match their needs, or offer an interesting income.

The wealth of Česká spořitelna clients is another focus of care for personal finance that the Bank offers through its deposit and investment products, as well as the products of its subsidiaries (pension company and building society). In the area of investments, Česká spořitelna continues to be number one in mutual funds. Through them, and as well as by other means, it wants to continue to offer its clients an extensive range of investment instruments, diversified and optimised, not only in the view of its client's sensitivity, but also in terms of the level of its financial and specialised expertise. At the same time, it is building an image as a leading expert in the field of premium (Erste Premier) and private banking (Erste Private Banking).

Having built a comprehensive portfolio of products for insuring **life and non-life risks** and private liability insurance, and having trained teams of experts in 2018, the Bank plans to significantly expand its offering of business insurance in 2019 and strengthen its ability to sell that in the business segment.

In retail banking, the financial world is one of customers' wishes and their high expectations. Its comprehensive product offering and extensive branch network constitute a competitive advantage for Česká spořitelna, giving it the possibility both to grant those wishes and be physically proximate to its clients. In the modern **digital world**, the term 'closeness' enters a brand-new level. For that reason, Spořitelna has been investing a lot of energy into its modern personal advisor George, which will enable the client to be close to their finance, their bank, as well as financial instruments, literally at every step or with every click, at any time of day and in any civilised part of the world.

In spite of all that, the Bank is not neglecting its **branch network** and continues to modernise it in line with its new concept of advisory services, through staff training, expansion of self-serve zones, and expansion of the possibility of offering narrowly specialised services in a way that the client can find everything he is striving for in one place, in a pleasant environment with well-trained staff, to which he comes with pleasant expectations and leaves satisfied.

In order for Česká spořitelna to be able to carry on with its tradition of nearly two hundred years, however, it is not enough merely to "serve" clients, as a trustworthy and safe financial institution. It must still be attractive, flexible, modern, and "in" for current and future generations and understand their wishes. Hence, following changes in the branch network and regional corporate centres, ČS has decided to transform its head office. Together with the "banking of the future", George, an internal transformation of Česká spořitelna to a **"Future Bank"** has been launched – a bank that will lead to success its clients through its successful employees, and a bank that will be an attractive employer for the best employees, enabling it to offer its clients the best services.

ČS is prepared to carry on with its success in a rapidly developing market, by utilising the full potential of its people and technologies. Hence, the Bank believes that its future should focus on clients, staff engagement, and reduced hierarchy and bureaucracy. The entire change also constitutes a necessary precondition for the operation of its teams, in a way that the ČS mission, which is to lead towards prosperity, could actually be fulfilled. Spořitelna should ensure that the prosperity of people and companies is at the root of everything it does in its new teams, and that it is therefore ready to take another revolutionary step towards transforming into the Future Bank.

"Future Bank" means the transformation of the entire organisation, extending to implementation and change activities across all functions, based on clearly set principles. Diverse methods of co-operation will be implemented in the organisation, with the initial transformation focusing primarily on the delivering organisation. Teams – „tribes" – will be created in the delivering organisations, associating the requisite professions and skills, based on customer needs, and responsibilities so as to minimise the passing-on of tasks. „Squads" will operate within the tribes, comprised of up to 10 people working autonomously on fulfilling the tasks of their tribe. Squad members will be seated in the same location and will work 100% exclusively for their squad.

Corporate Banking

In corporate banking, 2019 will constitute another stage towards the achievement of ČS's long-term objective of becoming the leading bank in the segment of **small and medium-sized enterprises** (SME) in line with the priorities of the Erste Group Bank. Česká spořitelna will carry on in affirming its long-term partnerships with public and non-profit sector clients, which always includes top-level consulting. It also wants to be a key bank in the segment of **large international companies**. The strategy of corporate banking continues to be the development of services based on comprehensive client service. An offer of appropriate solutions is based on a detailed knowledge of the needs of each segment and industry. ČS provides its clients with an individual offering of services customised to the stage of a company's life.

The Bank wants to focus on supporting corporate clients on their way to growth and prosperity. The related strategy includes emphasis on allowing Česká spořitelna's corporate clients an easy transition between various service models, to reflect their needs, and, in line with growing client expectations for easy handling of their requirements in the digital environment, also digitisation of processes and automation of routine tasks in an intuitive and client-oriented environment, leading to an increased number of client interactions and a further acceleration of the lending process and automation of decision-making.

In digital services, the Bank wants to offer to clients, and develop along with them, new business models built on API technologies, whether in the sphere of PSD2 or in other non-regulated areas. A successful application will be the development of services for paying over the Internet, "Platba 360" ("Payment 360").

In the SME segment, the Bank focuses on setting up client-case standards and for their profound integration in everyday interactions with clients. The objective for 2019 is to focus on certain specifics among small and medium-sized enterprises. The output will be better client-adapted service that will excel, in particular, in envisaging client needs and in the speed of response to their needs in the sphere of financing. Regional corporate centres will continue to provide comprehensive service to corporate SME clients, including the sphere of local real-estate financing.

Česká spořitelna, as a key bank for large corporations operating in the Czech Republic, will carry on in 2019 in its effort to become a long-term and reliable business partner to large corporations. In serving supranational corporations, it will, with support from the Erste Group Bank, provide banking products and financial services that enable clients to manage their needs across the Central and Eastern European region in which the Erste Group Bank operates.

Česká spořitelna plans to continue to maintain and further develop its expertise in acquisition financing, such that its capacities as well as products fully cover the needs and expectations of existing and potential clients in this area. The Bank has a sustained ambition to be a part of all major structured financing transactions on the Czech market and to continue to play a leading role in supporting exporters through export and trade financing instruments and products, as well as to take part in forming and cultivating an environment that will help Czech exporters to take advantage of government export support comparable to the countries of their main competitors.

In terms of financing of corporate real estate projects, the Bank will carry on with its strategy to maintain a segment-balanced portfolio of financed projects, with a continued emphasis on highly profitable properties. It will continue to deepen its co-operation with the Erste Group Bank, aiming to attain synergy effects in client service across defined target markets in the CEE region. It will also focus on more intense use of the cross-sell potential of large corporations that in many cases expand their activities to the real estate sector. In the sphere of residential development of financing, where a lower growth potential can be expected than in previous years, a pilot product is being planned for the financing, which should, together with the existing expertise for the financing of co-operative housing and senior house projects, strengthen Česká spořitelna's leading and innovative position in the sphere of real estate financing.

In financing of the public and non-profit sectors, Česká spořitelna will continue to develop innovative products in its Smart City programme. At the same time, it will focus on further improvements of the comfort of mutual communication, focusing on the electronification and digitisation of communication channels.

Česká spořitelna is also the first bank in the Czech Republic to offer a Social Banking programme that supports non-profit organisations and social enterprises through education, consulting, and financing. The objective is to support these organisations in a way that they would be self-sufficient, and not dependent on grants and subsidies, whereby they will ensure a long-term existence for themselves.

Financial Markets

The objective of the Financial Markets (FT) and Financial Institutions (FI) Department in 2019 will be to increase its market share in all key financial market areas and products. The FT & FI Department will focus, above all, on the development of financial services for financial institutions in the MiFID 2 environment, on the development of an online trading platform for its corporate clients, and on reaffirming its position as the leader of currency, interest-rate, and derivative markets.

In the sphere of comprehensive services for financial institutions, the main objective of FT will be an expansion of its product and service offering in the sphere of innovative payment methods, with added value not only for Česká spořitelna clients, but also for their end customers.

In capital markets, FT's strategy will focus on attaining its medium-term objective of becoming the primary bank for the underwriting and distribution of new corporate bond issues and on affirming its position as one of the three largest primary dealers of the Czech Republic's government bonds.

In the sphere of Asset Management for institutional clients, Spořitelna strives to offer its clients a broader portfolio of investment instruments, as current interest rates and their outlook now make it possible to create products with a very low risk profile and interesting appreciation. In the sphere of active management in the administration service, it continues to hold true that the foundation of a client's long-term success is good portfolio diversification, which will continue to be accented in ČS's investment strategy proposals. Česká spořitelna is convinced that the quality of the services provided and of its reporting is absolutely top of the market. It has developed further reports that are fully compliant with the regulatory requirements of the MiFID2 directive (European Markets in Financial Instruments Directive). The Bank plans to continue to provide above-standard services.

In the sphere of financial market products, Česká spořitelna continues to get stronger in serving the SME segment, including the addition of „hedging ideas" to its offering, which presents unique client solutions for specific market situations. In 2019, a brand-new digital trading platform will also be introduced.

Expected Economic and Financial Situation

In 2018, the basic two-week repo rate increased five times as a result of ČNB decisions, which had a direct positive impact on Česká spořitelna's net interest income. Further rate hike is expected in 2019. The expected growth trend in Česká spořitelna's revenues will be, however, somewhat slowed by the persisting high competition on the banking market, which does not allow for margins on credit products to move in parallel with the growth of the basic repo rate. Furthermore, the growth in Česká spořitelna's total operating result will again be slowed in the upcoming year by the persisting general growth in personnel expenses and the continued need of investments in the sphere of regulation and regulatory reporting. The cost-income ratio should therefore stay in 2019 at the 2018 level.

In the light of the impacts referred to above, the return on equity (ROE) indicator should continue to stay above 10%.

Just as was the case in 2018, the decisive balance sheet item for Česká spořitelna in 2019 will be client loans and deposits. 2019 will see a slight reduction in the rate of growth in client loans compared to the previous year, caused primarily by lesser demand (in combination with the effect of „stocking up") for mortgages, caused by stricter regulation by the ČNB. On the deposit side, sustained growth of approximately the same kind as noted by the Bank in 2018 is expected.

Risk Management

Risk management processes are a key element of the Bank's management and control system. The nature of its business and other activities causes the Bank to be inevitably exposed to a variety of credit, market, operating and liquidity risks. The Bank's attention to risk management corresponds to its size, complexity and volume of its products, business activities and other operations. The Česká spořitelna Board of Directors approved a risk management strategy incorporating risk management principles covering risk identification, monitoring and measurement processes and setting of limits and restrictions. By adopting these principles, the Bank has kept its risk exposure at an acceptable level, enabling it to maintain effective management processes.

The following units participate in managing risk at Česká spořitelna:
- Strategic Risk Management: primarily responsible for credit risk, market and liquidity risk, which includes consolidated risk management and the Internal Capital Adequacy Assessment Process (ICAAP) and stress testing for the entire Česká spořitelna Financial Group;
- Non-financial Risk Management and Compliance: responsible for managing operational risk and other non-financial (non-position) risks, compliance risk and anti-money laundering measures, operational security;
- Corporate Banking Credit Risk Management and Retail Banking Credit Risk Management: primarily responsible for credit risk strategies for corporate and retail banking, respectively;
- Financial Group Balance Sheet Management: manages net interest rate risk of the banking book (investment portfolio) and operational liquidity management risk pursuant to decisions of the Assets and Liabilities Management Committee;
- Strategic Capital Management and Reporting: responsible, among other areas, for managing capital resources for risk coverage.

The activities of these risk management units are complemented by the work of the units:
- IS/IT Security: responsible for risk management in respect of IT security;
- Legal Services: responsible for providing legal support;
- Card Center: responsible for payment card transaction risk management.

The Board of Directors shares risk management decision making authority with the following committees:
- Board of Directors Assets and Liabilities Management Committee ("ALCO");
- Board of Directors Credit Committee;
- Risk Management Committee ("RMC") as an advisory body to the Chief Risk Officer;
- CS Financial Group Cyber Security Management Committee as an advisory body to the Chief Risk Officer;
- Risk Management Models Committee as an advisory body to the Chief Risk Officer;

and further Committees at the Top Management level:
- Financial Markets and Wholesale products Risk Management Committee,
- Compliance, Operating Risk and Security Board (CORB),
- Operational Liquidity Committee (OLC),
- Industry Limits Committee,
- Assets and Liabilities Modelling Committee (ALMC).

Credit Risk

Česká spořitelna is exposed to credit risk; i.e. the risk that a counterparty will be unable to pay full amounts when due. In managing credit risk, Česká spořitelna applies a standardised methodology adopted on a group-wide basis that sets out the applicable procedures, roles and authorities.

The credit risk management policy includes:
- Prudent lending process guidelines, including rules to prevent money laundering and fraud;
- General client segment acceptability guidelines based on their main activities, geographical location, maximum maturity period, the product and the purpose of the loan;
- Basic framework of the rating system and the setting and review of debtors' ratings;
- Basic principles of the system of limits and the structure of approval levels;
- Loan collateral management rules;
- Structure of basic product categories;
- Methodology for calculation of provisions and risk-weighted assets.

Collection of Necessary Risk Management Information

The credit risk management of the Bank is based not only on its own portfolio information, but also on the portfolio information of other members of the Česká spořitelna Financial Group. The Bank additionally uses information obtained from external sources such as the Czech Banking Credit Bureau, Central Credit Register or ratings provided by reputable rating agencies. The extensive database available for credit risk management purposes serves to model credit risk and supports the collection and measurement of receivables as well as the calculation of losses.

Internal Rating Tools

Rating is considered to be one of the key risk management tools. The Bank uses the client's rating to measure the counterparty's risk profile. The client rating reflects the probability of debtor's default in the subsequent 12-month period. The debtor's assessment and internal rating determination form an inherent part of any loan approval or of any significant change of lending terms and conditions. The debtor's assessment reflects the client's financial position and non-financial characteristics. For corporate debtors, the assessment involves primarily an analysis of the strengths and weaknesses such as management quality and competitiveness. For retail debtors, the analysis entails mainly demographic and behavioural indicators. As part of risk management, the Bank categorises its clients into the two following groups, "non-performing" and "performing". The Bank categorises the "performing" clients to an eight-grade rating scale – in case of private individuals (i.e. non-entrepreneurs) – and a thirteen-grade rating scale for other clients. For all "non-performing" clients, the Bank uses a single rating grade – "R" – which is further broken down based on the reasons for the default.

All information essential for the above-mentioned assessments is gathered and stored centrally. The Bank performs regular internal rating reviews (at least once a year). The internal rating methodology is validated based on historical data using statistical models. In accordance with regulatory requirements, the Bank ensures independent entity supervision of the internal rating methodology validation process.

Exposure Limits

Exposure limits are defined as the maximum exposure acceptable for the Bank in respect of an individual client or group of economically-related persons. The system is set up to protect the Bank's income and capital from the effect of risk concentration.

Structure of Approval Authorities

The structure of approval authorities is based on the principle of materiality of the impact of potential loss from a provided loan on the Bank's financial performance and the risk profile of the respective loan transaction. The Supervisory Board Risk Committee and Board of Directors Credit Committee have the highest approval authorisations. Other approval authorisations are given based on credit risk management unit staff seniority.

Determination of Risk Parameters

Česká spořitelna uses its own internal models to determine risk parameters such as probability of default ("PD"), loss given default ("LGD") and credit conversion factors ("CCF", i.e. coefficients used to transfer off-balance sheet exposures to the on-balance sheet ones). All models comply with Basel III requirements. Monitoring and predicting historical risk parameters forms the basis for quantitative portfolio management. Česká spořitelna currently uses risk parameters to monitor credit risk, manage the non-performing loan portfolio and assess risks. The active use of risk parameters in managing the credit risk of the Bank provides detailed information about the possible sensitivity of basic portfolio segments to both internal and external changes.

Impairment Provisions for Credit Risk

For provision-making, Česká spořitelna uses a methodology that complies with International Financial Reporting Standards ("IFRS"). Portfolio provisions are determined for portfolios of receivables in which no individual impairment has been identified. The level of portfolio provisions is established using models based on the Bank's historic experience. The PD and LGD risk parameters are a significant component of these models. Receivables, for which an impairment has been identified are provided for individually. The discounted cash-flow method is used to measure impairment of non-retail receivables and of retail receivables with exposure exceeding CZK 5 million. The impairment level of other retail receivables is determined statistically on the basis of experience with recovery of similar types of receivables. Provisions for all receivables are reassessed on a daily basis. Provisions are back-tested annually with a focus on the adequacy of the created provisions by a comparison with actual loan portfolio losses. Back-testing covers all major loan portfolios (at least 95%).

Since 1 January 2018, the methodology for impairment provisions for credit risk has changed due to application of IFRS 9: Financial instruments.

Concentration Risk and Risk-weighted Assets

Česká spořitelna manages loan portfolio concentration risk through a system of large exposure limits. Large exposure limits are established as the maximum exposure that the Bank may accept in respect of an individual client or economically-related group of clients with a given rating and underlying collateral. The system is set up to avoid the excessive risk concentration to a small number of clients in the portfolio and is based on the maximum level of economic capital that may be allocated to one group of clients. Česká spořitelna fulfilled the conditions for the use of the Internal Ratings-Based ("IRB") approach for calculation of the credit risk capital requirement and, since July 2007, the risk-weighted assets and the capital requirement have been based on internal ratings and the Bank's own estimates of PD, LGD and CCF parameters. Risk-weighted assets are calculated monthly. The standard calculation is regularly supplemented by stress testing, which includes modelling the impacts of sudden changes in the market environment, especially in the macroeconomic factors.

Risk Appetite Statement

The maximum tolerated exposure of the amount of Bank capital and operating profit to various types of risks is defined in the Risk Appetite Statement approved by the Bank's Board of Directors. The Risk Appetite Statement is formulated over a 5-year horizon to coincide with the Bank's planning period.

Improving the Process of Timely Collection

The Bank continued to develop and upgrade the process of timely collection and detection of problematic clients. In corporate banking, this area is handled by a unit responsible for monitoring performance of the non-financial terms of loan contracts with corporate clients with the aim of improving the monitoring of the Bank's loan portfolio and reducing its credit risk exposure. In retail banking, the Bank continued with the effective use of the call-centre for timely collection. Call centre services are also utilised by other entities within the Česká spořitelna Financial Group.

Market Risks

Market risk in Česká spořitelna relates mainly to financial market transactions that are performed in both trading and banking books, and interest rate risk associated with banking book assets and liabilities.

Trading book transactions on the capital, money and derivative markets can be broken down into the following areas:

- Client price quotations and transactions and the execution of client orders;
- Interbank and derivative market price quotations (market making);
- Active trading on the interbank market;
- Distribution of financial market products to retail clients.

Česká spořitelna uses a Group Capital Markets holding business model for financial market trading. Risks from executed client transactions are transferred through back-to-back transactions to portfolios of Erste Group Bank. Quotations on the bond, derivative and foreign currency markets and interbank transactions are also transferred to the holding company. Annually, Erste Group Bank redistributes the proportionate share of the Group results arising from trading in accordance with an approved distribution model. Dealing and quotation making on money markets is managed by Česká spořitelna.

Banking book transactions on the capital, money and derivative markets may be categorised into the following areas:

- Bank investments in securities as part of its investment strategy;
- Execution of certain interbank and client deposits and loans;
- Issuance of own bonds;
- Management of interest income, hedging of banking book interest-rate risks and closing of the mismatch between foreign-currency-denominated assets and liabilities.

The Strategic Risk Management Unit monitors and measures trading and banking book (or trading and banking portfolio) market risk. This unit is entirely independent on the Financial Markets Division (for the trading book) and the Financial Management Division (for the banking book) to avoid conflicts of interest and to ensure that reports on the Bank's risks are independent and unbiased.

The Strategic Risk Management Unit ensures that an independent evaluation of all financial market transactions for both the Group and client portfolios administered by the Group is conducted. The unit is also responsible for managing operational risks associated with financial market trading and with market risk management. It is thoroughly focused on control activities and reconciliations to ensure that complete and accurate records of instruments in the Bank's portfolios exist.

Market risk limits are determined separately for the trading book and the banking book. All trading book limits (specifically VaR limits for intra-day holding and sensitivity limits) are proposed in collaboration with the Strategic Risk Management Unit and the competent business units and approved by the Risk Management Committee of the Chief Risk Officer (VaR limits) or by the Financial Markets Risk Management Committee at the level of Strategic Risk Management Unit manager (sensitivity limits). VaR limits (for a one-month holding period) for banking book market risk are proposed in collaboration between the Strategic Risk Management Unit and the Group Balance Sheet Management Unit and approved by the Risk Management Committee of the Chief Risk Officer together with the Assets and Liabilities Management Committee. Additional limits used for interest-rate risk management of the banking portfolio are described in the Interest-rate risk section.

The set of market limits must comply with the maximum risk exposure level as determined in the RAS (Risk Appetite Statement) approved by the Bank's Board of Directors and further confirmed by the holding company, Erste Group Bank.

For financial market interest-rate risk management, the Bank uses a PVBP gap – a matrix of interest rate sensitivity factors of individual currencies for individual portfolios of interest-rate products. These factors measure the market sensitivity of a portfolio against a parallel shift of the yield curve of the respective currency over a predefined period to maturity. The system of PVBP limits is set for individual trading portfolios of interest-rate products by currency. In addition to interest-rate risk, the Bank also monitors credit-spread risk. This type of risk is relevant for bonds, where changes in bond prices can occur at constant interest rates as a result of a credit spread narrowing or widening.

The sensitivity of foreign currency derivatives to foreign exchange rate movements is measured by delta equivalents and is reflected in the Bank's foreign currency position. Česká spořitelna monitors special limits for foreign currency option contracts, i.e. limits for delta equivalent sensitivity to the exchange rate change in the form of the gamma equivalent and limits for option contract value sensitivity to the exchange rate volatility in the form of the vega equivalent. The Bank also monitors the sensitivity of the value to the period to maturity (theta) and interest-rate sensitivity (rho), which is measured together with other interest rate instruments by PVBP.

The Strategic Risk Management Unit uses other sophisticated methods to assess the value and risks of structured products, whose explicit valuation is not possible. The Monte Carlo method is most frequently used to simulate the probability distribution for the price and future development of complex transactions, including price sensitivities to changes in market factors.

The Value at Risk (VaR) method is used to measure the aggregated trading and banking book market risk of the Bank. VaR values are calculated with a confidence level of 99% for the holding period of one trading day. The calculation is performed using a historical simulation method based on historical data over the most recent 520 trading days. Under conditions of normal loss distribution, VaR is also determined for a holding period of one month or one year and for higher probability levels (99.9%, 99.98%). The group's Market Risk System (MRS) is used to calculate VaR. VaR limits are determined for individual trading desks or portfolios. The VaR method is augmented with back testing (both hypothetical and real), which is designed to verify model correctness. Based on the Czech National Bank's approval, the market VaR method is also used to calculate the capital requirement for foreign currency risk, general interest-rate risk, general and specific equity risk and risk associated with trading book option transactions. This method is additionally used to calculate Economic Capital for trading book and banking book market risks. VaR calculations are also used when assessing risks associated with the asset portfolios of funds of Erste Asset Management GmbH, Czech Republic branch, ČS – penzijní společnost and Energie ČS and when assessing market risks in the banking book of Stavební spořitelna České spořitelny using special models to represent the Bank's financial position.

As a complement to the VaR method, Česká spořitelna performs stress testing, which is described in more detail in a separate section. The Strategic Risk Management Unit monitors banking book investments in bonds using a system of indicators assessing the quality of the security issuer, country of origin and performance of the respective economic sector. If these indicators significantly worsen, each investment is individually re-assessed from the perspective of its future development, potential sale or continued holding.

Information on the Bank's exposure to market risks and on compliance with the established limits is reported on a daily basis to the Bank's responsible managers and on a monthly basis to the members of the Board of Directors via the Asset and Liability Management Committee and Risk Management Committee of the Chief Risk Officer.

Interest-Rate Risk

The Bank's Board of Directors and Asset and Liability Management Committee are responsible for decisions concerning banking book interest-rate risk exposure levels. The Strategic Risk Management Unit is responsible for monitoring banking book interest-rate risk. The Financial Group Balance Sheet Management Unit is responsible for managing banking book interest-rate risk and modelling non-contractual behaviour of products. The models are independently verified by a validation team in the Strategic Risk Management Unit.

Interest-rate risk management methods capture all relevant risks, i.e. revaluation risk, yield-curve risk, basis risk and option risk.

Česká spořitelna uses the following tools to monitor and manage banking book interest-rate risk:

- Simulation of the sensitivity of net interest income to changes in market interest rates (parallel / nonparallel discrete shift in market yield curve). The key interest rate sensitivity parameter is the relative change in the expected net interest income of the Bank with the immediate parallel decline / increase in market interest rates by the stressed value (expressed in basis points) over the next 12 months, assuming a stable balance sheet structure (i.e. product structure of assets and liabilities). This analysis is supplemented by other analyses based on alternative market interest rate development scenarios, different time horizons and alternative assumptions of dynamic balance sheet structure development;
- Simulation of changes in the economic value of the banking book by moving the market yield curve by ± 200 basis points or the actual level of interest rate changes calculated using the 1st and 99th percentile of recorded changes in daily interest rates over five years. For these purposes, the Bank monitors the limit based on the maximum allowed ratio of the impact of this shift on the economic value related to the Bank's capital;
- Simulation of changes in banking book market value given various market yield curve development scenarios. These scenarios reflect parallel and nonparallel shifts in yield curves;
- Value at Risk calculation for a holding period of one month and probability level of 99%.

The Bank's current interest-rate risk exposure is assessed monthly by the Asset and Liability Management Committee within the context of overall development of the financial markets, the Czech banking sector and the structural changes in the Bank's financial position.

Banking Book Management

Česká spořitelna manages and optimizes the individual risks of the banking book using the internal price system as well as the investment and derivative portfolio used for hedging purposes. Investments in the banking book in the form of balance sheet or off-balance sheet items are defined by the framework investment policy and strategy approved by the relevant decision-making body. The strategy is submitted at least once a year and revised as part of the planning calendar. All transactions in the banking book in 2018 were in line with the approved investment strategy and Česká spořitelna's policy.

Liquidity Risk

Liquidity risk is defined as the risk that the Bank loses the ability to meet its financial obligations at the time they become due or will not be able to fund its assets. Liquidity is monitored and managed on the basis of expected cash flows and, in this context, the structure of the financial position is adjusted.

The Survival Period Analysis ("SPA") is one of the key tools in liquidity management. This indicator measures how long an entity may survive under various predefined crisis scenarios from a liquidity risk perspective. These scenarios include the ordinary course of business ("OCB"), moderate identity crisis ("MIC"), serious identity crisis ("SIC"), moderate market crisis ("MMC"), serious market crisis ("SMC"), combined moderate identity and market crisis (MCIM) and combined serious identity and market crisis ("SCIM"). The actual survival period is assessed weekly. Regulatory bodies recommend the survival period of one month for a SCIM crisis; in 2018, Česká spořitelna's survival period exceeded half a year with an internal limit set at three months.

Česká spořitelna monitors and assesses two regulatory ratios for liquidity risk introduced by the Regulation of the European Parliament and of the Council No. 575/2013 ("CRD IV") every month: the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). Since September 2015, the Bank has additionally monitored and assessed adjusted LCR pursuant to the European Commission Regulation no. 2015/61 (The LCR Delegated Act). The LCR measures bank's resistance to a sudden stress event on its liquidity position, specifically whether the bank is able to survive for at least 30 days in the event of a liquidity crisis. The indicator is defined as the ratio of highly liquid assets to total projected net cash outflows over a 30-day period under stress conditions. The minimum ratio should always be higher than 100%.

The NSFR reflects liquidity resistance in a long-term horizon in order to ensure that non-current receivables are financed by non-current funds. The standard requires a minimum amount of funding that is expected to be stable over a one-year time horizon. The NSFR is defined as a share of the amount of longer-term, stable sources of funding employed by an institution (equity and a portion of long-term funds stable over a one-year horizon under stress conditions) on the volume of required stable funding (assets convertible into cash in a period exceeding one year). NSFR should always be higher than 100%. Due to the comfortable liquidity situation (high volume of liquid assets combined with financing in the retail market), Česká spořitelna meets the long-term liquidity indicators with a considerable margin.

Short-term liquidity management and solvency assurance are based not only within the cash-flow perspective of several days ahead but also on the basis of intraday cash-flow monitoring.

Česká spořitelna employs a buffer of highly liquid assets (an Intraday Liquidity Buffer) for operational liquidity management. The limit for the minimum volume of highly liquid assets is regularly assessed based on transactions on Česká spořitelna´s accounts at the ČNB. The buffer is designed to guarantee sufficient liquidity to ensure intraday coverage of outstanding interbank transactions in a crisis situation.

Česká spořitelna uses a system of Early Warning Indicators for the timely detection of forthcoming crises. These indicators serve for the timely detection of market and idiosyncratic liquidity crises and their combination. Where a crisis is detected, the Bank proceeds in compliance with its liquidity crisis emergency plan.

Operational Risks

Česká spořitelna defines operational risks in accordance with the ČNB Regulation No. 163/2014 on the activity of banks, credit unions and investment firms as the risk of loss arising from the inadequacy or failure of internal processes, human error, system failure or the risk of loss resulting from external events including legal risk. Bank's management is regularly informed of operational risk developments and its magnitude.

Česká spořitelna uses a Book of Risks developed by the Risk Management and Internal Audit units as a tool to standardise the identification of risks for the needs of the entire ČS Financial Group and to standardise risk categorisation with the aim of achieving consistency in risk monitoring and assessment.

The ČNB approved the use of advanced measurement approaches (AMA) for the management of operational risk and calculation of the capital requirement for operational risk effective from 1 July 2009. This concept was approved at the level of Erste Group Bank and applies for all group entities using advanced measurement approaches for operational risk. The Bank continues developing this approach with an emphasis on strengthening the internal control system to actively prevent significant losses due to operational risk. In 2011, the Bank successfully modified and approved a model for calculating regulatory minimum capital requirements that newly reflects the impact of insurance. The ČNB also approved the use of AMA by Stavební spořitelna České spořitelny.

The Bank has been using the EMUS software application to collect data on operational risk since 2002. Data are collected for the purpose of quantifying operational risks and calculating the capital requirement, but also for qualitative management, i.e. to prevent the further incidence of operational risks and simplify processes for recording events in which the Bank has suffered damage, including insurance claims. The collection and evaluation of data on inappropriate conduct of the Bank's clients and the risk of human failure (inappropriate employee conduct) in the credit and non-credit areas is key from the perspective of loss prevention.

To assess and manage operational risks, Česká spořitelna does not rely solely on data obtained from actual operational risk incidents. Expert opinions of management regarding risks in the areas for which they are responsible represent another valuable resource. These risk assessments and expert risk scenario evaluations are gathered on a regular basis and the data are aggregated into a risk map and rendered in a standardised form for Erste Group Bank. Risk scenario estimates are applied to calculations of the capital requirement for operational risk pursuant to Basel II principles. An important tool for mitigating losses arising from operational risks is the insurance programme that Česká spořitelna has used since 2002. The programme involves not only insurance of property damage, but also of risks arising from banking activities and liability risks. Česká spořitelna has participated in the Erste Group Bank joint insurance programme since 1 March 2004, which has greatly expanded the Bank's insurance coverage, in particular for damage that may have a material impact on Česká spořitelna's profit or loss. To manage business continuity, Česká spořitelna has introduced a methodology and procedures based on internationally recognised standards and best practices. The Bank systematically analyses key processes and threats with respect to the risk of process failure, including an evaluation of the efficiency of adopted measures and testing of existing emergency plans. Česká spořitelna also participates in the activities of the Financial Markets Critical Infrastructure Committee ("CIFM") that involves key banks and is overseen by the ČNB.

Careful attention is given to fraud prevention as a specific category of operational risk. The Bank focuses on the prevention of external client or third-party fraud as well as the risk of internal fraud. All cases (zero tolerance for fraud) are subject to detailed investigation followed by individual measures and system changes in the Bank's IT and business processes.

The Bank has a system in place to manage risks associated with outsourcing and has implemented a group policy that complies with regulatory requirements (in particular, ČNB Regulation No. 163/2014). Risk analysis is regularly performed and updated for material activities; a general outsourcing activity assessment is reported to the Bank's Board of Directors on an annual basis.

Stress Testing

Česká spořitelna greatly expanded its stress testing of risk factors in 2009 based on its experience with the crisis of 2008–2009 and regulatory requirements.

Market risk associated with the trading book and the part of the banking book measured at market prices is subject to monthly stress testing. Scenarios are primarily based on historical events and stress scenario results are compared to the capital requirement for market risk.

Additionally, Comprehensive Stress Testing Report (i.e. a summary of all risk exposures) is submitted to the Bank´s Board of Directors on a quarterly basis. The report quantifies the impacts of a negative scenario for individual risks derived from the estimated effects of selected stressed situations in real economy.

The report includes a summary of stress tests for market risks (separately for mark-to-market positions and for impacts of tests on the Bank's net interest income), credit risk, operational risk, business risk, concentration risk and liquidity risk. The aggregate impact of the Comprehensive Stress Test is reflected in the Bank's resultant capital adequacy in compliance with Pillar 1 and Pillar 2. In addition, scenarios are created in the context of reverse stress testing, the impacts of which would jeopardise the viability of the entire bank, for example, extraordinary movements in the yield curve, the slump of the economy leading to a significantly reduced possibility to repay loans, extreme operational risk events, or a bank run associated with deteriorated opportunities to get liquidity on the market that are part of the Recovery plan.

Capital Management

Regarding the internal capital adequacy assessment process ("ICAAP"), Česká spořitelna uses the Erste Group Bank methodology (updated on an ongoing basis) to reflect current trends, recognised standards and regulatory requirements. The approach taken by Česká spořitelna reflects local differences required by local regulatory requirements or other specifics, which leads to slight deviations from the Group approach at a local level.

All significant risks are quantified and covered by internal capital within ICAAP. Economic capital is calculated for a one-year period with a confidence level of 99.9%. Market, operational and liquidity risks are quantified using the complex advanced approaches based on VaR methodology. Credit risk is calculated using the risk-weighted assets method with the IRB approach. Česká spořitelna has also developed models for other risks (business, strategic, reputation and concentration risk). The overall risk of the Group is the sum of the individual risks, i.e. the diversification effect is not used due to the preference of a more conservative approach. Total risk is then compared to capital funds derived from the regulatory capital adjusted for the current year result.

Česká spořitelna performs stress testing to provide additional information for an internal assessment of its capital adequacy. The resulting economic capital is allocated to the Bank's business lines in order to calculate their risk-adjusted performance. The Česká spořitelna ICAAP results are submitted quarterly to the Board of Directors, which then decides on any steps to be taken in respect of ICAAP and, generally, of risk and capital management.

The Bank has implemented new procedures comprising a Recovery Plan in consideration of new regulatory requirements to be prepared for unexpected adverse market developments and, where the situation requires to do so, to adopt sufficient timely measures. In addition to the foregoing stress scenarios, the Recovery Plan includes indicators to initiate these procedures, a list of suitable measures to ensure a return to the pre-crisis situation, a description of general Bank governance and strategy that incorporates a list of critical functions and other regulatory requirements in this area. In 2018, the Recovery Plan was updated within its regular annual review, approved by the Board of Directors and accepted by the supervisor.

Erste Group Bank, including Česká spořitelna, pays sufficient attention to ICAAP with the aim of gradually improving the system for managing the Group's risk profile and capital adequacy, while taking future development into account. The Bank continues to refine its inclusion of new regulatory requirements when modelling the development of capital needs and funds.

The Bank manages its capital with the aim to support business activities, comply with all applicable regulatory requirements and ensure a stable return for shareholders.

In December 2015, Česká spořitelna established an independent Strategic Capital Management Unit tasked with managing and planning the Bank's capital position, implementing new regulatory requirements for the Bank's capital and crisis management.

Capital Adequacy

The unconsolidated capital adequacy of Česká spořitelna continues to highly exceed the level required by the ČNB when reflecting all capital buffers in Pillar 1. Based on the ČNB calculation, Česká spořitelna was assessed as a systemically important bank and thus has to hold additional capital in the amount of 3% above the basic requirement and the other applicable regulatory capital reserves.

Capital Adequacy*

2018	2017	2016	2015	2014
19.03%	18.61%	20.07%	21.70%	18.82%

*data per ČNB methodology

Information on Capital and Ratio Indicators Pursuant to Annex No. 14 of Regulation No. 163/2014 Coll.

The following table shows capital for the Bank's capital adequacy calculation on a standalone basis, as reported to the regulator pursuant to the valid regulations.

Data on Capital and Capital Requirements

a) pursuant to Article 437(1)(a) of EU Regulation No. 575/2013

In CZK thousand	Standalone data 31. 12. 2018	Standalone data 31. 12. 2017
Capital	102,180,547	99,696,117
Tier 1 (T1) Capital	98,586,609	96,459,940
Common Equity 1 (CET1) Capital	90,479,745	88,353,076
Instruments usable for CET1 Capital	14,080,567	14,080,567
Paid up CET1 instruments	14,078,879	14,078,879
Share premium	1,688	1,688
Retained earnings	82,474,852	80,247,775
Accumulated other comprehensive income (OCI)	(723,701)	(317,329)
Other reserve funds	0	0
CET1 Capital adjustments for prudential filters	1,175,113	1,384,889
Reserve fund for cash flow hedges	1,598,690	1,919,699
Accumulated profit / loss from changes in fair value of liabilities in the event of a change in credit risk	(3,746)	(2,576)
Fair value of profit / loss from own credit risk related to derivative liabilities	(27,879)	(33,919)
(–) Value adjustments per requirements for prudential valuation	(391,952)	(498,315)
(–) Other intangible assets – gross value	(4,948,531)	(4,481,737)
Deferred tax liabilities associated with other intangible assets	278,166	0
(–) Lack of coverage of expected loss by credit risk adjustments under IRB approach	(1,856,721)	(2,561,089)
Other temporary adjustments of CET1 Capital	0	0
Other CET1 Capital instruments and other CET1 Capital deductions	0	0
Additional Tier 1 (AT1) Capital	8,106,864	8,106,864
Paid AT1 instruments	8,106,864	8,106,864
Tier 2 (T2) Capital	3,593,938	3,236,177
Paid T2 instruments and subordinated debt	1,121,121	1,121,121
Excess coverage of expected losses under IRB approach	2,472,817	2,115,056

b) pursuant to article 438(c) through (f) of EU Regulation No. 575/2013

In CZK thousand		Standalone data 31. 12. 2018	Standalone data 31. 12. 2017
Risk-weighted exposure cases specified in Article 112 of Regulation (EU) No. 2013/575	Exposures to central governments or central banks	424,937	250,105
	Exposures to regional governments or local authorities	392	1,417
	Exposures to public sector entities	48	973
	Exposures to institutions	2,696,009	2,338,634
	Exposures to corporates	19,749,388	19,264,848
	Retail exposures	11,711,318	11,159,309
	Exposures in default	0	0
	Exposures in the form of units or shares of collective investment undertakings	0	527
	Equity exposures	2,112,829	1,879,384
	Other items	1,193,336	1,172,772
Own funds requirements calculated in accordance with points (b) and (c) of Article 92(3) of Regulation (EU) 2013/575	for position risk	798,717	773,601
Own funds requirements calculated in accordance with Regulation (EU) 575/2013 Part III, Chapters 2,3 and 4 and disclosed separately	Own funds requirements calculated in accordance with Part III, Chapter 4 of Regulation (EU) 2013/575	4,258,089	6,024,683

Capital Indicators

In %	Standalone data 31. 12. 2018	Standalone data 31. 12. 2017
Tier 1 common equity ratio	16.85	16.49
Tier 1 capital ratio	18.37	18.00
Total capital ratio	19.03	18.61

Ratio Indicators(18)

In CZK thousand	Standalone data 31. 12. 2018	Standalone data 31. 12. 2017
Return on average assets (ROAA) (in %)	1.11	1.22
Return on average equity Tier 1 (ROAE) (in %)	15.55	15.94
Assets per employee	143,023	129,620
Administrative expenses per employee	1,601	1,535
Net profit or loss per employee	1,572	1,539

(18) Definitions of below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 318

Other Information for Shareholders

pursuant in particular to § 118 of Act No. 256/2004 Coll. on capital market understandings, par. 4, letters b) through l) and par. 5 letters a) through k)

Česká spořitelna, a.s., with its registered office at Prague 4, Olbrachtova 1929/62, 140 00, Company ID 45244782, is the legal successor of the Czech State Savings Bank and was registered as a joint stock company in the Czech Republic on 30 December 1991 in the Commercial Register maintained by the Municipal Court in Prague, Section B, Entry No. 1171.

§ 118, par. 4, letter d) and par. 5, letters a) through e)

The structure of the consolidated and individual equity of Česká spořitelna is presented in the consolidated and separate annual financial statements on pages 82 and 203 of the Annual Report, respectively.

Shares of Česká spořitelna, a.s.

- **Class:** Ordinary and preference shares
- **Type:**
  - 140,788,787 ordinary bearer shares, i.e. 92.62% of share capital
  - 11,211,213 preference shares, i.e. 7.38% of share capital
- **Form:** Decertificated
- **Number of shares:** 152,000,000 pcs
- **Total volume of issue:** CZK 15,200,000,000
- **Nominal value per share:** CZK 100
- **Share marketability:** Shares are not traded on any public market

The transferability of preference shares is restricted to towns and municipalities of the Czech Republic; transfers of preference shares to other entities are subject to the approval of Česká spořitelna's Board of Directors. A preferential right to receive dividends is attached to preference shares. Holders of preference shares are entitled to preference dividends every year provided that the General Meeting[19] adopts a decision to distribute profits, even if other shareholders are not paid dividends in the given year based on the General Meeting's decision. There is no right to vote at General Meetings attached to the Company's preference shares. Holders of preference shares have all the other rights attached to ordinary shares. Additional information on shareholders' rights is presented in the Česká spořitelna, a.s., Declaration on the Compliance of its Governance with the Code based on OECD Principles (see page 65 of the Annual Report).

Česká spořitelna's shareholders structure as at 31 December 2018

	Share in share capital	Share in voting rights
Erste Group Bank AG, Am Belvedere 1 Vienna, Austria	100%	100%

§ 118, par. 5, letters g) and h)

The appointment and recall of members of the Board of Directors is the responsibility of the Supervisory Board. Members of the Board of Directors are appointed and recalled by acclamation (a show of hands) at Supervisory Board meetings; in this case, any agreement to take a vote in writing or via remote means of communication outside of the Supervisory Board meeting is unacceptable. The Supervisory Board has achieved a quorum if an absolute majority of its members is present. The Supervisory Board decides by resolution; adopting a resolution requires a majority vote of the members of the Supervisory Board. When votes are equal, the Chairman has the casting vote. The General Meeting decides on any changes to the Company's Statutes in compliance with the relevant provisions of Act No. 90/2012 Coll., on business corporations.

The Board of Directors is the statutory body that manages the activities of Česká spořitelna and acts on its behalf. The standard powers and responsibilities are set out in Article 13 of the Česká spořitelna Statutes. Members of the Board of Directors have no special powers in the meaning of par. 5, letter h).

§ 118, par. 5, letter i)

Česká spořitelna has executed ISDA Master Agreements, which include the condition that if the ownership of either party changes, the other party shall have the right to terminate the agreement. The foregoing applies to agreements entered into with these counterparties: BNP Paribas, Paris; ING Bank, Amsterdam; JP Morgan Chase Bank, New York; Morgan Stanley & Co. (International) and UBS, London.

Information arising from § 118 of Act No. 256/2004 Coll, on Capital Market Undertakings, par. 4, letters b), c), e), j) and l), is included

(19) Since 6 November 2018 Erste Group Bank AG has been the sole shareholder of Česká spořitelna, thus the General Meeting is replaced by the Decision of the Sole Shareholder.

in the Česká spořitelna, a.s., Declaration on the Compliance of its Governance with the Code based on OECD Principles (see page 65 of the Annual Report).

Česká spořitelna has entered into no contracts, agreements or programmes in the meaning of § 118 of Act No. 256/2004 Coll, on Capital Market Undertakings, par. 5, letters f), j), and k).

Controlling entity

Erste Group Bank AG is the sole shareholder of Česká spořitelna, a.s. Measures designed to prevent the controlling entity from misusing its control primarily include:

- A ban on the misuse of a voting majority in a Company;
- A ban on the abuse of a controlling entity's influence by forcing the adoption of a measure or execution of a contract that could cause damage to the property of a controlled entity, unless such damage is compensated by the end of the fiscal period in which the damage was incurred, at the latest, or a contract is signed stipulating a reasonable period and method for the compensation to be paid by the controlling entity;
- An obligation on the part of the Company to prepare a Report on Relations between Related Parties (see page 299 of the Annual Report);
- An obligation of the controlling entity to pay damages to the controlled entity; and
- Guarantees provided by members of the statutory body of the controlling entity and controlled entity.

Česká spořitelna is a universal bank and is not dependent on other Česká spořitelna Financial Group or Erste Group Bank entities.

Information on the acquisition of own shares and Erste Group Bank shares

In 2018, Česká spořitelna neither traded nor held any own shares. It acted as a market maker in respect of the shares of its controlling entity, Erste Group Bank AG, on the Prague Stock Exchange. For this purpose, Česká spořitelna purchased 794 thousand shares under standard market conditions at an aggregate purchase price of CZK 753 million and sold 794 thousand shares at an aggregate selling price of CZK 753 million. In 2018, the minimum price for the purchase and sale of one share was CZK 718.91 and CZK 718.91, respectively, and the maximum price for the purchase and sale of one share was CZK 1,071.00 and CZK 1,070.70, respectively. Neither at the beginning nor at the end of 2018 did Česká spořitelna hold any shares. The average nominal value of one share of Erste Group Bank was EUR 2 at the end of 2018.

Information on the Guarantee Fund Contribution

Guarantee Fund: safeguards the guarantee system from which compensation is paid to clients of securities traders unable to meet their client obligations. The calculation base for the Česká spořitelna Guarantee Fund contribution for 2018 was CZK 967.0 million. The contribution itself amounted to CZK 19.34 million.

Information on Research and Development Activities

Česká spořitelna is a leading financial services provider in the Czech Republic. Its extensive portfolio of services and efforts to maintain a high quality are commensurate with the emphasis Česká spořitelna places on security when it comes to service reliability and the protection of the personal information of clients, the secure use of digital banking, payment card security and the reliability and proper functioning of information systems. Česká spořitelna conducts in-house research and development, in particular of proprietary software, i.e. architecture design, development of ancillary tools (frameworks) and their implementation and integration. Česká spořitelna also develops mathematical, statistical and other empirical models designed to model risks, i.e. creating risk management systems, the prevention and automated detection of fraud, and research and development of empirical models designed to model retail market conditions. Česká spořitelna incurred research and development costs of CZK 50 million in 2018.

Information on Obligatory Published Figures

Česká spořitelna publishes figures according to Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, Act on banks, Act on savings and credit co-operatives No. 87/1995 Coll., Act on capital market understandings and Ordinance No. 163/2014 Coll. in Czech language in the part "Obligatory Published Figures" on its internet website at: https://www.csas.cz/cs/dokumenty-ke-stazeni#/7/Povinne-informace-v-souladu-s-Vyhlaskou-CNB, in the form of unprotected data files suitable for downloading and in xls/xlsx format.

Supplementary Information on Debt Securities Issued

Debt securities ISIN CZ0002001191, CZ0002001407 and CZ0002001415 have been traded on the regulated market of the Prague Stock Exchange since its issue date. No other securities are traded on any regulated market. Issued debt securities are summarised in the separate financial statements. The debt securities have not been assigned any rating. Credit ratings are assigned to Česká spořitelna by the renowned credit rating agencies Fitch, Moody's and Standard & Poor's. All three credit rating agencies were registered in compliance with Commission Regulation (EC) No. 1060/2009 on credit rating agencies, amended by Commission Regulation (EC) No. 462/2013 (The Regulation on Credit Rating Agencies). Česká spořitelna complied with the duty stipulated in Art. 8d of the above Regulation. The market share of each of the above credit rating agencies calculated in compliance with Commission Regulation (EC) No. 1060/2009 exceeds 10% of the European Union market.

Fees invoiced by the audit company PricewaterhouseCoopers Audit, s.r.o. in 2018

§ 118, par. 4 letter k)

CZK million	Audit services	Other assurance services	Other services	Total
Česká spořitelna	15	6	3	24
Other consolidated companies	9	0	0	9
Total	**24**	**6**	**3**	**33**

Services in addition to the statutory audit provided by statutory auditor and its affiliate during 2018

Company	Recipient of the service	Service description	Price without VAT (in CZK)
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Review of half-year consolidated package of Erste Group Bank AG as per requirements of the EGB Group auditor	4,082,000
PricewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	Support of the IT Security department in project responding to regulation and Cyber Security requirements	1,910,000
ProcewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	Support of experienced agile coach for Agile Transformation	903,750
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Assurance on the contribution process for the PRIBOR rates	342,000
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Review of documentation related to hedging of interest rate risk of deposit portfolio for 2019	328,900
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Preparation of a report on the adequacy of measures taken to protect the customer's assets	316,930
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Review of separate and consolidated annual and half-year financial statement for Czech regulatory purposes	288,000
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Agreed-upon-procedures on fee calculation for guarantee for loans received from European Investment Bank	190,000
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Auditor's confirmations for insolvency proceedings	76,000
PricewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	Training and conferences	19,800
Total			**8,457,380**

Principles for the Remuneration of Managers and Supervisory Board Members

§ 118, par. 4, letters f), g), h), i)

Česká spořitelna Bonus Pool

The Česká spořitelna bonus pool is formed on the Bank level based on the development of the Bank's financial results. The bonus is a discretionary wage/remuneration component and is paid out subject to compliance with all predefined conditions. The size of the bonus pool is derived from Česká spořitelna's performance in the given year. A condition for the payment of the annual bonus is attainment of a minimum target value of the indicators set for the given year (net profit of the Česká spořitelna consolidated group after tax, compliance with capital adequacy requirements, fulfilment of liquidity indicators, and fulfilment of the Bank's strategy). The bonus pool is created with regard to the combination of all four categories and is corrected by the likelihood of the attainment of a profit in the next three years.

The initial volume of the Česká spořitelna bonus pool is calculated as the sum of bonus potential of individual jobs. Bonus potential between 15-100% of the fixed (annual) pay is allocated for each work position, based on its classification in the job catalogue (reflecting its significance and importance for the Bank). The overall bonus pool portfolio is adjusted at the end of the year, provided that performance indicators have been met, using a bonus multiplier, the value of which (%) is based on the level of fulfilment of strategic business and financial indicators, i.e., a comparison of their results with the planned values. For 2018, the business-financial indicators were the operating profit of the Česká spořitelna Financial Group (FSČS) reduced by risk costs, the ratio of FSČS's operating costs and income, and FSČS client satisfaction measured on the basis of indicator NPS (Net Promoter Score).

Managers

At Česká spořitelna, managers include the Chairman of the Board of Directors, Vice-Chairman of the Board of Directors, and other Members of the Board of Directors (hereinafter referred to as the „Board"), which constitutes a collective statutory body. By law, the Board is a company's statutory body responsible for the commercial management of the company. Board Members and the Chairman and Vice-Chairman of the Bank discharge their duties with due loyalty, the requisite knowledge and diligence, and due professional care, and act in good faith, with due diligence and care, and in the best interest of the Company and its shareholders. They are experts in the management of large corporations, having international experience, and are capable of team work. Their position requires ongoing development to both in the sector and in corporate governance, active approach the performance of their duties and ability to contribute to the development of the Company's strategy. Last but not least, they must be loyal to the Company. Board Members maintain a high-level ethical standard and are responsible for ensuring that the Company complies with applicable laws. They are personally liable for any damage they may cause by a breach of their legal obligations and are also functionally accountable to the Company represented by its shareholders.

Detailed curricula vitae of Members of the Board of Directors documenting their competence, expertise, practical experience, and describing their activities are published on page 14 of the Annual Report.

Remuneration of Managers

Board Members are remunerated on the basis of an „Agreement on the Performance of the Position of a Member of the Board of Directors" concluded in line with the applicable provisions of Act No. 90/2012 Coll., on Business Companies and Co-operatives (hereinafter referred to as the „Act on Business Corporations"). Individual agreements on the performance of the position of the members of the Board of Directors and the amount of Board Members' remuneration, as well as the overall Česká spořitelna remuneration policy are approved by the Česká spořitelna Supervisory Board.

The overall income of a Board Member for any given year is comprised of Board Member's fixed pay, variable income, and benefits/in-kind performances.

On the basis of their managerial and professional expertise and benefit for the Company, all Board Members were in the aggregate entitled to:[20]

- Financial remuneration for holding the position of a member of a statutory body, amounting to CZK 47.559 mil.;
- Bonuses for managing a division (cash portion), amounting to CZK 13.516 mil.;
- Bonuses for managing a division (non-cash portion – certificates), amounting to CZK 7.310 mil.; and
- In-kind benefits for holding the position of a Board Member, amounting to CZK 2.589 mil.

All of the above mentioned income is paid-out by Česká spořitelna. Board Members do not have any income from any of the companies controlled by Česká spořitelna.

Neither Board Members nor their family members hold Česká spořitelna stock or stock options (the ESOP programme).

Variable Remuneration of Managers

The variable remuneration component is calculated as the fixed income multiplied by the bonus potential (100%) multiplied by bonus multiplier, where the value of the bonus multiplier is set as the outcome of the evaluation of the Strategy and Business part (evaluation of set performance indicators; overall weight 75%) and the Leadership part (overall weight 25%). The annual variable remuneration of Board Members as managers normally amounts for less than 4% of the aggregate annual volume of variable remuneration at Česká spořitelna as a whole.

The performance criteria for each Board Member are established for each calendar year and approved and subsequently evaluated by the Supervisory Board, including the expected/target value of the indicator and of their weight in all performance criteria, and hence, also in the annual bonus of the Board Member. Board Members may receive an annual bonus of up to 100% of their fixed annual remuneration. In formulating objectives for the Board, applicable regulatory requirements are always taken into account, as the resulting structure must be in compliance with them. In performance evaluation, financial performance criteria are adjusted for associated current and future risks and costs.

Evaluation of the performance of Board Members takes place after the end of each calendar year through the Top Executive Appraisal Committee (TEAC). The TEAC is a group committee comprised of Board Members of the Holding company that evaluates the performance of each key performance indicator (KPI) by each Board Member; the overall evaluation is the sum of the results attained in the sphere of competence of each Board Member, in the form of financial, non-financial, strategic, operative, and managerial results. The inputs for TEAC evaluation are assessed indicators from the Controlling and Strategy departments, a self-evaluation of each Board Member, and a qualitative evaluation by the Chairman of the Board, both in terms of the Member's KPI results in the previous year and in terms of an evaluation of the Member's future potential. The outputs from the TEAC are then assessed by the Remuneration Committee. The Supervisory Board decides about the setting of bonuses for Members of the Management Board on the basis of a proposal from the Remuneration Committee. Additional information about the Remuneration Committee is provided in subsequent parts of the chapter Principles for the Remuneration of Managers and Supervisory Board Members.

The following key performance indicators were set and subsequently evaluated by the Supervisory Board for 2018 for Board Members (the „Strategy and Business" part having a weight of 75% of the overall evaluation):

- Chairman of the Board: performance objectives – Operating profit less risk costs; Absolute objective on the cost side, Implementation of the Data Management programme, strategic and business-specific objectives – Fulfilment of long-term strategy, Implementation of the programme of improvements in efficiency by improving capacity-management abilities at all management levels at ČS, Transformation to agile method of management, Implementation of George and ČS Fan Development (NPS);
- Vice-Chairman of the Board responsible for financial management: performance objectives – Operating profit less risk costs, Absolute objective on the cost side, Implementation of the Data Management programme; strategic and business-specific objectives – Implementation of the data project, Implementation of a project focused on IFRS9, Transformation to agile method of management, Optimisation of ČS' capital structure and Innovations in Planning;
- Board Member responsible for retail banking: performance objectives of the business unit concerned – Operating profit less risk costs, Absolute objective on the cost side, strategic and business-specific objectives – Implementation of digital transformation, Implementation of George, Number of active clients, Transformation to agile method of management, Implementation of activities in the sphere of Open Banking and PSD2 and Fan Development (NPS);
- Board Member responsible for corporate banking: performance objectives of the business unit concerned – Operating profit less risk costs, Absolute objective on the side of costs, strategic and business-specific objectives – Implementation of a strategy for the medium-sized and large client segment, Improvement of customer experience in the corporate sphere, Fulfilment of digital strategy activities, Transformation to agile method of management, Implementation of activities in the sphere of Open Banking and PSD2 and ČS Fan Development (NPS);
- Board Member responsible for operations and IT: performance objectives – Operating profit less risk costs, Absolute objective on the cost side, Implementation of the Data Management programme; strategic and business-specific objectives – Implementation of the data project, Activities focused on further improvements in efficiency in the IT area, Implementation of solutions in the B365 sphere, Implementation of George, Transformation to agile method of management and IT consolidation;
- Board Member responsible for risk management: performance objectives – Ratio of non-performing loans to total loans, Ratio of risk costs to total loans, Implementation of the Data management project, Absolute objective on the cost side; strategic and business-specific objectives – Development of a model in the sphere of high-priority risk management, Management of non-financial risks, Implementation of initiatives in the sphere of retail and corporate risk management, Transformation to agile method of management.

Each of the indicators stated above was assigned a target value to be attained in 2018, and a weight in overall evaluation in the „Strategy and Business" part.

The „Leadership" part consists of the management results attained, qualitative evaluation by the Chairman of the Board of Directors, and an evaluation of future potential make up the „Leadership" part, with a weight of 25% of the overall evaluation.

Postponement of Variable Remuneration and Method of Payment

Regarding the variable component of remuneration to Board Members (if the annual amount of the variable component amounts to at least CZK 1.6 mil.), 40% of the variable component of remuneration is postponed. The period of postponement is three years. The variable component of remuneration is then granted as follows: 60% un-postponed part + 13.33% in the first year of postponement + 13.33% in the second year of postponement + 13.34% in the third year of postponement. If the variable component exceeds CZK 4 mil., the ratio of 40% in the un-postponed part and 60% in the postponed part will be applied (20% in the first year of postponement + 20% in the second year of postponement + 20% in the third year of postponement). 50% of the un-postponed and postponed parts of variable remuneration is granted in remuneration certificates.

As a non-cash alternative, Česká spořitelna uses remuneration certificates (hereinafter referred to as „certificates"), the nature of which is „other instruments" as described in the Article 4 of Regulation (EU) No 527/2014. The part of bonuses that is granted in non-cash remuneration instruments is paid out in certificates. The nominal value of each certificate is CZK 1. Certificates mature in one and a half years in the case of a bonus granted without a postponement, and one year for the postponed bonus component. The value of the certificate as at the pay-out date is determined on the basis of its current value. The pay-out takes place as at the due date based on the current price and number of certificates held, provided that certain conditions have been fulfilled. Česká spořitelna is entitled not to pay out the certificates, in the case of its adverse financial situation or insolvency. The price of one certificate is set for each half-year based on the cash of the CET1 capital adequacy value and liquidity indicator. No Board Member is allowed to fulfil any non-cash remuneration instruments for the duration of the postponement.

The variable remuneration component or any part thereof are only granted if it is sustainable with a view to the overall financial situation of Česká spořitelna and justifiable performance of the department concerned, and the work performance of the person. Otherwise, the right will not be granted or will only be granted to a limited extent (malus). The possibility of withdrawing an already granted or paid out variable remuneration component (claw-back) is not applied.

The following rules are applied in ex-post testing of the justifiability of the pay-out of the postponed portion of variable remuneration:

a) Net profit after tax and non-controlling interests was not negative (loss);
b) Consolidated capital adequacy is higher than the RAS limit (liquidity and capital adequacy limit);
c) The person has not been finally convicted of a criminal offence related to his work (e.g., embezzlement, etc.);
d) In performing his work tasks, the person:
   i. did not act fraudulently;
   ii. did not provide misleading information that had or could reasonably have had an impact on performance evaluation;
   iii. did not act in violation of Česká spořitelna's internal regulations (e.g., work rules, Code of Ethics, etc.) and has not breached obligations arising from legal regulations or otherwise acted contrary to the legitimate interests of Česká spořitelna.

If at least one of the rules listed in points (a) to (c) are not met, the postponed part is not paid out at all (malus); in the case of (d), a reduction to 0-100 % will take place, depending on the seriousness of the transgression or action (malus).

Supervisory Board

The Supervisory Board is the Company's controlling body that oversees the exercise of the powers of the Board of Directors in conducting the Company's business. The Supervisory Board checks, in particular, whether the Board of Directors carries out its activities in line with legislation and the Company's Articles of Association and whether its Members act in line with the Company's interests and with due professional care. Supervisory Board Members must carry out their duties with due professional care. Supervisory Board Members must have the professional competence to serve in their positions and must maintain loyalty to the Company and the confidentiality of all confidential information and facts. Supervisory Board Members are liable for any damage they may cause by a breach of their legal obligations. Furthermore, Supervisory Board Members are accountable for their position to the Company represented by its shareholders.

Supervisory Board Members are remunerated in line with the applicable provisions of the Act on Business Corporations. The amount of remuneration for Supervisory Board Members is approved by the General Meeting.

For their work on the Supervisory Board of Česká spořitelna in 2018, all Supervisory Board Members were in the aggregate entitled to:[20]

- Financial remuneration for serving as a Supervisory Board Member, amounting to CZK 4.371 mil.;
- In-kind income for serving as a Supervisory Board Member, amounting to CZK 0.045 mil.; and
- Supervisory Board Members – Česká spořitelna employees – received financial amounts based on their employment relationships amounting to CZK 4.098 mil.

All the above income is paid out by Česká spořitelna. Members of the Supervisory Board do not have any income from any of the companies controlled by Česká spořitelna.

A Remuneration Committee (hereinafter referred to as the „Committee") has been established by the Supervisory Board, comprising Supervisory Board Members (Maximilian Hardegg, John James Stack, and Aleš Veverka), who do not perform any executive role in the Company. In 2018, the Committee met 5 times. The Committee has competence, above all, in drafting proposals of resolutions concerning remuneration at the Company, including those that have an impact on risks and risk management at the Company, and that are to be adopted by the Supervisory Board. In drafting such resolutions, the Committee takes note of the long-term interests of shareholders, investors, and other persons with a capital interest in the Company. Among other things, the Committee submits to the Supervisory Board proposals pertaining to the remuneration of Board Members, oversees the remuneration of division directors who perform internal control functions and oversees the basic principles of remuneration and their application. It has access to relevant information from the Supervisory Board, the Board of Directors, and all internal control functions. In its work, it co-operates with HR and other relevant departments of the Bank. It fulfils the tasks entrusted to it in the field of remuneration by the Supervisory Board. In overseeing fundamental principles of remuneration and their application, it focuses on the mechanism for taking into account all risks, liquidity and capital, and ensures that the remuneration system is in compliance with long-term prudential management of Česká spořitelna. Committee members receive a fixed fee per meeting, and the chairman of the Committee also a regular monthly amount.

Affidavit

The undersigned represent that, to the best of their knowledge, the annual report and consolidated annual report provide a true and fair view of the financial position, business activities and financial performance of Česká spořitelna and its consolidation group for the previous financial year and of the outlook for the future development of its financial position, business activities and financial performance.

Prague, 28 March 2019

Tomáš Salomon
Chairman of the Board
of Directors

Wolfgang Schopf
Vice-chairman of the Board
of Directors

(20) Financial remuneration for Board Members and Supervisory Board Members – remuneration for discharging the duties of their office outside of executive management of the departments entrusted to them (i.e., for acting as the Chairman/a Member of the Board of Directors or of the Supervisory Board);

Bonuses for managing a division (cash) – variable remuneration for the executive management of a department (division) entrusted; cash component;

Bonuses for managing a division (non-cash certificates) – variable remuneration for the executive management of a department (division) entrusted, in-kind certificates cashed-in on maturity;

In-kind income for discharging the duties of a Member of the Board of Directors or Supervisory Board Member – for Board Members, non-cash income is always regulated in the particular Member's agreement on the discharge of the duties of his office (approved by the Supervisory Board). The set-up of their provision and drawing is based on rules for benefits that Bank employees may take advantage of in line with applicable internal regulations. For Board Members, they include (i) a company car with chauffeur; Board Members may use Company cars without the services of a chauffeur for private purposes; (ii) mobile telephone, notebook, tablet, or other work aids and tools required for discharging the duties of their office; the work aids and tools are only intended for work use; (iii) individual medical care in a contractual medical facility to an agreed extent; medical care may also be provided to a Board Member's family members; (iv) contribution for supplementary pension insurance in an amount set in an internal regulation, approved by the Supervisory Board; (v) contribution for private life insurance in an amount based on an agreement concluded by the Company and approved by the Supervisory Board; (vi) contribution for cultural and sports activities amounting to CZK 15,000 per calendar year; (vii) insurance of liability for damages caused in connection with the discharge of the duties of the office of a Board Member (known as D&O insurance), subject to conditions approved by the Supervisory Board; (viii) accident insurance, subject to conditions approved by the Supervisory Board. Supervisory Board Members are only provided a reimbursement of costs reasonably expended on their participation in a Supervisory Board meeting (subject to approval by the Company's General Meeting).

Corporate Social Responsibility

Česká spořitelna Corporate Social Responsibility

Česká spořitelna believes in good causes

In 2017 the Bank launched a new communication concept characterised by the motto: "When somebody believes in you, you can do more". And in the form of a motto it highlights its almost two-hundred-year-old history and the fact that it was never afraid to provide a loan or even invest in a totally unknown venture or project. At a time when at the Bank's initiative not just water supplies and sewerage were built in cities, but for example also nursing homes and schools – the Bank in short always supported good causes resulting in the development of the local community and help for the need. It continues to do so to this day because Česká spořitelna believes in good causes. Besides, the Bank intensively reflected on the legacy of its predecessors even in 2018 (which ranks among one of those years ending in the number "8" which marked so many important events in the Czech history).

Česká spořitelna leads the way to prosperity

Česká spořitelna always strove to ensure the prosperity of those around it. It is responsible for many projects that provide help for good management and financial literacy, and supports smart environmental solutions. Česká spořitelna donated to the Česká spořitelna Foundation **the extraordinary revenues it acquired from uncollected safe deposit boxes** worth a total of CZK 2,093,210. The funds were used to support acceleration programmes for non-profit organisation and social enterprises. To support good things happen the Bank spent CZK 70,000 in total in 2018.

It took part in the celebrations of one-hundred-year anniversary of the formation of the Czechoslovakia in the role of the partner of the **Zažijte to znovu ("Live it Again")** project; in 17 towns throughout the country more than 42 thousand people experienced the atmosphere of the days when the Czech Republic was formed. Česká spořitelna invited visitors in a period-specific bank, guided them through the world of ancient banknotes, richly illustrated shares, share certificates and bills of exchange. The total of 4,000 children took part in an interactive game by Česká spořitelna.

The Bank is the long-term active partner of the **Association of Social Responsibility**. Together with the Ministry of Industry and Trade it formulates the **National Action Strategy for Social Responsibility** as a member of the Platform of CSR Stakeholders at the Ministry of Industry and Trade. As a member of the Czech Banking Association it is also involved in the project Bankers for Schools.

I. Financial Literacy

Česká spořitelna believes that it is important to lead people, companies and institutions to prosperity. ČS is the first bank that takes care of financial health of its clients. Spořitelna would like people to see and understand the context and consequences of their financial activities and teach them to make good decisions; that is why the Bank starts with the youngest ones.

Money Alphabet

The Abeceda peněz (Money Alphabet) project accredited by the Ministry of Education, Youth and Sports has taught for two consecutive years financial literacy to pupils of fourth and fifth grades of elementary school using an entertaining form. The Money Alphabet project shows the world of finance and relations in that world and uses a playful way to increase their knowledge and skills in money management. In several week programme, schoolchildren learn how to plan their finances and they use the knowledge in practice on an ongoing basis with the help of professional lecturers and their teachers. The popularity of the programme increases fast, Česká spořitelna has been working already with 136 schools in the Czech Republic in 2018. The project received the Zlatá koruna 2018 award for the best CSR project.

Schoolchildren start their educational trip to a branch of Česká spořitelna where bankers introduce the world of practical finance to them. The most popular is usually the experience with operations of safe deposit box and ATM and learning how one million of Czech crowns looks like. Many of them hear words such as profit, capital, debt or repayment for the first time, and they frequently try for the first time how ATM works.

In the Money Alphabet project children have the task of creating their own company. They design its logo, name and mainly its range of products. The goods that they will manage to produce themselves, with reasonable costs, and that can be sold at public fairs for which Česká spořitelna lends them its branches. As such, children need to calculate the price of the product all the time, consider input costs and price of their own work, and work on the promotion of products. All this together following mutual discussion with others.

Each class may expect initial capital of CZK 3,000. They receive it from Česká spořitelna in the form of a loan. Even though the principal objective of the project is to teach children how to know the ropes in the world of finance, the proceeds of children are respectable. During 2018 children earned more then CZK 3 million. As a result, they may satisfy their dreams, or they may satisfy dreams of someone else. Numerous classes plan to use the proceeds to pay for their school trip, popular destinations are various jump parks and science centres, many classes also make contributions to people in need.

For more information refer to www.abecedapenez.cz.

Show Me the Money

The Show Me the Money multimedia exhibition is designed for primary school lower grade pupils, teaching them in a natural and interactive way to manage money responsibly. The exhibition which Česká spořitelna has brought to the Czech Republic for the second time is actually a big game. At the start children receive a small (virtual) capital on a savings card. They then go through the exhibition becoming more acquainted with finances, they are working in different ways and earning money which they can use for leisure activities, change for products, save or donate. The ambassador of the entire project at Pilsen's DEPO2015 has become the well-known youtuber Kovy. Since it opened in October 2017 till the end in April 2018, the exhibition had been seen by more than 12 thousand visitors. A dozen online competition winners enjoyed a visit to Brussels and Antwerp with the exhibition ambassador, youtuber Kovy.

Financial Freedom

For a long time now, Česká spořitelna has supported the **Financial Freedom** interactive board game designed for pupils from the 8th grade of primary schools and their teachers. During the game the pupils experience 30 years of life and learn how to manage money properly. The Bank also attempts to pass on to educators who teach financial literacy unique and tested know-how so they have a simple model for using methodical tools for teaching students even without the following participation of external lecturers. In 2018 ČS organised two training courses for 40 teachers who brought the game to 600 new pupils at 20 primary and secondary schools. So over 5,500 pupils at a total of 90 schools experienced financial literacy in an entertaining way.

Financial Distress Advisory

Clients have the opportunity to gain valuable information in loan responsibility thanks to the **Financial Distress Advisory** the establishment of which was initiated by the Bank in 2008. Since that time the advisory has helped almost 111,000 people. In 2018 alone the number of clients in the advisory was increased by 7,800 new clients. The green line in 2018 received 6,500 advice calls, other lines received 14,200. The share of processed debt relief offered to natural non-business persons in 2018 reached 7.5% which was 30% of the non-profit sector. In 2018 the advisory also helped to organise 60 financial literacy seminars for threatened groups of citizens (seniors, mothers with children, unemployed, prisoners, students, socially handicapped).

Advice for seniors at branches

Seniors form a considerable part of the Czech population. They become victims of various fraud very often. In recent years banking services have undergone a dynamic transformation; a lot of transactions take place online and demand different skills from clients. Seniors are part of a group of people who are equipped with modern technology today; however, they often need repeated help to understand new devices and do not know how to make full use of them. So, in October the Bank and its Foundation (together with the partners of the Livia and Václav Klaus Endowment Fund, the Veolia Endowment Fund and the Blue Owl project) launched the Seniors Communicate project. This is the 12th year of the project, but in 2018 the project received a new look. The project provides seniors with free advice on how to set up a phone, tablet and laptop. Independent experts teach them about security in the modern world of communication, how to communicate nimbly on the internet and make daily life easier. The project offers two kinds of advice – group courses and individual advice. Clients and non-clients of ČS aged 55+ can enrol in the project.

Project "Život učitelem"

"Život učitelem" ("Life as a Teacher Project") is an intergenerational learning course which connects young students of the Czech University of Life Sciences Prague with senior citizens studying at the University of the Third Age. The first idea for this unique course arose from the students themselves, with the support of Česká spořitelna and the Czech University of Life Sciences Prague Point One business incubator. In the winter semester of the 2018/2019 academic year a pilot version of the "Life as a Teacher" course was successfully launched. Together they went through lessons on various topics that are led by either juniors – Social Networks, Online Shopping, Languages or Seniors – Home Remedies, Professional and Family Life. Few lectures were held by experts from Česká spořitelna too.

II. Green Bank

The Bank supports smart environmental solutions. It focuses on energy saving, internet of things and recycling. Since 2011, when the Erste Group Bank started to follow **the carbon footprint**, Česká spořitelna has managed to reduce it by more than 45% already. In April 2018 Česká spořitelna got the certificate "We Reduce CO2". By 2020, the Bank wants to cut carbon footprint by another 10%. To achieve this, it will further develop existing successful environmental initiatives, including the reduction of paper and electricity consumption. It has also decided to reduce the number of vehicles with an internal combustion engine and to expand the fleet by other electric vehicles (there has been a pilot since 2015).

In the **Smart City** project it helps cities and companies to prepare and finance innovative projects which makes cities better and modern places to live and eases the burden on the environment. More than half of electrical **energy** consumed in Česká spořitelna comes **from renewable sources**. **Waste sorting** has been the benchmark standard since 2000. Since 2013 only **recycled paper** has been used and its production is certified. Since 2014 Česká spořitelna has gradually moved its client communications and related administrative tasks from branches to the modern registry office. Since 2016 the Bank has been developing a non-cash bank, biometrics, **digitization** and robotics, which will lead to a further significant reduction in ČS's carbon footprint in the future. Since 2017, together with Global Payments, it starts to equip Czech Financial Offices by its terminals.

Česká spořitelna is developing communities

Savings institutions, the predecessors of today's bank, understood the support of community objectives as an absolutely integral part of their activities in society. The principle of humanity was always something close to them since they were created on the basis of charity and based on the principle of mutual aid. It is a living legacy for the present.

Česká spořitelna Foundation

Česká spořitelna Foundation builds on the original mission of the Bank. It started with the idea to teach people how to manage their money, guide them to prosperity and thus be of benefit to the whole society. Nowadays, foundations try to do the same. They develope areas that have a substantial impact on the future prosperity of the Czech society – education and entrepreneurial spirit.

In 2002 the Bank established the Česká spořitelna Foundation, which is traditionally engaged in supporting social enterprise and helping people on the margins of society. Ten years later it was joined by the Depositum Bonum Foundation using equity from uncollected money of anonymous passbooks focusing on education. Since January 2018 the Foundations have been operating under one brand as the Česká spořitelna Foundation. This has resulted in the **biggest banking foundation** in the country that invests about CZK 60 million p. a. in the development of civil society. Apart from systemic changes in social enterprise and help for the needy, the Foundation has also focused on supporting and developing education in 2018.

From 2002 to 2018 the total money invested exceeded 270 million crowns. The Foundation originally contributed particularly to organisations caring for seniors, people with mental disorders or prevention and treatment of drug addiction. In 2018, the Foundation focused newly on their entrepreneurial spirit. New Enterprise Support grant programme was opened which distributed CZK 7 million into implementation of projects of social enterprise and development of fundraising from private resources. This way it strengthens the economic sustainability of its existing partner organisations.

In the existing areas where it focuses on their enterprise and newly also on education the Foundation launched employee grants and distributed 1.5 million crowns among 31 projects of non-profit organisations and schools across the country in 2018. As a new initiative, in the second half of 2018, the Foundation launched the possibility of individual fundraising for employees via the portal www.darujme.cz. Employees can now create their own personal appeal and raise money for a project for a good cause, and the money raised will be doubled by the Foundation.

To ensure that non-profit organisations and social enterprises are financially sustainable, the Foundation offers them acceleration programmes in which it tests their business plan and also prepares them for the right way to raise money for their activity. In connection with the partner organisations ČS depends on measuring the impacts and look for innovative forms of finance. So they do not have to rely only on grants and subsidies, the Foundation teaches them how to diversify their resources at the third year of the **FRIN Fundraising Academy**. The academy, that takes few months to finish, has already been completed by 37 organisations; 20 candidates enrolled in 2018 out of which 9 proceeded towards the acceleration. In addition, so that their business plan could be sustainable in the long-term and stand on solid foundations, the Foundation launches two to three acceleration courses a year in the **Impact First** programme for them. Altogether it has already helped to start up a total of 51 projects. The Foundation also keeps young people in mind and aims to change the surrounding world for the better and provides advice for student projects with a social overlap in the **Social Impact Award** competitions of which it is a partner. This year 21 enrolled and 10 proceeded to the accelerator.

In 2018, the Foundation also entered as the new principal investor in **the first Czech fund aimed at investments with a strong social impact** – Tilia Impact Ventures. The objective of the Fund is to support emerging ventures focusing on addressing a broad range of social problems including environmental protection, inclusion of disadvantaged persons and groups, transparency in society and the quality of education.

For the fourth time, at the start of 2018, the Foundation has presented nine unique **Floccus Award** to individuals and organisations that have the courage to help people on the margins of society and to develop their entrepreneurial skills.

In **education** ČS strives to ensure that all children are fully focused on learning, with enjoyment and equal chances and leave school prepared for the challenges and opportunities of the 21st century world. The Foundation therefore helps to improve the teaching of children through the professional development of teachers and headmasters.

The key programmes include: "Učitel naživo" ("Live Teacher"), "Elixír do škol" ("Elixir for Schools") and the Hejný Method. In early 2018 two of these originally internal projects of the Depositum Bonum Foundation ("Live Teacher" and "Elixir for Schools") became independent and were registered as institutes, though the Foundation still provides them with a lot of support.

"Elixír do škol" is a project which aims to support teaching not just of technical and science subjects at primary and secondary schools. It helps teachers not just to improve the quality of teaching, particularly Physics, but newly also Digital Technologies and Informatics, and creates a community of motivated teachers who can share their experience, ideas and inspire one another. There is a network of 22 regional centres, 12 flying centres for Physics teachers and two new centres for Digital Technology and Informatics teachers across the country.

"Učitel naživo" is a 770 hour training course for future teachers. With a team of experts the Depositum Bonum Foundation built it on the development of personality, quality relations, role of the teacher as the guide and long-term practice in schools. The course year is the same as the school year and in September 2017 the first regular course was launched and in September 2018 the next two-year course. In addition, the objective of the new organisation is to be a laboratory that offers open know-how and the possibility of co-operation to the entire system. It strives to ensure that thousands of new teachers are trained every year in a new way and under dignified conditions at various institutions throughout the Czech Republic.

The prof. Hejný mathematics method and H-mat, o. p. s. is supported by the Foundation from its very inception. Its contributions have made possible the training and further development of teachers who have already taught at over 1,200 seminars, summer schools and conferences. Over 12,000 teachers participated in educational activities.

II. Social Banking

Česká spořitelna is not only the leader in the support of non-profit organisations on the Czech market, but it also holds a very strong position in financing social enterprises. The Bank offers these clients not just advice and education in Social Banking, but also as one of only a few domestic banks guarantees advantageous financing thanks to support from the European Investment Fund. By the end of 2018, the Bank had already financed eight loans with this guarantee of a total of EUR 624,000. The Social Banking Academy was newly established for non-profit clients. The basic pillars of the Academy are regular educational workshops, individual advice provided by specialists and a new mentoring programme. Emphasis is also placed on sharing of experience among organisations, networking and interconnection with the corporate sector.

III. Co-operation with Impact Hub

Impact Hub MashUp

Česká spořitelna is a long-time partner of the unique concept of linking startups, founders of companies and investors. During 2018, 18 events took place, where 176 projects were presented to more than two thousand people, while more than 865,000 people were watching online. Thanks to the Impact Hub MashUp project, not only investors, but also other supporters, get their projects.

Impact Hub Planet

In 2018, the first talk show was held within the framework of a new project, which Česká spořitelna also implements with Impact Hub. The talkshow series represents people who are not afraid to call for change, and their projects directly alter view of how common things work. It focuses on the development or even social change in services, business and technology.

IV. Bank without Barriers

Česká spořitelna has the widest network of barrier-free branches and ATMs, the complexity and availability of services to people with different types of disabilities is one of the best in the market. Among other things, Deaf and Hearing Clients can use the Silent Line service when dealing with bankers, even when dealing with Bank's call centrum. Voice navigation for the blind people is offered by 52 branches, over 1,000 ATMs are already tailored for blind. An overview of all services, their description and the place where they can be used by clients is available on the special pages www.bankabezbarier.cz (here ČS also has an active link to the website presbariery.cz). For its long-term effort for barrier-free status, the Bank won the Accessible Bank award 2018.

Since November 2018, clients can order an appointment with a banker at a branch on ČS's website and also order "assistance" (escorting the client to the meeting room from the front door to the branch). Bank also reprinted so-called money templates (a practical tool for easily recognizing the value of Czech banknotes for blind people) – most of which are provided to people in need via United Organization of Blind and Blind Eyewitnesses of the Czech Republic, they are available in branch offices too.

V. Other projects

Two days for a charity

Every employee of the Česká spořitelna Financial Group can make use of two charity days which are fully paid. In 2018, 1,196 employees took this opportunity, the Bank donated 1,469 working days for a good thing by this. Volunteers dedicate to non-profit organizations their know-how, e.g. they teach fundraising, program databases of the clients etc., but they are not afraid of getting their hands dirty with manual work. As individuals or whole teams they go to help out non-profits pro bono.

Giving Tuesday

This global donation feast is celebrated globally since 2012. It arrived to the Czech Republic in 2016 under the auspices of the Social Responsibility Association of which the Bank is a member. For 2018, the Bank and its foundation chose 2 projects and invited staff and clients to contribute. Moreover, the Česká spořitelna Foundation will double the donations up to CZK 50,000. All together they supported projects **The Emergency Care of Life 90 project** that allows lonely seniors to live with a feeling of safety and security in their own environment – at home and the **Teach Live** project that provides unique training for future teachers, by the total amount CZK 70,000.

Better Place in School

Česká spořitelna and Penzijní společnost České spořitelny became a partner to Lepší místo ve škole (Better Place in School) project realised by Prostor Plus organization. By that project elementary school pupils can improve the space they live in Prague 4. They can even make their ideas happen. A total of 362 pupils joined the project and a total of 412 tips for the improvement of schools arrived in 2018. The following three ideas became the winners: Stezka za sportem (The Path to Sport) from the Kavčí hory Primary School, Zdravé Jeremínské nožky (Healthy Jeremínské Feet) from the Jeremenkova Primary School and Venkovní učebna (the Outdoor Classroom) from the U Krčského lesa Primary School. All three winning school received cheques for 50,000 crowns so they could implement their ideas.

Slipper Day

Česká spořitelna has joined **the campaign At Home in Support of Mobile Hospices**. The so-called Slipper Day was declared on 8 October and 3,777 employees of the Česká spořitelna Financial Group put on slippers. Česká spořitelna contributed a symbolic ten crowns for each one of these employees to the Ondrášek mobile hospice, the main campaign organiser. 241 of the Bank's employees got involved in the collection for Ondrášek, sending almost 43,000 crowns, and the Česká spořitelna Foundation doubled their donations. Česká spořitelna also posted an appeal on its Facebook and promised to add a further 10,000 crowns, provided that the post would gain at least two thousand „likes" and shares. The target was beaten and the contribution became the most successful post of the Bank and a total of 140,000 crowns will be going to Ondrášek from Česká spořitelna, its employees and the Foundation.

Freedom Alley

Česká spořitelna and the Česká spořitelna Foundation supported the planting of an alley of a hundred linden trees below Říp Mountain which was the culmination of the Freedom Trees 1918–2018 campaign. The campaign and event was organised by the Partnership Foundation to commemorate the centenary of the establishment of the Czechoslovak Republic. Employees, managers and representatives of the Bank and its Foundation actively participated in the planting. For those who could not participate in the planting, the Partnership Foundation prepared a mobile application which interactively motivates excursions to individual trees.

Česká spořitelna investing in a better future

In practice this means that Česká spořitelna cares that people live better in every way in the Czech Republic. Therefore it has supported talented students, artists, sports and cultural events. The Czech Republic is a wonderful country full of talented people and the Bank is very happy to contribute to it being even better.

I. Promoting new ideas

Česká spořitelna is an advocate of young and talented people who have a clear vision and want to come up with something new and novel. By making inputs into teaching ČS endeavours to enrich the education of university students with such important practice. Hence in 2018 Spořitelna organised more than 40 lectures and workshops at ČS's partner schools across the Czech Republic. The Bank also helps students to write their final theses and ČS's colleagues consulted 51 bachelor or diploma theses. In semestral theses students also elaborate for us real projects for the Bank. Thus in 2018 more than 500 students completed ČS's 6 assignments on various topics ranging from IT to CSR.

35 students worked for Česká spořitelna on the topic of Bank X for the generation Y within an entire day full of innovative techniques. Then the best team had the opportunity to present its idea before the entire Board of Directors of Česká spořitelna. As part of the Alliance for the Young the Bank prepared the Big Step project for students when 20 selected students participated in the workshops of 4 companies. Young people can transform their ideas into reality such as the Teacher for Life intergenerational learning course project (see the chapter above).

With the start of the academic year, the Bank launched the third year of the Ambassador Programme. 8 students got the chance to get to know Česká spořitelna, draw up a real project and help us with activities at partner universities. At the end of the internship, the ambassadors will come up with a programme for their successors.

In 2018 the Bank helped to organise 6 TEDx events. Hence participants could listen to ideas that should be extensively spread: on TEDxED, TEDxKarlovy Vary, TEDxYouth, TEDxPlzeň, TEDxPrague and TEDxWomen.

Follow ČS's news for students and about students on the Facebook page "We Promote Good Ideas".

II. Česká spořitelna developing culture

Whether culture means to you dignified admiration in an art gallery or crazy dance variations at a festival, we all need it. Therefore Česká spořitelna supports a broad spectrum of cultural activities with the objective to make them as accessible as possible and to preserve them for future generations.

In September 2015 Česká spořitelna together with the **Czech Philharmonic** celebrated the orchestra's 190th anniversary and ceremoniously launched co-operation becoming its general partner. Bank clients can receive a 10% discount for concerts of the Philharmonic and up to a 70% discount for their chamber concert performances. The Philharmonic and the Bank also jointly organise programmes for young audiences so they can also enjoy classical music. Together with the Czech Ministry of Culture, the Bank also became a partner of the unique multimedia installation of the Czech Philharmonic **"Má vlast"** (**"My Country"**), linking classical music with acoustic-visual effects. The project celebrated the 100th anniversary of the Czechoslovak state.

Česká spořitelna has also focused on young audiences and families with children with a new concept of an accompanying programme to the **"Smetana's Litomyšl"** festival, which it has been supporting since 1992. In June 2018, together with the Festival's organisers, it organised for the second time free access for visitors to the Smetana weekend full of concerts, fairy tales, competitions and theatre performances.

Another partnership festival targeted at families with children is the international baby punk festival **"Kefir"**. The outdoor festival is aimed at distinctive cultural projects and events across genres from home and world. Its unique nature lies in involving spectators to create a desire for fun and creativity inherent in every person.

Česká spořitelna is a long-term general partner of the multi-genre festival **"Colours of Ostrava"**, which ranks among the top ten European festivals. Its accompanying programme in the Blue Zone was opened to all visitors, apart from DJs it has also invited some interesting speakers. So the Blue Zone reflected the fact that the Bank also became a partner in 2017 of the discussion platform **"Meltingpot"**, an integral part of the Festival.

As well as being one of its branch buildings, the Prague palace in Rytířská Street is also the site of the **Česká spořitelna Gallery**. Its art collection contains 6,000 valuable paintings dated from the 19th and first half of the 20th century, which were assembled from the original furnishings of the savings banks and deposited across the territory of the entire country. Since 2009 the Bank has devoted great attention to their restoration and research so that it can present them to the general public through exhibitions. The Bank continues to support art even today and its Erste Premier brand is the partner of **Czech Grand Design** and **Designblok Awards**.

III. Česká spořitelna supporting sport

Every sporting feat deserves recognition regardless of the outcome. Therefore Česká spořitelna supports not just top sports events and organisations, but is particularly concerned about children being able to find their way towards physical exercise. It also has sports teams in its ranks and its employees rarely ever return from tournaments or matches without a medal.

As the general partner, the Bank has been supporting Bike for Life since its establishment in 2000. Thus it can offer clients a number of participant benefits: annually more than 25,000 cyclists participate in this biggest series of amateur races. In the role of the Partner it also supports the series of races in cross-country skiing Track for Life.

Since 2001 it has also been the General Partner of the Czech Athletics Federation and since 2010 it has supported the Athletics for Children project. Together they offer parents and their children quality leisure activities in the frame of regular athletics, clubs and support sports training of the youngest children in groups and clubs.

The Czech Olympic Committee was established on 18 May 1899 with the aim of developing and disseminating the Olympic ideals as well as representing and ensuring the participation of athletes of the Czech Republic at the Olympic Games. Česká spořitelna became its official partner for 2016–2018.

For more information about good causes which Česká spořitelna believes in, go to www.verimedobrymvecem.cz. Follow the inspirational stories of the Bank's clients at www.dokazemevic.cz.

Declaration of Česká spořitelna, a.s.

of Compliance of its Governance with the Corporate Governance Code based on OECD Principles

In compliance with the statements made by Česká spořitelna, a. s., (the „Company") in its previous annual reports, the members of the Company's Board of Directors continuously strive to improve the Company's standards of corporate governance and ensure, to the extent set out hereunder, compliance with the Corporate Governance Code based on the OECD principles of 2004 (the „Code"). The Company systematically supports, develops and enhances its corporate governance practices.

No major changes adversely affecting the Company's corporate governance standards were made in 2018. Česká spořitelna complies with all key provisions, principles and recommendations of the Code, which may be accessed on either the Česká spořitelna's website or the Czech Ministry of Finance website. The principles of the Company's governance standards are set out below.

Following with the "Guidelines on the Assessment of the Suitability of Members of the Management Body and Key Function Holders Issued" by the European Banking Authority (EBA) and accepted by the Czech National Bank, Česká spořitelna prepared guidelines and procedures for assessing the suitability of management body members and key function holders in Česká spořitelna.

Česká spořitelna complies with the Group Diversity and Inclusion guidelines of Česká spořitelna, which defines the basic principles and direction of applying Diversity and Inclusion policy within the entire Bank in August 2017. Based on this policy, ČS has made a commitment that 35% of the positions on the Supervisory Board and in the top management (Board of Directors and B-1 Management) will be staffed by women by 2019. This objective is consistent with the CRD IV and Erste Group policy. One of the six seats in the Board of Directors has been occupied by a woman and a further eleven women were members of the top management positions out of a total of 45 positions (level B-1) as at 31 December 2018.

ČS is also focused on ensuring equal conditions and opportunities for all employees especially in the areas of remuneration, reconciliation of work and personal life, and career development in order to ensure diversity. All employees may appeal to an internal ombudsman, who deals with complaints of possible discrimination and similar issues at any time.

To ensure transparency and equal recruitment opportunities for all positions, including managerial positions, all available positions are offered via internal job offers. For all talented employees (regardless of age, gender or history), there are also talent and development programmes available that provide preparation for further career development (both vertical and horizontal). A list of potential suitable candidates for top managerial positions (including the ČS Board of Directors), which must always include female representatives, is prepared and regularly updated. To strengthen the diversity policy, ČS provides to women in managerial positions as part of their career plan further development opportunities such as mentoring and networking programs.

The selection of candidates for membership in the Supervisory Board is in line with an approved concept. The aim of selection is the establishment of a Supervisory Board that is highly diversified with regard to qualifications and experience so that the knowledge of the individual members covers the whole range of the Bank's activities. In line with the Group policy, the Supervisory Board of Česká spořitelna should include at least 3 women by 2019. Since April 2017 this has been fulfilled, as the Supervisory Board currently includes nine members, three of whom are women. Candidates for a member of the Supervisory Board should not be older than 70. An exception can be made in extraordinary cases, based on the needs assessment of the Supervisory Board and specific skills and experience of individual candidates.

Candidates for membership in the Supervisory Board of Česká spořitelna are appointed to ensure by their education, practical experience in domestic and international banking, overall economic, social and political overview and personal characteristics that the Supervisory Board will be fully functional and capable to perform all of its tasks and competence responsibly and at high quality level. To the balance and proper representation of all levels, knowledge and experience that are essential for the activities of the Supervisory Body also contributes the fact that employees of Česká spořitelna may always select candidates from their ranks for up to three members of the Supervisory Board. In the last four years, the employees have elected candidates for the position of the members of the Supervisory Board according to the adopted internal procedure. The employee representatives in the Supervisory

Board are one of the pillars of the long-term concept of operations of the Supervisory Board and they bring the views of another key interest group to the Supervisory Board of the Company on its operations, strategic direction and related risks. In April 2018, the General Meeting approved the amendment to the Company's Articles of Association, which is in line with the new legislation for companies with more than 500 employees, where it is required to directly elect a minimum of 1/3 of the Supervisory Board by employees. For this reason, elections to the Supervisory Board will take place in early January 2019. By the above-mentioned change of the Articles of Association and the January elections, the composition of the Supervisory Board will be brought in line with the amendment to the Corporations Act within the required deadline.

A. Organisation of the Company

The Board of Directors is the Company's statutory body. It manages the Company and acts on its behalf while assuming responsibility for its long-term strategic direction and operational management. The scope of its powers is defined in the Company's statutes and internal rules as well as by Czech legislation. The Board of Directors exercises its powers with due care and diligence; in performing its activities, it is accountable to the extent set out in the Czech legislation. All Board of Directors members are internationally experienced professionals and team players skilled in managing large corporations. The Board of Directors members adhere to the general legal rules and ethical standards.

Pursuant to the Company's Statutes, the Board of Directors must obtain the Supervisory Board's opinion or approval before performing a number of acts and, in certain cases determined by Supervisory Board decision, the Board of Directors must solicit the prior opinion of a committee established by the Supervisory Board. The Board of Directors regularly presents reports on Company activities to the Supervisory Board and its committees. In compliance with the Banking Act, the Board of Directors is responsible for establishing, maintaining and evaluating an efficient and effective internal management and control system for the Company.

Board of Directors Decision-making Procedures

The work of the Board of Directors is directed by an activity plan, which it drafts in advance for every calendar quarter. The Board of Directors meets on an ad-hoc basis, but no less than twice a month. Nonetheless, regular weekly sessions have become common practice. In 2018, the Board of Directors held 41 ordinary meetings. Board of Directors meetings are conducted in English or Czech, as required by the attending members. Board of Directors meetings are chaired by the chairman and, in the chairman's absence, by the vice-chairman. Should both the chairman and vice-chairman be absent, a delegated Board member shall chair the meeting. All Board members, the Company secretary and invited guests take part in meetings.

The Board of Directors only achieves a quorum if more than half of all its members are present at a meeting. The Board of Directors adopts decisions in the form of a resolution requiring a majority of the votes of attending members. When votes are equal, the Chairman has a casting vote. If all Board of Directors members are in agreement, the Board of Directors may pass a resolution by a written vote or a vote taken via remote means of communication (e. g. all Board of Directors members per rollam or individual members in writing, via video- or teleconferencing); in such cases, voting members are deemed present. Material submitted in per rollam form is approved, if a majority of the votes of all members of the Board of Directors is in agreement. Voting on matters under discussion is conducted openly at Board of Directors meetings by acclamation, i.e. a show of hands.

All Board of Directors members have the requisite character traits and professional experience to execute the role of a Board of Directors member. Members of the Board of Directors are appointed and recalled by the Supervisory Board. In compliance with the Banking Act, nominees for Board of Directors membership of Česká spořitelna are discussed in advance with the Czech National Bank, which assesses the professional qualifications, credibility and experience of the nominees. The term of office of a Board member is four years, and members may be re-elected. Detailed professional biographies of the Board of Directors members attesting to their qualifications, professional abilities and practical experience are published on page 14 of the Annual Report.

The Supervisory Board of the Company has nine members. There was no change in the composition of the Supervisory Board in 2018. In April 2018, the General Meeting re-elected Mr. Andreas Treichl to the Supervisory Board. The Company continues to have three employee representative on the Supervisory Board. The current members of the Supervisory Board from among the employees are Margita Čermáková, Helena Černá and Aleš Veverka. The Company has in place a concept adopted to address Supervisory Board composition and performance. All Supervisory Board members are professionals, who guarantee the high quality of the Supervisory Board's function, and possess the requisite personal and professional qualifications to serve as Supervisory Board members. Supervisory Board members perform their duties with due diligence. To serve on the Supervisory Board, members shall have professional expertise, maintain their loyalty to the Company and maintain confidentiality with respect to confidential information and facts. Supervisory Board members are elected by the General Meeting.

The term of office of a Supervisory Board member is four years; re-election for another term is possible. A full list of Supervisory Board members, including their professional biographies, is published on page 18 of the Annual Report.

The Supervisory Board oversees the execution of the Board of Directors' powers and the performance of the Company's business activities. In addition to its statutory duties and authorisations, the Supervisory Board, in accordance with the Company's statutes, has the right to opine in advance on certain acts impacting the Company's assets (including, inter alia, capital expenditures for building, plans (projects) to acquire tangible and intangible assets for the Company in excess of a designated limit, the transfer of title to Company assets, the Company's equity investments, etc.). The Supervisory Board also provides an advance opinion on the strategic plan on Company activities and development, planning tools and regular financialStatements of the Company. Additionally, the Supervisory Board furnishes its advance opinion on proposals for the appointment and recall of directors of internal audit, compliance and strategic risk management and on the selection of an external auditor. The Supervisory Board may establish Supervisory Board committees in support of its work.

In 2018, the Supervisory Board convened in seven meetings.

Supervisory Board Decision-making Procedures

The work of the Supervisory Board is directed by an activity plan, which the Supervisory Board drafts annually in advance. Supervisory Board meetings are held on an ad hoc basis, usually in accordance with the activity plan, but no fewer than four times a year. Supervisory Board meetings are conducted in Czech or English, as required by the attending members. Supervisory Board meetings are chaired by the chairman, vice-chairman or an authorised member of the Supervisory Board and, in their absence, the oldest member or an authorised member of the Supervisory Board in attendance.

The Supervisory Board only achieves a quorum if more than half of all its members are present at a meeting. The Supervisory Board adopts decisions in the form of a resolution requiring a majority of votes of the members. When votes are equal, the Chairman has a casting vote. If all Supervisory Board members are in agreement, the Supervisory Board may pass a resolution by a written vote or a vote taken via remote means of communication (e. g. all Board of Directors members per rollam or individual members in writing, via video- or teleconferencing); in such cases, voting members are deemed present. Voting on matters under discussion is conducted openly at Supervisory Board meetings by acclamation i.e. a show of hands.

The Audit Committee is a Company body that shall perform the tasks assigned to it by law or the Company statutes. The Audit Committee is mainly responsible for monitoring procedures used to prepare the standalone and consolidated financial statements, assessing the effectiveness of the Company's internal controls, internal audit function and risk management systems in place, monitoring the process of performing the statutory audit of the separate and consolidated financial statements, assessing the independence of the statutory auditor and audit company and, most importantly, the provision of ancillary services to the audited entity and recommending an auditor. A full list of Audit Committee members, including their professional biographies, is published on page 22 of the Annual Report.

Audit Committee Decision-making Procedures

The work of the Audit Committee is governed by its Rules of Procedure and activity plan. The Audit Committee met four times in 2018. Meetings of the Audit Committee are chaired by its chairman, vice-chairman or an authorised member. At Audit Committee meetings, votes on matters under discussion are taken openly by acclamation, i.e. a show of hands. The Audit Committee only achieves a quorum if more than half of its members are present. It adopts decisions in the form of a resolution requiring a majority of votes of the Audit Committee members. When votes are equal, the Chairman has a casting vote. Where all Audit Committee members are in agreement, the Audit Committee may vote based on a written vote or a vote undertaken via remote means of communication, in which case those voting are deemed present at such meeting.

The Company consistently ensures that the members of the Board of Directors and Supervisory Board are **kept up to date** at all times; the Company has in place a well administered and highly developed system supporting the execution of corporate governance. Newly elected members of the bodies are given immediate access to all information regarding the Company's principles and rules of corporate governance.

The Company's supreme bodies, i.e. the Board of Directors, the Supervisory Board and the Audit Committee, have adopted binding Rules of Procedure for the bodies. These deal in great detail with administrative and procedural matters related to the activity of a given body. The Rules of Procedure of all three bodies regulate the technical process of convening and voting at meetings, the preparation of meeting minutes, the activities of the body outside of meetings and procedures to address the potential bias of a body member. Both Supervisory Board and Board of Directors members take part in Supervisory Board meetings. All Board of Directors members take part in Board of Directors meetings, as do the authors of materials to be presented to the Board of Directors. Representatives of the external auditor, members of the Board of Directors and Supervisory Board and, on occasion, other guests, are invited to attend meetings of the Audit Committee. Members of the Board of Directors, the Supervisory Board and the Audit Committee may solicit a legal opinion on individual materials under discussion from the Company's Legal Services Unit or may seek the services of independent advisors. The Company Office organizes long-term training in corporate governance (the system for running and controlling the Company) and legislation for the members of administrative bodies so as to develop and enhance their knowledge and skills on an ongoing basis.

The position of Company **Secretary** has long existed within the Company. The Secretary of the Company's bodies manages administrative and organisational matters for the Board of Directors,the Supervisory Board and the Audit Committee including organising General Meetings. The Secretary familiarises new members of administrative bodies with the activities of those bodies and with the Company's corporate governance process. The Company Secretary ensures mutual co-operation among the Company's bodies. The Secretary is appointed by the Company's Board of Directors and reports directly to the Chairman of the Board of Directors. The Secretary is responsible for due and timely distribution of invitations and materials for meetings of the Company's Board of Directors, the Supervisory Board and Audit Committee. The Company has instituted binding regulations for the submission of materials to be discussed at meetings of the Supervisory Board, the Board of Directors and the Audit Committee, which stipulate the basic rules for the preparation and submission of materials, procedures for making comments prior to the submission of materials and conditions for the archiving of materials. The Secretary takes minutes of all meetings of the Board of Directors, the Supervisory Board and the Audit Committee. The Company maintains an electronic database of all minutes from meetings of its bodies; these are available to authorised persons on the Company's internal archiving system.

The Company Secretary is a member, inter alia, of the CGI (Corporate Governance Institute) and its steering committee. The mission of the CGI is to create and continually develop a respected professional platform for secretaries of business companies and other organisations and for other corporate governance professionals working in the fields of compliance, business ethics management, administration and support of administrative body activities, the management of business groups and equity investments, and related administrative functions.

B. The Company's relations with shareholders

The Company diligently ensures compliance with all legal rights of shareholders and with the principle of the equitable treatment of all shareholders.

In the autumn 2018 there was a change in the ownership structure. On 24 August 2018, Česká spořitelna received the request of the main shareholder Erste Group Bank AG to convene the General meeting of Česká spořitelna to decide on the transfer of all Česká spořitelna shares owned by other shareholders to Erste Group Bank AG pursuant to Section 375 et seq. of the Commercial Corporation Act. On 3 October 2018, the General Meeting took place and adopted a decision on the forced transfer of all shares of Česká spořitelna owned by other shareholders to Erste Group Bank AG, located at Am Belvedere 1, A-1100 Vienna, Republic of Austria, as the main shareholder § 375 and 382 of the Act on Commercial Corporations. Since 6 November 2018, Erste Group Bank AG has been the sole shareholder of Česká spořitelna and since then the compensation is being paid to former minority shareholders. Since that date all shares of Česká spořitelna were lawfully transferred to Erste Group Bank AG. By that date, all processes were governed by the regime applicable to a joint stock company with more than one shareholder.

The Company's shares are held in book entry form. A list of shareholders is maintained by the Central Securities Depository. In addition to ordinary shares, the Company has also issued bearer preference shares. The transferability of these shares is restricted to Czech towns and municipalities; transfers to other entities are subject to approval by the Company's Board of Directors. A preference right to receive dividends is attached to the preference shares. Decisions regarding transfers of preference shares are made by the Board of Directors and are always based on detailed information about the assignee. The Company complies with all duties to inform its shareholders and other entities to the extent imposed by law and keeps shareholders updated throughout the year via the media and the Company's website. The Company posts information on its current financial results, shareholder structure, planned events and more on a web page designed specifically for shareholders and investors (https://www.csas.cz/cs/o-nas/pro-akcionare-investory). Press releases covering important information about the Company are issued on a regular basis. All material information the Company publishes on its website is available in Czech and English.

The Company convened **General Meetings** by means of a letter were sent to all shareholders. The General Meeting invitation always included basic information for shareholders about the requirements for participating in General Meeting, the exercising of shareholders' rights and basic financial indicators. General Meeting announcements were published on the Company's website as a matter of course. Shareholders might familiarise themselves in advance (within the statutory period) with the materials that were to be subject to discussion in the General Meeting. The Company always organised its General Meetings at venues that were accessible to all shareholders. For several years, General Meetings were held at the Company's registered office.

Since the transition date on November 6, 2018, in accordance with the Commercial Corporations Act we operate under the regime of the decision of the sole shareholder acting in the capacity of the General Meeting.

C. Information Disclosure and Transparency

The Company rigorously endeavours to prevent the misuse of insider information that might allow persons who have special relationships with the Company to enjoy unauthorised gains in dealing with the Company's equity or debt instruments or with derivatives and other associated financial instruments. Board of Directors and Supervisory Board members and parties close to them are obliged to promptly notify the Czech National Bank of transactions with such financial instruments issued by the Company, which they perform on their own account or on behalf of third parties. In order to ensure the same conditions for all members of the Board of Directors of companies within the Erste Group, the rules for trading in financial instruments issued by Erste Group Bank AG are applicable. Members of the Company's Board of Directors, the Supervisory Board and also the employees concerned are obliged to inform the Company's Compliance Unit of dealings with equity or debt instruments of Erste Group Bank AG or derivatives and other associated financial instruments and to comply with an imposed trading moratorium during a stipulated period. The Compliance Unit provides regular inspections, with the aim to check whether the above persons fulfil their obligations.

The Company has established a Compliance Unit whose principal activities include ensuring compliance of the Company's internal regulations with valid legal and regulatory requirements and their observance and ensuring compliance of staff conduct with the legal regulations, internal regulations, Code of Ethics and other adopted standards and rules governing employee conduct. Compliance is involved in all aspects of the Company's activities and administration and forms a part of its corporate culture. The Compliance Unit evaluates insider information included in the Watch List and Restricted List of investment instruments as well as any dealings with investment instruments recorded in these lists. The Compliance Unit informs the Company's Board of Directors and Supervisory Board of its activities on a regular basis and keeps a regularly updated list of persons with access to insider information.

In 2018, Compliance participated in the completion of internal projects related to the implementation of the requirements of EU MiFID II/Directive 2014/65/EU of the European Parliament and of the Council and Regulation (EU) 600/2014 of the European Parliament and of the Council on markets in financial instruments, GDPR / Regulation (EU) 2016/679 of the European Parliament and Council (Personal Data Protection) and PSD2/Directive 2015/2366 of the European Parliament and of the Council on payment services incl. complementary national legislation.

The Compliance Unit also includes the AML unit, which ensures compliance with the Company's obligations in the field of preventing money laundering and financing of terrorism and controls compliance of the Company's business and activities with the applicable sanctioning regimes announced by the Czech Republic, EU, UN and OFAC.

The Compliance Unit provides so-called whistle-blowers with the possibility of anonymously reporting illegal, prohibited or unethical conduct in the workplace by the current or former Company employees. The Company has an **Ethics Manager** to resolve matters of unethical workplace conduct.

The Company diligently fulfils and complies with all Czech legal regulations, principles of the Corporate Governance Code based on OECD principles and EU Commission recommendations regarding corporate governance and, on an ongoing basis, provides shareholders and investors with all material information on its business activities, the Company's financial and operating results, ownership structure and other significant events. All information is prepared and disclosed in compliance with the highest standards of accounting and disclosure of financial and non-financial information. Moreover, the Company discloses a great deal more information than the statutory requirements so that shareholders and investors may make informed decisions concerning ownership of the Company's securities and voting at General Meetings. The Company uses various distribution channels to publish such information, e. g. the media or the Company website, where information is published in both Czech and English to enable equal participation of foreign investors and shareholders in decisions regarding the Company's business and development. The Company regularly publishes annual and semi-annual reports. The annual report includes the audited financial statements, the audited consolidated financial statements and provides view of the Company's financial position, business activities and financial results. The report also provides information on the Board of Directors and Supervisory Board member remuneration policy in compliance with the legislation. The Company has no option scheme for remuneration either for the members of the Board of Directors or the Supervisory Board.

In accordance with the Act on Accounting, non-financial information is available in Erste Group Bank's Consolidated Annual Report 2018 on the Company's website under Investor Relations / Reports / Financial Reporting.

D. Committees of Company Statutory Bodies

The Company has established committees under the Board of Directors and the Supervisory Board to support the Company's activities and to ensure the internal management and accountability of these bodies. The individual committees' Rules of Procedure define the scope of their powers and include a precise description of applicable rules, tasks and decision-making procedures.

Committees of the Supervisory Board

Risk Committee

The Risk Committee has an advisory function in respect of the overall current and future approach to risks, risk strategy and acceptable risk levels, as well as the drafting of credit policy and the credit portfolio. The Committee also oversees the implementation of risk management strategies. In specific credit-related cases, the Committee has an approval function. The members of the Risk Committee are Peter Bosek, Zlata Gröningerová and Andreas Treichl.

Compensation Committee

The Compensation Committee provides support to the Supervisory Board on formulating the basic principles of compensation. Its duties include submitting proposals for Board of Directors member remuneration to the Supervisory Board, overseeing the remuneration of unit directors carrying out internal controls and supervising the basic principles of compensation and their application. The Compensation Committee members are Maximilian Hardegg, John James Stack and Aleš Veverka.

Nomination Committee

The Nomination Committee primarily assesses the suitability of nominated and appointed members of the Board of Directors and evaluates the activities of the members of the Board of Directors and the management body as a whole. The members of the Committee are John James Stack and Andreas Treichl.

Committees of the Board of Directors

Board of Directors Committees are advisory bodies of the Board of Directors established by resolution of the Board of Directors. The purpose of the committees is to create and present expert recommendations to the Board of Directors; these committees consist of Board of Directors members and selected Company employees. All committees are accountable to the Board of Directors and submit a report on their activities at least once a year.

Credit Committee

The Credit Committee is the body that assesses and approves credit transactions and products, as well as assessing and approving business policy principles, the credit risk measurement and management system, and Česká spořitelna's credit portfolio structure level.

Asset and Liability Management Committee

The Asset and Liability Management Committee adopts decisions serving to actively guide the balance sheet structure of the ČS Financial Group (including off-balance sheet items) with the aim of achieving planned interest income while optimising incurred risks, in particular interest rate, liquidity and foreign exchange risks.

Products and Pricing Committee

The Committee is a body that:
a) assesses and approves the launch, innovation or discontinuation of high-profile products and services in retail and corporate banking and financial markets,
b) manages and implements Česká spořitelna's pricing policy and strategies and assesses and approves product and service prices in this area.

E. The Company's Stakeholder Policy

Information on this topic is available in the section Česká spořitelna Corporate Social Responsibility (see page 58).

F. Principles of Internal Control and Rules for Accepting Risk in the Financial Reporting Process

Česká spořitelna processes its financial accounts via SAP, which meets the high requirements for the security and quality of accounts preparation. System inputs are entered both manually and automatically from other transaction systems.

Česká spořitelna complies with all statutory and legislative requirements. Procedures pertaining to accounting documents and their circulation have been put in place as required by the Accounting Act and in a manner that serves the needs of the controlling and management accounting functions. The entity established separate internal regulations for accounting documents and their circulation and these are subject to regular review, particularly internal regulation on accounting document circulation, which requires the „four-eyes" control principle and eliminates the possibility of unauthorised accounting transactions by defining persons authorised to approve and perform accounting entries, i.e. who may be involved in the accounting process. Any correction of accounting entries is subject to the same controls. Manual and automatic controls of the completeness and correctness of SAP system inputs are performed in respect of automatic accounting between SAP and the transaction accounting systems. Accounting documents are archived both in the system and manually and the archiving process has been set up to comply with statutory requirements (the Accounting Act and Archiving and Records Service Act).

Česká spořitelna fulfils its asset valuation requirements pursuant to both Czech and European legislation. Asset valuation is primarily regulated by the International Financial Reporting Standards as adopted by the European Union. The Entity has instituted several separate internal regulations for this area that comply with these statutory requirements and principally address the setting of asset input prices, i.e. their valuation under Accounting Act requirements, changes in their valuation, in particular provisioning, asset amortisation, depreciation, impairment, disposal, stock-taking and related tax requirements. Applied regulations and accounting policies are described in the individual and consolidated financial statements.

Statutory and legislative regulations do not separately address the area of management accounting, with the exception of the definition of basic features required, inter alia, for clarity. The entity established management accounting based on historical developments while respecting current requirements for bookkeeping and for cost controlling within the entity. Management accounting is primarily kept in the form of sub-ledger accounts whose contents are subject to regular review. Bookkeeping operations on sub-ledger accounts are controlled for accuracy on an ongoing basis.

The entity primarily recognises provisions pursuant to the basic principles stipulated by statutory accounting and tax regulations. The accounting procedures are additionally regulated by internal rules that, in addition to the foregoing, reflect the needs of key units in relation to the accounting system in this area (audit, reporting, controlling, etc.) in relation to the functionalities of the supporting systems. The methodology and accounting for the creation and release of impairment allowances in the Company is concentrated in a single unit and carried out by a small group of staff, which is advantageous, inter alia, from the perspective of logic, operational and reconciliation controls. The controls are performed on an ongoing basis both before and after accounting operations. Given the impact on financial results, the total additions to provisions are not monitored only by individual accounting item, but also in a broader context.

Aggregated consolidated and separate financial statements are submitted to the Company's statutory body on a monthly basis. The Company's Supervisory Board has the aggregated consolidated and separate financial statements on hand at every one of its meetings. The consolidated and individual financial statements of the Company are tested at an irregular interval by an internal audit. The procedure for the preparation of consolidated and individual financial statements is followed by the Audit Committee, which also assesses the effectiveness of internal controls at the Bank. The Audit Committee additionally monitors the process of the statutory audit of the consolidated and separate financial statements, which are subject to a standard external audit once a year; the preliminary work is done first and this is followed by the audit work on both the consolidated and separate financial statements and the annual report.

Organizational Structure

as at 31 December 2018

Chairman	Vice Chairman	Member of the BoD	Member of the BoD	Member of the BoD	Member of the BoD	
Tomáš Salomon	Wolfgang Schopf	Pavel Kráčmar	Daniela Pešková	Karel Mourek	Bohuslav Šolta	
Company Office	Accounting and Controlling	Fin. Markets and Fin. Institutions	Sales Planning & Perform-Manag.	Legal Services	IT Strategic Changes Management	Solution Delivery
Economic and Strategic Research	Property Management	Markets – Retail Investment	Distribution	Strategic Risk Management	Enterprise Arch., Data and Integ.	Advanced Technol. and Prototypes
Communication	Group Balance Management – ALM	Funding & Advisory Group	Digital	Credit Risk Manag. Corporate Banking	Operations & IT Governance	Strategic Project Portfolio
Ombudsman & Customer Experience	Capital Particip. & Investor Relations	Local Corporate Clients Banking	Customer Solutionsand Design	IS / IT Security	IT Operations	IT Infrastructure
Internal Audit	Regul. & Fin. Reporting a DQ & DG	Public Sector and Real Estate	Client Center	Credit Risk Manag. Retail Banking	Cards, Cash and Payments Back Office	Operations Excellence
Human Resources	Steering Data Preparation	Large Corporates Banking	Support and Development	Nonfin. Risk Manag. andCompl.	Admin. of Account & Client Documentation	Fin. Marketsand Investment Prod. BO
Marketing		Product Management & Sales Support	Engagement Retail Banking		Engagement Corporate Banking IT	Corporate Daily Bank. and Lending IT
		Engagement Corporate Banking	Daily Retail Banking		Engagement Retail Banking IT	Daily Retail Banking IT
		Corporate Daily Banking and Lending	Unsecured Financing		Unsecured Financing IT	Assisted Channels IT
		Wealth Management	Assisted Channels		Branch Applications IT	Digital Technology IT
			Protection		Real-time Payment Systems	Real-time Payment Systems IT
			New Business Model & Open Banking		Wealth Management IT	New Business Models & Open Banking IT
					Core Systems IT	Data IT

Supervisory Board Report

for the Year 2018

John James Stack
Chairman of the Supervisory Board
Chairman of the Audit Committee

In 2018 the Supervisory Board supervised the discharge of the Board of Directors powers and the operations of Česká spořitelna, a.s. in accordance with the Articles of Association and legal provisions.

The Supervisory Board, among other matters, approved the Financial Statements and distribution of Profit for the year 2018, and discussed regularly the financial and business results of the Česká spořitelna financial group, the transformation of internal Bank organisation and its ways of management, macroeconomic development in the Czech Republic, the development of the loan portfolio, group strategy and asset management. Further, the Supervisory Board discussed organization of IT activities in the Company, revised principles of remuneration as well as approval of the 2019 budget.

The Supervisory Board continuously supervised the execution of the powers of the Board of Directors, carrying out the Bank's business activity, monitored the Board's decisions and strategy implementation.

The Board of Directors provided the Supervisory Board with the documentation and information necessary for the discharge of its functions in accordance with the Articles of Association and legal provisions. The Supervisory Board states that in 2018 the Board of Directors duly fulfilled its tasks arising mainly from the law, the Articles of Association and decisions of the Supervisory Board and the General Meeting.

In 2018 the Supervisory Board held seven meetings; besides these meetings, the Supervisory Board also made use of a "per rollam" resolutions.

During the year, the Supervisory Board discussed the results of activities of the individual committees – Risk Committee, Remuneration Committee and Nomination Committee. The Supervisory Board was also regularly informed about the activities of the Audit Committee, which is an independent body of the Company.

During 2018 no changes in the Supervisory Board´s membership took place. The General Meeting in April re-elected Mr. Andreas Treichl as a Supervisory Board Member.

In accordance with legal provisions and based on the recommendation of the Audit Committee, the Supervisory Board reviewed the Separate and Consolidated Financial Statements as of 31. 12. 2018 and came to the conclusion that the books and accounting records were kept in a transparent manner in accordance with accounting regulations and that the accounts and Separate and Consolidated Financial Statements give a true and fair view of the financial position of Česká spořitelna, a.s. and Česká spořitelna, a.s. Financial Group as at 31. 12. 2018. The audit of the year-end financial statements was performed by PricewaterhouseCoopers Audit, s.r.o., who confirmed that according to their opinion the financial statements give a true and fair view of the financial position of Česká spořitelna, a.s. and its subsidiaries (together "the Group") as of 31 December 2018, of their financial performance and their cash flows for the year then ended 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the European Union ("EU"). Supervisory Board took into account this auditor's opinion.

The Supervisory Board also reviewed the Report on Relations between the Connected Parties and, in accordance with the provision 83 para 1 of the Business Corporations Act, states that it took account of this Report without comments.

Report of the Audit Committee

In the year 2018, the Audit Committee of Česká spořitelna, a.s. operated as an independent body of the company.

In compliance with the Act No. 93/2009 Sb. on Auditors and the Articles of Association of Česká spořitelna, a. s., the Audit Committee monitored the procedure applied at the compilation of the financial statements and the consolidated financial statements, monitored the effectiveness of the internal control, the risk management system and the internal audit including independence; monitored the process of the statutory audit, approved the non-audit services provided by the auditor, assessed the independence of the auditor and recommended the company PricewaterhouseCoopers Audit, s. r. o. for the performing of the audit of annual financial statements for the year 2018.

In compliance with the regulatory requirements, the Audit Committee performed the evaluation of the functionality and effectiveness of the internal control system in the bank. In the year 2018 the Audit Committee discussed on its regularly held meetings the plan of Internal Audit, the report on the focus and activities of the Internal Audit and the information about the fulfilment of measures from the audits and inspections adopted by the bank management, the Audit Committee monitored the status and update of the internal audit priorities. The Audit Committee also focused its attention on the system of the risk management, activities of the compliance function, prevention of frauds, IS/IT security strategy, GDPR implementation and the fulfillment of the measures adopted on the basis of the protocol on the Czech National Bank and other regulators inspections. The Audit Committee elaborated the report, in which assessed its activities and submitted it to the Public Audit Oversight Board.

John James Stack
Chairman of the Supervisory Board
Chairman of the Audit Committee

Financial Section

Independent auditor's report

to the shareholder of Česká spořitelna, a.s.

Report on the Audit of the Consolidated and Separate Financial Statements

Our Opinion

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Česká spořitelna, a.s. with its registered office at Praha 4, Olbrachtova 1929/62 ("the Bank") and its subsidiaries (together "the Group") as at 31 December 2018, of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU").
- The accompanying separate financial statements give a true and fair view of the financial position of the Bank standing alone as at 31 December 2018, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- The consolidated statement of comprehensive income for the year ended 31 December 2018;
- The consolidated statement of financial position as at 31 December 2018;
- The consolidated statement of changes in equity for the year then ended;
- The consolidated cash flow statement for the year then ended; and
- The notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

The Bank's separate financial statements comprise:

- The statement of comprehensive income for the year ended 31 December 2018;
- The statement of financial position as at 31 December 2018;
- The statement of changes in equity for the year then ended;
- The cash flow statement for the year then ended; and
- The notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council ("the EU Regulation") and Standards on Auditing of the Chamber of Auditors of the Czech Republic ("the Chamber"). These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and Bank in accordance with Act on Auditors, EU Regulation and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber, and we have not provided any prohibited non-audit services and we fulfilled our other ethical responsibilities in accordance with these regulations.

PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic
T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz

Our audit approach

Overview

We have set our materiality as 5% of the profit before tax in the separate financial statements, which represents CZK 920 million. We used the same materiality also for the consolidated financial statements.

Our audit covered 97.6% of the total assets and 97.5% of the net profits of the Group. By application of other assurance procedures at the level of smaller subsidiaries we covered further 2.3% of the total assets of the Group.

- Credit risk in loans and receivables from customers in the new expected loss model of IFRS 9;
- Implementation of the new standard IFRS 9 for classification and measurement of financial asset.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements (together "financial statements"). In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for each set of financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on each set of financial statements.

Overall materiality of the Group and separate Bank financial statements	CZK 920 million (in 2017: CZK 900 million)
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax in the separate financial statements as the benchmark, as the goal of the Bank and the Group is to achieve profits and users focus on this information. The level of 5% is a standard benchmark for public interest entities and reflects the best practise for public interest entity audits. We used the same level of materiality also for the consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of each set of financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Credit risk in loans and receivables from customers in new expected loss model of IFRS 9 In the balance sheet and in note 27 of the consolidated financial statements, the Group presents its customer loan portfolio of CZK 685,639 million, of which 94% is held by the Bank. The risk of loan irrecoverability is an inherent part of banking activities, however the quantification of impairment loss allowances is a subjective area that has significant impact on reported profits. Furthermore, in 2018 the whole Group implemented IFRS 9. This standard requires recognition of expected credit losses rather than losses already incurred. It triggered significant changes in the complex models used for the measurement of loan impairment, particularly in the area of default probabilities and incorporation of forward looking information. The new model increased the impairment provisions in order to recognise also part of the expected credit losses that will arise in the future.	In line with our approach during the last year, we focused our audit work specifically on the credit risk and loan impairment in order to verify the measurement of loans and receivables from customers including the quantification of adequate impairment loss allowances. Considering the changes caused by implementation of IFRS 9, we assessed the policies that the Group and the Bank applied for the development of the new expected credit loss impairment models and checked their consistency with the requirements of IFRS 9. We also verified the completeness of the credit risk disclosures newly required by the financial reporting standards. We used our credit risk modelling experts to assess the validations of the most important impairment models. Considering the key role of the banking systems and internal control systems in the identification of credit quality deterioration and quantification of the expected credit losses, we used our information technology specialists to verify accuracy of data inputs, data processing and automated calculations inside the core systems, including the system for impairment loss calculation. We verified the loan granting process to satisfy ourselves that the system uses appropriate and complete data and that the processes are in line with the current regulatory requirements, generally accepted principles and internal guidelines. We validated numerous control procedures for collateral management, including approval of external appraisers used and monitoring of their work. The system of allocation of loans into the three stages defined by IFRS 9 is essential for the measurement of expected credit losses and setting aside impairment loss allowances. Hence we assessed the policies applied by the Bank in this area and observed that they are adequate.
Implementation of new standard IFRS 9 for classification & measurement of financial assets Financial assets represent the vast majority of the assets of the Group and the Bank. As described in note B c) of the consolidated financial statements, IFRS 9 introduced a principle based classification model, which considers both the financial characteristics of each financial instrument and the business model under which the asset has been acquired and is held. Whilst the changes in classification and measurement of financial liabilities are insignificant, for financial assets it represents a substantive change that resulted in reclassifications into three new categories: fair value through profit and loss (FVPL), fair value	We started our audit work on the classification and measurement of financial assets already at the beginning of 2018, where we verified the IFRS 9 disclosures included in the 2017 financial statements. Following this initial work, we verified the accounting policies of the Bank, the opening adjustments and the movements in the classification categories throughout 2018. During this process we focused both on the financial characteristics and on the business model applicable for all groups of financial assets. Since all financial assets that do not meet the characteristic of producing cash-flows solely from payment of principle and interest (SPPI) need to be measured at FVPL, we firstly reviewed the Bank's methodology and tools used for SPPI determination. We also examined contracts for all main types of financial instruments and tested selected sample of more complex financial instruments. We also verified the Bank's

Key audit matter	How our audit addressed the key audit matter
through other comprehensive income (FVOCI), and amortised cost (AC). Considering the new two-step classification model and new rules, the reclassifications represent a complex financial reporting area.	processes and controls related to the approvals of all new financial instruments. For instruments which passed the SPPI test, the business model "held to collect" triggers the AC classification, "held to collect or sell" triggers the FVOCI classification and "held to sell" triggers the FVPL classification. Therefore, with involvement of our technical accounting specialists, we examined management's assessments and documentation on a sample basis, discussed the applied business models with the asset managers and accounting experts of the Bank and compared them to the Bank strategies. We also verified on a sample basis the compensation schemes of asset managers and histories of sales of instruments from each portfolio. We also focused our attention on the disclosure of the new models and compared the information provided with the requirements of the new standards.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide opinion on each set of the financial statements as a whole, taking into account the structure of the Group and the Bank, the accounting processes and controls, the share of individual subsidiaries on the Group financial position and performance and specifics of the industry in which the Group operates.

For audit of the consolidation we performed a full audit of the Bank and Stavební spořitelna České spořitelny, a.s. These banks form 97,6% of the Group total assets and 97,5% of the Group net profits. Additionally, we verified selected items of the financial statements of other Group companies, thus increasing the share of total audited assets of the Group to 99,9%. I am personally responsible for the audits of all public interest entities in the Group. This approach did allow us to reasonably exclude significant misrepresentations of the Group results.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than both of the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other financial and non-financial information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Group and the Bank obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group and the Bank obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Board of Directors, Supervisory Board and Audit Committee for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Group and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or the Bank or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the financial reporting process and the Audit Committee for its monitoring.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above stated requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or taken together, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and the Bank's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions might cause the Group or the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors, Supervisory Board and Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of the EU Regulation, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Consistency of the Audit Opinion with the Additional Report to the Audit Committee

We confirm that the audit opinion expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued today in accordance with Article 11 of the EU Regulation

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Group and the Bank for 2018 by the General Meeting of Shareholders on 30 April 2018 and our uninterrupted engagement has lasted for two years.

Provided Non-audit Services

The non-audit services are disclosed in the chapter "Other Information for Shareholders" of the Annual Report. PwC Network did not provide prohibited services referred to in the Article 5 of the EU Regulation.

28 March 2019

PricewaterhouseCoopers Audit, s.r.o.

represented by partner

Ing. Petr Kříž FCCA
Statutory Auditor, Evidence No. 1140

Translation note

This version of our report is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over this translation.

Consolidated Financial Statements

for the Year Ended 31 December 2018

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union

Consolidated Statement of Comprehensive Income

for the Year Ended 31 December 2018

Consolidated Income statement

in CZK million	Notes	2018	2017
Net interest income	1	27,821	25,350
Interest income	1	31,438	28,148
Other similar income	1	3,568	x
Interest expenses	1	(4,233)	(2,798)
Other similar expenses	1	(2,952)	x
Net fee and commission income	2	8,540	8,803
Fee and commission income	2	11,985	11,981
Fee and commission expense	2	(3,445)	(3,178)
Dividend income	3	78	64
Gains/losses from financial instruments measured at fair value through profit or loss	4	2,150	2,736
Gains from financial instruments measured at fair value through profit or loss	5	224	(7)
Net result from equity method investments		54	9
Rental income from investment properties & other operating leases	6	221	272
Personnel expenses	7	(9,553)	(9,224)
Other administrative expenses	7	(6,773)	(6,970)
Depreciation and amortisation	7	(2,001)	(2,046)
Gains from financial assets and liabilities not measured at fair value through profit or loss, net	8	x	271
Gains from derecognition of financial assets measured at amortised cost	9	17	x
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	10	8	x
Net impairment loss on financial assets not measure at fair value through profit or loss	11	x	(33)
Impairment result from financial instruments	12	(288)	x
Other operating result	13	(1,335)	(1,198)
Pre-tax result from continuing operations		**19,163**	**18,027**
Taxes on income	14	(3,801)	(3,415)
Net result for the period		**15,362**	**14,612**
Net result attributable to non-controlling interests		-	2
Net result attributable to owners of the parent		**15,362**	**14,610**

Consolidated Statement of Comprehensive Income

in CZK million	Notes	2018	2017
Net result for the period		**15,362**	**14,612**
Other comprehensive income			
Items that may not be reclassified to profit or loss at FVOCI		184	x
Fair value reserve of equity instruments	14	223	x
Own credit risk reserve	14	3	x
Deferred taxes relating to items that may not be reclassified	14	(42)	x
Items that may be reclassified to profit or loss		**(349)**	**(3,203)**
Available for sale reserve (including currency translation)	14	x	(1,197)
Losses during the period		x	(1,197)
Fair Value reserve of debt instruments	14	(833)	x
Losses during the period		(772)	x
Reclassification adjustments		(8)	x
Credit loss allowances	12	(53)	x
Cash flow hedge reserve		396	(2,719)
Gains/losses during the period	12, 49	396	(2,719)
Currency reserve		5	(31)
Gains/losses during the period		5	(31)
Deferred tax relating to items that may be reclassified		83	744
Gains during the period	14, 35	82	744
Reclassification adjustments		1	-
Total other comprehensive income		**(165)**	**(3,203)**
Total comprehensive income		**15,197**	**11,409**
Total comprehensive income attributable to non-controlling interests		-	2
Total comprehensive income attributable to owners of the parent		**15,197**	**11,407**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as of 31 December 2018

in CZK million	Notes	2018	2017
Assets			
Cash and cash balances	16	63,914	280,221
Financial assets held for trading		10,311	11,433
Derivatives	17	10,091	11,301
Other financial assets held for trading	18	220	132
Thereof pledged as collateral	46	1	1
Financial assets at fair value through profit or loss	19	x	407
Non-trading financial assets at fair value through profit or loss	20	1,452	x
Equity instruments		755	x
Debt securities		628	x
Loans and advances to customers		69	x
Financial assets available for sale	21	x	55,283
Thereof pledged as collateral	46	x	2,781
Financial assets at fair value through other comprehensive income	22	39,627	x
Thereof pledged as collateral	46	722	x
Equity instruments		1,252	x
Debt securities		38,375	x
Financial assets held to maturity	23	x	163,679
Thereof pledged as collateral	46	x	76,334
Loans and receivables to credit institutions	25	x	157,525
Loans and receivables to customers	26	x	638,694
Financial assets at amortised cost	27	1,281,034	x
Thereof pledged as collateral	46	88,013	x
Debt securities		205,551	x
Loans and advances to banks		389,844	x
Loans and advances to customers		685,639	x
Finance lease receivables	28	2,006	x
Hedge accounting derivatives	29	1,152	613
Property and equipment	33	9,396	9,913
Investment properties	33	2,327	2,372
Intangible assets	34	5,247	4,854
Investments in associates	31	824	762
Current tax assets	35	499	341
Deferred tax assets	35	986	1,000
Assets held for sale	36	40	19
Trade and other receivables	30	6,351	x
Other assets	37	1,299	2,107
Total assets		**1,426,465**	**1,329,223**

in CZK million	Notes	2018	2017
Liabilities and equity			
Financial liabilities held for trading		10,172	11,414
Derivatives	17	10,172	11,414
Financial liabilities at fair value through profit or loss		1,935	1,240
Deposits from customers	39	1,935	1,240
Financial liabilities at amortised cost	39	1,279,931	1,179,929
Deposits from banks	39	318,861	295,232
Deposits from customers	39	952,506	881,997
Debt securities issued	39	5,458	1,805
Other financial liabilities		3,106	895
Hedge accounting derivatives	29	2,110	1,813
Provisions	40	3,584	2,778
Current tax liabilities	35	69	89
Deferred tax liabilities	35	218	220
Other liabilities	41	5,789	10,765
Total equity		**122,657**	**120,975**
Equity attributable to non-controlling interests		184	165
Equity attributable to owners of the parent		122,473	120,810
Share capital		15,200	15,200
Additional paid-in capital		12	12
Additional equity instruments		8,107	8,107
Retained earnings and other reserves		99,154	97,491
Total liabilities and equity		**1,426,465**	**1,329,223**

The accompanying notes are an integral part of these financial statements of these consolidated financial statements.

These consolidated financial statements were prepared by the Group and authorized for issue by the Board of Directors on 19 March 2019 and are subject to approval at the General Meeting of shareholders.

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-chairman of the Board of Directors

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

in CZK million	Share capital	Additional paid-in-capital	Retained earnings	Additional equity instruments	Statutory reserve	Cash flow hedge reserve	Available for sale 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 2017	**15,200**	**12**	**95,167**	**8,107**	**387**	**268**	**2,594**	**x**	**x**	**(171)**	**121,564**	**166**	**121,730**
Dividends paid	-	-	(12,152)	-	-	-	-	x	x	-	(12,152)	(3)	(12,155)
Other	-	-	(10)	-	-	1	-	x	x	-	(9)	-	(9)
Total comprehensive income	-	-	14,610	-	-	(2,202)	(970)	x	x	(31)	11,407	2	11,409
Net result for the period	-	-	14,610	-	-	-	-	x	x	-	14,610	2	14,612
Other comprehensive income	-	-	-	-	-	(2,202)	(970)	x	x	(31)	(3,203)	-	(3,203)
Change in cash flow hedge reserve	-	-	-	-	-	(2,719)	-	x	x	-	(2,719)	-	(2,719)
Change in revaluation reserve	-	-	-	-	-	-	(1,197)	x	x	-	(1,197)	-	(1,197)
Change in currency translation reserve	-	-	-	-	-	-	-	x	x	(31)	(31)	-	(31)
Change in tax	-	-	-	-	-	517	227	x	x	-	744	-	744
Transfer	-	-	-	-	-	-	(2)	x	x	2	-	-	-
As of 31 December 2017	**15,200**	**12**	**97,615**	**8,107**	**387**	**(1,933)**	**1,622**	**x**	**x**	**(200)**	**120,810**	**165**	**120,975**
As of 1 January 2018	**15,200**	**12**	**97,615**	**8,107**	**387**	**(1,933)**	**1,622**	**-**	**-**	**(200)**	**120,810**	**165**	**120,975**
Changes of initial application of IFRS 9	-	-	(981)	-		-	(1,622)	1,372	-	4	(1,227)	-	(1,227)
Restated as of 1 January 2018	**15,200**	**12**	**96,634**	**8,107**	**387**	**(1,933)**	**x**	**1,372**	**-**	**(196)**	**119,583**	**165**	**119,748**
Dividends paid	-	-	(12,300)	-	-	-	x	-	-	-	(12,300)	-	(12,300)
Capital increases	-	-	-	-	-	-	x	-	-	-	-	39	39
Changes in scope of consolidation and ownership interest	-	-	45	-	-	-	x	-	-	-	45	(20)	25
Other changes	-	-	(52)	-			x	(1)	1		(52)	-	(52)
Total comprehensive income	-	-	15,362	-	-	321	x	(494)	3	5	15 197	-	15,197
Net result for the period	-	-	15,362	-	-	-	x	-	-	-	15,362	-	15,362
Other comprehensive income	-	-	-	-	-	321	x	(494)	3	5	(165)	-	(165)
Change in fair value reserve	-	-	-	-	-	-	x	(610)	-	-	(610)	-	(610)
Changes in tax	-	-	-	-	-	(75)	x	116	-	-	41	-	41
Change in cash flow hedge reserve	-	-	-	-	-	396	x	-	-	-	396	-	396
Change in currency translation reserve	-	-	-	-	-	-	x	-	-	5	5	-	5
Change in own credit risk reserve	-	-	-	-	-	-	x		3	-	3	-	3
As of 31 December 2018	**15,200**	**12**	**99,689**	**8,107**	**387**	**(1,612)**	**x**	**877**	**4**	**(191)**	**122,473**	**184**	**122,657**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

in CZK million	Notes	2018	2017
Pre-tax result from continuing operations		**19,163**	**18,027**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation and net impairment of non-financial assets	7	2,731	2,004
Net allocation to provisions (including credit risk provisions)	3, 40	1,290	603
Gains / losses from the measurement and derecognition of financial assets and financial liabilities		99	x
Gains / losses from the sale of non-financial assets		(196)	29
Change in fair values of trading derivatives		(17)	860
Accrued interest, amortisation of discount and premium		381	(1,057)
Other adjustments		5	1,036
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Deposits with the CNB		x	135
Loans and receivables to credit institutions		x	(137,026)
Loans and receivables to customers		x	(67,893)
Financial assets held for trading		(89)	7,464
Financial assets at fair value through profit or loss		x	17
Non-trading financial assets at fair value through profit or loss			
Equity instruments		(375)	x
Debt securities		26	x
Loans and advances to customers		2,219	x
Financial assets available for sale: debt instruments		x	24,161
Financial assets at fair value through other comprehensive income: debt instruments		13,548	x
Financial assets held to maturity		x	3,202
Financial assets at amortised cost			
Debt securities		(37,924)	x
Loans and advances to banks		(233,880)	x
Loans and advances to customers		(52,509)	x
Finance lease receivables		(121)	x
Hedge accounting derivatives		146	(2,719)
Other assets from operating activities		(5,606)	1,373
Financial liabilities at amortised costs			
Deposits from banks		22,211	187,098
Deposits from customers		69,723	98,027
Financial liabilities held for trading		-	(3,942)
Financial liabilities at fair value through profit or loss		568	-
Payments for taxes on income		(3,687)	(3,166)
Other liabilities from operating activities		(1,717)	460
Cash flow from operating activities		**(204,011)**	**128,693**
Financial assets – available for sale: equity instruments		x	(361)
Financial assets at fair value through other comprehensive income: equity instruments		**-**	**x**
Proceeds of disposal			
Property and equipment, intangible assets and investment properties	33, 34	581	728
Acquisition of			
Property and equipment, intangible assets and investment properties	33, 34	(2,968)	(2,987)
Disposal of subsidiaries	35	-	(25)
Cash flow from investing activities		**(2,387)**	**(2,645)**
Dividends paid to equity holders of the parent		(12,300)	(12,152)
Dividends paid to non-controlling interests		-	(3)
Other financing activities		-	3
Proceeds from bonds issued	56	-	1,007
Sale / (Re-purchase) of bonds in issue	56	3,653	(8,670)
Cash flow from financing activities		**(8,647)**	**(19,815)**

in CZK million	Notes	2018	2017
Cash and cash equivalents at beginning of period	**16**	**280,221**	**173,100**
Cash flow from operating activities		(204,011)	128,693
Cash flow from investing activities		(2,387)	(2,645)
Cash flow from financing activities		(8,647)	(19,815)
Effect of currency translation		(1,262)	888
Cash and cash equivalents at end of period	**16**	**63,914**	**280,221**
Cash flows related to taxes, interest and dividends			
Payments for taxes on income (included in cash flow from operating activities)		(3,687)	(3,166)
Interest received		34,261	28,192
Dividends received		78	64
Interest paid		(7,171)	(2,651)
Dividends paid to equity holders of the parent		(12,300)	(12,152)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Notes to the Group Financial Statements

for the year ended 31 December 2018

A. 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's sole shareholder is Erste Group Bank AG ('Erste Group Bank'), having its registered office address at Am Belvedere 1, 1100, Vienna, which is the ultimate parent. Information on the ultimate parent company's shareholder structure is published in the financial statements of Erste Group Bank AG for the year 2018. The General Meeting held on 3 October 2018 approved the squeeze-out of minority shareholders and transfer of all shares to a single shareholder, the Erste Group Bank.

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, 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.

B. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation of Financial Statements

The consolidated financial statements of the Group for the 2018 financial year and the comparative information were prepared in compliance with applicable International Financial Reporting Standards as adopted by the European Union ('IFRS') on the basis of IAS Regulation (EC) No. 1606/2002.

The comparative period columns in the 2018 financial statements reflect the structure used in 2017 financial statements and present amounts based on the original classification and measurement requirements of IAS 39 (superseded by IFRS 9) and IFRS 7 (before the consequential amendments resulting from applying IFRS 9) – for more details see comments in the section Accounting and measurement methods in the text bellow.

The current period columns in the 2018 financial statements reflect the new structure of financial statements resulting from the adoption of IFRS 9, which came into force as of 1 January 2018 - for more details see comments in the section Accounting and measurement methods and in the section Application of new standards (where also financial impact of IFRS 9 transition is disclosed) in the text below.

When the balances in the financial statements are not applicable for the particular reporting period, the cross („x") is used.

The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationship.

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income, derivative financial instruments and other financial assets and liabilities held for trading, and financial assets and liabilities at fair value through profit or loss, all of which have been measured at fair value.

The consolidated financial statements have been prepared on a going concern basis.

Except as otherwise indicated, all amounts are stated in millions of Czech crowns ('CZK'). The tables in this report may contain rounding differences.

The financial statements have been prepared in Czech and English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

b) Basis of Consolidation

Subsidiaries

All subsidiaries directly or indirectly controlled by Česká spořitelna, a. s. are consolidated in the consolidated financial statements on the basis of the subsidiaries' annual accounts as of 31 December 2018, and for the year then ended.

Subsidiaries are consolidated from the date when control is obtained until the date when control is lost. Control is achieved when Group 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 to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income and consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the Group's subsidiaries are prepared for the same reporting year as that of Česká spořitelna, a. s. and using consistent accounting policies.

All intra-Group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated.

Non-controlling interests represent those portions of total comprehensive income and net assets that are not attributable directly or indirectly to the owner of Česká spořitelna, a. s.

Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised as equity.

Additions in 2018

Starting June 2018 a new company ČS NHQ, s. r. o. was included in Česká spořitelna Group's IFRS consolidation scope.

Disposals in 2018

In April 2018, the liquidation of the entity ČS do domu, a. s. v likvidaci was finalized and the entity was deleted from the commercial register. In November 2018, the liquidation of the entity s IT Solutions CZ, s. r. o. v likvidaci was finalized and the entity was deleted from the commercial register.

Additions in 2017

No material acquisitions of new subsidiaries occurred during 2017.

Disposals in 2017

With exception of sale of CPDP Prievozská, a. s. in May 2017, none material disposals of subsidiaries occurred during 2017.

Investments in associates

Investments in associates are accounted for using the equity method. Under the equity method, an interest in an associate is recognised at cost plus post-acquisition changes in the Group's share of the net assets of the entity. The Group's share of the associate's result is recognised in the income statement and other comprehensive income. Entities accounted for using the equity method are recognised on the basis of annual financial statements as of 31 December 2018 and for the year then ended.

Associates are entities over which Group exercises significant influence. Significant influence is the power to participate in the financial and operating business decisions of the investee but is not control or joint control of those decisions. As a general rule, significant influence is presumed to mean a share on voting rights between 20% and 50%.

c) Accounting and Measurement Methods

IFRS 9 New standard

As of 1 January 2018 the Group has adopted IFRS 9 Financial Instruments as endorsed by the EU in November 2016. This resulted in changes in accounting policies for classification and measurement of financial assets and financial liabilities, as well as for impairment of financial assets. IFRS 9 also significantly amends IFRS 7 Financial instruments: Disclosures, due to which disclosures of information on financial instruments have been adapted to the new requirements.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative amounts for the previous financial year 2017. As a result, the comparative period disclosures in the notes and comparative period columns in 2017's financial statements are based on the original classification and measurement requirements of IAS 39 and IFRS 7 (before the consequential amendments resulting from IFRS 9).

Due to this fact, accounting policies relevant for financial instruments in accordance with IAS 39 are also disclosed.

Accounting policies disclosed for both comparative (2017's financial statements) and current period (2018's financial statements) are disclosed in Chapter Significant Accounting Policies in the following way:

1) Accounting policies and principles relevant only for the comparative period, i.e. accounting policies and principles, which were fully replaced by IFRS 9 requirements.
2) Accounting policies and principles, which are relevant for the current reporting period.
3) Accounting policies and principles, which are the same for both reporting period (i.e. remain unchanged).

As allowed by IFRS 9, the Group has elected to continue applying hedge accounting requirements of IAS 39.

For the overall impact on the consolidated statement of financial position resulting from the implementation of IFRS 9 see the part Detailed information and disclosures in respect of transition to IFRS 9.

The tables make use of the following acronyms:

AC	Amortized cost
AFS	Available for sale
EIR	Effective interest rate
FVO	Fair value option-designated at fair value
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
HFT	Held for trading
HTM	Held to maturity
L&R	Loans and receivables
OCI	Other comprehensive income
SPPI	Solely payment of principal and interest
CLA	Credit loss allowance

i. Classification and measurement of financial instruments

The table below presents changes between measurement categories and carrying amounts of financial assets and financial liabilities under IAS 39 and IFRS 9 as at 1 January 2018.

As required by IFRS 9, financial impact from IFRS 9 adoption (i.e. from revaluation and remeasurement of financial assets and liabilities originally measured and classified based on IAS 39) is recognized in equity (retained earnings or other comprehensive income ('OCI')).

To illustrate the transition impact, the effects are disclosed in respect of original statement of financial position reflecting IAS 39 requirements.

in CZK million	Comments	Original classification under IAS 39: Portfolio	Original classification under IAS 39: Measurement method	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets						
Cash and cash balances		Loans and receivables	AC	Amortised cost	280,221	280,209
Derivatives		Held-for-trading	FVPL	Held-for-trading (FVPL)	11,301	11,301
Other trading assets		Held-for-trading	FVPL	Held-for-trading (FVPL)	132	132
Derivatives – hedge accounting		Hedge accounting	FV	Hedge accounting	613	613
Loans and receivables to credit institutions		Loans and receivables	AC	Amortised cost	157,525	157,518
				Amortised cost	634,539	633,310
		Loans and eceivables	AC	Mandatorily at FVPL	2,223	2,223
Loans and receivables to customers		Loans and eceivables	Finance Lease	Finance Lease	1,932	1,927
				Amortised cost	1,058	1,023
				Mandatorily at FVPL	307	307
Financial assets – available for sale (Debt securities)	a	AFS	FVOCI	FVOCI	52,509	52,509
				Mandatorily at FVPL	380	380
Financial assets – available for sale (Equity instruments)	a			FVOCI	1,029	1,029
Financial assets – held to maturity		Held-to-maturity	AC	Amortised cost	163,679	163,642
				Mandatorily at FVPL	118	118
Financial assets – at fair value through profit or loss		FV option	FVPL	Designated at FVPL	289	289
Total financial assets					**1,307,855**	**1,306,530**
Financial liabilities						
Derivatives		Held-for-trading	FVPL	Held-for-trading (FVPL)	11,414	11,414
Derivatives – hedge accounting		Hedge accounting	FV	Hedge accounting	1,813	1,813
Financial liabilities measured at amortised cost		Amortised cost	AC	Amortised cost	1,179,929	1,179,929
Financial liabilities – at fair value through profit or loss (Deposits from customers)		FV option	FVPL	Designated at FVPL	1,240	1,240
Total financial liabilities					**1,194,396**	**1,194,396**

(a) The original carrying amount under IAS 39 is adjusted by CZK 307 million in respect of debt securities and equity securities compared to the 2017 financial statements due to a reclassification between debt and equity instruments related to investments in open-ended funds. Investments in funds were treated as equity instruments in 2017. Emphasis was put on their economic substance of being equity securities like.

From 2018 Group has started to classify investments in open-ended funds as debt instruments. Preference is put on the puttable feature due to which they meet the definition of a liability in accordance with IAS 32. Thus, they are debt instruments both from the issuer and the investor perspective.

Under IFRS 9, investments in funds were reclassified to the mandatorily at FVPL category due to the assets having contractual cash flows that are not SPPI. In the transition disclosures they are treated as debt instruments also in respect of the IAS 39 carrying amount.

Reconciliation of carrying amounts of financial assets is based on measurement categories.

ii. Reconciliation of carrying amounts of financial assets based on measurement categories

in CZK million	Comments	IAS 39 carrying amount 31 Dec 17	Reclassi-fications	Remeas-urement	IFRS 9 carrying amount 1 Jan 18	Retained earnings effects	OCI effects
Amortised cost							
Additions:							
from IAS 39 FVOCI (AFS) – debt securities	a	-	1,058	(35)	-	(1)	(34)
from IAS 39 AC (L&R, HTM) (impairment remeasurement)		-	-	(1,290)	-	(1,290)	-
Subtractions:		-			-		
to IFRS 9 Mandatorily at FVPL (IAS 39: L&R) – loans and advances to customers		-	(2,223)	-	-	-	-
Total – amortised cost	**b**	**1,240,119**	**(1,165)**	**(1,325)**	**1,237,629**	**(1,291)**	**(34)**
Fair value through other comprehensive income							
Fair value through other comprehensive income – debt securities	e						
Additions:							
from IAS39 AFS (impairment remeasurement)						(104)	104
Subtractions:							
to IFRS 9 AC (IAS 39: AFS)	a	-	(1,058)	-		-	-
to IFRS 9 Mandatorily at FVPL (IAS 39: AFS)		-	(307)	-		-	-
Subtotal – debt securities at FVOCI		**53,874**	**(1,365)**	**-**	**52,509**	**(104)**	**104**
Fair value through other comprehensive income – equity instruments							
Subtractions:				-			
to IFRS 9 FVPL (IAS 39: AFS)	c	-	(380)	-		-	-
Subtotal – equity instruments at FVOCI		**1,409**	**(380)**	**-**	**1,029**	**-**	**-**
Total – fair value through other comprehensive income	**e**	**55,283**	**(1,745)**	**-**	**53,538**	**(104)**	**104**
				-			
Fair value through profit or loss							
Additions:				-			
from IAS 39 AC (L&R) (IFRS 9: Mandatorily at FVPL) – loans and advances to customers		-	2,223	-		-	-
from IAS 39 FVOCI (AFS) (IFRS 9: Mandatorily at FVPL) – debt instruments		-	307	-		94	(94)
from IAS 39 FVOCI (AFS) – equity instruments	c	-	380	-		287	(287)
Total – fair value through profit or loss	**d**	**11,840**	**2,910**	**-**	**14,750**	**381**	**(381)**
Total – financial assets		**1,307,242**	**-**	**(1,325)**	**1,305,917**	**(1,014)**	**(311)**

(a) Debt securities that were classified as available for sale and measured at FVOCI under IAS 39 and that are part of the portfolios connected to asset and liability management activities were reclassified to the amortised cost measurement category under IFRS 9 due to the business model of holding the assets to collect contractual cash flows.

(b) The IFRS 9 carrying amount as at 1 January 2018 includes IFRS 9 statement of financial position line items with the following carrying amounts in CZK million:
- cash and cash balances 280,209;
- financial assets at amortised cost:
  a) debt securities: 167,304;
  b) loans and advance to credit institutions: 155,654;
  c) finance lease receivables: 1,927 and
  d) loans and advances to customers: 627,339
  e) trade and other receivables 5,196.

(c) The reclassification of CZK 380 million from the available for sale category under IAS 39 to the fair value through profit or loss category under IFRS 9 relates to those investments in equity instruments that are not held for trading and that were not designated as measured at FVOCI upon the transition to IFRS 9.

(d) The IFRS 9 carrying amount of the item Fair value through profit or loss as at 1 January 2018 includes IFRS 9 statement of financial position line items with the following carrying amounts in CZK million:
- derivatives – held for trading: 11,301;
- other trading assets: 132;
- non-trading financial assets at FVPL:
  a) equity instruments mandatorily at FVPL: 380;
  b) debt instruments mandatorily at FVPL: 365;
  c) debt instruments designated at FVPL: 289,
  d) loans and advances to customers mandatorily at FVPL: 2,287.

(e) The IFRS 9 carrying amount of the item FVOCI debt instruments see a) in previous table i. Classification and measurement of financial instruments

As a result, the impairment remeasurements had a negative impact on the group retained earnings amounting to CZK 1,014 million. Overall, the reclassifications and remeasurements impairment effects decreased the group equity by CZK 1,325 million.

iii. Reconciliation of impairment allowances

The following table reconciles the amounts of loss allowances as at 31 December 2017 based on the IAS 39 incurred loss impairment model with the amounts as at 1 January 2018 subject to the IFRS 9 expected credit loss impairment model:

in CZK million	IAS 39 / IAS 37 carrying amount 31 Dec 17	Reclassifications	Remeasurement	IFRS 9 carrying amount 1 Jan 18
Debt instruments at AC	(12,326)	-	(1,679)	(14,005)
Debt instruments at FVOCI	-	(104)	-	(104)
Finance lease	(114)	-	(30)	(144)
Off balance-sheet exposures (loan commitments and guarantees given)	(784)	-	(130)	(914)
Total	**(13,224)**	**(104)**	**(1,839)**	**(15,167)**

The increase in impairment allowances amounting to CZK 1,839 million attributable to remeasurement includes following special effects that did not impact the group equity upon transition to IFRS 9:
- an increase of CZK 404 million representing additional impairment allowances against credit-impaired loans ('Stage 3') in respect of which interest receivables accruing after default were 'suspended' off-balance up to 31 December 2017 but were re-integrated in the on-balance gross carrying amounts of the related assets as of 1 January 2018 as required by IFRS 9.

iv. Deferred tax effects upon transition to IFRS 9

The following table illustrates the effects of IFRS 9 on the carrying amount of deferred tax assets and deferred tax liabilities:

in CZK million	IAS 39 carrying amount 31 Dec 17	IFRS 9 carrying amount 1 Jan 18	Retained earnings increase	OCI increase
Changes in deferred tax assets	1,000	1,226	169	57
Changes in deferred tax liabilities	(220)	(214)	4	2

v. De-designation from and designations to fair value option upon transition to IFRS 9

Financial assets with a carrying amount of CZK 65 million were de-designated from being measured at FVPL upon transition to IFRS 9 (i.e they were originally classified as designated on initial recognition at FVPL based on IAS 39). Reasons for the de-designation of Financial assets is that they should be classified as mandatorily at FVPL based on IFRS 9 due to failing the SPPI test.

No financial liabilities were de-designated from being measured at FVPL upon transition to IFRS 9.

IFRS 15 Revenue from Contracts with Customers

As of 1 January 2018, the Group has adopted IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 specifies how and when an entity recognises revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative and more relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers, except for those revenue streams for which other standards like IFRS 9 provide more specific regulations. As a consequence, the standard is not focused on recognition of revenues from financial instruments. For the Group the scope of application is therefore substantially restricted to revenue streams presented under fee and commission income. The adoption of the five step model did not impact the timing or amount of fee and commission income and the related assets and liabilities recognised by the Group. Accordingly, the impact of the first time application of this standard is limited to new disclosures.

Foreign currency translation

The consolidated financial statements are presented in Czech crowns.

The functional currency is the currency of the primary business environment in which an entity operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

For foreign currency translation, spot exchange rates quoted by the Czech National Bank are used. For Group entities using the Euro as functional currency, these are the European Central Bank ('ECB') reference rates.

(i) Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective as of the date of transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the income statement under the line item 'Net trading result'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(ii) Translation of the statements of Group companies

Assets and liabilities of foreign operations (foreign subsidiaries and branches) are translated into Group's presentation currency, the Czech crown, at the rate of exchange as of the balance sheet date (closing rate). Their consolidated statements of income and consolidated statements of comprehensive income are translated at average exchange rates calculated on the basis of daily rates. Goodwill, intangible assets recognised on acquisition of foreign subsidiaries (i.e. customer relationships and brand) and fair value adjustments to the carrying amounts of assets and liabilities on the acquisition are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount of translation differences recognised in other comprehensive income is recognised in the income statement in the line item 'Other operating result'.

Financial instruments

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IFRS 9 (as well as IAS 39) all financial assets and liabilities – which also include derivative financial instruments – have to be recognised in the statement of financial position and measured in accordance with their assigned categories.

Measurement methods for financial instruments

Measurement of financial assets and financial liabilities is subject to two primary measurement methods.

i. Amortised cost and effective interest rate

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance.

The effective interest rate („EIR") is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before adjusting for any loss allowance) or to the amortised cost of the financial liability. The estimated cash flows consider all contractual terms of the financial instrument but disregard the expected credit losses.

The calculation includes transaction costs, origination fees that are an integral part of the EIR and all other premiums and discounts to the par amount.

For purchased or originated credit-impaired financial assets („POCI", see part 'Impairment of financial instruments under IFRS 9') credit-adjusted EIR is used. It is the rate that exactly discounts the estimated future cash flows which consider expected credit losses to the amortised cost of a financial asset.

The EIR is used for recognition of interest income and interest expense. Interest income is calculated in the following way:

- EIR applied to the gross carrying amount for financial assets which are not credit-impaired (Stage 1 and Stage 2, see part 'Impairment of financial instruments');
- EIR applied to the amortised cost for financial assets which are credit-impaired (Stage 3, see part 'Impairment of financial instruments'); and
- credit-adjusted EIR applied to the amortised cost for POCI financial assets.

Under IAS 39 the EIR was applied to the amortised cost of financial assets and financial liablities.

Interest expense is calculated by applying the effective interest rate to the amortised cost of a financial liability.

ii. Fair value

Fair value is the price that would be received if an asset were sold or paid, if a liability were transferred in an orderly transaction between market participants on the measurement date. The definition also applies to fair value measurements of non-financial assets and liabilities. Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 50 Fair value of financial instruments.

Initial recognition and measurement

Initial recognition

Financial instruments are initially recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets stated at fair value are recognised at trade date and for financial assets not stated at fair value at settlement date. Regular way trades are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired.

Initial measurement of financial instruments

Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described below.

'Day 1' profit

Where the transaction price differs from the fair value derived from other observable transactions for the identical instrument in active market or derived using valuation technique that has all significant inputs based on observable markets data, the Group immediately recognises the difference between the transaction price and the fair value (a Day 1 profit) in the income statement in line item 'Net trading result'.

Classification and subsequent measurement of financial assets under IFRS 9

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:

(i) the business model for managing the financial assets - the assessment is focused on whether the financial asset is part of a portfolio where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business models.

(ii) the cash flow characteristics of the financial assets - the assessment is focused on whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest („SPPI") on the principal amount outstanding.

Application of these criteria leads to classification of financial assets into three measurement categories.

i. Financial assets at amortised cost ('AC')

Financial assets are measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows and their contractual cash flows are solely payment of principal and interest ('SPPI') compliant.

In the statement of financial position, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance. They are presented under the line 'Financial assets at amortised cost', 'Trade and other receivables' and 'Cash and cash balances'. Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

Interest income on these assets is calculated by effective interest method and is included under the line 'Net interest income' (subitem „Interest income") in the statement of income. Impairment gains or losses are included in the line 'Impairment result from financial instruments'. Gains and losses from derecognition (such as infrequent or insignificant sales) of the assets are reported under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost'.

At the Group, financial assets at amortised cost constitute the largest measurement category which includes the vast majority of loan business to customers (except for certain loans measured at fair value through profit or loss, if any), interbank lending business (including reverse repo transactions), deposits with central banks, amounts in the course of settlement, trade and other receivables. Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationship, substitution of loan business or other yield enhancement activities). Their common attribute is that significant and frequent sales of such securities are not expected. For a description of what sales are considered as compliant with the held to collect contractual cash flows business model see the „Business model assessment" part in chapter Significant accounting judgements, assumptions and estimates.

ii. Financial assets at fair value through other comprehensive income ('FVOCI')

Financial assets at fair value through other comprehensive income – Debt securities

Debt instrument financial assets are measured at fair value through other comprehensive income (FVOCI) if their contractual cash flows are SPPI compliant and they are held within a business model whose objective is achieved by both to collect contractual cash flows and sell the assets. In the statement of financial position they are included as 'Debt securities' under the line 'Financial asset at fair value through other comprehensive income'.

Interest income on these assets is calculated using the effective interest method and is included under the line 'Net interest income' (sub-item „Interest income") in the income statement. Impairment gains and losses are recognised in profit or loss in the line 'Impairment result from financial instruments' with opposite entry in OCI rather than against the asset value.

The difference between the fair value at which the assets are carried in the statement of financial position and the amortised cost component is recognised as accumulated OCI in equity specifically under 'Fair value reserve' in the statement of changes in equity. The change for the period is reported as OCI in the statement of comprehensive income in the line 'Fair value reserve of debt instruments'. When the financial asset is derecognised the amount previously accumulated in OCI is reclassified to profit or loss and reported under the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

Financial assets at fair value through other comprehensive income – Equity instruments

For certain investments in equity instruments which are not held for trading, the Group makes use of the option to measure them at FVOCI. This election is applied to strategic, significant banking business relationship investments. The fair value gains or losses for the period are reported as OCI in the line 'Fair value reserve' of the statement of comprehensive income. The cumulative gains or losses are included under 'Fair value reserve of equity instruments' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition of the investments in equity instruments at FVOCI the amount accumulated in OCI is transferred to retained earnings. Dividends received on these investments are reported under the line 'Dividend income' of the income statement. In the statement of financial position, financial assets measured at fair value through OCI are included as 'Equity instruments' under the line 'Financial asset at fair value through other comprehensive income'.

iii. Financial assets at fair value through profit or loss ('FVPL')

There are different reasons for assigning the fair value through profit or loss (FVPL) measurement category to financial assets.

Financial assets whose contractual cash flows are not considered as SPPI are mandatorily measured at FVPL.

Other source of FVPL measurement relates to financial assets which are part of residual business models, i.e. they are neither held to collect contractual cash flows, nor held either to collect contractual cash flows, or sell the assets. These financial assets are generally expected to be sold before their maturity or they are managed and their performance is evaluated on a fair value basis. In the business of the Group, such business models are typical of assets which are held for trading (i.e. financial assets held by the trading function of the bank) and of assets whose value is expected to be primarily realised through sales.

The Group also utilizes the option to designate some financial assets as measured at FVPL at initial recognition. Such classification is used if it eliminates or significantly reduces an accounting mismatch between the financial asset, which in the absence of such a classification would be measured at amortised cost or at FVOCI, and the related derivative measured at FVPL.

In the statement of financial position, debt instrument financial assets measured at FVPL are presented as 'Financial assets held for trading', sub-item 'Other financial assets held for trading' and 'Non-trading financial assets at fair value through profit or loss', (sub-items 'Debt securities', 'Loans and advances to banks' and 'Loans and advances to customers'). Non-trading financial assets consist of two sub-categories disclosed in Note 19 which are 'mandatorily at fair value through profit or loss' and 'designated at fair value through profit or loss'. Financial assets are mandatorily measured at fair value through profit or loss either because their contractual cash flows are not SPPI or they are held as part of residual business models that are other than held for trading.

Investments in equity instruments which are held for trading (i.e. financial assets held by the trading function of the bank) are measured at FVPL. They are included in the statement of financial position under the line 'Financial assets held for trading', sub-item 'Other financial assets held for trading'. Investments in equity instruments which are not held for trading are also measured at FVPL (unless they are designated at FVOCI). They are presented in the statement of financial position under „Non-trading financial assets at fair value through profit or loss", sub-item „Equity instruments", sub-category „mandatorily at fair value through profit or loss" in Note 20.

In the income statement, the profit or loss effects of financial assets measured at FVPL are split into interest income or dividend income and fair value gains and losses. The interest income on debt instruments is presented in the line 'Net interest income' (sub-item „Other similar income"). The dividend income on equity instruments is presented in the line 'Dividend income'. The fair value gains or losses are calculated net of the interest or dividend income. They are reported in the line 'Net trading result' for financial assets held for trading and in the line 'Gains/losses from financial instruments measured at fair value through profit or loss' in case of non-trading financial assets at FVPL.

Classification and subsequent measurement of financial liabilities under IFRS 9

Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss.

i. Financial liabilities at amortised cost

For presentation in the statement of financial position, the line item 'Financial liabilities at amortised cost' is used. The liabilities are further broken down into 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are reported in the line item 'Net interest income' (sub-item „Interest expenses") in the statement of income. Gains and losses from de-recognition (mainly repurchase) are reported under the line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

ii. Financial liabilities at fair value through profit or loss ('FVPL')

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL.

Non-derivative financial liabilities held for trading are those which are incurred principally for the purpose of repurchasing them in the near term.

In the business of the Group non-derivative held-for-trading liabilities comprise of short sales. These arise from obligations to return securities, which are purchased under agreements to resell or are borrowed through securities lending transactions and subsequently sold to third parties. In the statement of financial position such liabilities are presented under the line 'Financial liabilities held for trading', sub-item 'Other financial liabilities'. The gains or losses on financial liabilities held for trading are reported in the line 'Net trading result' in the income statement.

Furthermore, the Group makes use of the option to designate some financial liabilities as measured at FVPL at initial recognition (referred to as fair value option) if:

- such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

Financial liabilities designated at fair value through profit or loss are reported in the statement of financial position under the line item 'Financial liabilities at fair value through profit or loss', sub-item 'Deposits from customers'.

Changes in fair value are recognised in the income statement under the line item 'Gains/losses from financial instruments measured at fair value through profit or loss'. Interest incurred is reported under the line item 'Net interest income' (sub-item „Other similar expenses").

The amount of the fair value change resulting from the credit risk of the financial liability for the period is presented as OCI in the statement of comprehensive income in the line 'Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their own credit risk'. The cumulative amount is recognised as accumulated OCI, specifically under 'Own credit risk reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition (mainly repurchases) of the financial liabilities designated at FVPL the amount accumulated in OCI is transferred to retained earnings.

The cumulative amount recognised in OCI is calculated as the difference between the present value of the liability determined by using the original credit spread and the fair value of the liability. When calculating the present value of the liability by using the original credit spread the rate used for discounting is the sum of the observed interest rate (swap yield curve) and the original credit spread. The original credit spread is determined at initial recognition of the liability and it equals the difference between the total yield of the liability and the observed interest rate (swap yield curve) at that time. For the purpose of calculation of the present value of the liability, the original credit spread remains fixed over the whole life of the liability. The amount of fair value change attributable to changes in credit risk of the liability for the period which is recognised in

OCI is the difference between the cumulative amount of the credit risk at the end of the period and at the beginning of the period.

Classification, subsequent measurement and statement of financial position line items of financial instruments under IAS 39

As regards the comparative period information on financial instruments in accordance with IAS 39, the Group used the following categories of financial instruments:

- financial assets or financial liabilities at fair value through profit or loss;
- available-for-sale financial assets;
- held-to-maturity investments;
- loans and receivables; and
- financial liabilities measured at amortised cost.

The line items as presented in the statement of financial position do not necessarily correspond with the IAS 39 categories of financial instruments. The correspondence between the statement of financial position line items and the categories of financial instruments is described in the table at item (ix).

i. Cash and cash balances in the comparative period

Balances with central banks include only claims (deposits) against central banks and credit institutions which are repayable on demand. Repayable on demand means that it may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this position.

ii. Derivative financial instruments in the comparative period

Please refer to the part 'Derivative financial instruments' in section Significant Accounting Policies.

iii. Financial assets and financial liabilities – held for trading in the comparative period

Financial assets and financial liabilities – held for trading comprise derivatives and other trading assets and liabilities. Treatment of derivatives – held for trading is discussed below.

Other trading assets and liabilities are non-derivative instruments. They include debt securities as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. In the statement of financial position, they are presented as 'Other trading assets' or 'Other trading liabilities' under the heading 'Financial assets / financial liabilities – held for trading'.

Changes in fair value (clean price for debt instruments) resulting from other trading assets and liabilities are reported in the income statement under the line item 'Net trading result'. Interest income and expenses are reported in the income statement under the line item 'Net interest income'. Dividend income is shown under the line item 'Dividend income'.

If securities purchased under agreement to resell or borrowed through securities lending transactions are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Other trading liabilities'.

iv. Financial assets or financial liabilities designated at fair value through profit or loss in the comparative period

Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition (fair value option).

The Group uses the fair value option in the case of financial assets managed on a fair value basis. In accordance with a documented investment strategy, the performance of the portfolio is evaluated and regularly reported to the management board. The portfolio contains mostly items of Funds, Financials and Sovereigns.

Financial assets - designated at fair value through profit or loss are recorded in the statement of financial position at fair value under the line item 'Financial assets - designated at fair value through profit or loss', with changes in fair value recognised in the income statement under the line item '' Result from financial assets and liabilities designated at fair value through profit or loss'. Interest earned on debt instruments is reported under the line item 'Net interest income'(sub-items „Other similar income" or „Other similar expenses"). Dividend income on equity instruments is shown under the line item 'Dividend income'.

Furthermore, the Group uses the fair value option in case of some hybrid financial liabilities. This is relevant when:

- such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

Financial liabilities designated at fair value through profit or loss are reported in the statement of financial position under the line item 'Financial liabilities designated at fair value through profit or loss' further broken down into 'Deposits from customers' and 'Debt securities issued'. Changes in fair value are recognised in the income statement under the line item 'Result from financial assets and liabilities designated at fair value through profit or loss'. Interest incurred is reported under the line item 'Net interest income' (sub-item „Other similar expenses").

v. Financial assets – available for sale in the comparative period

Available-for-sale financial assets include debt and equity securities as well as other interests in entities with lower than significant influence. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

Available-for-sale financial assets are measured at fair value. In the statement of financial position, available-for-sale financial assets are disclosed under the line item 'Financial assets – available for sale'.

Unrealised gains and losses are recognised in other comprehensive income and reported in the 'Available for sale reserve' until the financial asset is disposed of or impaired. If available-for-sale assets are disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss and reported in the line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net' in case of sale or in the line item 'Net impairment loss on financial assets' in case of impairment.

Interest income on available-for-sale financial assets is reported under the line item 'Net interest income' (sub-item „Interest income"). Dividend income is reported under the line item 'Dividend income'.

In 2017, as part of IFRS 9 implementation, valuation models for investments in unquoted equities were developed. The Bank considers that these models deliver reliable fair value measurement. As a result, these investments were remeasured to fair value throughout 2017.

vi. Financial assets – held to maturity in the comparative period

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity and reported in the statement of financial position as 'Financial assets – held to maturity' if the Group has the intention and ability to hold them until maturity. After initial recognition, held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated by taking into account any discount, premium and/or transaction costs that are an integral part of the effective interest rate.

Interest earned on financial assets held to maturity is reported in the income statement under the line item 'Net interest income' (sub-item „Interest income"). Losses arising from impairment of such financial assets are presented as 'Net impairment loss on financial assets'. Occasional realised gains or losses from selling are recognised in the income statement under the line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'.

vii. Loans and receivables in the comparative period

The statement of financial position line items 'Loans and receivables to credit institutions' and 'Loans and receivables to customers' include financial assets meeting the definition of loans and receivables. Furthermore, finance lease receivables that are accounted for using IAS 17 are presented under these statement of financial position line items.

Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group, upon initial recognition, designates as available for sale; or
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost. Finance lease receivables are subsequently measured as specified in the chapter ‚Leasing'. Interest income earned is included under the line item 'Net interest income' (sub-item „Interest income") in the income statement. Impairment losses arising from loans and receivables are recognised in the income statement under the line item 'Net impairment loss on financial assets'.

viii. Financial liabilities measured at amortised cost in the comparative period

Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss.

For presentation in the statement of financial position the line item 'Financial liabilities measured at amortised cost' is used. The liabilities are further broken down by 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are reported in the line item 'Net interest income' (sub-item „Interest expenses") in the income statement. Gains and losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported under the line item 'Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net'.

ix. Relationships between statement of financial position items, measurement methods and categories of financial instruments in the comparative period:

Statement of financial position	Measurement principle: Fair value	Measurement principle: At amortised cost	Financial instrument category
Assets			
Cash and cash balances		x	n/a
Financial assets held for trading			
Derivatives	x		Financial assets at fair value through profit or loss
Other trading assets	x		Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss	x		Financial assets at fair value through profit or loss
Financial assets available for sale	x		Available for sale financial assets
Financial assets held to maturity		x	Held to maturity investments
Loans and receivables to credit institutions		x	Loans and receivables
Loans and receivables to customers		x	Loans and receivables
Hedge accounting derivatives	x		n/a
Liabilities and equity			
Financial liabilities held for trading			
Derivatives	x		Financial liabilities at fair value through profit or loss
Financial liabilities designated at fair value through profit or loss	x		Financial liabilities at fair value through profit or loss
Financial liabilities at amortised cost		x	Financial liabilities measured at amortised cost
Derivatives hedge accounting	x		n/a

Reclassifications of financial assets in the comparative period

IAS 39 provides various possibilities to reclassify financial assets between categories of financial instruments. It also places restrictions on some reclassifications. The Group makes use of reclassification alternatives only in the case of held-to-maturity financial assets. If a significant credit deterioration in a held-to-maturity financial asset results in a change in the intention and ability to hold the asset until maturity, the asset is reclassified into available-for-sale financial as sets category. Such reclassifications were not included in the limit that triggers automatic reclassification of the entire held-to-maturity portfolio.

IImpairment of financial instruments under IFRS 9

The Group recognises loss allowances for impairment on its debt instrument financial assets, other than those measured at FVPL, its lease receivables and its off-balance credit risk exposures arising from financial guarantees and certain loan commitments.

The impairment is based on expected credit losses whose measurement reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of the impairment loss is recognised as a loss allowance or provision. For the purpose of the measurement of the amount of expected credit loss and recognition of interest income the Group distinguishes between three stages of impairment.

Stage 1 relates to financial instruments for which no significant increase in credit risk has been identified since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss. Interest income is recognised by effective interest rate applied to the gross carrying amount of the financial asset.

Financial instruments in Stage 2 are subject to significant increase in credit risk since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss. Interest income is recognised by effective interest rate applied to the gross carrying amount of the financial asset (same as for Stage 1).

Financial assets in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, the Group generally adopted the approach of aligning it with the regulatory concept (i.e. CRR concept) of 'default' for lending exposures. The impairment for such financial assets is measured in the amount of lifetime expected credit loss. Interest income is recognised by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset. From balance sheet perspective, interest is accrued based on the financial assets' gross carrying amount. The difference between the interest accrued on the assets and the interest income recognised is recognised in the allowance account (without impacting the impairment loss).

More detailed information about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 37 Risk management, part Credit risk.

For financial assets measured at amortised cost the net carrying amount of the financial asset presented on balance sheet is the difference between the gross carrying amount and the cumulative loss allowance. However, for financial assets measured at FVOCI the loss allowance is recognised in accumulated OCI, specifically under 'Fair value reserve' in the statement of changes in equity. Loss allowances for loan commitments and financial guarantees are presented under the statement of financial position line item 'Provisions'.

For financial assets which are credit-impaired at initial recognition (purchased or originated credit-impaired ('POCI') – financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted effective interest rate. As a result, no loss allowance is recognised at inception. Subsequently only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.

In the statement of income, impairment losses and their reversals (gains) on all kinds of financial instruments not measured at FVPL are presented in the line item 'Impairment result from financial instruments'.

In order to maximise collection opportunities and minimise the number of defaults, the Group renegotiates loans to customers in financial difficulties (referred to as forbearance cases). Both retail and corporate loans can be subject to forbearance. Under the Group's forbearance policy, loan forbearance can be granted if the debtor is currently in default or if there is a high risk of default, there is evidence that the debtor made all efforts to pay according to the original contractual terms and it is expected that the debtor is able to meet the revised terms. Revised terms could be extended maturity, instalment reduction, changing the timing of the interest payments, interest reduction or forgiveness, revolving exposure change to instalments.

Loans subject to forbearance are generally not derecognised and are considered for impairment based on renegotiated conditions. However, if the renegotiation can be qualitatively assessed as a substantial extinguishment of the rights to collect the cash flows due to material changes in the timing and amount of the cash flows, the loan is derecognised and the renegotiated loan is recognized as a new loan initially recognised at fair value.

Impairment of financial assets and credit risk losses of contingent liabilities under IAS 39 in the comparative period

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated.

The Group uses the Capital requirements regulation („CRR") definition of default as a primary indicator of loss events. Default, as a loss event, occurs when

- The obligor is more than 90 days past due on any material credit obligation;
- As a result of specific information or an event, the obligor is unlikely to fulfil its credit obligations in full, without recourse to actions such as realising security;
- The obligor is subject to distressed restructuring, i.e. a change in contract terms, for clients in financial difficulties, resulting in a material loss;
- The obligor is subject to bankruptcy or similar protection proceedings.

For assessment at portfolio level, the Group uses the incurred but not reported losses concept; indications of impairment are observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. It identifies the time period between the moment of the loss event causing future problems and actual detection of the problems by the Group at the moment of default. Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability that will result in a loss.

Write-offs

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered remote. The loan is written-off against the related account 'Net impairment loss on financial assets not measured at fair value through profit or loss' in the income statement / 'Impairment result from financial isntruments'. If the reason for provisioning is no longer deemed appropriate, the redundant impairment charge is released into income. The relevant amount and recoveries of loans and advances previously written-off are also reflected in the income statement through 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

Derecognition of financial instruments including treatment of contractual modifications

i. Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- it has transferred substantially all risks and rewards connected with ownership of the asset, or
- has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

The difference between the carrying amount of the derecognised asset and the consideration received is presented in the statement of income in the line 'Gains/losses from derecognition of financial assets measured at amortised cost' or, for financial assets at FVOCI, in the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'. For financial assets measured at FVPL the derecognition gains or losses are recognised together with the measurement result in the lines 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

ii. Derecognition criteria with respect to contractual modifications of financial assets

In the normal course of running its lending business and in agreement with the respective debtors, the Group may renegotiate or otherwise modify some terms or conditions of the underlying contracts. This can involve either market-driven commercial renegotiations or contractual changes aimed at alleviating or preventing borrower's financial difficulty. For the purpose of capturing the economic substance and financial effect of such contractual modifications, the Group has developed a set of criteria to assess whether or not the modified terms are substantially different from the original terms.

Contractual modifications leading to derecognition of the related original assets result in the initial recognition of new financial assets. If the debtor is in default or the significant modification leads to the default, then the new asset will be treated as POCI. The difference between the carrying amount of the derecognised asset and initial fair value of the new POCI asset is presented in the statement of income in the line 'Impairment result from financial instruments'.

If the debtor is not in default or the significant modification does not lead to default, the new asset recognised after derecognition of the original asset will be in Stage 1. For loans measured at amortised cost the unamortized balance of the origination fees/transaction costs considered in the effective interest rate is presented in the line 'Net interest income' at the derecognition date. The release of the credit loss allowance attached to the original asset at the date of that significant modification, as well as the credit loss allowance recognised for the new asset are presented in the line 'Impairment result from financial instruments'. The remaining difference is presented in the line 'Gains/losses from derecognition of financial assets measured at amortised cost'.

For debt instrument assets not measured at FVPL that are subject to contractual modifications that do not result in derecognition, the gross carrying amount of the asset is adjusted against recognising a modification gain or loss in profit or loss. The modification gain or loss equals the difference between the gross carrying amount before the modification and the present value of the cash flows based on the modified terms discounted with the original effective interest rate. In the statement of income the modification gain or loss is presented in the line 'Net interest income' (sub-item „Interest income").

iii. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. This normally occurs when the liability is repaid or repurchased. In the statement of income the difference between the carrying amount of the derecognised financial liability and the consideration paid is presented in the line 'Other gains/losses from financial instruments not measured at fair value through profit or loss', 'Gains/losses from financial instruments measured at fair value through profit or loss' and 'Net trading result' depending on the measurement category of the derecognised financial liability.

Derivative financial instruments

Derivatives used by the Group include mainly interest rate swaps, currency futures, forward rate agreements, interest rate options, currency swaps and currency options. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

For presentation purposes derivatives are split into:

- Derivatives – held for trading; and
- Derivatives – hedge accounting.

Derivatives – held for trading are those which are not designated as hedging instruments. They are presented in the line item 'Derivatives' under the heading 'Financial assets / financial liabilities – held for trading'. All kinds of non-hedging derivatives without regard to their internal regulatory classification, i.e. both derivatives held in the trading book and banking book according with CRR are presented in this line item.

Derivatives – hedge accounting are those which are designated as hedging instruments fulfilling the conditions of IAS 39. In the statement of financial position, they are presented in the line item 'Hedge accounting derivatives' on asset or liability side.

Changes in fair value (clean price) of derivatives in fair value hedges are recognised in the income statement in the line item 'Net trading result'. The effective part of changes in fair value (clean price) of derivatives in cash flow hedges is reported in other comprehensive income in the line item 'Cash flow hedge reserve'. Ineffective part of changes in fair value (clean price) of derivatives in cash flow hedges is recognised in profit or loss under the line item 'Net trading result'.

Interest income/expense related to derivatives in fair value hedges is recognised in the income statement in the line item 'Net interest income' (sub-items „Other similar income" or „Other similar expenses").

Embedded derivatives

The Group is involved in business with debt instruments containing structured features. Structured features mean that a derivative is embedded in the host instruments. Embedded derivatives are separated from the host debt instruments if

- The economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments;
- The embedded derivative meets the definition of derivative; and
- The hybrid instrument is not a financial asset or liability held for trading or designated at fair value through profit or loss.

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented in the statement of financial position under the line item 'Derivatives' in financial assets – held for trading or financial liabilities – held for trading.

At the Group, derivatives that are not closely related and are separated are predominantly embedded in issued host debt instruments recognised as liabilities. The most typical cases are issues of bonds and deposits that contain interest caps, floors or collars that were in the money at origination, contractual features linking payments to non-interest variables such as FX rates, equity and commodity prices and indices, or third-party credit risk.

Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. The Group elected to continue using IAS 39 for hedge accounting after 1 January 2018. At inception of a hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset the fair value changes of the hedging instrument in a range of 80% to 125%. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by the Group are specified internally in hedge policy.

(i) Fair value hedges

Fair value hedges are employed to reduce market risk. For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the income statement under the line item 'Net trading result'. Interest income and expenses on hedging derivatives are reported under the line item 'Net interest income' (sub-items „Other similar income or „Other similar expenses"). The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the income statement under the line item 'Net trading result' and adjusts the carrying amount of the hedged item.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item is amortised to the income statement under the line item 'Net interest income' (sub-items „Other similar income or „Other similar expenses") until maturity of the financial instrument.

(ii) Cash flow hedges

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and reported under the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement under the line item 'Net trading result'. For determination of the effective and ineffective portions, the derivative is considered at its dirty price, i.e. including the interest component. If the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is reclassified from other comprehensive income in the corresponding income or expense line item in the income statement (mainly 'Net interest income'; sub-items „Other similar income or „Other similar expenses"). As far as accounting for hedged items in cash flow hedges is concerned there is no change compared to the situation when no hedging is applied.

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income remains separate in 'Cash flow hedge reserve' until the transaction occurs.

Repurchase and reverse repurchase agreements

Transactions where securities are sold under an agreement to repurchase at a specified future date are also known as 'repos' or 'sale and repurchase agreements'. Securities sold are not derecognised from the statement of financial position, as the Group retains substantially all the risks and rewards of ownership because the securities are repurchased at a fixed price when the repo transaction ends. Furthermore, the Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to the Group or are reflected in the repurchase price.

The corresponding cash received is recognised in the statement of financial position with a corresponding obligation to return it as a liability under the line item 'Financial liabilities measured at amortised cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and recorded in the income statement under the line item 'Net interest income' (sub-item „Interest expenses") and is accrued over the life of the agreement. Financial assets transferred out by the Group under repurchase agreements remain on the Group's statement of financial position and are measured according to the rules applicable to the respective statement of financial position item. Moreover, they are presented in „Thereof pledged as collateral" positions under the respective balance sheet items.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. Such transactions are also known as 'reverse repos'. The consideration paid is recorded in the statement of financial position under the respective line items 'Loans and advances to banks' or 'Loans and advances to customers', reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement and recorded in the income statement under the line item 'Net interest income' (sub-item „Interest income").

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by the Group as a lender because the securities are received at the end of the securities lending transaction. Furthermore, the Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities lendings. The securities lent are presented in „thereof pledged as collateral" positions under the respective balance sheet items.

Securities borrowed are not recognised in the statement of financial position unless they are then sold to third parties. In this case, the obligation to return the securities is recorded as a short sale within 'Other liabilities'.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial guarantees

In the ordinary course of business, the Group provides financial guarantees, consisting of various types of letters of credit and guarantees. A financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

If the Group is in a position of being a guarantee holder, the financial guarantee is not recorded in the statement of financial position but is taken into consideration as collateral when determining impairment of the guaranteed asset.

The Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party. Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee.

The premium received is recognised in the income statement under the sub-item 'Fee and commission income' under 'Net fee and commission income' and is amortized on a straight-line basis over the life of the guarantee and loan committments.

Leasing

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. A finance lease at the Group is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements at the Group are classified as operating leases. This mainly includes the leasing of commercial real estate, automobiles and small trucks.

The Group as a lessor

In the case of a finance lease, the lessor reports a receivable from the lessee under the line item 'Finance lease receivables'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the statement of income in the line item 'Other similar income' under 'Net interest income'.

In the case of operating leases, the leased asset is reported by the lessor in 'Property and equipment' or in 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the statement of income under the line item 'Rental income from investment properties & other operating leases'.

Lease agreements in which the Group is the lessor almost exclusively comprise finance leases.

The Group as a lessee

As a lessee, the Group has not entered into any leases meeting the conditions of finance leases. Operating lease payments are recognised as an expense in the income statement on the line item 'Other administrative expenses' on a straight-line basis over the lease term.

Business combinations and goodwill

(i) Business combinations

Business combinations are accounted for using the acquisition method of accounting. Goodwill represents the future economic benefits resulting from the business combination, arising from assets that are not individually identified and separately recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests and the fair value of the previously held equity interest over the net of the acquisition-date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a bargain purchase gain and reported in the income statement under the line item 'Other operating result' in the year of acquisition.

Non-controlling interests that are present ownership interests in the acquiree are measured at the proportionate share of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Acquisition costs incurred are expensed and included under the income statement line item 'Other operating result'.

(ii) Goodwill and goodwill impairment testing

Goodwill arising on acquisition of a business is carried at cost as established as of the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is tested for impairment annually in the fourth quarter, or whenever there is an indication of possible impairment during the year, with any impairment determined recognised in profit or loss. The impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each CGU to which goodwill has been allocated with its carrying amount. The carrying amount of a CGU is based on the amount of net asset value allocated to the CGU taking into account any goodwill and unamortised intangible assets recognised for the CGU at the time of business combination.

The recoverable amount is the higher of a CGU's fair value less costs of disposal and its value in use. Where available, the fair value less costs of disposal is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for the CGUs as agreed by the management while taking into account the fulfilment of any respective regulatory capital requirements. The planning period is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate. The present value of such perpetual earnings growing at a stable rate (referred to as terminal value) takes into consideration macroeconomic parameters and economically sustainable cash flows for each CGU.

For applicable CGU (e.g. financial institutions), the cash flows are determined by subtracting the annual capital requirement generated by a change in the amount of risk-weighted assets from the net profit. The capital requirement was defined through the target tier 1 ratio in light of the expected future minimum regulatory capital requirements. Cash-flow for other CGU is not adjusted.

The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium component is considered in calculation of the discount rate. The values used to establish the discount rates are determined using external sources of information.

Where the recoverable amount of a CGU is less than its carrying amount, the difference is recognised as an impairment loss in the income statement under the line item 'Other operating result'. The impairment loss is allocated first to write down the CGU's goodwill. Any remaining impairment loss reduces the carrying amount of the CGU's other assets, though not to an amount lower than their fair value less costs of disposal. No impairment loss is recognised if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the income statement on the line item 'Depreciation and amortisation' and impairment under the line item 'Other operating result'.

The estimated useful lives are as follows:

	Useful life in years
Buildings	15–50
Office furniture and equipment	4–10
Passenger cars	4–8
Computer hardware	4–6

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement under the line item 'Other operating result'.

Investment properties

Investment property is property (land and buildings or part of a building or both) held for the purpose of earning rental income or for capital appreciation. In the case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction, where the future use is expected to be the same as for investment property, are treated as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented in the statement of financial position in the line item 'Investment properties'.

Rental income is recognised in the line 'Rental income from investment properties and other operating leases'. Depreciation is presented in the income statement in the line item 'Depreciation and amortisation' using the straight-line method over an estimated useful life. The useful lives of investment properties are identical to those of buildings reported under property and equipment. Any impairment losses, as well as their reversals, are recognised under the income statement line item 'Other operating result'.

Intangible assets

In addition to goodwill, the Group's intangible assets include computer software and customer relationships, the brand, the distribution network and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Costs of internally generated software are capitalised if the Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. In the case of the Group, these are brands, customer relationships and distribution networks, and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement under the line item 'Depreciation and amortisation'.

The estimated useful lives are as follows:

	Useful life in years
Computer software	4–8

Brands are not amortised as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life, if there are no legal, contractual, regulatory or other factors limiting that useful life. Brands are tested for impairment annually within the cash-generating unit to which they belong, and impairment is recognised if appropriate. Furthermore, each period brands are reviewed as to whether current circumstances continue to support the conclusion as to indefinite life. In the event of impairment, impairment losses are recognised in the income statement under the line item 'Other operating result'.

Impairment of non-financial assets (property and equipment, investment properties, intangible assets)

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets.

The typical case is investment property. Otherwise the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For specific rules related to impairment of goodwill and impairment allocation rules for CGUs please see the chapter 'Business combinations and goodwill', part (ii) Goodwill and goodwill impairment testing.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

At each reporting date an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the income statement under the line item 'Other operating result'.

Non-current assets and disposal groups held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months. If assets are to be sold as part of a group that may also contain liabilities (e.g. a subsidiary) they are referred to as disposal group held for sale.

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported under the statement of financial position line item 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented in the statement of financial position under the line item 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Should the impairment loss in a disposal group exceed the carrying amount of the assets that are within the scope of IFRS 5 measurement requirements, there is no specific guidance on how to treat such a difference. The Group recognises this difference as a provision under the statement of financial position line item 'Provisions'.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. In the statement of financial position, provisions are reported under the line item 'Provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigation and restructuring. Expenses or income related to provisions other than for cedit loss impairment are reported under the line item 'Other operating result'. However restructuring expenses are presented under line item Personnel expenses.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly before the end of the reporting period. Any restructuring provision only includes the direct expenditure arising from the restructuring which is necessarily entailed and is not associated with the ongoing activities of the Group.

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the temporary difference is reversed or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed.

Deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Share capital

The issued capital (registered, subscribed and paid) as at the end of the reporting period is accounted for at an amount recorded in the Commercial register.

Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank shareholder.

Items of the income statement

The description and recognition criteria of the line items reported in the income statement are as follows:

i. Net interest income

Net interest income is broken down into line items of interest income, other similar income, interest expenses and other similar expenses. The distinguishing factor is whether the EIR method is mandatorily applied for recognition of interest income or expense in accordance with IFRS 9.

'Interest income' relates to interest revenue from financial assets measured at amortised cost and at fair value through other comprehensive income. It is calculated using the EIR method as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part 'i. Amortised cost and effective interest rate'.

'Other similar income' captures interest-like sources of income resulting from non-derivative financial assets measured at fair value through profit or loss, held-for-trading derivatives, hedge accounting derivatives, finance lease receivables and negative interest on financial liabilities.

'Interest expenses' relates to interest expense from financial liabilities measured at amortised cost calculated using effective interest rate as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part (i) Amortised cost and effective interest rate.

'Other similar expenses' capture interest-like sources of expense resulting from non-derivative financial liabilities measured at fair value through profit or loss, held-for-trading derivatives, hedge accounting derivatives, negative interest on financial assets, provisions recognised under IFRS 9 and IAS 37 (unwinding of the time value of the money effect due to passage of time).

As regards types of financial instruments, interest income and other similar income include interest income on loans and advances to banks and customers, on cash balances, and on debt securities in all measurement categories of financial assets. Interest expenses and other similar expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all measurement categories of financial liabilities. Net interest income also includes interest on derivative financial instruments.

The unamortised balance of the origination fees/transaction costs upon derecognition of assets in Stage 1 and 2 considered in the effective interest rate is presented as interest income at the derecognition date.

ii. Net fee and commission income

The Group earns fee and commission income from a diverse range of services that it provides to its customers. The determination of the timing and amount of income recognition follows the five step model of IFRS 15.

Fee and commission income is measured based on the consideration specified in the contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commitment fees, guarantee fees and other fees from lending business, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions. Payment services partly include fees for services satisfied over a period of time like periodic card fees.

Fee income earned from providing transaction services, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognised upon completion of the underlying transaction. Payment services partly include transaction based fees like withdrawal fees.

A contract with a customer that results in a recognised financial instrument in the Group's financial statement may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual. Fees and commission income that are integral to the effective interest rate of a financial instrument are in the scope of IFRS 9 and are included in the effective interest rate.

iii. Dividend income
Dividend income is recognised when the right to receive the payment is established. This line item includes dividends from all shares and other equity investments, i.e. from those that are held for trading, non-trading equity instruments at FVPL and at FVOCI.

iv. Net trading result
Results arising from trading activities include all gains and losses from changes in the fair value (clean price) of financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. The net trading result also includes any ineffective portions recorded in fair value and cash flow hedge transactions as well as foreign exchange gains and losses on all monetary assets and liabilities.

v. Gains/losses from financial instruments measured at fair value through profit or loss
Under this line item changes in fair value (clean price) of non-trading financial assets at fair value through profit or loss, including gains and losses on their derecognition, are presented. This concerns both non-trading financial assets designated and those mandatorily measured at FVPL. Further, gains and losses (clean price) of financial liabilities designated at FVPL, including gains and losses on their derecognition, are presented under this line item. However, the fair value changes resulting from own credit risk of the financial liabilities designated at FVPL are recognised in OCI.

In the comparative period this line item includes only changes in fair value (clean price, including the effect of credit risk of the liability) of financial assets and liabilities designated at FVPL.

vi. Net result from equity method investments
The line item contains result from associates recorded by applying the equity method (measured as the investor's share of profit or loss in the associates).

However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates accounted for using the equity method are reported under the line item 'Other operating result'.

vii. Rental income from investment properties & other operating leases
Rental income from investment properties and other operating leases (i.e. mainly from real-estate and cars) is recognised on a straight-line basis over the lease term.

viii. Personnel expenses
Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service cost for severance payment. Furthermore, restructuring provisions expenses are part of personnel expenses.

ix. Other administrative expenses
Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses. Furthermore the line item contains deposit insurance contributions expenses.

x. Depreciation and amortisation
This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets.

xi. Gains/losses from derecognition of financial assets measured at amortised cost
This line item includes selling and other derecognition gains or losses on financial assets measured at amortised cost, except for credit impaired financial instruments.

xii. Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss
This line item includes selling and other derecognition gains or losses on financial assets at FVOCI, financial liabilities measured at amortised cost and other financial instruments not measured at FVPL, such as finance lease receivables or financial guarantees.

xiii. Impairment result from financial instruments
Net impairment losses on financial instruments comprise impairment losses and reversals of impairment on all kinds of financial instruments, to which the IFRS 9 expected credit loss impairment model applies (i.e. financial assets as well as financial loan commitments and guarantees). The impairment result also includes recoveries on written-off financial assets.

xiv. Other operating result
Other operating result reflects all other income and expenses not directly attributable to the Group's ordinary activities. Other operating result includes impairment losses or any reversal of impairment losses of non-financial assets as well as results of their sale. Also included here are any impairment losses on goodwill.

In addition, other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries. Furthermore the line item contains contributions to the Resolution Fund.

Items of the income statement relevant for comparative period (2017, IAS 39), which are not relevant for the current period based on IFRS 9

The description and recognition criteria of the line items reported in the statement of income are as follows:

(i) Net interest income in the comparative period

Net interest income is broken down into line items of interest income and interest expenses.

Interest income or expense is recorded using the effective interest rate (EIR) method. The calculation includes origination fees resulting from the lending business as well as transaction costs that are directly attributable to the instrument and are an integral part of the EIR (apart from financial instruments at fair value through profit or loss), but no future credit losses. Interest income from individually impaired loans and receivables and held-to-maturity financial assets is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of measuring the impairment loss.

Interest income includes interest income on loans and receivables to credit institutions and customers, on cash balances and on bonds and other interest-bearing securities in financial assets categories available for sale, held to maturity and loans and receivables.

Interest expenses include interest paid on deposits from customers, deposits from banks, debt securities issued in financial liability category measured at amortised cost.

In net interest income also interest on derivative financial instruments held in the banking book (items Interest expense or Interest income) is included.

(ii) Dividend income in the comparative period

Dividend income is recognised when the right to receive the payment is established. This line item includes dividend from shares and other equity-related securities in all portfolios as well as income from other investments in companies categorised as available for sale.

(iii) Net trading result in the comparative period

Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. In addition, for derivative financial instruments held in the trading book. However, interest income or expenses on non-derivative trading assets and liabilities and on derivatives held in the banking book are not part of net trading result as they are reported as 'Net interest income'. It also includes any ineffective portions recorded in fair value and cash flow hedge transactions as well as foreign exchange gains and losses.

iv. Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net in the comparative period

This line item includes selling and other derecognition gains or losses on available-for-sale and held-to-maturity financial assets, loans and receivables and financial liabilities measured at amortised cost. However, if such gains/losses relate to individually impaired financial assets they are included as part of the net impairment loss.

v. Net impairment loss on financial assets in the comparative period

Net impairment losses on financial assets comprise impairment losses and reversals of impairment on loans and receivables, held-to-maturity and available-for-sale financial assets. Net impairment losses relate to allowances recognised both at individual and portfolio (incurred but not reported) level. Direct write-offs are considered as part of impairment losses. This line item also includes recoveries on written-off loans removed from the statement of financial position.

vi. Gains/losses from financial instruments measured at fair value through profit or loss in the comparative period

In the comparative period this line item includes only changes in fair value (clean price) of financial assets and liabilities designated at FVPL.

d) Significant accounting judgements, assumptions and estimates

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are as follows:

SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements which rely on the guidance in IFRS 9. These judgements are crucial in the IFRS 9 classification and measurement process as they determine whether the asset has to be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI. When taking into consideration specific features of loans in the business of the Group, significant areas of judgement are prepayment fees, project financing loans and benchmark test for loans with interest mismatches features.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments is based on comparing the level of the fees with the economic costs incurred by the bank upon the early termination. For these purposes, the Group uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a potential decrease in the interest rates upon early termination or prepayment. The adequacy of the fees can also be defended on a qualitative basis such as common market practice regarding level prepayment fees and their acceptance by authorities.

For project financing loans the Group assesses whether they represent basic loan agreements rather than investments in the financed projects. In this respect credit rating, level of collateralisation, existing sponsor guarantees and the extent of equity funding of the financed projects are considered.

The most critical area of SPPI judgements in the business of the Group comprises loans with interest mismatch features.

For this purpose, the Group has developed a so called 'benchmark test' to assess whether the interest mismatch feature could result in contractual (undiscounted) cash flows that are significantly different from benchmark assets. The benchmark deal does not have the interest mismatch feature (i.e. if the floating rate reset frequency is 3 months then the floating rate would be the 3-month Euribor and/or no time lag exists in the floating rate fixation), but otherwise its terms correspond to the asset in the test.

For assets with interest mismatches resulting only from prior and average rates (i.e. no mismatches resulting from a tenor different from the reset frequency), the SPPI compliance is considered to be met based on a qualitative assessment if the time lag between the fixation of the rate and the start of the interest period does not exceed one month. This is supported by a quantitative analysis performed by the Group for this purpose.

The quantitative benchmark test is performed (in case of the interest mismatch feature on tested deal) at the deal´s initial recognition and uses forward-looking simulations of future market interest rates over the life of the deal.

Business model assessment

For each SPPI-compliant financial asset at initial recognition, the Group has to assess whether it is part of a business model where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets, or they are held in other business models. As a consequence, the critical aspect in distinguishing the business models is frequency and significance of sales of assets in the respective business model. Since the asset allocation to business models is based on the initial assessment, it may happen that in subsequent periods cash flows are realised differently than originally expected and a different measurement method may seem to be appropriate. In accordance with IFRS 9 such subsequent changes do not generally lead to reclassifications or prior period error corrections in respect of existing financial assets.

The new information on how cash flows are realised may, however, indicate that the business model, and thus the measurement method changes for newly acquired or newly originated financial assets.

At the Group, sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) are considered as not contradicting the held to collect contractual cash flows business model. Other kinds of sales carried out in the 'held to collect' business model are assessed retrospectively and if they exceed certain quantitative thresholds, or whenever it is considered necessary with regard to new expectations, the Group performs a prospective test. If the outcome is that the carrying amount of assets expected to be sold over the expected life of the current business model portfolio, for reasons other than the cases above described, exceeds 10% of the carrying amount of the portfolio, any new acquisitions or originations of assets in the portfolio would be classified in a different business model.

Impairment of financial instruments

The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increases in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increases in credit risk, the Group has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistic of probabilities of default and loss rates in case of defaults, their extrapolations in case of insufficient observations, individual estimates of credit-adjusted cash flows and probabilities of different scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of behavioural life mainly in the case of revolving credit facilities.

Under the IAS 39 incurred loss impairment model used for the comparative period, the Group reviewed its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, this involved determining whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and estimating the amount and timing of future cash flows when determining an impairment loss.

Detailed disclosures about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 36 Risk management, part

Credit risk. The development of loan loss provisions is described in Note 21 Financial assets at fair value through other comprehensive income, Note 25 Financial assets at amortised cost and Note 26 Finance lease receivables. The development of loan loss provisions in the comparative period is included in Note 23 Loans and receivables to credit institutions and Note 24 Loans and receivables to customers.

e) Application of amended and new IFRS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning after 1 January 2018. As regards new standards and interpretations and their amendments, only those that are relevant for the business of Group are listed below.

Effective standards and interpretations

The following standards, their amendments and interpretation have become mandatory for our financial year 2018, endorsed by the EU:
- IFRS 9: Financial Instruments
- IFRS 15: Revenue from Contracts with Customers including Amendments to IFRS 15: Effective date of IFRS 15
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRSs 2014 2016 Cycle (amendments to IAS 28 and IFRS 1)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration

The effects of application of IFRS 9 and IFRS 15 are decribed in chapter 'c) Accounting and measurement methods' above. Otherwise application of the above mentioned amendments and interpretation did not have a significant impact on Group's financial statements.

Standards and interpretations not yet effective

The standards, amendments and interpretations shown below were issued by the IASB but are not yet effective.

Following standards, amendments and interpretations are already endorsed by the EU:
- IFRS 16: Leases
- Amendments to IFRS 9: Prepayment features with negative compensation
- IFRIC 23: Uncertainty over Income Tax Treatments

Although, they have been endorsed by the EU, the Group decided not to apply them before they become effective.

Following standards, amendments and interpretations have not yet been endorsed by the EU until 19 March 2019:
- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRSs 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

IFRS 16 Leases (IASB Effective Date: 1 January 2019).

In January 2016, the IASB issued IFRS 16 which is effective for annual periods beginning on or after 1 January 2019. IFRS 16 replaces existing guidance for accounting for leases in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating leases – Incentives and SIC-27 Evaluation the Substance of Transactions Involving the Legal Form of a lease.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

At inception date of a contract, the contract is assessed for whether it contains a lease, i.e. whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. A right-of-use asset and a lease liability are recognised at the lease commencement date. It is initially measured at cost and subsequently depreciated from the commencement date to the earlier of the end of its useful life or the end of the lease term. The Group will use the straight-line method of depreciation.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, the exercise price under a purchase option and lease payments in an optional renewal period if the lessee is reasonably certain to exercise the options and penalties for early termination if the lease term reflects the lessee exercising the termination option.

Subsequently the carrying amount of the lease liability is increased by interest using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. For leases of movables by Group entities, the incremental borrowing rate will consist of a base rate, which is the Pribor, adjusted by a surcharge based on the entity's rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases shall generally be based on a rate that is readily observable. Such a rate might be the property yield reflecting the annual return expected on the property. Further, an adjustment to the property yield is necessary to reflect specific features of an entity or the lease agreement (such as creditworthiness and lease term).

Lessor accounting remains similar to the current IAS 17 standard, i.e. the lessor continues to classify leases as finance or operating leases. Compared to IAS 17 the notes will be much more comprehensive under IFRS 16.

Group will transit to IFRS 16 using the modified retrospective approach according to IFRS 16.C5 (b) whereby comparative information will not be restated. For leases previously classified as operating leases, the applicable discount rate will be the lessee's incremental borrowing rate determined at the date of initial application. The right-of-use asset will be recognised at an amount equal to the lease liability (IFRS 16.C8 (b)(ii)). As a result, Group does not expect any impact on the equity at initial application. All contracts which were previously identified as leases applying IAS 17 and IFRIC 4 will be taken over into IFRS 16. Group will not apply IFRS 16 to any leases on intangible assets. Group will use the exemption for short term leases and leases of low value whereby the right-of-use-asset is not recognised. The analysis and planning of proper IT solutions for requirements of IFRS 16 have continued throughout 2017 and 2018. At the same time the contract analysis has been in focus. The role out of proper IT structure was realised during 2018.

Based on currently available information, the Group estimates at the transition date to IFRS 16 that the right of use assets and lease liabilities will increase the balance sheet by an amount of approximately CZK 2,9 billion. The vast majority (more than 95%) of the lease contracts refer to real estate.

Amendments to IFRS 3: Definition of a Business.

Amendments to IFRS 3 were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments clarify the three elements, i.e. inputs, process and outputs in the definition of a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Also, the amendments include an optional concentration test to permit a simplified assessment of whether an acquired set of activities and assets is an asset acquisition rather than a business combination. The test is met if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. Application of these amendments is not expected to have a significant impact on Group's financial statements.

Amendments to IFRS 9: Prepayment features with negative compensation.

Amendments to IFRS 9 were issued in October 2017 and are effective for annual periods beginning on or after 1 January 2019. The amendments clarify that the contractual terms of a debt instrument are payments of principal and interest even if the reasonable compensation for an early termination of the instrument is negative, i.e. it has to be paid by the creditor. Further, the amendments explain that the requirements for accounting for modification gains or losses also apply to cases when financial liabilities are modified or exchanged and this does not lead to their derecognition. Application of these amendments is not expected to have a significant impact on Group's financial statements.

Amendments to IAS 1 and IAS 8:Definition of ´Material´

Amendments to IAS 1 and IAS 8 were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Application of these amendments is not expected to have a significant impact on Group's financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (IASB effective date 1 January 2019).

Amendments to IAS 19 were issued in February 2018 and are effective for annual periods beginning on or after 1 January 2019. The amendments require that if a plan amendment, curtailment or settlement occurs, it is mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. Application of these amendments is not expected to have a significant impact on Group's financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (IASB effective date 1 January 2019).

Amendments to IAS 39 were issued in October 2017 and are effective for annual periods beginning on or after 1 January 2019. The amendments clarify that a company applies IFRS 9 Financial Instruments including its impairment requirements to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. Application of these amendments is not expected to have a significant impact on Group's financial statements.

Annual Improvements to IFRSs 2015 2017 Cycle (IASB effective date: 1 January 2019).

In December 2017, the IASB issued a set of amendments to various standards. The amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 are effective for annual periods beginning on or after 1 January 2019. Application of these amendments is not expected to have a significant impact on Group's financial statements.

IFRIC 23: Uncertainty over Income Tax Treatments (IASB effective date: 1 January 2019).

IFRIC 23 was issued in June 2017 and is effective for annual periods beginning on or after 1 January 2019. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. An entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. If the entity concludes that it is not probable that a particular tax treatment is accepted by a taxation authority, the entity has to use the most likely amount or the expected value of the tax treatment. Otherwise the treatment used in the tax filings is applied. An entity has to reassess its judgements and estimates if facts and circumstances change. Application of the interpretation is not expected to have a significant impact on Group's financial statements.

C. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION

1. Net interest income

in CZK million	2018	2017
Interest and other similar income		
Available-for-sale financial assets	x	660
Financial assets at fair value through other comprehensive income	617	x
Financial assets at amortised costs	30,821	x
Loans and receivables	x	21,134
Held-to-maturity investments	x	4,150
Interest income	**31,438**	**x**
Financial assets held for trading	3,070	1,553
Financial assets at fair value through profit or loss	x	15
Non-trading financial assets at fair value through profit or loss	14	x
Derivatives – Hedge accounting, interest rate risk	148	224
Other assets	78	26
Negative interest from financial liabilities	258	386
Other similar income	**3,568**	**x**
Total interest and other similar income	**35,006**	**28,148**
Interest and other similar expense		
Financial liabilities measured at amortised cost	(4,233)	(1,755)
Interest expenses	**(4,233)**	**x**
Financial liabilities at fair value through profit or loss	(2)	-
Financial liabilities held for trading	(2,850)	(1,015)
Derivatives – Hedge accounting, interest rate risk	16	6
Other liabilities	(1)	-
Negative Interest from financial assets	(115)	(34)
Other similar expenses	**(2,952)**	**x**
Total interest and other similar expense	**(7,185)**	**(2,798)**
Net interest income	**27,821**	**25,350**

Interest income on impaired financial assets amounted to CZK 269 million (2017: CZK 124 million).

Following the new IFRS requirements of 2018, interest income and expense cannot include interest from financial instruments measured at FVPL. Hence the interest component from FVPL financial instruments is reported as "Other similar income" and "Other similar expense". Consequently, interest components of trading book derivatives are disclosed in 'Other similar income of financial assests HfT' and 'Other similar expenses of financial liabilities HfT'.

In 2017, interest from trading book derivatives was presented in 'Net trading result'. The presentation was changed due to the harmonisation of the disclosure of all interest from derivative financial instruments irrespective of their organisational assignment to the trading book or banking book. The amendment had no material impact on the 'Net result for the period' of the Group.

The comparative period 2017 has not been adjusted since we believe this is a policy choice resulting from the initial application of IFRS 9, which does not require retrospective change of the comparative figures, however, it would increase the reported interest income and interest expense by CZK 2.2 billion. For further details regarding the disclosure of interest income or expenses from derivative financial instruments please refer to chapter B. Significant accounting policies c) Accounting and measurement methods.

2. Net fee and commission income

in CZK million		2018		2017
	Income	Expenses	Income	Expenses
Securities	1,431	(124)	1,285	(101)
Clearing and settlement	114	-	166	-
Asset management	1,037	(44)	920	(76)
Custody	186	(34)	251	(31)
Payment services	4,898	(1,149)	5,179	(968)
Customer resources distributed but not managed	1,058	(208)	1,049	(157)
Insurance products	679	(11)	653	(9)
Building society brokerage	379	(197)	396	(148)
Lending business	2,818	(1,451)	2,814	(1,466)
Other	443	(435)	317	(379)
Total fee and commission income and expenses	**11,985**	**(3,445)**	**11,981**	**(3,178)**
Net Fee and commission income	**8,540**		**8,803**	

The fee and commission income and expense, which are presented in this table, are not capitalized as an integral part of the effective interest rate.

Asset management, custody and fiduciary transactions fees relate to fees earned by the Group on trust and other fiduciary activities in which the Group holds or invests assets on behalf of its customers and amount to CZK 687,082 million (2017: CZK 565,568 million).

3. Dividend income

in CZK million	2018	2017
Financial assets – at fair value through profit or loss	x	11
Non-trading financial assets at fair value through profit or loss	67	x
Financial assets – available for sale	x	53
Financial assets at fair value through other comprehensive income	11	x
Dividend income	**78**	**64**

4. Net trading and fair value result

in CZK million	2018	2017
Securities and derivatives trading	785	867
Foreign exchange transactions	1,399	1,921
Gains or losses from hedge accounting	(34)	(52)
Net trading result	**2,150**	**2,736**

Additional information relating to hedge accounting are described in detail in Note 49 Hedge accounting.

In 2008, Česká spořitelna transferred its financial markets trading to make use of Erste Group Bank's business model. The market risk arising from the sales activities of the Financial Markets Division (i.e., transactions with retail and corporate clients), with the exception of equity risk and transactions for the Erste Group's liquidity management purposes (money market), was transferred to Erste Group Bank using back-to-back transactions. Trading gains (i.e. from The Erste Group Bank's market positions) are distributed according to approved rules to the relevant banks within the Group and reported in the 'Net trading result'.

The basic principle underlying these rules involves Erste Group Bank absorbing potential loss in individual classes of assets in exchange for the risk premium derived from the Value at Risk ('VaR') indicator. The remaining positive result after deducting expenses (calculated using the Cost Income Ratio) is reallocated to individual participants in the model based on the results from the sale of assets of individual asset groups.

The portion of trading gains resulting from trading assets transferred to Erste Group Bank and reported within Net trading result is as follows:

in CZK million	2018	2017
Realised and unrealised gains on trading assets	742	655
Foreign exchange trading	233	174
Total	**975**	**829**

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

in CZK million	2018	2017
Result from measurement/sale of financial assets designated at fair value through profit or loss	(46)	14
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(50)	(21)
Result from financial assets and liabilities designated at fair value through profit or loss	**(96)**	**(7)**
Result from measurement/repurchase of financial assets mandatorily at fair value through profit or loss	320	-
Gains/losses from financial instruments measured at fair value through profit or loss	**224**	**(7)**

6. Rental income from investment properties & other operating leases

in CZK million	2018	2017
Investment properties	166	212
Other operating leases	55	60
Rental income from investment properties & other operating leases	**221**	**272**

7. General administrative expenses

in CZK million	2018	2017
Personnel expenses	**(9,553)**	**(9,224)**
Wages and salaries	(6,842)	(6,584)
Compulsory social security	(2,186)	(2,109)
Other personnel expenses	(525)	(531)
Other administrative expenses	**(6,773)**	**(6,970)**
Deposit insurance contribution	(246)	(217)
IT expenses	(2,624)	(2,608)
Expenses for office space	(1,292)	(1,367)
Office operating expenses	(626)	(697)
Advertising / marketing	(932)	(974)
Legal and consulting costs	(295)	(278)
Sundry administrative expenses	(758)	(829)
Depreciation and amortization	**(2,001)**	**(2,046)**
Software and other intangible assets	(997)	(978)
Owner occupied real estate	(589)	(634)
Investment property	(63)	(65)
Office furniture and equipment and sundry property and equipment	(352)	(369)
General administrative expenses	**(18,327)**	**(18,240)**

Personnel expenses include expenses of CZK 2,186 million (2017: CZK 2,109 million) for the statutory defined contribution scheme.

The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme for health, social and pension purposes.

Board of Directors and Supervisory Board Remuneration

in CZK million	2018	2017
Remuneration	79	74

Remuneration to the members of the Board of Directors and Supervisory Board is accounted for as short - term employee benefits.

Headcount of full time employees per reporting date

in CZK million	2018	2017
Staff	10,115	10,171

8. Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net

in CZK million	2018	2017
From sale of financial assets available for sale	x	214
From sale of financial assets held to maturity	x	64
From sale of loans and receivables	x	(3)
From repurchase of liabilities measured at amortised cost	x	(4)
Gains on financial assets and liabilities not measured at fair value through profit or loss, net	**x**	**271**

9. Gains/losses from derecognition of financial assets measured at amortised cost

in CZK million	2018	2017
Gains from sale of financial assets at amortised cost	18	x
Losses from sale of financial assets at amortised cost	(1)	x
Gains from derecognition of financial assets measured at amortised cost	**17**	**x**

10. Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

in CZK million	2018	2017
Other gains from sale of financial assets at fair value through other comprehensive income	8	x
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**8**	**x**

11. Net impairment loss on financial assets not measured at fair value through profit or loss

in CZK million	2017	2016
Financial assets – available for sale	x	4
Loans and receivables	x	(37)
Allocation to risk provisions	x	(9,985)
Release of risk provisions	x	9,446
Direct write-offs	x	(272)
Recoveries recorded directly to the income statement	x	774
Net impairment loss on financial assets not measured at fair value through profit or loss	**x**	**(33)**

12. Impairment result from financial instruments

in CZK million	2018	2017
Financial assets at fair value through other comprehensive income	54	x
Financial assets at amortised cost	356	x
Net allocation to risk provisions	(571)	x
Direct write-offs	(34)	x
Recoveries recorded directly to the income statement	961	x
Finance lease receivables	(42)	x
Net allocation of credit loss allowances for loan commitments and financial guarantees given	(656)	x
Impairment result from financial instruments	**(288)**	**x**

13. Other operating result

in CZK million	2018	2017
Other operating expenses	**(639)**	**(2,612)**
Allocation to other provisions	(80)	(667)
Allocation to provisions for commitments and guarantees given	x	(1,518)
Other taxes	(5)	-
Recovery and resolution fund contributions	(488)	(427)
Impairment of goodwill	(66)	-
Other operating income	**12**	**2,258**
Release of other provisions	12	801
Release of provisions for commitments and guarantees given	x	1,457
Result from properties/movables/other intangible assets other than goodwill	**(460)**	**(440)**
Result from other operating expenses	**(248)**	**(404)**
Other operating result	**(1,335)**	**(1,198)**

Due to the existence of the impairment's indication in 2018, the Bank recognized in the line "Result from properties/movables/other intangible assets other than goodwill" impairment loss of non-financial assets (buildings) in the amount of CZK 649 million (2017: CZK 702 million).

Based on the EU Directive and the related binding Delegated Act and their transposition in Czech law, the Group contributes to the Single Resolution Mechanism (SRM) since 1 January 2016. In 2018 the final annual contributions paid to resolution fund of CZK 488 million was reported within the line "Recovery and resolution fund contributions". (2017: CZK 427 million)

Result from other operating expenses/ income includes sales of electricity and gas by subsidiary Energie CS of CZK 1,581 million (2017: CZK 1,470 million), the related cost of sales for 2018 were CZK 1,582 million (2017: CZK 1,520 million).

14. Taxes on income

Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

in CZK million	2018	2017
Current tax expense	(3,517)	(3,503)
current period	(3,544)	(3,499)
prior period	27	(4)
Deferred tax expense / income (+)	(284)	88
current period	(284)	88
Total Taxes on Income	**(3,801)**	**(3,415)**

The following table reconciles the income taxes reported in the income statement to the pre-tax profit/loss multiplied by the nominal tax rate.

in CZK million	2018	2017
Pre-tax profit/loss	19,163	18,027
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(3,641)	(3,425)
Non-taxable income	487	455
Non-deductible expenses	(633)	(459)
Other	(43)	(87)
Prior period over/(under) accrual	29	101
Total	**(3,801)**	**(3,415)**
Effective tax rate	**19.84%**	**18.95%**

Tax effects relating to each component of other comprehensive income:

in CZK million		2018			2017	
	Pre-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Pre-tax amount	Tax benefit	Net-of-tax amount
Available for sale reserve	x	x	x	(1,197)	227	(970)
Fair value reserve - equity instruments	223	(42)	181	x	x	x
Fair value reserve - debt instruments	(833)	158	(675)	x	x	x
Own credit risk reserve	3	-	3	x	x	x
Cash flow hedge reserve	396	(75)	321	(2,719)	517	(2,202)
Currency translation	5	-	5	-	-	-
Other comprehensive income	**(206)**	**41**	**(165)**	**(3,916)**	**744**	**(3,172)**

15. Appropriation of profit

Management of the Group has proposed that total dividends of CZK 11,362 million be declared in respect of the profit for the year ended 31 December 2018, which represents CZK 74.75 per both ordinary and preference share (2017: CZK 11,704 million, that is, CZK 77 per both ordinary and preference share). The declaration of dividends is subject to the approval of the Annual General Meeting. Dividends paid to shareholders are subject to a withholding tax of 15% or a percentage set out in the relevant double tax treaty. Dividends paid to shareholders that are tax residents of an European Union member country and whose interest in a subsidiary's share capital is no less than 10% and that hold the entity's shares for at least one year are not subject to withholding tax. As result, dividends paid to the Erste Group Bank are not taxed.

Management of the Group proposed that distribution to AT1 holders at the total nominal value of EUR 300 million (see Note 42 Total equity for AT1) would be CZK 600 million (2017: CZK 604,4 million). AT1 distribution is subject to the approval of the Annual General Meeting.

16. Cash and cash balances

in CZK million	2018	2017
Cash on hand	25,831	25,104
Cash balances at central banks	33,545	253,017
Other demand deposits	4,538	2,100
Cash and cash balances	**63,914**	**280,221**

A portion of 'Cash balances at central banks' includes mandatory reserve deposits of CZK 18,279 million (2017: CZK 12,389 million). Mandatory reserve deposits accrue interest at the CNB's two week repo rate. The Group is authorised to make withdrawals of minimum reserve deposits in an amount that exceeds the actual average level of minimum reserve deposits for the relevant holding period calculated pursuant to the CNB's regulations.

Other demand deposits consist of current accounts and overnight deposits with credit institutions.

Cash and cash equivalents

In relation to IFRS 9 classification change of financial instruments, the Group has decided to align cash and cash equivalence definition with the Erste Group Bank. Cash and cash equivalents are equal to cash in hand, cash balances at central banks and other demand deposits.

in CZK million	31 December 2017	31 December 2016
Cash on hand	25,104	24,144
Nostro accounts at central banks (net of mandatory reserve deposits)	240,628	140,301
Treasury bills and treasury bonds with maturity of less than three months	7	-
Nostro accounts with credit institutions	948	1,121
Loro accounts with credit institutions (Note 31)	(14,852)	(15,682)
Total cash and cash equivalents (reported)	**251,835**	**149,884**
Mandatory reserve deposits	12,389	6,419
Loro accounts with credit institutions	14,852	15,682
Other demand deposits	1,145	1,115
Total cash and cash equivalents (adjusted)	**280,221**	**173,100**

17. Derivatives – held for trading

in CZK million	2018			2017		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**752,671**	**9,344**	**(8,579)**	**648,321**	**10,057**	**(9,506)**
Interest rate	306,464	6,103	(5,489)	307,765	6,571	(6,146)
Foreign exchange	446,207	3,241	(3,090)	340,556	3,481	(3,359)
Commodity	-	-	-	-	5	(1)
Derivatives held in the banking book	**49,276**	**747**	**(1,593)**	**51,871**	**1,244**	**(1,908)**
Interest rate	15,575	596	(9)	9,429	755	(28)
Foreign exchange	33,701	151	(1,584)	42,442	489	(1,880)
Total	**801,947**	**10,091**	**(10,172)**	**700,192**	**11,301**	**(11,414)**

All derivatives not designated as hedging instruments are classified as held for trading, including those held in the banking book for regulatory purposes (economic hedges).

18. Other financial assets held for trading

in CZK million	2018	2017
Debt securities	220	132
General governments	117	91
Credit institutions	99	41
Other financial corporations	4	-
Other trading assets	**220**	**132**

19. Financial assets designated at fair value through profit and loss

in CZK million	2018	2017
Equity instruments	x	53
Debt securities	x	289
Credit institutions	x	289
Loans and advances	x	65
Financial assets – at fair value through profit and loss	**x**	**407**

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

in CZK million	2018	
	Designated	Mandatorily
Equity instruments	-	755
Debt securities	279	349
Credit institutions	279	-
Other financial corporations	-	349
Loans and advances to customers	-	69
Other financial corporations	-	69
Financial assets designated and mandatorily at fair value through profit or loss	279	1,173
Non-trading financial assets at fair value through profit or loss	**1,452**	

Financial assets classified as mandatorily at FVPL comprise of equities and debt instruments failing SPPI test or which are part of residual business models. Designated financial assets eliminate or significantly reduce an accounting mismatch. More details are described in Classification and subsequent measurement of financial assets under IFRS 9 in section Significant accounting policies.

21. Financial assets available for sale

in CZK million	2018	2017
Equity instruments	x	1,717
Debt securities	x	53,566
General governments	x	36,787
Credit institutions	x	6,902
Other financial corporations	x	2,106
Non-financial corporations	x	7,771
Financial assets – available for sale	**x**	**55,283**

Equity instruments consist of stocks and other equity instruments.

22. Financial assets at fair value through other comprehensive income

Equity instruments

The carrying amount of Group's equity instruments at FVOCI (fair value through other comprehensive income) as at 31 December 2018 amounts to CZK 1,252 million. These equity instruments are unlisted instruments denominated in USD (US based issuers).

Debt instruments

The analysis of gross carrying amounts (GCA) and of related credit loss allowances (CLA) of Group's debt securities at FVOCI per impairment buckets as of 31 December 2018 is provided below:

In CZK million	GCA				CLA				Accumulated fair value changes	Fair value
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total		
2018										
Debt securities	36,519	1,785	-	38,304	(11)	(40)	-	(51)	71	38,375
General governments	25,371	-	-	25,371	(1)	-	-	(1)	137	25,508
Credit institutions	4,313	-	-	4,313	(2)	-	-	(2)	(24)	4,289
Other financial corporations	1,304	-	-	1,304	(1)	-	-	(1)	23	1,327
Non-financial corporations	5,531	1,785	-	7,316	(7)	(40)	-	(47)	(65)	7,251
Total	**36,519**	**1,785**	**-**	**38,304**	**(11)**	**(40)**	**-**	**(51)**	**71**	**38,375**

There are no purchased or originated credit-impaired (POCI) debt securities at FVOCI as of 31 December 2018.

The movement in the credit loss allowances for debt securities at FVOCI in the reporting period is provided in the table below:

in CZK million	As of	Additions	Derecogni-tions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 18						Dec 18
Stage 1	(82)	-	3	-	67	1	(11)
Stage 2	(22)	-	1	-	(19)	-	(40)
Stage 3	-	-	-	-	-	-	-
Total	**(104)**	**-**	**4**	**-**	**48**	**1**	**(51)**

In the column 'Additions' increases of Credit Loss Allowances (CLA) due to the initial recognition of debt securities at FVOCI during the current reporting period are disclosed. Releases of CLA following the derecognition of the related debt securities at FVOCI are reported in column 'Derecognitions'. In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related FVOCI debt securities from Stage 1 at 1 January 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'.

One significant driver of the above presented CLA movements for the year has been the transfer of the related instruments across different stages. The year-end GCAs of FVOCI debt securities that were assigned at 31 December 2018 to a different stage compared to 1 January 2018 (or to the initial recognition date, if purchased during the year) are summarized in the table below:

in CZK million	2018
Transfers between Stage 1 and Stage 2	**3,540**
To Stage 2 from Stage 1	1,825
To Stage 1 from Stage 2	1,715
Transfers between Stage 2 and Stage 3	-
To Stage 3 from Stage 2	-
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	-
To Stage 3 from Stage 1	-
To Stage 1 from Stage 3	-

23. Financial assets – held to maturity

in CZK million	Gross carrying amount		Collective allowances		Net carrying amount	
	2018	2017	2018	2017	2018	2017
General governments	x	152,206	x	-	x	152,206
Credit institutions	x	11,004	x	(4)	x	11,000
Other financial corporations	x	471	x	(1)	x	470
Non-financial corporations	x	3	x	-	x	3
Financial assets – held to maturity	**x**	**163,684**	**x**	**(5)**	**x**	**163,679**

24. Securities

	2018					2017				
	Financial assets					Financial assets				
	At AC	Trading assets	Manda-torily at FVPL	Desig-nated at FVPL	At FVOCI	Loans and recei-vables	Trading assets	FVPL	AFS	HTM
Bonds and other interest-bearing securities	**205,551**	**220**	**349**	**279**	**38,375**	**2,638**	**132**	**289**	**53,567**	**163,679**
Listed	194,008	69	13	-	29,551	-	54	-	42,183	149,903
Unlisted	11,543	151	337	279	8,825	2,638	78	289	11,384	13,776
Equity-related securities	**-**	**-**	**717**	**-**	**1,252**	**-**	**-**	**53**	**1,319**	**-**
Listed	-	-	-	-	-	-	-	12	-	-
Unlisted	-	-	717	-	1,252	-	-	41	1,319	-
Equity holdings	**-**	**-**	**38**	**-**	**-**	**-**	**-**	**-**	**397**	**-**
Total	**205,551**	**220**	**1,104**	**279**	**39,627**	**2,638**	**132**	**342**	**55,283**	**163,679**

Securities lending and repurchase transactions are disclosed in Note 46 Transfers of financial assets – repurchase transactions and securities lending.

25. Loans and receivables to credit institutions

Loans and receivables to credit institutions

in CZK million As of 31 December 2017	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
Debt securities	1,892	–	(24)	1,868
Credit institutions	1,892	–	(24)	1,868
Loans and receivables	155,670	–	(13)	155,657
Central banks	135,515	–	–	135,515
Credit institutions	20,155	–	(13)	20,142
Total	**157,562**	**–**	**(37)**	**157,525**

As at 31 December 2017, the Bank granted financial institutions and central banks loans of CZK 139,276 million under reverse repurchase transactions which were collateralised by securities amounting to CZK 137,831 million.

Allowances for loans and receivables to credit institutions

in CZK million	As of Dec 16	Allocations	Release	As of Dec 17
Specific allowances	**(1)**	**(4)**	**5**	**–**
Loans and receivables	(1)	(4)	5	–
Credit institutions	(1)	(4)	5	–
Collective allowances	**(10)**	**(55)**	**28**	**(37)**
Debt securities	(7)	(27)	10	(24)
Credit institutions	(7)	(27)	10	(24)
Loans and receivables	(3)	(28)	18	(13)
Credit institutions	(3)	(28)	18	(13)
Total	**(11)**	**(59)**	**33**	**(37)**

26. Loans and receivables to customers

Loans and receivables to customers

in CZK million As of 31 December 2017	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
Debt securities with customers	774	–	(4)	770
Non-financial corporations	774	–	(4)	770
Loans and receivables to customers	650,319	(9,730)	(2,665)	637,924
General governments	17,182	–	(11)	17,171
Other financial corporations	18,492	(135)	(51)	18,306
Non-financial corporations	247,570	(5,720)	(1,873)	239,977
Households	367,075	(3,875)	(730)	362,470
Total	**651,093**	**(9,730)**	**(2,669)**	**638,694**

Allowances for loans and receivables to customers

in CZK million	As of Dec 16	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/–)	As of Dec 17	Amounts written off	Recoveries of amounts previously written off
Specific allowances	**(13,015)**	**(6,806)**	**3,435**	**6,728**	**124**	**(270)**	**74**	**(9,730)**	**(272)**	**774**
Loans and receivables to customers	(13,015)	(6,806)	3,435	6,728	124	(270)	74	(9,730)	(272)	774
General governments	(1)	(4)	–	5	–	–	–	–	–	–
Other financial corporations	(145)	(70)	69	9	–	–	2	(135)	–	–
Non-financial corporations	(6,861)	(3,535)	694	3,882	78	(50)	72	(5,720)	(220)	64
Households	(6,008)	(3,197)	2,672	2,832	46	(220)	–	(3,875)	(52)	710
Collective allowances	**(2,524)**	**(3,116)**	**–**	**2,685**	**–**	**272**	**14**	**(2,669)**	**–**	**–**
Debt securities with customers	(2)	(4)	–	2	–	–	–	(4)	–	–
Non-financial corporations	(2)	(4)	–	2	–	–	–	(4)	–	–
Loans and receivables to customers	(2,522)	(3,112)	–	2,683	–	272	14	(2,665)	–	–
General governments	(11)	(15)	–	15	–	–	–	(11)	–	–
Other financial corporations	(32)	(74)	–	55	–	–	–	(51)	–	–
Non-financial corporations	(1,671)	(1,908)	–	1,642	–	50	14	(1,873)	–	–
Households	(808)	(1,115)	–	971	–	222	–	(730)	–	–
Total	**(15,539)**	**(9,922)**	**3,435**	**9,413**	**124**	**2**	**88**	**(12,399)**	**(272)**	**774**

27. Financial assets at amortised cost

Debt securities at amortised cost

The analysis of the GCA and of related CLA of Group's debt securities at amortised cost (AC) per impairment buckets as of 31 December 2018 is provided in the table below:

	GCA				CLA				
In CZK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2018									
General governments	194,536	-	-	194,536	(10)	-	-	(10)	194,526
Credit institutions	11,024	-	-	11,024	(6)	-	-	(6)	11,018
Other financial corporations	-	4	-	4	-	-	-	-	4
Non-financial corporations	3	-	-	3	-	-	-	-	3
Total	**205,563**	**4**	**-**	**205,567**	**(16)**	**-**	**-**	**(16)**	**205,551**

There are no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2018.

The movement in the credit loss allowances for debt securities at AC in the reporting period is provided in the table below:

in CZK million	As of	Additions	Derecogni-tions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 18						**Dec 18**
Stage 1	(18)	(2)	4	-	(1)	1	(16)
Stage 2	(51)	(50)	50	-	51	-	-
Total	**(69)**	**(52)**	**54**	**-**	**50**	**1**	**(16)**

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related AC debt securities from Stage 1 at 1 January 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P & L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different stages. The year-end GCAs of AC debt securities that were assigned at 31 December 2018 to a different stage compared to 1 January 2018 (or to the initial recognition date, if originated during the year) are summarized in the table below:

in CZK million	2018
Transfers between Stage 1 and Stage 2	**4**
To Stage 2 from Stage 1	4
To Stage 1 from Stage 2	-
Transfers between Stage 2 and Stage 3	-
To Stage 3 from Stage 2	-
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**-**
To Stage 3 from Stage 1	**-**
To Stage 1 from Stage 3	**-**

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2018 and not sold by 31 December 2018 amounts to CZK 20,557 million. The GCA of AC debt securities that were held at 1 January 2018 and de-recognized (sold/matured) during the year 2018 amounts to CZK 5,985 million.

Loans and advances at amortised cost to banks

The analysis of the GCA and of related CLA of Group's loans and advances at AC to banks per impairment buckets as of 31 December 2018 is provided in the table below:

	GCA				CLA				
In CZK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2018									
Central banks	369,704	-	-	369,704	(2)	-	**-**	(2)	369,702
Credit institutions	20,152	-	-	20,152	(10)	-	**-**	(10)	20,142
Total	**389,856**	**-**	**-**	**389,856**	**(12)**	**-**	**-**	**(12)**	**389,844**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2018.

The movement in the credit loss allowances for AC loans and advances to banks in the reporting period is provided in the table below:

in CZK million	As of	Additions	Derecogni-tions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 18						Dec 18
Stage 1	(32)	(692)	655	2	55	-	(12)
Stage 2	-	(53)	46	-	8	(1)	-
Total	**(32)**	**(745)**	**701**	**2**	**63**	**(1)**	**(12)**

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related AC loans and advances to banks from Stage 1 at 1 January 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are fa-vourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different impairment stages. The year-end GCAs of AC loans and advances to banks that were assigned at 31 December 2018 to a different stage compared to 1 January 2018 (or to the initial recognition date, if originated during the year) are summarized below:

in CZK million	2018
Transfers between Stage 1 and Stage 2	**77**
To Stage 2 from Stage 1	-
To Stage 1 from Stage 2	77
Transfers between Stage 2 and Stage 3	-
To Stage 3 from Stage 2	-
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**-**
To Stage 3 from Stage 1	**-**
To Stage 1 from Stage 3	**-**

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2018 and not fully de-recognized by 31 December 2018 amounts to CZK 382,062 million. The GCA of AC loans and advances to banks that were held at 1 January 2018 and fully de-recognized during the year 2018 amounts to CZK 153,056 million.

Loans and advances at amortized cost to customers

The analysis of the GCA and of related CLA of Group's loans and advances at AC to customers per impairment buckets as of 31 December 2018 is provided in the table below:

	GCA					CLA					
In CZK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2018											
General governments	18,323	1,848	-	-	20,171	(4)	(39)	-	-	(43)	20,128
Other financial corporations	16,290	97	7	-	16,394	(27)	(3)	(6)	-	(36)	16,358
Non-financial corporations	233,917	18,478	6,341	484	259,220	(1,163)	(770)	(4,508)	(242)	(6,683)	252,537
Households	383,438	13,344	5,072	45	401,899	(768)	(1,093)	(3,420)	(2)	(5,283)	396,616
Total	**651,968**	**33,767**	**11,420**	**529**	**697,684**	**(1,962)**	**(1,905)**	**(7,934)**	**(244)**	**(12,045)**	**685,639**

The movement in the credit loss allowances for AC loans and advances to customers in the reporting period is provided in the table below:

in CZK million	As of	Additios	Derecog-nitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 18							Dec 18
Stage 1	(1,960)	(1,058)	1,042	3,348	(3,367)	22	11	(1,962)
General governments	(9)	(4)	3	22	(16)	-	-	(4)
Other financial corporations	(36)	(96)	179	37	(110)	-	(1)	(27)
Non-financial corporations	(1,172)	(832)	738	2,158	(2,067)	-	12	(1,163)
Households	(743)	(126)	122	1,131	(1,174)	22	-	(768)
Stage 2	**(2,666)**	**(2,035)**	**603**	**(1,085)**	**3,192**	**82**	**4**	**(1,905)**
General governments	(178)	(3)	1	(39)	180	-	-	(39)
Other financial corporations	(27)	(309)	167	-	148	18	-	(3)
Non-financial corporations	(1,380)	(1,191)	359	(327)	1,762	3	4	(770)
Households	(1,081)	(532)	76	(719)	1,102	61	-	(1,093)
Stage 3	**(9,156)**	**(43)**	**1,081**	**(395)**	**(1,331)**	**1,589**	**321**	**(7,934)**
Other financial corporations	(129)	-	-	-	100	23	-	(6)
Non-financial corporations	(5,035)	(18)	646	(162)	(676)	473	264	(4,508)
Households	(3,992)	(25)	435	(233)	(755)	1,093	57	(3,420)
POCI	**(123)**	**-**	**-**	**-**	**(121)**	**-**	**-**	**(244)**
Non-financial corporations	(121)	-	-	-	(121)	-	-	(242)
Households	(2)	-	-	-	-	-	-	(2)
Total	**(13,905)**	**(3,136)**	**2,726**	**1,866**	**(1,626)**	**1,693**	**337**	**(12,045)**

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related AC loans and advances to customers from Stage 1 at 1 January 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P & L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'. This column also captures the passage-of-time adverse effect ('unwinding correction') over the lifetime expected cash shortfalls of AC loans and advances to customers that were assigned to Stage 3 for any period throughout the year, as well as of any POCI loans and advances to customers. This adverse effect amounted to CZK 227 million cumulatively for the year 2018, which also reflects the unrecognized interest income out of the related AC loans and advances to customers throughout the year.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different impairment stages. The year-end GCA of AC loans and advances to customers that were assigned at 31 December 2018 to a different stage compared to 1 January 2018 (or to the initial recognition date, if originated during the year) are summarized below:

	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in CZK million	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
General governments	1,662	813	-	-	-	-	-	-
Other financial corporations	5	339	2	-	-	-	-	-
Non-financial corporations	5,809	16,711	271	202	1,271	152	-	-
Households	4,491	8,003	551	282	1,241	212	-	-
Total	**11,967**	**25,866**	**824**	**484**	**2,512**	**364**	**-**	**-**

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the year 2018 and not fully de-recognized by 31 December 2018 amounts to CZK 161,059 million. The GCA of the AC loans and advances to customers that were held at 1 January 2018 and fully de-recognized during the year 2018 amounts to CZK 125,066 million.

The undiscounted amount of the lifetime expected credit losses considered in the initial measurement of the AC loans and advances to customers initially recognized and identified as POCI during the year 2018 amounted to CZK 136 million.

28. Finance lease receivables

The analysis of the GCA and of related CLA of Erste Group's finance lease receivables per impairment buckets as of 31 December 2018 is provided in the table below:

	Gross carrying amount					Credit loss allowances					
In CZK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2018											
General governments	4	-	-	-	4	-	-	-	-	-	4
Other financial corporations	11	-	-	-	11	-	-	-	-	-	11
Non-financial corporations	1,500	232	164	-	1,896	(9)	(13)	(115)	-	(137)	1,759
Households	221	12	28	-	261	(2)	(2)	(25)	-	(29)	232
Total	**1,736**	**244**	**192**	**-**	**2,172**	**(11)**	**(15)**	**(140)**	**-**	**(166)**	**2,006**

The movement in the credit loss allowances for finance lease receivables in the reporting period is provided in the table below:

in CZK million	As of	Additios	Derecog-nitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifica-tions (net)	Write-offs	Other	As of
	Jan 18								Dec 18
Stage 1	(12)	(4)	1	-	4	-	-	-	(11)
Stage 2	(26)	(2)	3	-	10	-	-	-	(15)
Stage 3	(106)	(12)	14	-	(36)	-	-	-	(140)
Total	**(144)**	**(18)**	**18**	**-**	**(22)**	**-**	**-**	**-**	**(166)**

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related finance lease receivables from Stage 1 at 1 January 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allo-cations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are fa-vourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'. Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'. This column also captures the passage-of-time adverse effect ('unwinding correction') over the lifetime expected cash shortfalls of finance lease receivables that were assigned to Stage 3 for any period throughout the year, as well as of any POCI finance lease receivables. This adverse effect amounted to CZK 5 million cumulatively for the year 2018, which also reflects the unrecognized interest income out of the related finance lease receivables throughout the year.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across impairment stages. The year-end GCA of finance lease receivables that were assigned at 31 December 2018 to a different stage compared to 1 January 2018 (or to the initial recognition date, if originated during the year) are summarized below:

in CZK million	2018
Transfers between Stage 1 and Stage 2	**241**
To Stage 2 from Stage 1	142
To Stage 1 from Stage 2	99
Transfers between Stage 2 and Stage 3	**46**
To Stage 3 from Stage 2	42
To Stage 2 from Stage 3	4
Transfers between Stage 1 and Stage 3	**32**
To Stage 3 from Stage 1	24
To Stage 1 from Stage 3	8
POCI transfer	**-**
To defaulted from non-defaulted	-
To non-defaulted from defaulted	-

The year-end total GCA of the finance lease receivables that were initially recognized during the year 2018 and not fully de-recognized by 31 December 2018 amounts to CZK 864 million. The GCA of the finance lease receivables that were held at 1 January 2018 and fully de-recognized during the year 2018 amounts to CZK 246 million.

29. Derivatives – hedge accounting

in CZK million	As of 31 December 2018			As of 31 December 2017		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	**9,504**	**73**	**(3)**	**11,893**	**12**	**(20)**
Interest rate	9,504	73	(3)	11,893	12	(20)
Cash flow hedge	**121,713**	**1,079**	**(2,106)**	**90,690**	**601**	**(1,793)**
Interest rate	91,944	937	(1,645)	61,560	253	(1,686)
Foreign exchange	29,769	142	(461)	29,130	348	(107)
Total	**131,217**	**1,152**	**(2,109)**	**102,583**	**613**	**(1,813)**

30. Trade and other receivables

	Gross carrying amount					Credit loss allowances					
In CZK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2018											
General governments	99	148	-	-	247	-	(148)	-	-	(148)	99
Credit institutions	37	12	6	-	55	-	(12)	(6)	-	(18)	37
Other financial corporations	347	1	-	-	348	(2)	(1)	-	-	(3)	345
Non-financial corporations	4,567	1,211	308	-	6,086	(10)	(1)	(282)	-	(293)	5,793
Households	69	124	25	-	218	(1)	(116)	(24)	-	(141)	77
Total	**5,119**	**1,496**	**339**	**-**	**6,954**	**(13)**	**(278)**	**(312)**	**-**	**(603)**	**6,351**

Allowances for trade and other receivables

in CZK million	As of	Additios	Derecog-nitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 18							Dec 18
Stage 1	(28)	(7)	5	-	(1)	-	18	**(13)**
Stage 2	(232)	(53)	1	-	6	-	-	**(278)**
Stage 3	(336)	(28)	55	(8)	(2)	-	7	**(312)**
Total	**(596)**	**(88)**	**61**	**(8)**	**3**	**-**	**25**	**(603)**

31. Investments in associates

in CZK million	2018	2017
Financial institutions	824	762
Total	**824**	**762**

The table below shows the aggregated financial information of companies accounted for using the equity method:

in CZK million	2018	2017
Total assets	3,030	3,631
Total equity and liabilities	3,030	3,631
Income	2,240	1,971
Protit (Loss)	111	18

None of the Group's investments accounted for using the equity method published price quotations.

Significant equity method investments where the Group has strategic interest

in CZK million	2018 Global Payments s.r.o.	2017 Global Payments s.r.o.
Country of Incorporation / Place of business	Czech Republic	Czech Republic
Main business activity	Payment services	Payment services
Ownership% held	36.9%	36.9%
Voting rights held%	36.9%	36.9%
IFRS Classification (JV/A)	Associate	Associate
Reporting currency	CZK	CZK
Cash and cash balances	107	55
Other current assets	1,514	2,030
Non-current assets	1,409	1,546
Liabilities	1,349	2,061
Total equity	1,681	1,570
Post-tax result from continuing operations	111	18
Total comprehensive income	111	18
Depreciation and amortization	(184)	(212)
Interest expense	(13)	(7)
Tax expense/income	(42)	(32)
Net assets attributable to the Group	411	353
Carrying goodwill included in the cost of investment	413	409
Carrying amount	824	762

32. Unconsolidated structured entities

in CZK million	2018	2017
Carrying amount of assets	526	436
Fair value of liquidity support drawn	14	73
Total	**540**	**509**

The Group is involved as an investor in a number of unconsolidated public or private investment funds registered in the Czech Republic or foreign jurisdictions. Some of these funds are managed by asset management subsidiaries of the Group, but the Group is not a significant investor in these funds. The interests of the Group in these funds mostly take the form of redeemable fund unit investments measured at fair value on the Group's statement of financial position, and are classified as mandatorily at FVPL (2017: available for sale or held for trading equity instruments).

33. Property, equipment and investment properties

a) At cost

	Property and equipment – Acquisition and production costs				
in CZK million	Land and buildings (used by the Group)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Property and equipment	Investment properties
Balance as of 1 Jan 2017	**20,186**	**4,594**	**1,951**	**26,731**	**3,613**
Additions in current year (+)	983	248	189	1,420	5
Disposals (–)	(1,632)	(478)	(165)	(2,275)	-
Reclassification (+/–)	-	88	(88)	-	-
Assets held for sale (–)	(126)	-	-	(126)	-
Transfers (+/–)	-	(13)	13	-	-
Balance as of 31 Dec 2017	**19,411**	**4,439**	**1,900**	**25,750**	**3,618**
Additions in current year (+)	825	309	345	1,479	7
Disposals (–)	(1,541)	(457)	(128)	(2,126)	-
Reclassification (+/–)	-	8	(8)	-	-
Assets held for sale (–)	(153)	-	-	(153)	-
Balance as of 31 Dec 2018	**18,542**	**4,299**	**2,109**	**24,950**	**3,625**

b) Accumulated Depreciation

	Property and equipment – Acquisition and production costs				
in CZK million	Land and buildings (used by the Group)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Property and equipment	Investment properties
Balance as of 1 Jan 2017	**(11,298)**	**(3,444)**	**(1,533)**	**(16,275)**	**(1,223)**
Depreciation (–)	(634)	(240)	(129)	(1,003)	(65)
Disposals (+)	1,422	449	165	2,036	6
Impairment (–)	(702)	-	-	(702)	
Reversal of impairment (+)	-	-	-	-	36
Assets held for sale (+)	107	-	-	107	-
Transfers (+/–)	-	11	(11)	-	-
Balance as of 31 Dec 2017	**(11,105)**	**(3,224)**	**(1,508)**	**(15,837)**	**(1,246)**
Depreciation (–)	(589)	(229)	(123)	(941)	(63)
Disposals (+)	1,197	428	133	1,758	-
Impairment (–)	(650)	-	-	(650)	-
Reversal of impairment (+)	-	3	-	3	11
Assets held for sale (+)	113	-	-	113	-
Balance as of 31 Dec 2018	**(11,034)**	**(3,022)**	**(1,498)**	**(15,554)**	**(1,298)**

c) Carrying Amounts

in CZK million	Property and equipment – Acquisition and production costs				
	Land and buildings (used by the Group)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Property and equipment	Investment properties
Balance as of 1 Jan 2017	**8,888**	**1,150**	**418**	**10,456**	**2,390**
Balance as of 31 Dec 2017	**8,306**	**1,215**	**392**	**9,913**	**2,372**
Balance as of 31 Dec 2018	**7,508**	**1,277**	**611**	**9,396**	**2,327**

In 2018, rental income arising from investment property amounted to CZK 166 million (2017: CZK 212 million), see Note 7. Operating expenses related to investment property amounted to CZK 63 million (2017: CZK 65 million).

As at 31 December 2018, the fair value of investment property amounted to CZK 2,327 million (2017: CZK 2,372 million). Collateral held for investment property financing amounted to CZK 88 million in 2018 (2017: CZK 90 million).

The balances as at 31 December 2018 shown above include CZK 1,109 million (2017: CZK 1,064 million) in property and equipment under construction.

The acquisition cost of fully depreciated tangible assets still in use was CZK 4,376 million as at 31 December 2018 (2017: CZK 4,645 million).

As at 31 December 2018, land and buildings were impaired in the amount of CZK 2,362 million (2017: CZK 2,342 million).

34. Intangible assets

a) At Cost

in CZK million	Acquisition and production costs			
	Goodwill	Software acquired	Other (licenses, patents, etc.)	Total Intangible assets
Balance as of 1 Jan 2017	**43**	**12,725**	**4,986**	**17,754**
Additions in current year (+)	74	1,299	194	1,567
Disposals (–)	-	(299)	(2,393)	(2,692)
Reclassification (+/–)	-	(2)	2	-
Balance as of 31 Dec 2017	**117**	**13,723**	**2,789**	**16,629**
Additions in current year (+)	-	1,430	52	1,482
Disposals (–)	(9)	(346)	(219)	(574)
Reclassification (+/–)	-	663	(663)	-
Balance as of 31 Dec 2018	**108**	**15,470**	**1,959**	**17,537**

b) Amortisation

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Total Intangible assets
	Amortisation			
Balance as of 1 Jan 2017	**(9)**	**(8,946)**	**(4,515)**	**(13,470)**
Amortisation charge (–)	-	(902)	(76)	(978)
Disposals (+)	-	287	2,392	2,679
Impairment (–)	-	(6)	-	(6)
Reclassification	-	47	(47)	-
Balance as of 31 Dec 2017	**(9)**	**(9,520)**	**(2,246)**	**(11,775)**
Amortisation charge (–)	-	(915)	(82)	(997)
Disposals (+)	-	345	221	566
Impairment (–)	(65)	(19)	-	(84)
Reclassification (+/–)	-	(445)	445	-
Balance as of 31 Dec 2018	**(74)**	**(10,554)**	**(1,662)**	**(12,290)**

c) Carrying Amounts

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2017	**34**	**3,779**	**471**	**4,284**
Balance as of 31 Dec 2017	**108**	**4,203**	**543**	**4,854**
Balance as of 31 Dec 2018	**34**	**4,916**	**297**	**5,247**

Other intangible assets include licenses and know-how. In addition, the item includes CZK 1,546 million in intangibles under construction as at 31 December 2018 (2017: CZK 1,105 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 2,911 million as at 31 December 2018 (2017: CZK 2,707 million).

35. Tax assets and liabilities

In the following tables the major components of deferred tax assets and deferred tax liabilities are shown.

	Tax assets		Tax liabilities		Net variance 2018		
In CZK million	**As of December 2018**	**As of January 2018**	**As of December 2018**	**As of January 2018**	**Total**	**Through profit or loss**	**Through profit or loss**
Temporary differences related to the following items:							
Financial assets at FVOCI	-	-	-	-	-	(116)	116
Financial assets at AC and trade and other receivables	35	-	30	-	65	65	-
Hedge accounting derivatives	-	-	-	-	-	75	(75)
Tax loss carry-forward	4	5	-	-	-	-	-
Other	-	-	699	1,007	(308)	(308)	-
Effect of netting gross deferred tax position	947	1,221	(947)	(1,221)	-	-	-
Total deferred taxes	**986**	1,226	**(218)**	(214)	**(243)**	**(284)**	**41**
Current taxes	**499**	341	**(69)**	(89)	**(3,517)**	**(3,517)**	**-**
Total taxes	**1,485**	1,567	**(287)**	(303)	**(3,760)**	**(3,801)**	**41**

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 19%, depending on the year in which the relevant asset/liability will be realised/settled.

The Group has assessed tax losses totalling CZK 208 million (2017: CZK 163 million) that will expire in 2019 and which were not included in the calculation of the deferred tax asset as it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

36. Assets held for sale and liabilities associated with assets held for sale

in CZK million	2018	2017
Assets held for sale	40	19
Liabilities associated with assets held for sale	-	-

Assets held for sale are represented by buildings for sale as a result of ongoing management of the branch network.

37. Other assets

in CZK million	2018	2017
Prepayments and accrued income	363	324
Assets under construction/unfinished goods/inventory	88	131
Sundry assets	848	1,652
Other assets	**1,299**	**2,107**

Sundry assets' consist mainly mainly of long-term advances of CZK 287 million (2017: CZK 208 million).

38. Financial liabilities at fair value through profit and loss

in CZK million	2018	2017
Deposits	1,935	1,240
Other financial corporations	-	-
Non financial corporations	53	2
Households	1,882	1,238
Other trading liabilities	**1,935**	**1,240**

Deposits classified as Financial liabilities at fair value through profit and loss represent hybrid instruments i.e. contain one or more not closely related embedded derivatives, which are not separated from those hybrid instruments.

Fair Value Changes that Are Attributable to Changes in Own Credit Risk

in CZK million	Amount of change in fair values attributable to changes in credit risk for the period		Amount of cumulative change in fair values attributable to changes in credit risk	
	2018	2017	2018	2017
Financial liabilities – at fair value through profit or loss				
Deposits from customers	1	-	3	3

The change in the fair value arising from the changes in the credit profile of the issuer (the Group) is determined as equal to the difference between the fair values of the liabilities as at the previous and current reporting dates, net of the effect of the change in fair value due to the change in the risk-free interest rate.

39. Financial liabilities at amortised costs

in CZK million	2018	2017
Deposits	1,271,367	1,177,229
Deposits from banks	318,861	295,232
Deposits from customers	952,506	881,997
Debt securities issued	5,458	1,805
Bonds	5,458	1,805
Other financial liabilities	3,106	895
Financial liabilities measured at amortised costs	**1,279,931**	**1,179,929**

In 2018 Other financial liabilities included mainly Payables to securities clearing entities of CZK 620 million (2017: CZK 367 million).

Deposits from banks

in CZK million	2018	2017
Overnight deposits	10,227	14,852
Term deposits	31,087	124,464
Repurchase agreements	277,547	155,916
Deposits from banks	**318,861**	**295,232**

Deposits from Customers

in CZK million	2018	2017
Current accounts/Overnight deposits	810,884	746,262
General governments	63,793	62,372
Other financial corporations	29,890	31,506
Non financial corporations	132,184	124,667
Households	585,017	527,717
Term deposits	104,455	109,044
General governments	46	31
Other financial corporations	37,608	15,676
Non financial corporations	6,541	2,910
Households	60,260	90,427
Repurchase agreements	37,167	26,691
Other financial corporations	37,167	26,306
Non financial corporations	-	385
Deposits from customers	**952,506**	**881,997**
General governments	63,839	62,403
Other financial corporations	79,853	73,488
Non financial corporations	138,725	127,962
Households	670,089	618,144

All deposits are from customers and entities within the Czech Republic.

Debt securities issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Bonds Traded on regulated market	2018	2017
Mortgage bonds	CZ0002001407	December 2007	December 2022	floating	Yes	-	19
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	Yes	450	445
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	No	53	60
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	No	540	81
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	No	351	178
Mortgage bonds	CZ0002002777	December 2012	June 2018	1.75%	No	-	40
Mortgage bonds	CZ0002002785	December 2012	December 2019	2.50%	No	4,064	80
Promissory note	1950087	December 2017	January 2018			-	400
Promissory note	1950084	December 2017	January 2018			-	500
Cumulative change in carrying amount due to fair value hedging						-	2
Bonds issued						**5,458**	**1,805**

Of the aggregate carrying value of the mortgage bonds, CZK 439 million (2017: CZK 447 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate. In accordance with the applicable accounting policies, these mortgage bonds are remeasured at fair value to the extent of the hedged interest rate risk.

Information about issues of mortgage bonds and bonds which are traded on the official regulated market meaning the Prague Stock Exchange ('PSE') is included in the table above.

Assets in cover pools used for covered bond issuance amounted to CZK 127,086 million (2017: CZK 110,768 million).

40. Provisions

in CZK million	2018	2017
Restructuring	59	107
Pending legal issues	1,872	1,843
Loan commitments and financial guarantees given	1,524	784
Provisions for guarantees – off balance (defaulted customers)	x	423
Provisions for guarantees – off balance (non defaulted customers)	x	361
CLA for loan commitments and financial guarantees in Stage 1	499	x
CLA for loan commitments and financial guarantees in Stage 2	119	x
CLA for loan commitments and financial guarantees – Defaulted	906	x
Other provisions	129	44
Provisions	**3,584**	**2,778**

'Provisions for guarantees – off balance' exposures are recorded to cover losses that result from off-balance sheet exposures.

'Provisions for legal disputes are explained in detail in Note 53.

The restructuring provision was created at the end of 2016 for the reorganization of the Group redundant activities performed by the HQ departments of the Group and their employees. The restructuring started at the end of 2016 and is expected to be completed by the year-end 2019.

Credit loss allowances for loan commitments and financial guarantees

The yearly movement in the credit loss allowances for loan commitments and financial guarantees is provided below .

in CZK million	As of	Additios	Derecog-nitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 18						**Dec 18**
Stage 1	240	1,020	(807)	(1,675)	1,721	-	**499**
Stage 2	192	-	(619)	92	454	-	**119**
Defaulted	482	4	(1,346)	29	1,738	(1)	**906**
Total	**914**	**1,024**	**(2,772)**	**(1,554)**	**3,913**	**(1)**	**1,524**

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related loan commitments and financial guarantees from Stage 1 at 1 January 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P & L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'. This column also captures the passage-of-time adverse effect ('unwinding') over the lifetime expected cash shortfalls of defaulted loan commitments and financial guarantees.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different stages. The year-end volumes of loan commitments and financial guarantees that were assigned at 31 December 2018 to a different stage compared to 1 January 2018 (or to the initial recognition date, if originated during the year) are summarized below:

in CZK million	2018
Transfers between Stage 1 and Stage 2	**4,872**
To Stage 2 from Stage 1	2,219
To Stage 1 from Stage 2	2,653
Transfers between Stage 2 and Defaulted	**66**
To Defaulted from Stage 2	25
To Stage 2 from Defaulted	41
Transfers between Stage 1 and Defaulted	**344**
To Defaulted from Stage 1	324
To Stage 1 from Defaulted	20

The year-end nominal amounts of unused off-balance commitments and financial guarantees that were initially recognized during 2018 and not fully de-recognized by 31 December 2018 amounts to CZK 72,231million. The nominal amounts of unused off-balance commitments or financial guarantees that were held at 1 January 2018 and fully de-recognized during the year 2018 amounts to CZK 33,765 million.

Sundry provisions 2018

in CZK million	As of Dec 17	Allocations	Use	Releases	Unwind of discount	Exchange rate and other changes (+/–)	As of Dec 18
Provision for restructuring	107		(17)	(31)	-	-	59
Pending legal issues and tax litigation	1,843	73	(2)	-	-	(42)	1,872
Other provisions	44	763	(688)	(17)	-	27	129
Provisions	**1,994**	**836**	**(707)**	**(48)**	**-**	**(15)**	**2,060**

The level of sundry provisions is the best possible estimate of expected outflow of economic benefits at the reporting date, while taking into account the risks and uncertainties underlying the commitment to fulfill the obligation. Risks and uncertainties are taken into account in the estimate.

Sundry provisions 2017

in CZK million	As of Dec 16	Allocations	Use	Releases	Exchange rate	Reclassi-fication	As of Dec 17
Provision for restructuring	149	-	(42)	-	-	-	107
Pending legal issues	1,857	-	(9)	(5)	-	-	1,843
Commitments and guarantees given	725	1,518	(3)	(1,454)	(2)	-	784
Provisions for guarantees – off balance sheet (defaulted customers)	431	769	(3)	(749)	(1)	(24)	423
Provisions for guarantees – off balance sheet (non-defaulted customers)	294	749	-	(705)	(1)	24	361
Other provisions	178	667	(651)	(150)	-	-	44
Provisions	**2,909**	**2,185**	**(705)**	**(1,609)**	**(2)**	**-**	**2,778**

In 2017 the Group reports the net allocation (release) of provisions for commitments and guarantees given based on the level of each transaction separately.

41. Other liabilities

in CZK million	2018	2017
Deferred income and accrued expenses	294	235
Sundry liabilities	5,495	10,530
Other liabilities	**5,789**	**10,765**

Sundry liabilities consist mainly of unbilled supplies of CZK 1,168 million (2017: CZK 1,212 million) and costs of staff bonuses for 2018 amounting to CZK 1,683 million (2017: CZK 1,590 million).

42. Total equity

in CZK million	2018	2017
Share capital	15,200	15,200
Additional paid-in capital	12	11
Additional Equity instruments	8,107	8,107
Retained earnings and other reserves	99,154	97,492
Owners of the parent	**122,473**	**120,810**
Non-controlling interests	184	165
Total equity*	**122,657**	**120,975**

* Details on equity are provided in Section III, Statement of Changes in Total Equity

As of 31 December 2018, share capital consists of 140,788,787 voting ordinary shares and 11,211,213 preference shares. Additional paid-in capital represents the amount by which the issue price of the shares exceeded their par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognized in other comprehensive income.

In December 2015 Česká spořitelna, a.s. has launched an issue of Additional Tier 1 Notes ("AT1") , denominated in Euro, for a total of EUR 300 million, with characteristics compliant with Article 52 of the CRR (Regulation EU No 575/2013). This issue is reported within the line of Additional Equity instruments in Equity.

The main reasons for the issuance of AT1 is optimisation of capital structure and preparation for regulatory changes (full implementation of CRR, TLAC/MREL) while using the currently favourable market conditions (interest rates and credit spreads).

As the AT1 do not represent financial liabilities in terms of IAS 32.11, they are classified as equity instruments.

Classification of the AT1 as financial liabilities is not met from the following reasons:

- Based on the AT1 features (i.e. conditions of issue) the Group has right to avoid delivering cash or another financial asset to settle this contractual obligation – The Holders of the AT1 do not have a right to demand redemption of the AT1 and distribution from the AT1.
- Based on the AT1 features (i.e. conditions of issue) the AT1 do not have a maturity date.

Number of shares and share capital

Authorised, Issued and Fully Paid Share Capital is as follows:

	2018		2017	
	Number of shares	**CZK million**	**Number of shares**	**CZK million**
Ordinary shares of CZK 100 each	140,788,787	14,079	140,788,787	14,079
Preference shares of CZK 100 each	11,211,213	1,121	11,211,213	1,121
Share capital	**152,000,000**	**15,200**	**152,000,000**	**15,200**

Preference shareholders are not entitled to vote at the annual shareholders' meeting. They have a right to receive dividends each year if the Bank is profitable. The amount of the dividend is proposed by the Board of Directors and subject to approval at the annual shareholders' meeting. In the case of liquidation, preference shareholders have a right to the assets of the Bank before ordinary shareholders but after other creditors. Preference shareholders have a right to purchase shares offered by the Bank when it increases its share capital in the same proportion as the current holding. Preference shares can only be issued to municipalities and local governments in the Czech Republic. The preference shares can only be transferred to entities other than municipalities and local governments of the Czech Republic subject to the approval of the Board of Directors.

Non-controlling interest

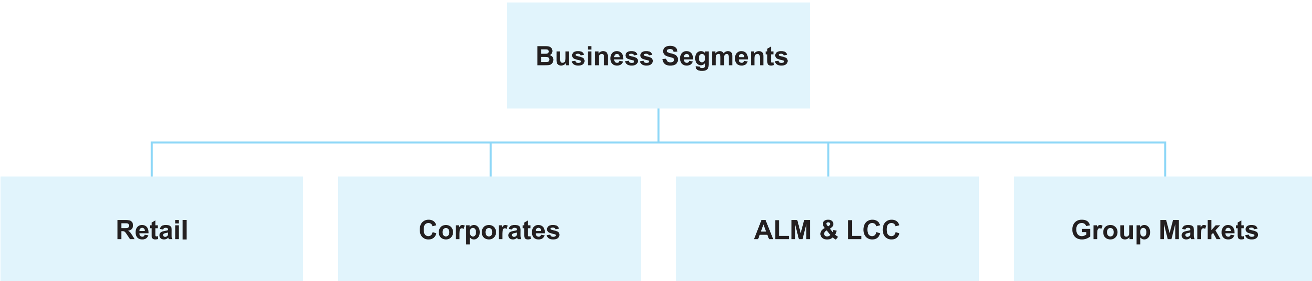
in CZK million	2018	2017
At 1 January	**165**	**166**
Profit for the year	-	2
Dividends paid to minority shareholders	-	(3)
Changes in scope of consolidation and ownership interest	19	-
At 31 December	**184**	**165**

43. 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 private individuals, micros business and free professionals. This business is mainly operated in cooperation with subsidiaries such as Leasing and 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, an 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, 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 with 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 Corporates.

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

Non-profit sector comprises the following private non-profit entities: 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 & CC)

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 (CC) comprises all non-core banking business activities such as non-profit servicing units (e.g. procurement, property management), intragroup eliminations within the Group, dividends, refinancing costs of participations, all non-banking balance sheet positions (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 balance sheet 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., CS NHQ, s. r. o. and s IT Solutions CZ, s. r. o. v likvidaci.

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 belong to financial institution.

Measurement

The Income statement of the segment report is based on the measures reported to the Bank's Board of Directors for the purpose of allocating resources to the segments and assessing their performance. Management reporting as well as the segment report of the Group are based on IFRS. Accounting standards and methods as well as measurements used in segment reporting are the same as for the consolidated financial statements of accounting.

Interest income is not reported separately from interest expenses for each reportable segment. Those measures are reported on the net basis within the position 'Net interest income' as interest income and interest expenses are neither included into the measurement of segment profit or loss reviewed by the chief operating decision maker nor otherwise regularly provided to him. Chief operating decision maker relies solely on net interest income to assess the performance of the segments and makes decisions about resources to be allocated to the segments. Net fee and commission income and Other operating result are reported on a net basis according to the regular reporting to the chief operating decision maker.

Capital consumption per segment is regularly reviewed by the management of the Group to assess the performance of the segments. The average allocated capital is determined by the credit risk, market risk and operational risk. According to the regular internal reporting to the Bank's Board of Directors, total assets and total liabilities as well as risk weighted assets and allocated capital are disclosed per segment. Total average allocated capital for the Group equals average total equity of the Group. For measuring and assessing the profitability of segments within Erste Group, such key measures as return on allocated capital and cost/income ratio are used.

Return on allocated capital is defined as net result for the period before minorities in relation to the average allocated capital of the respective segment. Cost/income ratio is defined as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading result, gains/losses from financial instruments measured at fair value through profit or loss, net result from equity method investments, rental income from investment properties and other operating lease).

Comparability of 2018 and 2017 figures

The adjustment of the methodology of the cost of capital calculation including capital benefit effective from 1 January 2018 affected the split of the net interest income as well as average allocated capital between the business segments.

Business Segments

in CZK million	Retail		Corporates		ALM & LCC		Group Markets		Total Group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net interest income	19,804	19,293	6,350	5,501	754	88	913	468	27,821	25,350
Net fee and commission income	6,338	6,610	1,393	1,395	(624)	(453)	1,433	1,251	8,540	8,803
Dividend income	-	-	15	15	63	49	-	-	78	64
Net trading result	1,206	1,375	593	777	(643)	(369)	994	953	2,150	2,736
Gains/losses from financial instruments at FVPL	-	-	(36)	36	260	(43)	-	-	224	(7)
Net result from equity method investments	-	-	-	-	55	9	(1)	-	54	9
Rental income from investment properties & other operating leases	6	7	166	212	49	53	-	-	221	272
General administrative expenses	(14,421)	(14,164)	(2,884)	(2,890)	(365)	(563)	(657)	(623)	(18,327)	(18,240)
thereof: depreciation and amortization	(1,738)	(1,783)	(210)	(213)	(8)	(8)	(46)	(42)	(2,001)	(2,046)
Gains/losses from financial assets and liabilities not at FVPL, net	x	(1)	x	2	x	270	x	-	x	271
Gains/losses from derecognition of financial assets at AC	(1)	x	-	x	18	x	-	x	17	x
Other gains/losses from derecognition of financial instruments not at FVPL	-	x	-	x	8	x	-	x	8	x
Net impairment loss on financial assets	x	54	x	31	x	(124)	x	6	x	(33)
Impairment result from financial instruments	(269)	x	(41)	x	10	x	12	x	(288)	x
Other operating result	115	(12)	(197)	(62)	(975)	(882)	(278)	(242)	(1,335)	(1,198)
Pre-tax result from continuing operations	**12,778**	**13,162**	**5,359**	**5,017**	**(1,390)**	**(1,965)**	**2,416**	**1,813**	**19,163**	**18,027**
Taxes on income	(2,427)	(2,515)	(1,045)	(916)	130	360	(459)	(344)	(3,801)	(3,415)
Net result for the period	**10,351**	**10,647**	**4,314**	**4,101**	**(1,260)**	**(1,605)**	**1,957**	**1,469**	**15,362**	**14,612**
Net result attributable to non-controlling interests	-	-	-	-	-	(2)	-	-	-	(2)
Net result attributable to owners of the parent	**10,351**	**10,647**	**4,314**	**4,101**	**(1,260)**	**(1,607)**	**1,957**	**1,469**	**15,362**	**14,610**
Operating income	27,354	27,285	8,481	7,936	(86)	(666)	3,339	2,672	39,088	37,227
Operating expenses	(14,422)	(14,164)	(2,883)	(2,890)	(365)	(563)	(656)	(623)	(18,326)	(18,240)
Operating result	**12,932**	**13,121**	**5,598**	**5,046**	**(451)**	**(1,229)**	**2,683**	**2,049**	**20,762**	**18,987**
Risk-weighted assets (credit risk, pillar 1, eop)	173,810	161,213	268,082	244,495	30,504	28,030	12,091	8,826	484,487	442,564
Average allocated capital	26,047	19,480	22,658	18,417	78,757	80,532	2,569	2,973	130,031	121,402
Cost/income ratio	52.7%	51.9%	34.0%	36.4%	(424.4%)	(84.5%)	19.6%	23.3%	46.9%	49.0%
Return on allocated capital	39.7%	54.7%	19.0%	22.3%	(1.6%)	(2.0%)	76.2%	49.4%	11.8%	12.0%
Total assets (eop)	478,735	448,525	288,380	263,264	372,140	551,849	287,210	65,585	1,426,465	1,329,223
Total liabilities excluding equity (eop)	708,897	655,689	195,295	179,148	75,240	165,048	324,376	208,363	1,303,808	1,208,248

The majority of revenue from external customers is generated in the Czech Republic.

44. Leases

a) Finance leases

Finance lease receivables are included under the statement of financial position item ´Finance lease receivable´ (2017: Loans and advances to customers).

The principal assets held under lease arrangements include vehicles and other technical equipment. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

in CZK million	2018	2017
Outstanding minimum lease payments	2,312	2,122
Gross investment	**2,312**	**2,122**
Unrealised financial income	(140)	(132)
Net investment	**2,172**	**1,990**
Present value of minimum lease payments	**2,172**	**1,990**

The maturity analysis of gross investment in leases and present values of minimum lease payments under non-cancellable leases is as follows (residual maturities):

in CZK million	2018	2017
< 1 year	464	384
1–5 years	1,657	1,599
> 5 years	191	139
Total	**2,312**	**2,122**

For details related to CLAs of finance lease receivables please refer to Note 28. In 2018, the total amount of accumulated allowance for uncollectable minimum lease payments, presented as risk provisions for finance lease receivable, was CZK 166 million (2017: CZK 67 million presented as risk provisions for loans and advances to customers).

b) Operating leases

Under operating leases, the Group leases real estate to other parties.

Operating leases from the view of the Group as lessor

Minimum lease payments from non-cancellable operating leases were as follows:

in CZK million	2018	2017
< 1 year	32	37
1–5 years	77	69
> 5 years	45	18
Total	**154**	**124**

Operating leases from the view of the Group as lessee

Minimum lease payments from non-cancellable operating leases were as follows:

in CZK million	2018	2017
< 1 year	619	524
1–5 years	1,218	915
> 5 years	300	305
Total	**2,137**	**1,744**

45. 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 standard commercial rates. Outstanding balances at the year-end are unsecured except for loans to finance investment property and property under construction.

There was no impairment related to the outstanding balances with Related Parties reported by the Group.

Loans and advances to and amounts owed to related parties

	2018			2017		
in CZK million	**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**
Assets						
Cash and cash balances	1,462	95	-	661	55	-
Financial assets held for trading	3,440	-	-	5,038	-	-
Loans and receivables to credit institutions	x	x	x	14,908	-	-
Loans and receivables to customers	x	x	x	-	307	22
Financial asset amortized cost	17,071	297	22	x	x	x
Derivatives Hedge Accounting	411	-	-	377	-	-
Other assets	-	-	-	24	39	-
Liabilities						
Financial liabilities held for trading	3,679	-	-	2,949	-	-
Financial liabilities measured at amortised costs	273,452	683	6	250,029	3,355	39
Derivatives Hedge Accounting	310	-	-	69	-	-
Other Liabilities	50	61	-	92	238	-
Profit & Loss statement						
Net interest income	(1,136)	5	-	502	(2)	-
Net fee and commision income	47	796	-	39	695	-
Dividend income	-	2	-	-	7	-
Net trading and fair value result	(2,136)	1	-	4,569	-	-
Rental income from investment properties & other operating lease	-	-	-	-	17	-
Other administrative expenses	(237)	(628)	-	(297)	(619)	(74)
Other operating result	38	20	-	60	30	-
Loans commitments, financial guarantees and other commitments given	**15**	**74**	**-**	**-**	**-**	**-**
Loan commitments, financial guarantees and other commitments received	**-**	**-**	**-**	**22**	**53**	**-**

Financial liabilities measured at amortized costs as at 31 December 2018 include primarily repurchase agreements in CZK 265,180 million (2017: CZK 155,916 million) and term deposits of CZK 8,123 million (2017: CZK 97,507 million).

The repurchase agreements are mainly denominated in CZK (CZK 222,429 million as at 31 December 2018 (2017: CZK 104,584 million) and EUR (CZK 41,074 million as at 31 December 2018 (2017: CZK 48,922 million), the interest rates on repurchase agreements are in the range of 0,2% to 7,5% and maturity of these transactions is up to 12 months.

The term deposits are mainly denominated in CZK and EUR, the interest rates on term deposits are in the range of 2,7% to 7,4% and maturity of these transactions is up to 52 months.

As at 31 December 2018 financial assets held for trading and financial liabilities held for trading includes mainly derivative instruments (currency and interest rate derivatives). Both financial assets held for trading and financial liabilities held for trading as at 31 December 2017 include derivative instruments only (currency and interest rate derivative instruments). In 2018 and 2017, the net trading and fair value result consists primarily of foreign currency gains/ losses from derivative transactions and also currency revaluation result from other balance sheet positions with related parties denominated in foreign currencies.

Loans and receivables within financial assets at amortized cost to Erste Group Bank AG include primarily standard money-market deposits, denominated in EUR (CZK 10,768 million as at 31 December 2018 (2017: CZK 7,882 million) and CZK (CZK 5,006 million as at 31 December 2018 (2017: CZK 5,000 million).

46. Transfers of financial assets – repurchase transactions and securities lending

	2018		2017	
in CZK million	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**
Repurchase agreements				
Financial assets at AC	74,671	71,835	-	-
Trading assets	-	-	1	1
Financial assets - AFS	-	-	2,781	2,565
Financial assets at FVOCI	722	718		
Financial assets – HTM	-	-	70,119	72,810
Total – repurchase agreements	**75,393**	**72,553**	**72,901**	**75,376**
Securities lendings				
Loans and advances to customers	-	-	-	7,578
Financial assets at AC	13,342	13,832	-	-
Trading assets	1	1	-	-
Financial assets - HTM	-	-	6,216	6,402
Total – securities lendings	**13,343**	**13,833**	**6,216**	**13,980**
Total	**88,736**	**86,386**	**79,117**	**89,356**

The transferred financial instruments consist of bonds and other interest-bearing securities.

The total amount of CZK 75,393 million (2017: CZK 72,901 million) represents the carrying amount of financial assets under the respective statement of financial position items for which the transferee has a right to sell or repledge.

Liabilities from repo transactions in the amount of CZK 72,553 million (2017: CZK 75,376 million), which are measured at amortised cost, represent an obligation to repay the borrowed funds.

The following table shows the fair values of the transferred assets and associated liabilities that have recourse only to the transferred assets. In case of the Group, these assets and liabilities relate to repo transactions.

in CZK million	2018			2017		
	Fair value of transferred assets	Fair value of associated liabilities	Net position	Fair value of transferred assets	Fair value of associated liabilities	Net position
Trading assets	-	-	-	1	1	-
Financial assets – available for sale	-	-	-	2,781	2,565	**216**
Financial assets – held to maturity	-	-	-	74,540	72,964	**1,576**
Financial assets at AC	76,525	71,904	4,621	-	-	-
Financial assets at FVOCI	722	718	4	-	-	-
Total	**77,247**	**72,622**	**4,625**	**77,322**	**75,530**	**1,792**

47. Offsetting

Financial assets subject to offsetting and potential offsetting agreements in 2018

in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
			Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	11,243	11,243	7,726	1,903	-	1,614
Reverse repurchase agreements	358,493	358,493	-	-	356,254	2,239
Other financial instruments	22,016	22,016	-	-	22,016	-
Total	**391,752**	**391,752**	**7,726**	**1,903**	**378,270**	**3,853**

Financial liabilities subject to offsetting and potential offsetting agreements in 2018

in CZK million	Gross amounts in balance sheet	Amounts set off against financial assets	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	12,280	-	12,280	7,726	384	-	4,170
Repurchase greements	314,714	-	314,714	-	-	314,714	-
Total	**326,994**	**-**	**326,994**	**7,726**	**384**	**314,714**	**4,170**

Financial assets subject to offsetting and potential offsetting agreements in 2017

in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
			Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	11,914	11,914	6,675	2,489	-	2,750
Reverse repurchase agreements	139,276	139,276	-	-	137,831	1,445
Total	**151,190**	**151,190**	**6,675**	**2,489**	**137,831**	**4,195**

Financial liabilities subject to offsetting and potential offsetting agreements in 2017

				Potential effects of netting agreements not qualifying for balance sheet offsetting			
in CZK million	Gross amounts in balance sheet	Amounts set off against financial assets	Net amounts in balance sheet	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	13,227	-	13,227	6,675	1,594	-	4,959
Repurchase greements	182,607	-	182,607	-	-	182,607	-
Total	**195,834**	**-**	**195,834**	**6,675**	**1,594**	**182,607**	**4,959**

The Group uses repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements.

Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all contracts in the event of default of any counterparty. For derivative transactions the amount of assets and liabilities which would be set off as a result of master netting agreements is presented in the column Financial instruments. If the net position is further secured by cash collateral the effect is disclosed in the respective columns Cash collateral received/pledged.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities stay in hands of lender as collateral in case that borrower defaults in fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column Non-cash financial collateral received / pledged. Collateral is presented at fair value of the transferred securities. However, if fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral.

Cash and non-cash financial collateral involved in these transactions is restricted from use by the transferor during the time of the pledge.

48. Risk management

Risk management strategy

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.

The Group uses a control and risk management system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, the Group control and risk management systems have been developed to fulfil external and, in particular, regulatory requirements. Given Group's business strategy, the key risks are credit risk, market risk, liquidity risk and operational risk. The most significant risk is credit risk. In addition, the investment portfolio of the Group is exposed to interest rate risk and liquidity risk. The risks attached to the trading portfolio include market risks, specifically foreign exchange, interest rate, commodity and equity risks and other risks relating to trading with complex instruments. All financial transactions and other banking activities also carry operational risk.

Risk management organization and decision bodies

Risk management for the Group is performed by a division of the Group managed by a member of the Board of Directors exclusively responsible for risk management - the Chief Risk Officer. This division, which is completely independent of the business divisions of the Group, centralises all departments tasked with risk management, namely:

- Legal services;
- Strategic Risk Management;
- Credit Risk Management for Corporate Banking;
- Credit Risk Management for Retail Banking;
- Nonfinancial Risk Management and Compliance; and
- IS/IT Security.

The Management board deals with risk issues in its regular board meetings. All types of risks are reported periodically and actions are taken when needed. In addition, the Board is concerned with current risk issues and, through the internal risk reporting receives ad hoc reports for all types of risk.

In order to carry out risk management activities and support the Management Board of Directors in its risk taking and risk managing decisions, certain committees have been established, including the following:

- Risk Management Committee;
- Credit Risk Committee;
- Asset Liability Committee (ALCO);
- Operational Liquidity Committee;
- Financial Markets Risk Management Committee (FMRMC); and
- Compliance, Operational Risk and Security Committee.

The Internal audit continuously verifies and evaluates the management and control system, and reports annually on the results of this evaluation.

48.1. Risk and capital management

Overview

The Group's risk and capital management framework has been continuously strengthened and developed into a comprehensive framework which is part of the Erste Group's enterprise risk management system. The fundamental pillar of this system is the Internal Capital Adequacy Assessment Process (ICAAP), as required under Pillar 2 of the Basel framework.

The risk and capital management and steering system is an integral part of the Group's overall steering and management system. To ensure all aspects of regulatory requirements and support the Group's management in pursuing its strategy the main components of this system can be clustered as follows:

- Risk appetite statement;
- Risk materiality assessment including concentration risk management;
- Stress testing;
- Risk-bearing capacity calculation;
- Risk planning & forecasting;
- Capital allocation and risk adjusted performance measurement; and
- Recovery and resolution plans.

Risk appetite statement and Risk Materiality Assessment

The risk appetite statement (RAS) serves as a formalised, high-level steering tool from which top-down targets for the Group's limit system on lower aggregation levels can be derived. The objective of the Group's RAS is to contain earnings volatility, avoid net losses and protect external and internal stakeholders. In order to reach these goals, general indicators are defined as well as indicators for credit, market and liquidity risk. To ensure that the RAS is operationally efficient, the indicators are classified as either targets, limits or principles, where the main differences are in the mechanisms triggered in case of a breach of the RAS. Regular reviews are performed and management reports are prepared in order to ensure effective limit oversight and identify any excesses.

For the purpose of systematically and continuously assessing all relevant risk types and identifying risks that are significant for the Group, the Group has defined a clear and structured risk materiality assessment approach that is based on defined quantitative and qualitative factors for each risk type and is carried out annually. This process constitutes the basis for the determination of material risk types to be included in the risk-bearing capacity calculation and stress testing. Insights generated by the assessment are also used to improve risk management practices to further mitigate risks within the Group. The Group has implemented a framework to identify, measure, control, report and manage concentration risks. Concentration risks also comprise an integral part of stress test analyses. Additionally, the results of concentration risk assessments are used in defining the Risk Appetite Statement, defining stress factors for stress tests, and calibrating the Group's limit system.

Internal Capital Adequacy Assessment Process and Stress Testing

With respect to the 'ICAAP',the Group has been using the Erste Group Bank methodology, which serves as a uniform set of rules for capital management within the Group.

The Group methodology is continuously updated in order to reflect the latest trends, best practices and regulatory requirements. The Group's approach contains minor modifications driven by local regulatory requirements or other local specifics.

Within ICAAP, all major risks are quantified and covered by internal capital. The Group's economic capital is measured at a confidence level of 99.9% and a 1-year holding period. From a modelling point of view, complex advanced approaches based on VaR methodology are used for market risk, operational and liquidity risks or IRB for credit risk. The Group also developed models for other risk types (business, strategic, reputational and concentration risk). The overall risk of the Group is calculated as the sum of individual risk requirements, i.e. no diversification effect is considered among risk types in order to keep a conservative approach. The resulting aggregate risk exposure is compared to internal capital resources derived from Pillar 1 capital resources with some adjustments (mainly profit of the current year is added to capital resources). Finally, the results of the economic capital quantification are allocated to business lines in order to compare their risk adjusted profitability.

Additionally, the Group performs stress testing which is used as an additional input for internal capital adequacy assessment. The results of stress testing are updated on a quarterly basis and are reflected into both pillars – regulatory Pillar 1 and internal Pillar 2.

The ICAAP results for the Group are submitted to the Board of Directors on a quarterly basis; the Board decides on any measures to be adopted with respect to ICAAP as well as risks and capital management in general. The Group meets the internal limits approved by the Board of Directors with a sufficient buffer.

The Group has also approved a recovery plan in line with the Group Recovery and Resolution Directive (BRRD) requirements. The aim of the recovery plan is to be well prepared for severe unfavourable market developments and, if appropriate, to take adequate measures in a timely manner.

From the long-time perspective, the Group manages its capital with the objective of maintaining a strong capital base in order to support its business activities, to comply with all regulatory capital requirements including capital buffers (currently conservation, systemic risk, countercyclical and SREP buffers) and to ensure a stable return for shareholders.

Statement of capital for the Bank's capital adequacy calculation on a stand-alone basis as reported to the regulator in accordance with applicable rules* as of 31 December 2018 and as of 31 December 2017:

in CZK million	2018	2017
Tier 1 capital	98,587	96,460
Tier 1 + Tier 2 capital	102,181	99,696
Exposure to credit risk	473,603	450,850
Exposure to market risk	9,984	9,669
Exposure to operational risk	53,226	75,309
Total risk exposure	**536 813**	**535,828**
Capital adequacy ratio for the year (Tier 1 ratio)	**18.4%**	**18.0%**
Capital adequacy ratio for the year (Tier 1+Tier 2 ratio)	**19.0%**	**18.6%**

*Reported figures are based on the methodology, where the Bank has used the possibility stated in the Article 26/2 of the CRR to include in the Common Equity Tier 1 capital credit risk adjustments.

The Group meets all capital adequacy requirements as requested by regulators as of 31 December 2018 and 2017.

48. 2. Credit risk

In the course of its business, the Group is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts owing in full when due.

Credit risk arises in Group's traditional lending and investment businesses. It involves both credit losses incurred as a result of borrowers' default (Stage 3) and credit losses expected if default occurs either within 1 year (Stage 1) or at any time until maturity (Stage 2).

Stage 1 credit losses apply to non-defaulted credit risk exposures without significant increase in credit risk (SICR) since inception, whilst Stage 2 credit losses applicable to non-defaulted credit risk exposures for which SICR is observed at the reporting date. It also involves credit losses due to counterparty risk from trading in instruments and derivatives bearing market risk. Country risk and related macro-economic forward looking information is also recognised in the calculation of credit risk.

In contrary to large corporates, banks and governments managing credit risk in retail involves dealing with a large number of relatively small exposures extended to private individuals, free professionals, entrepreneurs or to micro companies in line with the Basel definitions. Credit risk related to retail loan portfolios is managed with a common interest to ensure regulatory compliant risk management practices and to provide customers with manageable loan facilities that are within their financial capacities supported by underlying profitability.

Credit Risk Management Methodology

In managing credit risk, the Group applies a unified methodology which sets out applicable procedures, roles and authorities. The lending policy defines a comprehensive policy for the Group's credit risk management. It defines the basic principles related to identification, measurement, monitoring, controlling and credit risk management. It contains the basic lending rules including limitations for loan granting and describes individual credit risk management tools, such as the rating system, collateral management, limit setting, setting of approval policy, monitoring, provisioning, reporting, controlling and portfolio management. In addition it defines credit risk management organization and discloses the lending process.

Breakdown of the Portfolio for Credit Risk Management Purposes

For credit risk management purposes, the Group's loan portfolio is broken down as follows:

- **Retail receivables** are receivables from individuals/households and small enterprises with an annual turnover of up to CZK 60 million ('MSE'). The methods of managing the credit risk of retail receivables are based on statistical models calibrated using historical data and forward looking information.
- **Receivables from corporate counterparties** include receivables from small and medium sized enterprises with an annual turnover of between CZK 60 to 2,000 million ('SME'), receivables from large businesses (with an annual turnover exceeding CZK 2,000 million) and public sector receivables. While the methods of managing the credit risk of corporate receivables are based on statistical models (particularly for the portfolio of receivables from mid-size enterprises), great emphasis is also put on regular, discrete analysis of individual customers.

With the exception of a limited number of borderline cases, the implemented breakdown of the portfolio corresponds to the asset classes as defined in CNB Regulation 163/2014 Coll. which implements the BASEL III rules.

For the purpose of provisioning, monitoring and predicting losses, the Group differentiates between individually significant and individually insignificant exposures. The credit risk attached to individually significant exposures is managed on an individual basis with the minor use of portfolio models. The Group aggregates individually insignificant exposures into portfolios and manages the risk on a portfolio basis.

Individually significant loans predominantly include loans from the Group's corporate portfolio. These loans are additionally split into the following sub-portfolios:

- Large corporate clients with an annual turnover exceeding CZK 2,000 million (the exposure of which is managed using a unified method throughout Erste Group Bank and its subsidiaries ('the Erste Group') or at the Group level);
- Project finance and corporate mortgages;
- Small and medium sized enterprises (turnover from CZK 60 to 2,000 million);
- Municipality loans; and
- Loans in the Workout Department.

Corporate loans match the 'corporate' or 'special funding' asset class (segment) under BASEL III.

Individually insignificant loans (below CZK 5 million), including MSE loans, principally encompass the Group's retail loans. These loans are divided into 17 product portfolios. The key portfolios include mortgage retail loans (with 5 LTV segments), credit card loans, overdraft loans and consumer loans. The Group's retail loans match the 'Retail' asset class (segment) under BASEL III.

Collection of Key Risk Management Information

In managing credit risk, the Group refers not only to the Group's portfolio information but also the portfolio information of other members of the Group. The Group also uses information obtained from external sources such as credit bureaus or ratings provided by reputable rating agencies. This data provides a basis for modelling credit risk and supports debt recovery, valuation of receivables and the calculation of credit losses.

Internal Rating System

The internal ratings of the Group reflect the ability of counterparties to meet their financial obligations. The degree of risk is reflected in the internal rating and corresponding probability of default of the debtor in the following twelve months. The definition of default is in line with the requirements set out in CRR (Regulation EU No 575/2013).

The Group allocates internal ratings to all clients with credit exposures. The Group uses the rating scale with thirteen grades for non-defaulted counterparties and one grade for default counterparties (internal rating 'R'). In the case of private individuals, there are only eight rating grades for non-defaulted clients.

To allocate the internal rating grade, the Group uses several rating models for different counterparty segments. All rating models comply with Erste Group Bank standards:

Segment	Rating tool
Government (sovereign) and banking	Unified model for the whole Erste Group. The model places great emphasis on independent external ratings combined with other information
Specialized financing	Unified model for the whole Erste Group, which is primarily based on projected cash flows
Corporate customers	Rating based on financial information and soft factors
MSE	In addition to the financial results of the company, information about the enterprise owner or the entrepreneur himself is also taken into account
Individuals	Behavioural and application scoring
Municipal clients	Model based on budget analysis

The Group reviews ratings on a regular basis. The ratings of counterparties from the banking, corporate and sovereign segments are reviewed at least annually. For retail customers the Group has developed a 'behavioural rating' and the client ratings are updated monthly.

The rating instruments are periodically adjusted to reflect changing economic conditions and the Group's business plans, validation (consistency of results testing) and performance testing undertaken by the Enterprisewide Credit Risk ManagementControlling Department.

In the case of counterparties with an external rating provided by an external rating agency, the Group uses this information as an additional source of information. Based upon its historical experience, the Group has created a transfer bridge between its own internal ratings and the external ratings.

In compliance with the regulatory requirements arising from BASEL III, rating instruments are subject to annual validations performed by the EnterprisewideCredit Risk ManagementControlling Department, Erste Group Bank Competence Centre and Internal Audit.

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 recognised customers. Strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the Group, or clients with a wide product pool use. No late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention: Vulnerable non-retail clients that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders. These clients typically have good recent histories and no current delinquencies.

Substandard: The borrower is vulnerable to negative financial and economic developments. Such loans are managed in specialised risk management departments.

Non-performing: One or more of the default criteria under Basel III are met: 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, realisation of a loan loss, or initiation of bankruptcy proceedings. For purposes of analysing non-performing positions, the Group applies the customer view. Accordingly, if a customer defaults on one product then all of that customer's performing products are classified as non-performing.

In order to enhance the comparability of the Group's asset quality, in 2018 Erste Group developed and implemented a new model for the assignment of exposures to risk categories. Based on the calibration of internal PDs (probabilities of default) for regulatory purposes to the default rates published by rating agencies, the equivalent external customer rating was used for the assignment to risk categories. For the agency ratings, average one-year default rates resulting from long-term time series were applied.

Compared to the method used for the assignment of credit exposures to risk categories until 2017, the most prominent impact concerns the migration of exposures in the category "low risk" to "management attention", less significant changes include the migration from "management attention" to "substandard" The "non-performing" risk category was not affected by the change in the methodology. As the newly developed model was implemented during 2018, the disclosure of comparative figures is not appropriate

Exposure Limits
Exposure limits are defined as the maximum exposure that the Group may accept in respect of a client with a given rating and underlying collateral. In setting the system of limits, the Group strives to protect its revenues and capital from concentration risk.

The VaR of Wholesale portfolio increased relative to 1.34% in 2018 from 1.08% in 2017, whereas in absolute values it decreased to CZK 8,627 million from CZK 12,043 million in the previous year. This can be explained both by moderate increase in single-name concentration and increasing quality of the whole portfolio.

In terms of expected loss riskiness the portfolio reverted to 0.18% in 2018 from 0.12% in 2017 which was influenced by high exposures in fully collateralized repurchase operations. Comparing VaR to Tier 1 capital confirms strong capital position of the bank: the indicator decreased from 12.49% in 2017 to 8.35% in 2018.

Structure of Approval Authorities
The structure of approval authorities is based on the materiality of the impact of a potential loss from a provided exposure on the Group's financial performance and the risk profile of the relevant loan transaction. The highest approval authorities rest with the Credit Committee of the Board and/or Statistical Model Committee, with the Risk Committee of the Supervisory Board only having an advisory role for Credit Committee of the Board. Lower approval authorities are categorised taking into account the seniority of the staff of the Corporate and the Retail Credit Risk Management Departments.

Risk Parameters
The Group uses its own internal models in determining the risk parameters, namely PD, LGD and CCF risk parameters. All of the models are developed according to BASEL III requirements and are subject to regular independent validation and review by the regulator. The monitoring of historical risk parameters and their prediction serve as a basis for the quantitative management of portfolio credit risk.

The Group currently employs risk parameters for portfolio monitoring, non-performing (defaulted) loan portfolio management, portfolio protection measurement, risk valuation and prediction of the Group's risk profile development under different scenarios.

All models are back tested at least annually and validated by the Group's specialists who are independent of the Risk Management Department.

Management of Credit Risk in the Trading Portfolio
The credit risk inherent in the trading portfolio is managed through the limits system applied to all counterparties.

Credit risk pricing
The accepted risk is reflected in risk margins used in the pricing of individual types of counterparties and deals. The risk margins are based on estimated risk parameters, the expected development of the macroeconomic environment and changes in the credit process within the Group, which may have an impact on risk level within the credit portfolio.

Stress testing
The Group regularly performs stress testing of the sensitivity of its portfolio to the deterioration of the credit quality of receivables. In addition to the sensitivity of the portfolio to stress changes in the PD and LGD risk factors, the Group performs scenario analysis modelling the impact of adverse developments in macroeconomic factors (such as changes in the economic growth rate, changes in interest rates and changes in inflation). The breakdown of credit risk by industries is shown in section b) Gross Credit risk exposure by industry and financial instrument and section c) Credit risk exposure by risk category.

Write-offs
Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered remote. The loan is written-off against the related account 'Net impairment loss on financial assets not measured at fair value through profit or loss' in the income statement. If the reason for provisioning is no longer deemed appropriate, the redundant impairment charge is released into income statement

through 'Net impairment loss on financial assets not measured at fair value through profit or loss'. The relevant amount and recoveries of loans and advances previously written-off are also reflected in the income statement through 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:

- cash and cash balances – 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);
- debt instruments 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 equates the gross carrying amount (or nominal value in the case of off-balance sheet positions) excluding:

- account loan loss allowances;
- provisions for guarantees;
- any collateral held (including risk transfer to guarantors);
- netting effects;
- other credit enhancements;
- credit risk mitigating transactions.

Between 31 December 2017 and 31 December 2018, the credit risk exposure increased from CZK 1,175 billion to CZK 1,504 billion. This is an increase of 28.0% or CZK 329 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
2018				
Cash and cash balances – demand deposits to credit institutions	4,539	(1)	-	4,538
Debt instruments held for trading	10,311	-	-	10,311
Non-trading debt instruments at FVPL	697	-	-	697
Debt securities	629	-	-	629
Loans and advances to customers	68	-	-	68
Debt instruments at FVOCI	38,305	(51)	70	38,375
Debt securities	38,305	(51)	70	38,375
Debt instruments at AC	1,293,106	(12,072)	-	1,281,034
Debt securities	205,567	(16)	-	205,551
Loans and advances to banks	389,856	(12)	-	389,844
Loans and advances to customers	697,683	(12,044)	-	685,639
Trade and other receivables	6,954	(603)	-	6,351
Finance lease receivables	2,172	(166)	-	2,006
Positive fair value of hedge accounting derivatives	1,152	-	-	1,152
Off balanc– sheet exposures	146,756	(1,573)	-	N/A
Total	**1,503,992**	**(14,466)**	**70**	**1,344,464**

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.

Breakdown of credit risk exposure

On the next pages the credit risk volume is categorized in the following way:

- Basel 3 exposure class and financial instrument;
- counterparty sector and financial instrument;
- off-balance sheet exposure by product;
- industry and financial instrument;
- industry and IFRS 9 treatment;
- risk category;
- industry and risk category;
- region and risk category;
- region and IFRS 9 treatment;
- business segment and risk category;
- business segment and IFRS 9 treatment;
- non-performing credit risk exposure by business segment and credit loss allowances;
- composition of credit loss allowances;
- orbearance exposure and credit loss allowances;
- types of forbearance exposure;
- business segment and collateral;
- financial instrument and collateral;
- credit risk exposure neither past due nor credit impaired by financial instrument and risk category;
- credit risk exposure past due and not covered by credit loss allowances by financial instrument and collateralisation.

Credit risk exposure by Basel 3 exposure class and financial instrument

The assignment of obligors to Basel 3 exposure classes is based on legal regulations. For reasons of clarity, individual Basel 3 exposure classes are aggregated in the table below and in other tables in section 'Credit risk'. Additionally to central governments, central banks, international organisations, and multinational development banks, the aggregated exposure class 'sovereigns' contains regional and local governments as well as public sector entities. Institutions include banks and recognised investment firms.

Credit risk exposure by Basel 3 exposure class and financial instrument in 2018

					At amortised cost							
	Cash and cash balances – demand deposits to credit institutions	Financial assets held for trading	Non-trading financial assets at FVPL	Financial assets at FVOCI	Debt securities	Loans and advances to banks	Loans and advances to customers	Finance lease receivables	Positive fair value of derivatives	Trade and other receivables	Off balance-sheet exposures	Gross exposure
in CZK million												
Sovereign	-	2,318	62	25,371	194,535	369,703	18,870	-	5	-	8,461	**619,325**
Institutions	4,539	5,367	279	4,313	11,025	20,153	18	43	-	1,094	1,042	**47,873**
Corporates	-	2,624	356	8,621	7	-	256,100	6,823	1,907	58	75,747	**352,243**
Retail	-	2	-	-	-	-	422,695	88	260	-	61,506	**484,551**
Total	**4,539**	**10,311**	**697**	**38,305**	**205,567**	**389,856**	**697,683**	**6,954**	**2,172**	**1,152**	**146,756**	**1,503,992**

Credit risk exposure by Basel 3 exposure class and financial instrument in 2017

						Debt instruments				
	Cash and cash balances - demand deposits to credit institutions	Loans and advances to credit institutions	Loans and advances to customers	Financial assets – held to maturity	Financial assets – held for trading	Financial assets - at fair value through profit or loss	Financial assets - available-for-sale	Positive fair value of derivatives	Contingent credit risk liabilities	Gross exposure
			At amortised cost				Fair value			
in CZK million										
Sovereign	-	135,515	15,842	159,494	91	289	40,272	2,817	6,813	361,133
Institutions	2,100	22,047	-	3,716	41	-	3,417	7,875	583	39,779
Corporates	-	-	247,824	474	-	65	9,877	1,222	68,390	327,852
Retail	-	-	387,427	-	-	-	-	-	58,727	446,154
Total	**2,100**	**157,562**	**651,093**	**163,684**	**132**	**354**	**53,566**	**11,914**	**134,513**	**1,174,918**

Credit risk exposure by counterparty sector and financial instrument in 2018

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
2018												
Central banks	-	-	-	-	-	369,704	-	-	-	-	-	369,704
General governments	-	2,318	-	25,371	194,535	-	20,171	247	4	-	10,487	253,133
Credit institutions	4,539	5,355	279	4,313	11,024	20,152	-	55	-	1,094	1,042	47,853
Other financial corporations	-	641	418	1,305	4	-	16,394	348	11	-	5,100	24,221
Non-financial corporations	-	1,996	-	7,316	4	-	259,220	6,086	1,896	58	72,584	349,160
Households	-	1	-	-	-	-	401,898	218	261	-	57,543	459,921
Total	**4,539**	**10,311**	**697**	**38,305**	**205,567**	**389,856**	**697,683**	**6,954**	**2,172**	**1,152**	**146,756**	**1,503,992**

Contingent liabilities / Off balance-sheet exposures by product

in CZK million	2018	2017
Financial guarantees	23,298	19,461
Irrevocable commitments	-	-
Loan commitments	122,564	115,052
Other commitments	894	-
Total	**146,756**	**134,513**

Credit risk exposure by industry and financial instrument in 2018

	Cash and cash balances – demand deposits to credit institutions	Debt instruments held for trading	Non-trading debt instru-ments at FVPL	Debt instruments at FVOCI	At amortised cost: Debt securities	At amortised cost: Loans and advances to banks	At amortised cost: Loans and advances to customers	Trade and other receivables	Finance lease receivables	Positive fair value of hedge accounting derivatives	Off balance-sheet exposures	Total
2018												
Agriculture and forestry	-	12	-	-	-	-	16,741	3	180	-	1,840	18,776
Mining	-	6	-	-	-	-	1,099	7	13	-	806	1,931
Manufacturing	-	793	-	1,191	-	-	66,597	2,527	909	-	17,463	89,480
Energy and water supply	-	301	-	1,734	-	-	20,133	2	73	34	3,068	25,345
Construction	-	13	-	-	-	-	9,156	128	110	-	19,132	28,539
Development of building projects	-	1	-	-	-	-	3,414	-	26	-	8,067	11,508
Trade	-	123	-	-	-	-	44,430	3,324	408	-	11,651	59,936
Transport and communication	-	287	-	3,482	-	-	16,282	110	226	-	6,357	26,744
Hotels and restaurants	-	36	-	-	-	-	8,587	7	12	-	1,155	9,797
Financial and insurance services	4,539	5,997	697	5,617	11,029	389,856	16,408	402	11	1,094	6,142	441,792
Holding companies	-	160	22	1,209	-	-	5,047	-	-	-	1,152	7,590
Real estate and housing	-	305	-	826	3	-	80,316	15	57	9	11,694	93,225
Services	-	64	-	84	-	-	22,816	101	156	-	5,450	28,671
Public administration	-	2,318	-	25,371	194,535	-	19,654	148	5	-	8,462	250,493
Education, health and art	-	56	-	-	-	-	7,452	-	8	15	1,370	8,901
Households	-	-	-	-	-	-	368,012	180	4	-	52,166	420,362
Total	**4,539**	**10,311**	**697**	**38,305**	**205,567**	**389,856**	**697,683**	**6,954**	**2,172**	**1,152**	**146,756**	**1,503,992**

Gross credit risk exposure by industry and financial instrument in 2017

				Debt instruments						
	Cash and cash balances – other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent liabilities	Credit risk exposure
in CZK million	At amortised cost					Fair value				
Agriculture and forestry	-	-	16,026	-	-	-	-	14	2,394	18,434
Mining	-	-	1,657	-	-	-	-	30	67	1,754
Manufacturing	-	-	61,659	-	-	-	2,098	145	19,584	83,486
Energy and water supply	-	-	22,363	-	-	-	1,719	349	3,180	27,611
Construction	-	-	9,352	-	-	-	-	3	13,987	23,342
Trade	-	-	44,588	-	-	-	-	74	10,133	54,795
Transport and communication	-	-	16,000	-	-	-	3,870	266	7,310	27,446
Hotels and restaurants	-	-	5,377	-	-	-	-	21	1,119	6,517
Financial and insurance services	2,100	157,562	18,494	11,475	41	354	9,009	8,260	3,478	210,773
Real estate and housing	-	-	74,653	3	-	-	-	134	10,231	85,021
Services	-	-	22,141	-	-	-	84	19	5,425	27,669
Public administration	-	-	16,044	152,206	91	-	36,786	2,548	6,815	214,490
Education, health and art	-	-	6,095	-	-	-	-	51	1,114	7,260
Private households	-	-	336,644	-	-	-	-	-	49,676	386,320
Total	**2,100**	**157,562**	**651,093**	**163,684**	**132**	**354**	**53,566**	**11,914**	**134,513**	**1,174,918**

Credit risk exposure by industry and IFRS 9 treatment

	Stage 1 – 12-month expected credit loss	Stage 2 – Lifetime expected credit loss	Stage 3 (default) – Lifetime expected credit loss	POCI	Simplified Approach	Not subject to impairment	Total
2018							
Agriculture and forestry	17,109	1,371	281	3	18,764	12	18,776
Mining	1,822	1	102	-	1,925	6	1,931
Manufacturing	78,370	6,191	3,701	320	88,582	898	89,480
Energy and water supply	22,931	1,577	435	67	25,010	335	25,345
Construction	23,579	3,464	1,107	33	28,183	356	28,539
Development of building projects	8,816	2,401	267	23	11,507	1	11,508
Trade	53,548	3,957	1,800	62	59,367	569	59,936
Transport and communication	24,463	1,844	150	-	26,457	287	26,744
Hotels and restaurants	7,764	1,852	141	5	9,762	35	9,797
Financial and insurance services	433,450	539	15	-	434,004	7,788	441,792
Holding companies	7,405	3	-	-	7,408	182	7,590
Real estate and housing	86,153	6,236	522	1	92,912	313	93,225
Services	26,037	1,805	759	5	28,606	65	28,671
Public administration	246,032	2,143	-	-	248,175	2,318	250,493
Education, health and art	8,224	527	79	-	8,830	71	8,901
Households	402,807	12,935	4,585	35	420,362	-	420,362
Total	**1,432,289**	**44,442**	**13,677**	**531**	**1,490,939**	**13,053**	**1,503,992**

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

The defaulted part of POCI amounted to CZK 424 million, the non-defaulted part to CZK 107 million.

Credit risk exposure by risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Total exposure as of 31 Dec 2018	**1,347,210**	111,059	31,291	14,432	1,503,992
Share of credit risk exposure	**89.6%**	7.4%	2.1%	1.0%	100.0%
Total exposure as of 31 Dec 2017	1,083,756	69,989	6,485	14,688	1,174,918
Share of credit risk exposure	92.2%	6.0%	0.6%	1.2%	100.0%

From 31 December 2017 to 31 December 2018, the non-performing exposure (NPE) as well as the NPE ratio (non-performing exposure as a percentage of total credit risk exposure) decreased. With respect to the risk categories for performing exposures a comparison between the two balance sheet dates is not meaningful because the methodology of assigning exposures to risk categories was changed during the year; see "risk grades and categories" in chapter 48.2 Credit risk.

Credit risk exposure by industry and risk category in 2018

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	10,262	6,160	2,066	288	18,776
Mining	1,712	114	3	102	1,931
Manufacturing	67,152	16,004	2,341	3,983	89,480
Energy and water supply	22,343	2,090	410	502	25,345
Construction	15,992	7,542	3,854	1,151	28,539
Development of building projects	5,971	2,851	2,393	293	11,508
Trade	41,401	13,426	3,186	1,923	59,936
Transport and communication	20,245	5,548	797	154	26,744
Hotels and restaurants	7,216	1,392	1,035	154	9,797
Financial and insurance services	439,565	2,188	24	15	441,792
Holding companies	6,962	628	-	-	7,590
Real estate and housing	56,926	28,816	6,936	547	93,225
Services	19,242	7,121	1,527	781	28,671
Public administration	248,583	1,384	526	-	250,493
Education, health and art	7,022	1,324	474	81	8,901
Households	389,549	17,950	8,112	4,751	420,362
Total	**1,347,210**	**111,059**	**31,291**	**14,432**	**1,503,992**

Credit risk exposure by industry and risk category in 2017

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	14,446	3,460	194	334	18,434
Mining	1,577	177	-	-	1,754
Manufacturing	70,185	8,097	2,047	3,157	83,486
Energy and water supply	24,529	2,408	72	602	27,611
Construction	17,617	3,863	915	947	23,342
Trade	42,338	9,165	957	2,335	54,795
Transport and communication	22,682	4,478	106	180	27,446
Hotels and restaurants	3,577	2,550	171	219	6,517
Financial and insurance services	207,511	3,014	1	247	210,773
Real estate and housing	71,071	12,850	277	823	85,021
Services	20,595	6,055	330	689	27,669
Public administration	213,888	602	-	-	214,490
Education, health and art	5,960	1,172	17	111	7,260
Private households	367,780	12,098	1,398	5,044	386,320
Total	**1,083,756**	**69,989**	**6,485**	**14,688**	**1,174,918**

Credit risk exposure by business segment and risk category

The segment reporting is based on the business segments as described in Note 43.

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2018					
Retail	435,262	44,898	22,786	5,970	508,916
Corporates	285,980	64,624	8,385	8,435	367,424
Group Markets	289,734	1,503	-	-	291,237
ALM & LCC	336,234	34	120	27	336,415
Total	**1,347,210**	**111,059**	**31,291**	**14,432**	**1,503,992**

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2017					
Retail	421,186	26,985	2,226	6,260	456,657
Corporates	283,808	41,879	4,151	8,306	338,144
Group Markets	61,712	1,025	-	-	62,737
ALM & LCC	317,050	100	108	122	317,380
Total	**1,083,756**	**69,989**	**6,485**	**14,688**	**1,174,918**

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
2018							
Retail	484,434	18,715	5,704	59	508,912	4	508,916
Corporates	329,070	24,689	7,946	472	362,177	5,247	367,424
Group Markets	284,930	748	-	-	285,678	5,559	291,237
ALM & LCC	333,855	290	27	-	334,172	2,243	336,415
Total	**1,432,289**	**44,442**	**13,677**	**531**	**1,490,939**	**13,053**	**1,503,992**

Non-performing credit risk exposure and credit loss allowances

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the subsection 'Internal rating system'. Credit risk provisions include specific and collective allowances and provisions for guarantees.

Credit loss allowances (all stages combined) covered 101,6.% (2017: 89,8%) of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2018. For the portion of the non-performing credit risk exposure that is not covered by allowances, Bank assumes there are sufficient levels of collateral and expected other recoveries.

During 2018, the non-performing credit risk exposure decreased by CZK 255 million, or 1.7%, from CZK 14,688 million to CZK 14,432 million. The improvement of asset quality resulted on the one side from a decline of new non-performing loans, and on the other side from high recoveries and write-offs, including from sales of non-performing loans. The credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees increased by CZK 1,192 million, or 9.0%, from CZK 13,224 million as of 31 December 2017 to CZK 14,416 million as of 31 December 2018.

The following tables show the coverage of the non-performing credit risk exposure by credit loss allowances (without taking into consideration collateral) as of 31 December 2018 and 31 December 2017. The differences in the credit allowance levels between the reporting segments result from the risk situation in the respective markets, different levels of collateralisation as well as the local legal environment and regulatory requirements.

The non-performing exposure ratio (NPE ratio) is calculated as the non-performing credit risk exposure divided by total credit risk exposure while the NPE coverage ratio (excl. collateral) is computed as the credit loss allowances divided by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

Non-performing credit risk exposure by business segment and coverage by credit loss allowances

	Non-performing		Credit risk exposure		Credit loss allowances	Collateral for NPE		NPE ratio		NPE coverage (excl. collateral	NPE collateralization ratio	
in CZK million	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI
2018												
Retail	5,970	5,970	508,916	508,912	6,345	1,581	1,581	1.2%	1.2%	106.3%	26.5%	26.5%
Corporates	8,436	8,384	367,424	362,176	7,680	1,027	1,027	2.3%	2.3%	91.6%	12.2%	12.2%
Group Markets	-	-	291,237	285,679	13	-	-	0.0%	0.0%	N/A	N/A	N/A
ALM & LCC	27	27	336,415	334,172	379	-	-	0.0%	0.0%	1411.6%	0.0%	0.0%
Total	**14,432**	**14,381**	**1,503,992**	**1,490,939**	**14,417**	**2,608**	**2,608**	**1.0%**	**1.0%**	**100.2%**	**18.1%**	**18.1%**

	Total credit risk exposure						
in CZK million	Non-performing	Total credit risk exposure	Total credit risk provisions	Specific allowances & provisions	Collective allowances & provisions	NPE ratio	NPE coverage ratio (excl. collateral)
2017							
Retail	6,260	456,657	4,006	614	1,245	1.4%	93.7%
Corporates	8,306	338,144	4,791	204	1,862	2.5%	82.6%
Group Markets	-	62,737	-	-	20	0.0%	N/A
ALM & LCC	122	317,380	115	-	367	0.0%	395.1%
Total	**14,688**	**1,174,918**	**8,912**	**818**	**3,494**	**1.3%**	**90.0%**

Expected credit loss measurement

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 meet the applicable IFRS 9 respective definitions.

According to the IFRS9 there are three main stages outlined for expected credit loss (ECL) determination:

- If financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 month.
- If a significant increase in credit risk („SICR") since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. Instruments in Stage 2 have their ECL measured based on expected credit losses on a lifetime (LT) basis. If the financial instrument is credit impaired, the financial instrument is then moved to Stage 3. Instruments in Stage 3 have their ECL measured based on expected credit losses on a LT basis.
- Purchased or originated credit-impaired (POCI) financial instruments are those financial instruments that are credit-impaired on initial recognition. Their ECL is always measured on LT basis.

The key judgments and assumptions adopted by the Bank in addressing the requirements of the standard are presented below:

In the area of expected credit loss (ECL) modelling and calculation of 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 criteria

Quantitative SICR indicators include adverse changes in annualized lifetime probability of default and in lifte-time probability of defaults with significance being assessed by reference to a mix of relative and absolute threshold changes. In order to positively conclude on SICR for particular financial instrument, both relative and absolute thresholds need to be breached. 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 criteria

Qualitative SICR indicators include forbearance-type flags, workout 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. These indicators are used internally for identification of insolvency or increased probability that borrower will enter bankruptcy and there is increased risk of default in the foreseeable future. Besides the qualitative indicators defined on client level, the assessment of significant increase in credit risk is performed on portfolio level if the increase in credit risk on individual instrument or client level is only available with a certain time lag or is observable exclusively on portfolio level.

Low credit risk exemption

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 the 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.

Measuring ECL – explanation of inputs and measurement

Collective allowances are calculated for exposures to non-defaulted customers according to a rule-based approach irrespective of the significance of the customer, except for credit loss allowances against in-scope debt securities issued by non-defaulted issuers, for which, in general, an individual calculation approach is applied.

The calculation of collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The grouping criteria may differ on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band or credit rating band.

The calculation of credit loss allowances is done on a daily basis on single exposure level 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. ECL is discounted product of exposure at default (EAD) that includes as well credit conversion factor in case of off balance sheet exposures, probability of default (PD) and loss given default (LGD).

Incorporation of forward looking information

Parameters are determined to reflect the risk as a „point-in-time" measure and with consideration of forward-looking information („FLI"), which resulted in introducing a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. These are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by Bank's research department. Given multiple scenarios, the „neutral" PDs (and also LGDs, with a few exceptions) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Same macro-shift models as for external and internal stress test are employed. Forward looking information is incorporated for first three years of ECL measurement. Measurement of the remaining life time returns back to through the cycle observations in the year four immediately.

Thus, the unbiased, probability-weighted ECL is derived with the weights representing the occurrence probabilities of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. Nevertheless, main indication of the estimated economic development can be predicted through GDP development.

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.

Classification into stages and definition of credit-impaired financial instruments

Stage 1 includes not credit-impaired financial instruments at initial recognition and not credit-impaired 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 not credit-impaired financial instruments with a significant increase in credit risk since initial recognition 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 but were not credit-impaired at initial recognition. In principle, a financial instrument becomes credit-impaired when the customer defaults. The Bank 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.

POCI includes financial instruments which were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are always calculated on a lifetime basis, but those attributable to POCI on-balance exposures for which lifetime expected recoveries remained constant or improved since initial recognition are not recognized as credit loss allowances distinct from the related gross carrying amounts.

Grouping of instruments
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 defaulted customer is classified as individually 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.

in CZK million	2018	2017
Specific allowances	x	9,730
Collective allowances	x	2,710
Provisions for guarantees	x	784
Credit loss allowances	12,893	x
Loss allowances for loan commitments and financial guarantees	1,524	x
Total	**14,417**	**13,224**

Credit loss allowances and loss allowances for loan commitments and financial guarantees are computed based on IFRS 9 requirements, while provisions for any other commitments are subject to IAS 37.

Exposures with forbearance measures

The Group implemented the forbearance methodology according to the EBA regulation in 2014. Forborne exposures are exposures where the debtor is considered unable to comply with the contract due to its financial difficulties and the Group decided to grant a concession to a debtor. Forbearance measure can be either modification of terms and conditions or refinancing of the contract. Modification of terms includes payment schedule changes (deferrals or reductions of regular payments, extended maturities, etc.), interest rate reductions or penalty interest waivers.

Forborne exposure initially receives default rating 'R'; such exposure is classified as non-performing defaulted forborne exposure. After minimum 12 months and when the pre-defined conditions are fulfilled the exposure can be reclassified into performing forborne exposure. The performing forborne exposure has to be closely monitored during the probation period which takes minimum 2 years. When the exposure within the probation period defaults, the exposure is downgraded into the non-performing forborne exposures. If after 2 years' probation period the stated conditions are met, the exposure ceases to be classified as forborne.

All exposures with forbearance measures relates to financial assets' category loans and advances. There are no exposures with forbearance measure reported by the Group resulting from debt securities or loan commitments.

Analysis of performing and non-performing forborne exposures

2018 in CZK million	Forborne exposures	Performing forborne exposure	Non-performing forborne exposure	of which: Defaulted
Non-financial corporations	1,291	176	1,115	1,067
Households	1,896	665	1,231	1,062
Total	**3,187**	**841**	**2,346**	**2,129**

2017 in CZK million	Forborne exposures	Performing forborne exposure	Non-perfroming forborne exposure	of which: Defaulted
Non-financial corporations	1,584	184	1,400	1,328
Households	2,491	978	1,513	1,297
Total	**4,075**	**1,162**	**2,913**	**2,625**

Analysis of the credit quality of financial assets as required by IFRS 7 including level of impairment and collateral as of 31 December 2018

				Outstanding		
in CZK million	Neither past due nor impaired	Past due but not impaired	Impaired	Total gross forborne	Provisions	Collateral
Non-financial corporations	217	7	1,066	1,291	705	279
Households	706	127	1,062	1,896	650	626
Total	**923**	**134**	**2,128**	**3,187**	**1,355**	**905**

Analysis of the credit quality of financial assets as required by IFRS 7 including level of impairment and collateral as of 31 December 2017

				Outstanding		
in CZK million	Neither past due nor impaired	Past due but not impaired	Impaired	Total gross forborne	Provisions	Collateral
Non-financial corporations	258	92	1,233	1,584	771	324
Households	991	229	1,271	2,491	753	763
Total	**1,249**	**322**	**2,504**	**4,075**	**1,524**	**1,087**

Loans in category “past due but not impaired” are not considered impaired due to collateralization.

Dissaggregation of the forborne financial assets by type of forbearance measure

			2018			2017
in CZK million	Modification	Refinancing	Total	Modification	Refinancing	Total
Non-financial corporations	1,177	114	1,291	1,449	135	1,584
Households	1,865	31	1,896	2,458	33	2,491
Total	**3,042**	**145**	**3,187**	**3,907**	**168**	**4,075**

The carrying amount of forborn assets in comparison with other assets remaining the portfolio

			2018			2017
in CZK million	Total portfolio	Forborne portfolio	Share on total portfolio	Total portfolio	Forborne portfolio	Share on total portfolio
Central banks	369,702	-	0.0%	135,516	-	0.0%
General governments	214,758	-	0.0%	17,171	7	0.0%
Credit institutions	31,197	-	0.0%	20,142	-	0.0%
Other financial corporations	16,717	-	0.0%	18,306	-	0.0%
Non-financial corporations	260,092	586	0.2%	239,977	1,493	0.7%
Households	396,926	1,245	0.3%	362,470	2,203	0.7%
Total	**1,289,392**	**1,831**	**0.1%**	**793,581**	**3,703**	**0.6%**

The Group does not report data in respect of carrying amount of the newly recognised assets for original forborne assets, which have been derecognised during the reporting period.

Level of the collective and specific impairment allowance held against forborne assets

in CZK million	2018			2017		
	Specific allowances	Collective allowances	Total	Specific allowances	Collective allowances	Total
Households	41	609	650	687	66	753
Non-financial corporations	484	221	705	743	27	771
Total	**525**	**830**	**1,355**	**1,430**	**94**	**1,524**

Reconciliation from the opening balance to the closing balance of forborne assets

2018

in CZK million	Non-financial corporations	Households	Total
Opening balance (1 January 2018)	1,583	2,492	4,075
Inflow (+)	165	282	447
Outflow (–)	(160)	(520)	(680)
Changes in outstanding (+/–)	(297)	(358)	(655)
Closing balance (31 December 2018)	**1,291**	**1,896**	**3,187**

2017

in CZK million	General governments	Non-financial corporations	Households	Total
Opening balance (1 January 2017)	7	2,566	3,410	5,983
Inflow (+)	-	331	357	688
Outflow (–)	(5)	(164)	(384)	(553)
Changes in outstanding (+/–)	(2)	(1,150)	(891)	(2,043)
Closing balance (31 December 2017)	**-**	**1,583**	**2,492**	**4,075**

Loss from the forborne exposures

2018

in CZK million	Gain/(Loss)	Direct write-offs
Non-financial corporations	47	-
Households	(71)	-
Total	**(24)**	**-**

2017

in CZK million	Loss	Direct write-offs
Non-financial corporations	(69)	-
Households	(16)	-
Total	**(85)**	**-**

Interest income from the forborne exposures

in CZK million	2018	2017
Non-financial corporations	49	78
Households	121	212
Total	**170**	**290**

Collateral

The Group defines collateral as assets that can be realized in case the primary source of repayment fails. Collateralisation of the Bank's receivables represents the Group's protection as a creditor that may be used as a secondary source of payment. The selection of individual collateral instruments required to secure a specific deal depends on the Group's loan products, requirements and professional assessment by the Group's responsible employees. The possibility to pledge the collateral is always assessed before the collateral is accepted by the Group.

The value of collateral (nominal value of collateral) is determined with reference to the market prices of similar types of collateral. If more than one market price for the collateral is determined using various valuation techniques in a particular business transaction, the lowest market price is used.

If the collateral instrument involves real estate, movable assets, a business or its branch, trademarks, an asset declared as a historical monument, etc., the price has to be determined on the basis of an appraisal made by an expert appraiser contracted by the Group or an internal appraiser for the purpose of evaluating the loan application. The expert appraisal or price estimate should not be older than six months at the date on which the loan contract is entered into. For real estate valuation purposes a detailed, in-house methodology is used.

The realisable value of collateral is determined by using the valuation rates set in the Collateral Catalogue. In determining the valuation rates, it is necessary to assess individual instruments by their specific features, e.g. real estate by the character of its construction, etc. and always following a physical inspection. The overall setup of maximum valuation rates is reviewed annually. The expert valuation always has to be reviewed. Other conditions taken into account in determining the realisable value of collateral are, among others, as follows:

- A comprehensive assessment of all available and, with respect to the particular case, significant circumstances and background documentation;
- Any insurance or pledges of receivables from insurance proceeds in favour of the Group;
- The possibility of realising the collateral at a particular time and place and the amount of realisation costs which, in most cases, needs to be viewed as a sale in distress; and
- Comparison to market trends.

The Collateral Catalogue also includes requirements for the periodic revaluation of collateral. Typically, the collateral value is analysed and updated upon the regular monitoring/credit review of clients. With respect to product portfolios of retail mortgages, the Group uses portfolio models for updating base collateral values. In addition, the Group regularly monitors the loan-to-value ratio, mainly in respect of mortgage loans and project financing loans.

The following tables compare the credit risk exposure broken down by business and financial instruments to the allocated collateral. The amount of allocated collateral corresponds to the accepted value after internal haircuts capped by the exposure amount.

Credit risk exposure by business segment and collateral

			Collateralised by			
in CZK million	**Total credit risk exposure**	**Collateral total**	**Guarantees**	**Real estate**	**Other**	**Credit risk exposure net of collateral**
2018						
Retail	508,916	257,523	3,784	237,939	15,800	251,393
Corporates	367,424	92,281	14,369	65,534	12,378	275,143
Group Markets	291,237	274,182	1,987	3	272,192	17,055
ALM & LCC	336,415	92,633	7,585	-	85,048	243,782
Total	**1,503,992**	**716,619**	**27,725**	**303,476**	**385,418**	**787,373**

			Collateralised by			
in CZK million	**Total credit risk exposure**	**Collateral total**	**Guarantees**	**Real estate**	**Other**	**Credit risk exposure net of collateral**
2017						
Retail	456,657	213,624	3,084	205,945	4,595	243,033
Corporates	338,144	77,774	14,018	51,511	12,245	260,370
Group Markets	62,737	49,299	3,602	13	45,684	13,438
ALM & LCC	317,380	92,027	-	-	92,027	225,353
Total	**1,174,918**	**432,724**	**20,704**	**257,469**	**154,551**	**742,194**

Credit risk exposure by financial instrument and collateral

in CZK million	Total credit risk exposure	Colla-teral total	Collateralised by Gua-rantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2018									
Cash and cash balances - demand deposits to credit institutions	4,539	-	-	-	-	4,539	4,539	-	-
Debt instruments held for trading	10,311	-	-	-	-	10,311	10,311	-	-
Non-trading debt instruments at FVPL	697	265	265	-	-	432	697	-	-
Debt instruments at FVOCI	38,305	1,932	1,932	-	-	36,373	38,305	-	-
Debt instruments at AC	1,293,106	714,422	25,529	303,476	385,417	578,684	1,274,479	6,784	11,843
Debt securities	205,567	5,389	5,389	-	-	200,178	205,567	-	-
Loans and advances to banks	389,856	367,308	-	-	367,308	22,548	389,856	-	-
Loans and advances to customers	697,683	341,725	20,140	303,476	18,109	355,958	679,056	6,784	11,843
Trade and other receivables	6,954	-	-	-	-	6,954	5,664	951	339
Finance lease receivables	2,172	-	-	-	-	2,172	1,734	246	192
Positive fair value of hedge accounting derivatives	1,152	-	-	-	-	1,152	1,152	-	-
Off balance-sheet exposures	146,756	-	-	-	-	146,756	144,890	139	1,727
Total	**1,503,992**	**716,619**	**27,726**	**303,476**	**385,417**	**787,373**	**1,481,771**	**8,120**	**14,101**

in CZK million	Total credit risk exposure	Colla-teral total	Collateralised by Gua-rantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2017									
Cash and cash balances – other demand deposits	2,100	-	-	-	-	2,100	2,100	-	-
Loans and receivables to credit institutions	157,562	133,663	-	-	133,663	23,899	157,461	89	12
Loans and receivables to customers	651,093	299,061	20,704	257,469	20,888	352,032	630,613	7,303	13,177
Financial assets – held to maturity	163,684	-	-	-	-	163,684	163,684	-	-
Financial assets – held for trading	132	-	-	-	-	132	132	-	-
Financial assets – at fair value through profit or loss	354	-	-	-	-	354	354	-	-
Financial assets – available for sale	53,566	-	-	-	-	53,566	53,566	-	-
Positive fair value of derivatives	11,914	-	-	-	-	11,914	11,905	9	-
Contingent liabilities	134,513	-	-	-	-	134,513	134,177	336	-
Total	**1,174,918**	**432,724**	**20,704**	**257,469**	**154,551**	**742,194**	**1,153,992**	**7,737**	**13,189**

Credit risk exposure neither past due not credit impaired by financial instrument and risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total
2018					
Cash and cash balances – demand deposits to credit institutions	4,538	1	-	-	4,539
Debt instruments held for trading	9,786	516	1	8	10,311
Non-trading debt instruments at FVPL	383	312	2	-	697
Debt instruments at FVOCI	38,305	-	-	-	38,305
Debt instruments at AC	1,162,891	87,932	23,465	191	1,274,479
Debt securities	205,567	-	-	-	205,567
Loans and advances to banks	389,856	-	-	-	389,856
Loans and advances to customers	567,468	87,932	23,465	191	679,056
Trade and other receivables	3,348	1,933	383	-	5,664
Finance lease receivables	903	621	210	-	1,734
Positive fair value of hedge accounting derivatives	1,150	2	-	-	1,152
Off balance-sheet exposures	123,469	17,248	4,125	48	144,890
Total	**1,344,773**	**108,565**	**28,186**	**247**	**1,481,771**

in CZK million	Total
2017	
Cash and cash balances – other demand deposits	2,100
Loans and receivables to credit institutions	157,461
Loans and receivables to customers	630,613
Financial assets – held to maturity	163,684
Financial assets – held for trading	132
Financial assets – at fair value through profit or loss	354
Financial assets – available for sale	53,566
Positive fair value of derivatives	11,905
Contingent liabilities	134,177
Total	**1,153,992**

Credit risk exposure past due and not covered by credit loss allowances by financial instrument and collateralisation

	Total credit risk exposure						Thereof collateralised					
in CZK million	Total	Thereof 1–30 days past due	Thereof 31–60 days past due	Thereof 61–90 days past due	Thereof 91–180 days past due	Thereof more than 180 days past due	Total	Thereof 1–30 days past due	Thereof 31–60 days past due	Thereof 61–90 days past due	Thereof 91–180 days past due	Thereof more than 180 days past due
2018												
Debt instruments at AC	6,785	5,558	819	408	-	-	1,251	891	244	116	-	-
Loans and advances to customers	6,785	5,558	819	408	-	-	1,251	891	244	116	-	-
Trade and other receivables	950	540	109	23	-	278	-	-	-	-	-	-
Finance lease receivables	245	209	26	10	-	-	-	-	-	-	-	-
Off balance-sheet exposures	144	97	22	25	-	-	-	-	-	-	-	-
Total	**8,124**	**6,404**	**976**	**466**	**-**	**278**	**1,251**	**891**	**244**	**116**	**-**	**-**

	Total credit risk exposure						Thereof collateralised					
in CZK million	Total	Thereof 1–30 days past due	Thereof 31–60 days past due	Thereof 61–90 days past due	Thereof 91–180 days past due	Thereof more than 180 days past due	Total	Thereof 1–30 days past due	Thereof 31–60 days past due	Thereof 61–90 days past due	Thereof 91–180 days past due	Thereof more than 180 days past due
2017												
Loans and receivables to credit institutions	89	-	-	12	1	76	-	-	-	-	-	-
Loans and receivables to customers	7,304	5,620	874	766	22	22	1,818	1,468	226	124	-	-
Positive fair value of derivatives	9	9	-	-	-	-	-	-	-	-	-	-
Contingent liabilities	336	273	42	4	1	16	-	-	-	-	-	-
Total	**7,738**	**5,902**	**916**	**782**	**24**	**114**	**1,818**	**1,468**	**226**	**124**	**-**	**-**

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
2018					
Retail	356,400	40,432	21,090	5,897	423,819
Corporates	211,252	51,517	5,908	6,727	275,404
Group Markets	5,063	951	-	-	6,014
ALM&LCC	1,487	14	118	21	1,640
Total	**574,202**	**92,914**	**27,116**	**12,645**	**706,877**

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total
2017					
Retail	354,843	23,684	2,158	6,201	386,886
Corporates	209,145	34,147	2,408	7,099	252,799
Group Markets	9,897	795	-	-	10,692
ALM&LCC	451	46	108	111	716
Total	**574,336**	**58,672**	**4,674**	**13,411**	**651,093**

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
2018							
Retail	401,677	16,451	5,633	58	423,819	-	423,819
Corporates	250,155	18,418	6,291	472	275,336	68	275,404
Group Markets	5,661	353	-	-	6,014	-	6,014
ALM&LCC	1,347	273	20	-	1,640	-	1,640
Total	**658,840**	**35,495**	**11,944**	**530**	**706,809**	**68**	**706,877**

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

	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL		NPL ratio		NPL coverage (exc collateral)	NPL collateralisation ratio	
in CZK million	Total	AC	Total	AC	AC	Total	AC	Total	AC	AC	Total	AC
2018												
Retail	5,897	5,897	423,819	423,819	6,130	1,581	1,581	1.4%	1.4%	104.0%	26.8%	26.8%
Corporates	6,727	6,727	275,404	275,336	6,366	1,027	1,027	2.4%	2.4%	94.6%	15.3%	15.3%
Group Markets	-	-	6,014	6,014	9	-	-	0.0%	0.0%	N/A	N/A	N/A
ALM&LCC	21	21	1,640	1,640	290	-	-	1.3%	1.3%	1402.4%	0.0%	0.0%
Total	**12,645**	**12,645**	**706,877**	**706,809**	**12,795**	**2,608**	**2,608**	**1.8%**	**1.8%**	**101.2%**	**20.6%**	**20.6%**

Total gross customer loans, total non-performing loans, and total collateral include both AC and FVPL portfolios.

in CZK million	Non-performing	Gross customer loans	Allowances for customer loans	Specific allowances	Collective allowances	NPL ratio	NPL coverage ratio (excl. collateral)	Collateral for NPL	NPL total coverage ratio
2017									
Retail	6,201	386,886	4,006	614	1,045	1.6%	93.0%	1,759	119.7%
Corporates	7,099	252,800	4,791	204	1,315	2.8%	85.9%	1,307	107.3%
Group Markets	-	10,692	-	-	14	0.0%	N/A	-	N/A
ALM&LCC	111	715	115	-	295	15.5%	103.6%	-	369.4%
Total	**13,411**	**651,093**	**8,912**	**818**	**2,669**	**2.1%**	**89.3%**	**3,066**	**115.3%**

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
2018											
Retail	401,677	16,451	5,633	58	950	1,393	3,785	2	8.5%	67.2%	4.3%
Corporates	250,101	18,418	6,291	472	1,025	524	4,576	241	2.8%	72.7%	51.2%
Group Markets	5,661	353	-	-	7	2	-	-	0.7%	N/A	N/A
ALM&LCC	1,347	273	20	-	4	266	20	-	97.3%	97.6%	N/A
Total	**658,786**	**35,495**	**11,944**	**530**	**1,986**	**2,185**	**8,381**	**243**	**6.2%**	**70.2%**	**46.1%**

48.3. Market Risk

The Group is exposed to the impact of market risks. The group market risks arise from open positions in interest rate, currency, equity, volatility financial instruments and even the credit spread included in the relevant positions within the Banking book (i.e. the credit spread is a part of a discounting factor). The value of open positions changes subject to general and specific financial market movements. The Group is exposed to the market risk arising from open positions in the Trading book. However, a significant component of market risk is also the interest rate risk associated with assets and liabilities and credit spread risk associated with marked-to-market positions included in the Banking book. There are several reasons why the credit spread risk is included: 1. The requirement in calculating economic capital to include the credit spread and to cover the impact of this risk factor; 2. A more precise calculation of security prices; and 3. To reflect the credit rating of issuers/counterparties.

Trading book transactions in the capital, money, interbank and derivative markets can be segmented as follows:

- Client quotations and client transactions, execution of client orders;
- Interbank and derivative market quotations (market making); and
- Managing open positions in the interbank, derivative and capital markets arising from above mentioned activities.

The Group trades in the following derivative financial instruments through the OTC market:

- Foreign currency forwards (including non-delivery forwards) and swaps;
- Foreign currency options;
- Interest rate swaps;
- Asset swaps;
- Forward rate agreements;
- Cross-currency swaps; and
- Interest rate options such as swaptions, caps and floors.

In the area of exchange traded derivatives, the Group trades the following instruments:

- Equity index futures

The Group also trades, on behalf of its clients, with other less common currency options, such as digital or barrier. Certain option contracts or options on various underlying equity baskets or equity indices form part of other financial instruments as embedded derivatives.

Derivative financial instruments are also entered into in order to hedge against interest rate risk inherent in the banking book (interest rate swaps) and to refinance the mismatch between foreign currency assets and liabilities (foreign exchange swaps and cross currency swaps).

The majority of open positions arising from client transactions in the Group's trading book are transferred to the Erste Group Bank portfolio through back-to-back transactions. As such, the market risk arising from the Group's OTC transactions is managed within the Erste Group Bank portfolio. The Group retains in the trading portfolio the money market risk due to liquidity management (money market), equity risk and partially a residual risk from previously closed transactions. This residual risk is dynamically hedged at a macro level in line with the Group's limits trading strategy and set for market risk.

In addition to the calculation of sensitivities to individual risk factors, the Group uses the value at risk methodology (VaR) to estimate and manage the market risk of open positions held and to determine the maximum losses expected on these positions. The VaR values are calculated in a group Market Risk System (MRS) on a confidence level of 99% and one day horizon. The MRS uses historical simulation for the VaR calculation based on two years history. VaR on different probability level and/or different time horizon is derived from the VAR 99% on 1 day horizon using the scaling assuming a normal distribution of profit and losses. For other purposes the VaR is also scaled up to one month or one year time period and probability level 99.92%. The Board of Directors establishes VaR limits for the Trading and banking book portfolio as the Group's maximum acceptable exposure to market risk. For the trading portfolio VaR sub-limits (1 day, 99%) in respect of individual trading desks are established and limits for sensitivity values of the trading portfolio to individual risk factors such as foreign exchange rates, interest rates, volatility and other risk parameters of option contracts facilitate the maintenance of the overall market risk profile. These limits are approved by the Financial Market and Risk Management Committee and are monitored on a daily basis.

The market risk VaR indicator is used for the Banking book too. For the purposes of the VaR calculations the Banking book loans and deposits are represented by equivalent interest rate positions. The Banking book VaR (1 month, 99%) is reported to the Assets and Liabilities Committee ('ALCO') on a monthly basis while compliance with the limit is monitored by Risk Management on a daily basis. The acceptable level of risk is based on the assessment of the capital available to cover risks based on the 'ICAAP' methodology. The overall VaR is subsequently allocated to individual sub-portfolios of the Banking book, taking into account both the perspective of strategic portfolio management and the accounting measurement of securities portfolios.

Apart from the VAR limit also Earnings at Risk measure is calculated and checked against the EaR limit on a monthly basis.

The table below summarizes the VaR values as at 31 December 2018 and 2017 on the confidence level of 99%. The table has been extended because of the inclusion of credit spread risk into the relevant positions of the banking book and the trading book portfolios. The table shows only the Bank's amounts:

As at 31 December 2018 **in CZK million**	**Total Market Risk**	**Correlation Effect**	**Interest Rate Risk**	**Foreign Currency Risk**	**Equity Risk**	**Volatility Risk**	**Commo-dity risk**	**Credit Spread risk**
Trading book								
Daily value	12	-	12	-	-	-	-	-
Monthly value	58	(2)	57	1	1	-	-	2
Average of daily values per year	21	-	21	-	-	-	-	-
Average of monthly values per year	97	(2)	97	1	1	-	-	2
Banking book								
Daily value	87	(33)	71	7	-	-	-	41
Monthly value	407	(155)	335	35	-	-	-	192
Average of daily values per year	235	(59)	213	6	-	-	-	75
Average of monthly values per year	**1,101**	**(277)**	**999**	**28**	**1**	**-**	**-**	**350**

As at 31 December 2017 in CZK million	Total Market Risk	Correlation Effect	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Volatility Risk	Commo-dity risk	Credit Spread risk
Trading book								
Daily value	10	-	10	-	-	-	-	-
Monthly value	45	(1)	45	-	-	-	-	-
Average of daily values per year	15	(1)	15	1	-	-	-	-
Average of monthly values per year	69	(5)	69	3	1	-	1	-
Banking book								
Daily value	319	(58)	280	5	-	-	-	91
Monthly value	1,494	(272)	1,312	25	1	-	-	427
Average of daily values per year	450	(53)	453	4	-	2	-	44
Average of monthly values per year	**2,112**	**(250)**	**2,124**	**19**	**1**	**11**	**-**	**207**

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 based 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).

In the Comprehensive Stress testing the complex scenario impact on the Group is analysed on a quarterly basis. The Group monitors financial news, analyses market movements and prepares for different scenarios with respect to the position of the economy.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group manages the interest rate risk of the Banking book by monitoring the repricing dates of the Group's assets and liabilities and using models which show the potential impact that changes in interest rates may have on the Group's net interest income.

For monitoring and measuring the Banking book interest rate exposures, the Group uses shifts in the yield curves focused on monitoring potential impacts of market interest rate movements on the net interest income. A basic analysis focuses on the sensitivity of the net interest income to one-off changes of market interest rates ('rate shock').

The banking book interest rate exposures analyses are performed on a monthly basis. The current level of the interest rate risk exposure is assessed by ALCO on a monthly basis in the context of the overall development of financial markets and the Czech banking sector, as well as any structural changes in the Group's statement of financial position.

In order to measure the interest rate risk exposure within the trading portfolio, the Group uses the present value of a basis point ('PVBP) defined as a sensitivity to interest rates by currency for individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product portfolio by currency.

The following table is based on the exposure of the Group to interest rates for derivative and non-derivative instruments as of the reporting date. The model assumes a fixed structure of the statement of financial position according to interest rate sensitivity. The determined changes which occurred at the beginning of the year are constant during the reported period, i.e. the model is based on the assumption that the funds released as a result of the payment or sale of interest rate assets and liabilities will be re-invested in assets and liabilities with the same interest rate sensitivity and residual maturity. Calculation method used takes credit spreads into account.

The following table shows the impact on the income statement and other comprehensive income of the Group if the CZK or EUR yield curves sharply increased/decreased by 100 points at the beginning of the respective year and other interest rates remained unchanged.

	2019		2018	
in CZK million	**Interest rate increase**	**Interest rate decrease**	**Interest rate increase**	**Interest rate decrease**
CZK				
Income statement	1,346	(1,351)	1,039	(1,972)
Other comprehensive income	(4,677)	4,976	(4,108)	4,107
EUR				
Income statement	(8)	294	(61)	272
Other comprehensive income	386	(412)	347	(306)

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments in both the trading and banking books will fluctuate due to changes in foreign exchange rates. The Group manages this risk by establishing and monitoring limits on open positions, also including delta equivalents of currency options. In addition, the Group monitors special sensitivity limits for foreign currency option contracts known as 'greeks' sensitivity analysis. The foreign currency risk of all financial instruments is transferred via the currency positions which are managed by the Trading Department in accordance with set currency sensitivity limits. In addition to the monitoring of limits, the Group uses the VaR concept for measuring the risk arising from open positions in all currency instruments.

Foreign currency exposures are primarily carried by the Bank and real estate companies within the Group as they generate the bulk of their rental income in EUR. The foreign currency risk of other Group entities is limited. With regard to real estate companies, the Group uses 'inherent' hedging where the companies exposed to foreign currency risk as a result of EUR denominated rental income are refinanced by loans denominated in EUR.

Equity risk

The bank uses VaR methodology to monitor and manage the equity risk inherent in the trading and Banking books. The equity risk comes from underlying assets (equity and equity indices) of structured bonds. The exposure to equity risk is limited only to warehousing of client orders. Market Making activities and equities of Česká spořitelna were transferred to Erste Group Bank.

Commodity risk

The Bank closed the business with commodity derivatives by the end of 2017. The commodity risk comes from an underlying asset (WTI oil) of structured bonds only and it is measured by VaR methodology.

48. 4. Liquidity Risk

Definition and overview

The liquidity risk is defined in the Group in line with the principles set out by the Basel Committee on Banking Supervision and the Czech National Bank. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Group 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 the Group will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Group's own refinancing cost or spread.

Liquidity ratios

With the implementation of the CRR in 2014, new liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been introduced as ratios relevant for reporting purposes. For the LCR, the European Commission released a Delegated Regulation (EU) 2015/61 of 10 October 2014 (LCR DA), published in the Official Journal of the European Union on 17 January 2015, specifying details on the ratio and setting a binding minimum requirement for the ratio. The LCR represents a ratio of highly liquid assets held by the Group, which have to cover net cash outflows over a 30 day time horizon. The Group reports LCR to the national regulator according to the Delegated Act.

The Bank monitors also the NSFR which is currently not limited by the regulator. Unlike the LCR, the NSFR strives to promote resilience over a longer time horizon by creating incentives for banks to fund their activities with more stable sources of funding.

At the end of 2018, both LCR and NSFR for the Bank were significantly above 100% and confirm a sound liquidity situation of the Bank. The Bank also 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. The Group limits and reports liquidity indicators for relevant members of the Group on individual levels as required by the regulator.

Methods and instruments employed

In addition to the regulatory indicators, the Group also monitors and limits internal metrics to ensure sufficient levels of liquidity which are monitored at both total currency level and for significant currencies. Similarly to regulatory limits, all liquidity indicators are monitored and limited for relevant members of the Group on individual levels.

Short-term insolvency risk is monitored by calculating the survival period analysis. This analysis determines the maximum period during which the entity can survive a set of defined scenarios, including a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflows. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of customer, as well as the potential outflows from collateralised derivative transactions estimating the effect of collateral outflows in the case of adverse market movements. Starting with 2018, an updated version of the survival period analysis came into force. It contained, among other improvements, an extension of the stress horizon up to 12 months, dependent on the stress scenario.

Similarly, long-term structural liquidity is additionally monitored by an internal metric. The structural liquidity metric is measuring the structural funding gap ensuring an appropriate balance between assets and liabilities in the medium and long term time horizons avoiding excessive maturities transformation and consequently avoiding increased pressure on the short term liquidity position.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been thoroughly defined and are continuously reviewed and improved by the Group.

The short-term liquidity risk is managed by limits resulting from the survival period model and by internal LCR targets and Intraday liquidity buffer target. Limit breaches are reported to the ALCO. The Comprehensive Contingency Funding Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.".

The Contingency Plan of the Bank ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

Liquidity gap

The long-term liquidity position is managed using liquidity gaps on the basis of expected cash flows. This liquidity position is calculated for each significant currency and based on the assumption of ordinary business activity.

Expected cash flows are broken down by contractual maturities in accordance with the amortisation schedule and arranged in maturity ranges. For demand deposits, expected cash flows are calculated based on their liquidity profile is provided by ALM and also used for FTP.

The following table shows the liquidity gaps as of 31 December 2018 and 31 December 2017

In CZK million	< 1 month		1 –12 months		1–5 years		> 5 years	
	2018	2017	2018	2017	2018	2017	2018	2017
Liquidity GAP	220,954	237,558	(20,836)	(17,997)	(194,434)	(216,100)	87,633	71,321

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value. The cash inflows from liquid securities, which are accepted as collateral by the central banks to which the Group has access, are shifted to the first time bucket instead of showing them at their contractual maturity.

Counterbalancing capacity

The Group regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including changes from repos, reverse repos and securities lending transactions. These assets can be mobilised in short term to offset potential cash outflows in a crisis situation.

The term structure of the Group's counterbalancing capacity as of year-end 2018 and year-end 2017 are shown in the tables below:

As at 31 December 2018	< 1 week	
in CZK million	2018	2017
Cash, excess reserve	41,459	261,307
Liquid assets	250,349	127,274
Counterbalancing capacity	**291,808**	**388,581**

The figures above show the total amount of potential liquidity available for the Group in a going concern situation.

Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as of 31 December 2018 and 31 December 2017 respectively, were as follows:

As at 31 December 2018 in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1–12 months	1–5 years	> 5 years
Non-derivative liabilities	**1,281,866**	**1,283,640**	**1,149,712**	**85,629**	**35,987**	**12,312**
Deposits by banks	318,861	319,728	261,715	29,575	21,352	7,086
Customer deposits	954,441	955,200	884,891	51,904	13,179	5,226
Debt securities in issue	5,458	5,606	-	4,150	1,456	-
Other financial liabilities	3,106	3,106	3,106	-	-	-
Derivative liabilities	**10,172**	**11,586**	**508**	**1,017**	**116**	**9,945**
Contingent liabilities	**146,756**	**146,756**	**146,756**	**-**	**-**	**-**
Financial guarantees	23,298	23,298	23,298	-	-	-
Irrevocable commitments	123,458	123,458	123,458	-	-	-
Total	**1,438,794**	**1,441,982**	**1,296,976**	**86,646**	**36,103**	**22,257**

As at 31 December 2017 in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1–12 months	1–5 years	> 5 years
Non-derivative liabilities	**1,179,929**	**1,188,115**	**904,282**	**150,996**	**87,720**	**45,117**
Deposits by banks	295,232	299,283	111,113	79,982	67,808	40,380
Customer deposits	881,996	886,025	791,538	70,939	19,567	3,981
Debt securities in issue	1,805	1,911	899	75	345	592
Other financial liabilities	896	896	732	-	-	164
Derivative liabilities	**11,414**	**12,241**	**-**	**1,491**	**588**	**10,162**
Contingent liabilities	**134,513**	**134,513**	**134,513**	**-**	**-**	**-**
Financial guarantees	19,461	19,461	19,461	-	-	-
Irrevocable commitments	115,052	115,052	115,052	-	-	-
Total	**1,325,856**	**1,334,869**	**1,038,795**	**152,487**	**88,308**	**55,279**

The presentation of maturities of contractual undiscounted cash flows from financial guarantees and irrevocable commitments has been amended in order to reflect the first moment when these contingent liabilities can be exercised.

48. 5. Operational Risk

In accordance with regulatory requirements, the Group defines operational risk as the risk of losses arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of losses arising from external events, including losses due to the breach of or failure to fulfil legal regulations.

With assistance from Erste Group Bank, the Group put in place a standardised categorisation of operational risks. This classification became the basis of the 'Book of Risks of Česká spořitelna', developed in cooperation with the Risk Management and Internal Audit departments. The Book of Risks is a tool used to achieve unification of risk categorisation in order to ensure consistent risk monitoring and evaluation.

The Group has cooperated with an external supplier in developing a specialised software application EMUS to collect data about operational risk which conforms to the data collection requirements. The data is not only used with a view to quantifying operational risks and monitoring trends in the development of these risks but also for the purpose of preventing recurrence of operational risks. The system is also used as a case management tool for all fraud investigations (i.e. final investigation report, list measures and monitoring of its fulfilment, communication exchange with law enforcement authorities…). In addition to monitoring actual occurrence of operational risk, the Group also pays attention to how the operational risk is perceived by management. In this respect, the Group has introduced and is further expanding methods with the aim of identifying severe potential threats in order to implement preventative measures before losses materialise. For this purpose, the following tools are used: Risk and Control Self-Assessment, Key Risk Indicators and Scenario Analysis. The Group also actively manages risks related to outsourced activities. Depending on the specific method, this type of assessment is done on a continuous, monthly or annual basis.

The Group successfully passed validation for managing of operational risk according to Advanced Measurement Approaches (AMA). Based on this method a capital charge related to operational risk is properly computed and allocated since 1 July 2009.

An important tool in mitigating losses arising from operational risks is the Group's insurance programme which was put in place in 2002. This insurance programme involves insurance against property damage as well as risks arising from banking activities and liability risks. Since 2004, the Group has been a member of the Erste Group insurance programme which enhances the insurance protection specifically with regard to damages that may materially impact the income statement.

Special focus is put on assessment of non-financial risk based on a methodology called Risk Return Decisions (i.e. assessment of reputational, legal and financial impacts put in relation with its expected return). The analysis must be developed for each decision taken by Board of Directors or any Advisory Committee, all material outsourcing projects and all PAP (Product Approval Process) relevant topics. The significant Risk Return Decisions are also evaluated by ROCC Office in Holding which provides its recommendation in order to support local decision process.

Top management of the Bank is informed quarterly about the risk profile and the most important operational risk events via the CORS (Compliance, Operational Risk and Security) committee. The chairman of the committee is the Head of Non-financial Risk and Compliance section, who further presents selected topics at the Risk Committee (chairmen - Chief Risk Officer).

Information Disclosure and Transparency

The Group rigorously endeavours to prevent the misuse of insider information that might allow persons who have special relationships with the Group to enjoy unauthorised gains in dealing with the Group's securities. Board of Directors members and parties close to them are obliged to promptly notify the Czech National Bank of transactions with securities issued by the Group or with investment instruments derived from such securities, which they perform on their own account. Erste Bank Group's rules for securities trading are applied to ensure identical terms and conditions for all members of the Board of Directors of Erste Group Bank companies – members of the Group's Board of Directors as well as designated employees are obliged to inform the Group's Compliance Department of dealings with Erste Group Bank's shares or derivatives and to comply with an imposed trading moratorium during a stipulated period. Compliance department periodically monitors fulfillment of above obligations.

Compliance

The Group has established a Compliance Department whose principal activities include ensuring compliance of the Group's internal regulations with valid legal and regulatory requirements and their observance and ensuring compliance of the employees' conduct with the legal regulations, internal regulations, Code of Ethics and other adopted standards and rules governing employee conduct. Compliance is involved in all aspects of Group activities and administration and forms a part of its corporate culture. The Compliance Department evaluates insider information included in the Watch List and Restricted List of investment instruments as well as any dealings with investment instruments recorded in these lists. The Compliance Department informs the Group's Board of Directors and Supervisory Board of its activities on a regular basis. A list of persons with access to insider information is available with the Compliance department; the list is regularly updated.

The Compliance department also maintain whistleblowing channels for ensuring protection of whistleblowers reporting non-ethical or non-legal behaviour.

AML unit as an integral part of Compliance department ensures meeting Group's obligations in the area of anti money laundering and terrorist financing and also secures the compliance of the Group's operations with sanction regimes enforced by the Czech Republic, EU, UN and OFAC.

48. 6. Own Funds and Capital requirements

Regulatory Scope of Application

Among others, CS fulfils hereinafter the disclosure requirements according to the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR for short), in detail Articles 436 (b) – (e) CRR and Articles 437 (1) (a), (d), (e) and (f) CRR.

Regulatory Requirements

Since 2014, CS has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements were implemented within the EU by the CRR and the Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirement Directive - CRD IV for short). The CRD IV was enacted in national law in the Banking Act and the CNB's Decree No. 163/2014 Coll. on the performance of the activities of banks, credit unions and investment firms, as well as within various technical standards issued by the European Banking Authority (EBA).

All requirements as defined in the CRR, the Banking Act and in technical standards issued by EBA are fully applied by the Group for regulatory purposes and for the disclosure of regulatory information.

Accounting Principles

The financial and regulatory figures published by CS are based on IFRS regulatory capital components. Eligible capital components are derived from the balance sheet and income statement which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation (for details see the following chapter „Comparison of consolidation for accounting purposes and regulatory purposes" for items where the regulatory treatment is not equal to the accounting requirements).

The uniform closing date of the consolidated financial statements and consolidated regulatory figures of CS is the 31 December of each respective year.

Comparison of consolidation for accounting purposes and regulatory purposes

Disclosure requirements: Art. 436 (b) CRR

Scope of Consolidation

Details regarding the financial scope of consolidation are disclosed in chapter B „Significant accounting policies" especially under section „Basis of consolidation".

The regulatory scope of consolidation is used as a synonym for the scope of consolidation that follows the regulatory requirements for consolidation as defined by the CRR.

Regulatory scope of consolidation

The regulatory scope of consolidation is defined in Part One, Title II, chapter 2 Section 3 of the CRR.

The definition of entities to be consolidated for regulatory purposes are mainly defined in Article 4 (1) (3) and (16) to (27) CRR in conjunction with the Articles 18 and 19 CRR. Based on the relevant sections in Article 4 CRR, entities to be consolidated are determined based on the business activity of the relevant entities.

Main differences between the accounting scope and the regulatory scope based on the different requirements as defined within IFRS and CRR as well as the Banking Act:

- Based on the CRR mainly credit institutions pursuant to Article 4 (1) (1) CRR, investment firms pursuant to Article 4 (1) (2) CRR, ancillary services undertakings pursuant to Article 4 (1) (18) CRR and financial institutions pursuant to Article 4 (1) (26) CRR have to be considered within the regulatory scope of consolidation. Under IFRS all other entities not required to be consolidated under CRR, must be included in the scope of consolidation, as far as they fall under IFRS 10.
- Exclusion of entities from the regulatory scope of consolidation can be applied based on Article 19 CRR. According to Article 19 (1) CRR, entities can be excluded from the regulatory scope if their total assets and off-balance sheet items are less than the lower amount of either EUR 10 Million or 1% of the total amount and off-balance sheet items of the parent company. CS makes use of Article 19 (1) CRR.
- According to Article 19 (2) CRR, entities can also be excluded if the limits defined in Article 19 (1) CRR are exceeded, but are not relevant for regulatory purposes. Exclusion of entities based on Article 19 (2) CRR needs the prior approval of the competent authorities. CS does not apply Article 19 (2) CRR.

The difference between the accounting and the regulatory scope of consolidation shows in the difference between the IFRS balance sheet and the regulatory balance sheet as shown in Table 5.

Consolidation methods

For the calculation of consolidated own funds, CS generally applies the same consolidation methods as used for accounting purposes. The difference applies only to Article 18 (4) CRR, which requires proportional consolidation of entities and financial institutions managed by an undertaking included in the consolidation together with one or more undertakings not included in the consolidation, where the liability of those undertakings is limited to the share of the equity held by the institution. CS does not apply proportional consolidation for any entity.

Consideration of consolidation methods for the calculation of consolidated own funds pursuant to the CRR

The amounts used for the calculation of the own funds derive from the balance sheet based on the definition of the regulatory scope of consolidation pursuant to the CRR. Amounts that relate to the own shares as well as to the minority interests in fully consolidated entities are therefore determined based on the regulatory scope of consolidation according to CRR. Minority interests are calculated based on the requirements as defined in Articles 81 to 88 CRR. Minority interests that relate to entities other than credit institutions are excluded from the own funds. Minority interests that relate to credit institutions are limited to capital requirements that relate to the minority interests in the relevant credit institutions. CS made use of Article 84 CRR. Amounts that relate to minority interests in other comprehensive income are included in the consolidated own funds of CS according to the CRR provisions.

Consideration of non-consolidated financial sector entities and deferred tax assets that rely on future profitability arising from temporary differences within the calculation of consolidated common equity Tier 1 of CS

Carrying amounts representing the investments in financial sector entities as defined in Article 4 (27) CRR that are not fully consolidated or considered by using the at equity consolidation method for regulatory purposes have to be deducted from the own funds based on the requirements as defined in Articles 36 (1) (h), 45 and 46 CRR for non-significant investments and Articles 36 (1) (i) CRR, Article 43, 45, 47 and 48 CRR for significant investments. For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of common equity Tier 1 (CET 1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET 1 of the relevant financial sector entities.

To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities.

According to Article 46 (1) (a) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments, including additional tier 1 items according to Art, 56

(c) and 59 CRR and Tier 2 items according to Art, 66 (c) and 70 CRR, exceeds a defined threshold of 10% in relation to CET1 of the reporting institution. Deduction shall be applied to the amount that exceeds the 10% threshold. Amounts that are equal to or less than 10% of the CET1 of the reporting institution are considered with the applicable risk weights according part 3, title II, chapter 2 respectively chapter 3 and if necessary according to the requirements of part 3, title IV within the RWAs based on the requirements according to Article 46 (4) CRR.

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in Article 48 (2) CRR. According to Article 48 (2) CRR, significant investments in the CET1 of financial sector entities have only to be deducted if they exceed 10% of the CET1 of the reporting institution. If the 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the RWAs. The risk weight (RW) is defined at 250% according to Article 48 (4) CRR.

In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to Article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 36 (1) (c) CRR as well as according to Article 38 CRR is defined in Article 48 (2) CRR. The combined threshold according to Article 48 (2) CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to Article 48 (4) CRR.

Beside the 17.65% combined threshold, a 10% threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 48 (3) CRR. In case the amount for deferred tax assets that rely on future profitability and which arise from temporary differences exceeds the threshold of 10% of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount that is equal to or less than the threshold as defined in Article 48 (3) CRR has to be considered within the calculation of RWAs with a 250% risk weight (RW) according to Article 48 (4) CRR.

CS did not exceed any of the aforementioned thresholds at the reporting date. Hence, direct, indirect and synthetic investments in financial sector entities were not deducted from the consolidated own funds of CS and therefore are considered in RWAs.

Threshold calculations according to Articles 46 and 48 CRR

in CZK million	2018	2017
Non-significant investments in financial sector entities		
Threshold (10% of CET1)	9,518	9,281
Holdings in CET1	(718)	(504)
Holdings in AT1	-	-
Holdings in T2	-	-
Distance to threshold	**8,800**	**8,777**
Significant investments in financial sector entities		
Threshold (10% of CET1)	9,518	9,281
Holdings in CET1	(6)	(6)
Distance to threshold	9,512	9,275
Deferred tax assets		
Threshold (10% of CET1)	9,518	9,281
Deferred tax assets that are dependent on future profitability and arise from temporary differences	(1,172)	(1,000)
Distance to threshold	8,346	8,281
Combined threshold for deferred tax assets and significant investments		
Threshold (17.65% of CET1)	16,800	16,381
Deferred tax assets that are dependent on future profitability and arise from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment	(1,178)	(1,006)
Distance to threshold	**15,622**	**15,375**

Presentation of the scope of consolidation

Number of entities within the different scopes of consolidation

2018	IFRS		CRR			
	Full	Equity	Full	Proportional	De Minimis	Equity
Credit institutions	2	-	2	-	-	-
Financial institutions, financial holding companies and mixed financial holding companies	11	-	11	-	2	-
Ancillary service undertakings, investment firms and asset management companies	6	1	5	-	3	-
Others	5	-	-	-	-	-

2017	IFRS		CRR			
	Full	Equity	Full	Proportional	De Minimis	Equity
Credit institutions	2	-	2	-	-	-
Financial institutions, financial holding companies and mixed financial holding companies	11	-	11	-	2	-
Ancillary service undertakings, investment firms and asset management companies	7	1	7	-	3	-
Others	5	-	-	-	-	-

The number of companies consolidated pursuant to IFRS was 25 as of 31 December 2018 (2017: 26). The number of companies consolidated pursuant to regulatory capital requirements, except those entities which are covered by Art. 19 (1) and (2) CRR), was 18 as of 31 December 2018 (2017: 20).

Impediments to the transfer of own funds

Disclosure requirements: Art. 436 (c) CRR

Currently there are no restrictions or significant impediments to the transfer of financial funds or regulatory capital within the Group of credit institutions of CS. Further details can be found in chapter B „Accounting and Measurement Methods".

Total capital shortfall of all subsidiaries not included in the consolidation

Disclosure requirements covered: Art. 436 (d) (e) CRR

As of 31 December 2018, there was no capital shortfall at any of the companies CS included in consolidation.

Own funds

Own funds according to the CRR consist of common equity tier 1 (CET1), additional tier 1 (AT1) and tier 2 (T2). In order to determine the capital ratios, each respective capital component - after application of all regulatory deductions and filters - is considered in relation to the total risk.

The regulatory minimum capital ratios including the regulatory buffers amount to 10.0% for CET 1 (4.5% for CET1, 2.5% capital conservation buffer, 3.0% buffer for systemic vulnerability and for systemic concentration risk and 0.0% countercyclical capital buffer), 11.5% for tier 1 capital (sum from CET1 and AT1) and 13.5% for total own funds.

The capital buffer requirements are set out in the section 12 of the Banking Act and specified in Title II of CNB's Decree No. 163/2014 Coll. on the performance of the activities of banks, credit unions and investment firms.

According to section 12n of the Banking Act CS has to establish a capital conservation buffer in the amount of 2.5%.

According to section 12i of the Banking Act and CNB's decision CS has to establish a systemic risk buffer in the amount of 3%.

The capital buffer requirement for the countercyclical capital buffer is regulated as follows:

1. The institution specific request for the countercyclical buffer results from the weighted average of the rates of the countercyclical capital buffer that apply in the jurisdictions where significant credit risk positions are situated multiplied by the total amount of risk in accordance with Art. 92 (3), of CRR.
2. For the calculation of the weighted average the countercyclical buffer quota for the national area as defined by the respective authority is multiplied with the result out of the comparison of the capital requirement related to significant credit risk positions within the national area and the total capital requirement as defined within Part 3, Title II and IV of CRR.
3. If the competent authority of another member state or a third country for the national legal area determines a rate of over 2.5%, a rate of 2.5% has to be applied.

4. If the responsible third country authority increases a national buffer rate, this rate is valid twelve months after the date on which the relevant third country authority has announced a change in the buffer rate; however, this does not apply if the rate decreases.

The CRD IV enables Member States since 2014 to require banks to create and maintain three types of buffers – the capital conservation buffer, the systemic risk buffer and the countercyclical capital buffer.

The CNB decided to implement these buffer requirements already during 2014. It adopts a differentiated approach to the individual buffers. As regards the capital conservation buffer, the CNB applies it to all institutions in the full amount of 2.5% of common equity Tier 1 from the start. The systemic risk buffer is applied to only five institutions including CS. With regard to the countercyclical capital buffer, the CNB Bank Board decided in late 2014 to set it initially at zero, with banks applying the zero rate for the next two years. In December 2015 CNB set countercyclical capital buffer.

Overview of capital requirements and buffers

	2018	2017
Pillar 1		
Minimum CET 1 requirement	4.50%	4.50%
Capital conservation buffer	2.50%	2.50%
Countercyclical capital buffer	0.94%	0.48%
O-SII capital buffer	0.00%	0.00%
Systemic risk buffer (SRB)	3.00%	3.00%
Combined buffer requirement (CBR)	6.44%	5.98%
Minimum Tier 1 requirement	6.00%	6.00%
Minimum Own Funds requirement	8.00%	8.00%
Pillar 2		
Pillar 2 requirement (P2R)	1.20%	1.80%
Total CET 1 requirement for Pillar 1 and Pillar 2	**11.84%**	**11.83%**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**13.64%**	**13.78%**
Total Capital requirement for Pillar 1 and Pillar 2	**15.65%**	**15.78%**

The combined buffer requirement is the sum of the capital conservation buffer, the countercyclical capital buffer and the maximum of the O-SII capital buffer or the systemic risk buffer.

Capital structure according to EU directive 575/2013 (CRR)

in CZK million	Article pursuant to CRR	2018	2017
Common equity tier 1 capital (CET1)			
Capital instruments eligible as CET1	26 (1) (a) (b), 27 to 30, 36 (1) (f), 42	14,081	14,081
Own CET1 instruments	36 (1) (f), 42	-	-
Retained earnings	26 (1) (c), 26 (2)	84,021	82,358
Interim profit	26 (2)	3,448	2,663
Accumulated other comprehensive income	4 (1) (100), 26 (1) (d)	(919)	(510)
Other reserve funds	26 (1) (e)	393	387
Prudential filter: cash flow hedge reserve	33 (1) (a)	1,599	1,920
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	(4)	(3)
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (c), 33 (2)	(28)	(34)
Value adjustments due to the requirements for prudent valuation	34, 105	(392)	(499)
Other intangible assets	4 (1) (115), 36 (1) (b), 37 (a)	(4,919)	(4,818)
IRB shortfall of credit risk adjustments to expected losses	36 (1) (d), 40, 158, 159	(2,098)	(2,737)
Development of unaudited risk provisions during the year (EU No 183/2014)		-	1
Common equity tier 1 capital (CET1)	**50**	**95,182**	**92,809**
Additional tier 1 capital (AT1)			
Capital instruments eligible as AT1	51 (a), 52 to 54, 56 (a), 57	8,107	8,107
Additional tier 1 capital (AT1)	**61**	**8,107**	**8,107**
Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier 1 (AT1)	**25**	**103,289**	**100,916**
Tier 2 capital (T2)			
Capital instruments and subordinated loans eligible as T2	62 (a), 63 to 65, 66 (a), 67	1,121	1,121
IRB excess of provisions over expected losses eligible	62 (d)	2,505	2,142
Other transitional adjustments to T2	476, 477, 478, 481	-	-
Tier 2 capital (T2)	**71**	**3,626**	**3,263**
Total own funds	**4 (1) (118) and 72**	**106,915**	**104,179**
Capital requirement	**92 (3), 95, 96, 98**	**44,603**	**44,630**
CET1 capital ratio	**92 (2) (a)**	**17.07%**	**16.64%**
Tier 1 capital ratio	**92 (2) (b)**	**18.53%**	**18.09%**
Total capital ratio	**92 (2) (c)**	**19.18%**	**18.67%**

The capital structure table above is based on EBA´s final draft for implementing technical standards on disclosure for own funds published in the Official Journal of the European Union on 20 December 2013. Positions, which are not relevant for CS are not disclosed. Basel 3 final figures (fully loaded) are calculated based on the current requirements according to CRR. Changes are possible due to final Regulatory Technical Standards (RTS) that are not yet available. The percentage rates of the transitional provisions refer to the current year.

With the approval granted by the CNB on 8.2.2019, CS considers the annual profit within its own funds.

Risk structure according to EU directive 575/2013 (CRR)

in CZK million	Article pursuant to CRR	2018		2017	
		Total risk (calc. base)	Capital requirement	Total risk (calc. base)	Capital requirement
Total Risk Exposure Amount	92 (3), 95, 96, 98	557,541	44,603	557,871	44,630
Risk weighted assets (credit risk)	92 (3) (a) (f)	484,809	38,785	459,151	36,732
Standardised approach		26,950	2,156	26,324	2,106
IRB approach		457,859	36,629	432,826	34,626
Settlement Risk	92 (3) (c) (ii), 92 (4) (b)	-	-	-	-
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (c) (i) and (iii), 92 (4) (b)	9,984	799	9,670	774
Operational Risk	92 (3) (e), 92 (4) (b)	58,631	4,690	85,270	6,822
Exposure for CVA	92 (3) (d)	4,117	329	3,781	302
Other exposure amounts (incl. Basel 1 floor)	3, 458, 459, 500	-	-	-	-

Own funds reconciliation

For the disclosure of own funds, CS follows the requirements under Article 437 CRR as well as the requirements defined in the Implementing Technical Standards (EU) No 1423/2013.

Based on the requirements defined by the EBA in the Implementing Technical Standards, the following information must be provided:

- A full reconciliation of CET1 items - Additional Tier 1 (AT1) items, Tier 2 (T2) items, filters and deductions applied pursuant to Articles 32 36, 56, 66 and 79 CRR - to the own funds of the institution's balance sheet in accordance with Article 437 (1) (a) CRR (see the following tables: Balance sheet, Total equity, Intangible assets, Tax assets and liabilities, Subordinated liabilities).
- A table designed by the EBA to show the capital structure of regulatory capital. Presentation of this table that shows the details on the capital structure of CS Group including the capital components as well as any regulatory deductions and prudential filters. Disclosures in this table cover the disclosure requirements as defined in Article 437 (1) (d) CRR, separate disclosure of the nature and amounts of each prudential filter applied pursuant to Articles 32 to 35 CRR, each deduction according to Art. 36, 56 and 66 CRR as well as items not deducted in accordance with Art. 47, 48, 56, 66 and 79 CRR.

Balance sheet reconciliation

Disclosure requirements: Art. 437 (1) (a) CRR

The table below represents the difference between the financial scope of consolidation and the regulatory scope of consolidation:

Balance Sheet

			2018
in CZK million	IFRS	Effects – scope of consolidation	CRR
Assets			
Cash and cash balances	**63,914**	**(5)**	**63,909**
Financial assets – held for trading	10,311	5	10,316
Derivatives	10,091	4	10,095
Other trading assets	220	1	221
Non-trading fin.assets mandatorily at fair value through profit or loss	1,173	(38)	1,135
Financial assets designated at fair value through profit or loss	279	-	279
Financial assets at fair value through other comprehensive income	39,627	-	39,627
Financial assets at amortised cost	1,289,391	1,377	1,290,768
Derivatives – hedge accounting	1,152	-	1,152
Changes in fair value of portfolio hedged items	-	-	-
Property and equipment	9,396	(1)	9,395
Investment properties	2,327	(2,327)	-
Intangible assets	5,247	(25)	5,222
Investments in associates and joint ventures	824	746	1,570
Current tax assets	499	-	499
Deferred tax assets	986	-	986
Assets held for sale	40	-	40
Other assets	1,299	(82)	1,217
Total assets	**1,426,465**	**(350)**	**1,426,115**
Liabilities and equity			
Financial liabilities – held for trading	10,172	2	10,174
Derivatives	10,172	2	10,174
Other trading liabilities	-	-	-
Financial liabilities - at fair value through profit or loss	1,935	-	1,935
Deposits	1,935	-	1,935
Debt securities issued	-	-	-
Other financial liabilities	-	-	-
Financial liabilities measured at amortised costs	1,279,931	196	1,280,127
Deposits	1,271,367	317	1,271,684
Debt securities issued	5,458	-	5,458
Other financial liabilities	3,106	(121)	2,985
Derivatives –hedge accounting	2,109	-	2,109
Changes in fair value of portfolio hedged items	1	-	1
Provisions	3,584	(47)	3,537
Current tax liabilities	69	(11)	58
Deferred tax liabilities	218	(102)	116
Liabilities associated with assets held for sale	-	-	-
Other liabilities	5,789	(73)	5,716
Total equity	**122,657**	**(315)**	**122,342**
Equity attributable to non-controlling interests	184	-	184
Equity attributable to owners of the parent	122,473	(315)	122,158
Total liabilities and equity	**1,426,465**	**(350)**	**1,426,115**

in CZK million	IFRS	Effects – scope of consolidation	CRR
			2017
Assets			
Cash and cash balances	280,221	(10)	280,211
Financial assets – held for trading	11,433	8	11,441
Derivatives	11,301	8	11,309
Other trading assets	132	-	132
Financial assets – at fair value through profit or loss	407	-	407
Financial assets – available for sale	55,283	(36)	55,247
Financial assets – held to maturity	163,679	-	163,679
Loans and receivables	796,219	1,684	797,903
Loans and receivables to banks	157,525	(12)	157,513
Loans and receivables to customers	638,694	1,696	640,390
Derivatives – hedge accounting	613	-	613
Changes in fair value of portfolio hedged items	-	-	-
Property and equipment	9,913	-	9,913
Investment properties	2,372	(2,372)	-
Intangible assets	4,854	(14)	4,840
Investments in associates and joint ventures	762	704	1,466
Current tax assets	341	-	341
Deferred tax assets	1,000	-	1,000
Assets held for sale	19	-	19
Other assets	2,107	(561)	1,546
Total assets	**1,329,223**	**(597)**	**1,328,626**
Liabilities and equity			
Financial liabilities – held for trading	11,414	66	11,480
Derivatives	11,414	66	11,480
Other trading liabilities	-	-	-
Financial liabilities - at fair value through profit or loss	1,240	-	1,240
Deposits from banks	-	-	-
Deposits from customers	1,240	-	1,240
Debt securities issued	-	-	-
Other financial liabilities	-	-	-
Financial liabilities measured at amortised costs	1,179,929	148	1,180,077
Deposits from banks	295,232	(90)	295,142
Deposits from customers	881,996	239	882,235
Debt securities issued	1,805	-	1,805
Other financial liabilities	896	-	896
Derivatives – hedge accounting	1,813	-	1,813
Changes in fair value of portfolio hedged items	-	-	-
Provisions	2,778	-	2,778
Current tax liabilities	89	(20)	69
Deferred tax liabilities	220	(69)	151
Liabilities associated with assets held for sale	-	-	-
Other liabilities	10,765	(499)	10,266
Total equity	120,975	(223)	120,752
Equity attributable to non-controlling interests	165	2	167
Equity attributable to owners of the parent	120,810	(225)	120,585
Total liabilities and equity	**1,329,223**	**(597)**	**1,328,626**

The following tables represent, as far as possible, a reconciliation between the IFRS balance sheet items to the items of CET1, AT1 and T2, as well as information on the regulatory adjustments arising from correction items in accordance with Art. 32 to 35 CRR and the deductions according to Art. 36, 56, 66 and 79 CRR.

The last column contains a letter that sets the derived amount from IFRS figures with the appropriate eligible amount of own funds presentation during the transitional provisions in conjunction.

Total Equity

in CZK million	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
2018						
Subscribed capital	15,200	-	15,200	(1,121)	14,079	
Ordinary shares	14,079	-	14,079	-	14,079	a1
IPriority sharese	1,121	-	1,121	(1,121)	-	
Capital reserve	12	-	12	(10)	2	b
Capital instruments and the related share premium accounts	15,212	-	15,212	(1,131)	14,081	
Retained earnings	100,076	(318)	99,758	(11,896)	87,862	c
Other comprehensive income (OCI)	(922)	3	(919)	1,599	680	d
Cash flow hedge reserve	(1,599)	-	(1,599)	1,599	-	
Available for sale reserve	111	-	111	-	111	
Currency translation	(191)	3	(188)	-	(188)	
Remeasurement of net liability of defined pension plans	-	-	-	-	-	
Deferred tax	(198)	-	(198)	-	(198)	
Other	955	-	955	-	955	
Equity attributable to the owners of the parent	**114,366**	**(315)**	**114,051**	**(11,428)**	**102,623**	
Additional Tier 1 (AT1)	8,107	-	8,107	(8,107)	-	
Equity attributable to non-controlling interests	184	-	184	(184)	-	
Total equity	**122,657**	**(315)**	**122,342**	**(19,719)**	**102,623**	

in CZK million	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
2017						
Subscribed capital	15,200	-	15,200	(1,121)	14,079	
Ordinary shares	14,079	-	14,079	-	14,079	a1
IPriority sharese	1,121	-	1,121	(1,121)	-	
Capital reserve	12	-	12	(10)	2	b
Capital instruments and the related share premium accounts	15,212	-	15,212	(1,131)	14,081	
Retained earnings	98,004	(228)	97,776	(12,367)	85,409	c
Other comprehensive income (OCI)	(509)	(1)	(510)	1,920	1,410	d
Cash flow hedge reserve	(1,920)	-	(1,920)	1,920	-	
Available for sale reserve	-	(381)	(381)	-	(381)	
Currency translation	(236)	37	(199)	-	(199)	
Remeasurement of net liability of defined pension plans	-	-	-	-	-	
Deferred tax	(764)	-	(764)	-	(764)	
Other	2,411	343	2,754	-	2,754	
Equity attributable to the owners of the parent	**112,707**	**(229)**	**112,478**	**(11,578)**	**100,900**	
Additional Tier 1 (AT1)	8,107	-	8,107	(8,107)	-	
Equity attributable to non-controlling interests	161	6	167	(167)	-	
Total equity	**120,975**	**(223)**	**120,752**	**(19,852)**	**100,900**	

Intangible assets

in CZK million	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
2018						
Intangible assets	5,247	(25)	5,222	(303)	4,919	e
Intangible assets	**5,247**	**(25)**	**5,222**	**(303)**	**4,919**	

in CZK million	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
2017						
Intangible assets	4,854	(14)	4,840	(22)	4,818	e
Intangible assets	**4,854**	**(14)**	**4,840**	**(22)**	**4,818**	

Details regarding the development of intangible assets are disclosed under Note 27 Intangible assets.

Deferred Taxes

in CZK million	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
2018						
Deferred tax assets (DTA) that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	-	-	-	-	-
Deferred tax assets that rely on future profitability and arise from temporary differences	768	102	870	302	1,172	f
Deferred tax assets	**768**	**102**	**870**	**302**	**1,172**	

in CZK million	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
2017						
Deferred tax assets (DTA) that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	-	-	-	-	-
Deferred tax assets that rely on future profitability and arise from temporary differences	1,000	-	1,000	-	1,000	f
Deferred tax assets	**1,000**	**-**	**1,000**	**-**	**1,000**	

Details regarding deferred tax assets are disclosed under Note 28 Tax assets and liabilities.

Based on the threshold definition according to Art. 48 CRR, deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for CS at 31. December 2018. In accordance with Art. 48 (4) CRR, the non-deductible amount is risk weighted with 250% and considered within the credit risk.

Subordinated liabilities and additional tier 1 issuances

in CZK million	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
2018						
Subordinated issues, deposits and supplementary capital	-	-	-	1,121	1,121	
Prioriry shares	-	-	-	1,121	1,121	a2
Additional Tier 1 (AT1) issuances	-	-	-	8,107	8,107	g
Subordinated liabilities	**-**	**-**	**-**	**9,228**	**9,228**	

in CZK million	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
2017						
Subordinated issues, deposits and supplementary capital	-	-	-	1,121	1,121	
Prioriry shares	-	-	-	1,121	1,121	a2
Additional Tier 1 (AT1) issuances	-	-	-	8,107	8,107	g
Subordinated liabilities	**-**	**-**	**-**	**9,228**	**9,228**	

CS did not report subordinated debt at the year-end 2018 and 2017. The amount reported in the table above represents priority shares and the hybrid capital issued by CS.

Transitional provisions

The Transitional Provisions which are applied by CS, are based on CRR-Supplementary Regulation according to respective measures of a general nature passed by CNB.

Own funds template during the transitional period

Disclosure requirements: Art. 437 (1) (d) (e) CRR

CS does not consider Art. 437 (1) (f) CRR for the calculation of consolidated own funds.

The table below presents the composition of the regulatory capital during the transitional period based on the Implementing Technical Standards on the disclosure of own funds published in the Official Journal of the EU.

In column (A), the current amount, which considers all the transitional requirements, is disclosed. Column (C) discloses the residual amount, implying full CRR implementation.

Transitional own funds disclosure template

	in CZK million	2018	2017	CRR article reference	Amounts subject to preregulation CRR treatment or prescribed residual amount of CRR	Reference to reconciliation tables
		A1	A2	B	C	D
	Common equity tier 1 (CET1) capital					
1	Common equity tier 1 (CET1) capital: instruments and reserves	14,081	14,081	26 (1), 27, 28, 29, EBA list 26 (3)	-	
	of which: ordinary shares	14,079	14,079	EBA list 26 (3)	-	a1
	of which: share premium	2	2		-	b
2	Retained earnings	84,414	82,745	26 (1) (c)	-	c
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(919)	(510)	26 (1)	-	d
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	3,448	2,664	26 (2)	-	c
6	**CET1 capital before regulatory adjustments**	**101,024**	**98,980**		**-**	
7	Additional value adjustments (negative amount)	(392)	(499)	34, 105	-	
8	Intangible assets (net of related tax liability) (negative amount)	(4,919)	(4,818)	36 (1) (b), 37, 472 (4)	-	e
11	Fair value reserves related to gains or losses on cash flow hedges	1,599	1,920	33 (a)	-	d
12	Negative amounts resulting from the calculation of expected loss amounts	(2,098)	(2,738)	36 (1) (d), 40, 159, 472 (6)		
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(32)	(36)	33 (b)	-	
28	**Total regulatory adjustments to Common equity tier 1 (CET1)**	**(5,842)**	**(6,171)**		**-**	
29	**CET1 capital**	**95,182**	**92,809**		**-**	
	Additional tier 1 (AT1) capital					
30	Capital instruments and the related share premium accounts	8,107	8,107	51, 52	-	g
31	**Classified as equity under applicable accounting standards**	**8,107**	**8,107**			
36	**AT1 capital before regulatory adjustments**	**8,107**	**8,107**		**-**	
43	**Total regulatory adjustments to Additional tier 1 (AT1) capital**	**-**	**-**		**-**	
44	**Additional tier 1 (AT1) capital**	**8,107**	**8,107**		**-**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**103,289**	**100,916**		**-**	
	Tier 2 (T2) capital					
46	Capital instruments and the related share premium accounts	1,121	1,121	62, 63	-	a2
50	Credit risk adjustments	2,505	2,142	62 (c) (d)	-	
51	**Tier 2 (T2) capital before regulatory adjustment**	**3,626**	**3,263**			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	**-**		**-**	
58	**Tier 2 (T2) capital**	**3,626**	**3,263**		**-**	
59	**Total capital (TC = T1 + T2)**	**106,915**	**104,179**		**-**	
60	Total risk weighted assets	557,541	557,871		-	
	Capital ratios and buffers					
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	17.07	16.64	92 (2) (a), 465	-	
62	Tier 1 (as a percentage of total risk exposure amount)	18.53	18.09	92 (2) (b), 465	-	
63	Total capital (as a percentage of total risk exposure amount	19.18	18.67	92 (2) (c)	-	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	60,989	58,477	CRD 128, 129, 140	-	
65	capital conservation buffer requirement	13,939	13,947		-	
66	countercyclical buffer requirement	5,235	2,690		-	
67	systemic risk buffer requirement	16,726	16,736		-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	9.07	8.64	CRD 131	-	
	Amounts below the thresholds for deduction (before risk weighting)					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 1 % threshold and net of eligible short positions)	718	504	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	-	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 1 % threshold and net of eligible short positions)	6	6	36 (1) (i), 45, 48, 470, 472 (11)	-	
75	Deferred tax assets arising from temporary difference (amount below 1 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	1,172	1,000	36 (1) (c), 38, 48, 470, 472 (5)	-	f
	Applicable caps on the inclusion of provisions in Tier 2					
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	337	329	62	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating based approach (prior to the application of the cap)	2,505	2,142	62	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings based approach	2,747	2,597	62	-	

The own funds table above shows only those positions which are relevant for CS Group, whereas numbering follows complete template.

49. Hedge accounting

The interest rate and FX risk of the banking book is managed by the Group's ALM department. Preference in managing interest rate risk is given to using bonds, loans or derivatives, with hedge accounting for derivatives applied in accordance with IAS 39. The main guideline for interest rate risk positioning is the Group Interest Rate Risk Strategy that is approved by the Group ALCO for the relevant time period.

Fair value hedges are employed to reduce interest rate risk of issued bonds, purchased securities, loans or deposits on the Group statement of financial position. In general, the Group policy is to swap substantial fixed or structured issued bonds to floating items to manage the targeted interest rate risk profile by other statement of financial position items. Interest rate swaps are the most common instruments used for fair value hedges.

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilize Net interest income. Interest rate swaps are the most common derivatives used to hedge variable cash flows of floating assets. By using cross currency interest rate swaps, the Group hedges currency risk of its foreign currency assets. Floors or caps are used to secure the targeted level of interest income in a changing interest rate.

In the reporting period, CZK 34 million (2017: CZK 52 million) was taken from the cash flow hedge reserve and recognised as expense in the income statement; while CZK 1,974 million (2017: CZK 2,370 million) was recognised directly in other comprehensive income.

As at 31 December 2018, the gain on hedging derivatives used for fair value hedging was CZK 79 million (2017: loss CZK 22 million); the loss due to changes in the fair value of hedged items was CZK 91 million (2017: gain CZK 0 million).

Fair values of hedging instruments are disclosed in the following table:

in CZK million	**2018**		**2017**	
	Positive fair value	**Negative fair value**	**Positive fair value**	**Negative fair value**
Hedging instrument – fair value hedge	73	3	12	20
Hedging instrument – cash flow hedge	1,079	2,106	601	1,793
Total	**1,152**	**2,109**	**613**	**1,813**

At the end of 2018 the Group had 267 cash flow hedge structures with maturity from 2019 to 2027. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor), ČNB 2W Repo Rate or fixed rate in respect of cash flow hedges where FX risk is being hedged. Summary of total nominal hedged in cash flow hedge structures according their maturity can be seen in the following table:

Maturity	**Nominal hedged In CZK million**	**Nominal hedged In EUR million**	**Nominal hedged In USD million**
2019	100	94	-
2020	1,800	60	-
2021	9,910	558	-
2022	10,962	157	-
2023	19,905	430	50
2024	12,521	88	-
2025	25,038	-	-
2026	1,840	-	-
2027	4,251	-	-
Total	**86,327**	**1,387**	**50**

At the end of 2017 the Group had 180 cash flow hedge structures with maturity from 2018 to 2027. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor),ČNB 2W Repo Rate or fixed rate in respect of cash flow hedges where FX risk is being hedged. Summary of total nominal hedged in CF hedge structures according their maturity can be seen in the following table:

Maturity	Nominal hedged In CZK million	Nominal hedged In EUR million	Nominal hedged In USD million
2018	2,000	50	-
2019	2,350	44	-
2020	1,800	60	-
2021	6,211	558	-
2022	10,462	157	-
2023	18,078	430	50
2024	7,200	55	-
2025	7,050	-	-
2026	540	-	-
2027	71	-	-
Total	**55,762**	**1,354**	**50**

Quantitative disclosures

In the tables below, detailed information related to hedging instruments and hedged items in fair value and cash flow hedges are reported.

Hedging instruments

	Carrying amount		Change in FV for the period used for calculating hedge ineffec-tivness		Timing of the nominal amounts of the instruments			
in CZK million	Assets	Liabilities		Notional	≤ 3 m	> 3 m and ≤ 1 y	> 1 y and ≤ 5 y	> 5 y
Fair value hedges								
Interest rate risk	71	(3)	-	9,404	-	-	5,545	3,859
Cash flow hedges								
Interest rate risk	939	(1,644)	735	91,944	100	-	48,194	43,650
Foreign exchange risk	142	(462)	(334)	30,704	900	1,518	26,025	2,261
Total	**1,152**	**(2,109)**	**401**	**132,052**	**1,000**	**1,518**	**79,764**	**49,770**

The hedging instruments are presented in the line 'Hedge accounting derivatives' in the balance sheet.

Hedged items in fair value hedges

	Timing of the nominal amounts of the instruments			
in CZK million	Carrying amount	Timing of the nominal amounts of the instruments	Thereof: for the period used for recognition of hedge ineffectiveness	Remaining adjustments for terminated hedges
Liabilities				
Financial liabilities at AC				
Interest rate risk	9,404	(113)	(91)	-

Hedged items in cash flow hedges

in CZK million	Change in FV for the period used for calculating hedge ineffectiveness	Cash flow hedge reserve for continuing hedges	Cash flow hedge reserve for terminated hedges
Interest rate risk	735	840	7
Foreign exchange risk	(334)	1,127	-
Total	**401**	**1,967**	**7**

Effects of hedge accounting in profit or loss and other comprehensive income

in CZK million	Hedge ineffec-tiveness recognised in P&L	Hedging gains/losses recognized in OCI	Cash flow hedge reclassified to profit or loss because: the hedged item has affected profit or loss	Cash flow hedge reclassified to profit or loss because: the hedged future cash flows are no longer expected to occur
Fair value hedges				
Interest rate risk	12	-	-	-
Cash flow hedges				
Interest rate risk	21	(871)	187	(48)
Foreign exchange risk	1	336	-	-
Total	**34**	**(535)**	**187**	**(48)**

Ineffectiveness from both fair value and cash flow hedges is presented under 'Net trading result' in the statement of income. The amounts reclassified from the cash flow hedge reserve are presented in the line 'Other similar income' under 'Net interest income' for hedges of interest rate risk and 'Net trading result' for hedges of foreign exchange risk.

50. Fair value of assets and liabilities

Determination of fair value

The best indication of fair value is quoted market prices in an active market. Where such prices are available, they are used to measure the fair value (level 1 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.

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these cases individual valuation parameters 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 typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters.

Fair values 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.

According to the described methodology the accumulated CVA-adjustments amounted to CZK (153) million and the total DVA-adjustment amounted to CZK 28 million.

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.

in CZK million	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		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
ASSETS								
Financial assets – held for trading	69	55	9,894	11,273	349	105	10,312	11,433
Derivatives	-	-	9,743	11,196	349	105	10,092	11,301
Other trading assets	69	55	151	77	-	-	220	132
Financial assets designated at fair value through profit or loss		12		289		106		407
Non-trading financial assets – FVPL	13	-	279	-	1,160	-	1,452	-
Equity instruments	-	-	-	-	755	-	755	-
Debt securities	13	-	279	-	337	-	629	-
Loans and advances	-	-	-	-	68	-	68	-
Financial assets – available for sale		42,183	-	9,541		3,559		55,283
Equity instruments		-	-	-		1,717		1,717
Debt securities		42,183	-	9,541		1,842		53,566
Financial assets – FVOCI	29,551	-	6,847	-	3,229	-	39,627	-
Equity instruments	-	-	-	-	1,252	-	1,252	-
Debt securities	29,551	-	6,847	-	1,977	-	38,375	-
Derivatives Hedge Accounting	-	-	1,119	613	33	-	1,152	613
Total assets	**29,633**	**42,250**	**18,139**	**21,716**	**4,771**	**3,770**	**52,543**	**67,736**
LIABILITIES								
Financial liabilities held for trading	-	-	10,167	11,405	5	9	10,172	11,414
Derivatives	-	-	10,167	11,405	5	9	10,172	11,414
Other trading liabilities	-	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	1,935	1,240	-	-	1,935	1,240
Deposits from customers	-	-	1,935	1,240	-	-	1,935	1,240
Debt securities issued	-	-	-	-	-	-	-	-
Derivatives Hedge Accounting	-	-	2,109	1,813	-	-	2,109	1,813
Total liabilities	**-**	**-**	**14,211**	**14,458**	**5**	**9**	**14,216**	**14,467**

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.

In CZK million	2018		2017	
	Level 1	Level 2	Level 1	Level 2
Securities				
Net transfer from Level 1	-	626	-	-
Net transfer from Level 2	(625)	-	-	-
Net transfer from Level 3	-	(191)	(74)	(1,177)
Purchases/sales/expiries	(11,993)	(2,008)	(25,408)	(7,473)
Changes in derivatives	-	(1,210)	-	(1,010)
Total year-to-date change	**(12,618)**	**(2,783)**	**(25,482)**	**(9,660)**

In 2018 the relevant unquoted bonds were reclassified from Level 1 to Level 2 due to lower market activity.

The reclassification of securities from Level 1 and from Level 2 to Level 3 was caused by a decrease in market liquidity.

The reclassification from Level 1 to Level 3 resulted from the fact that quoted prices for equity securities do not exist as of 31 December 2018.

Unquoted bonds were reclassified from Level 2 to Level 3 as quoted prices (observable inputs) were not available as at 31 December 2018.

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:

	Jan 18	Gains/ losses profit or loss	Gains/ losses OCI	Purchases	Sales/ Settl ements	Transfer into Level 3	Transfer out of Level 3	Dec 18
Assets								
Financial assets HfT	105	(9)		116		139	(2)	349
Derivatives	105	(9)		114		139	-	349
Other financial assets held for trading	-			2		-	(2)	-
Non-trading financial assets at FVPL	3,015	282		1,092	(3,229)	-		1,160
Equity instruments	380	375		961	(961)	-		755
Debt securities	348	(93)		127	(45)	-		337
Loans and advances	2,287	-		4	(2,223)	-		68
Financial assets at FVOCI	2,871	-	151	-		1,571	(1,364)	3,229
Equity instruments	1,029	-	223	-		-	-	1,252
Debt securities	1,842	-	(72)	-		1,571	(1,364)	1,977
Loans and advances	-	-	-	-		-	-	-
Hedge accounting derivatives	-	-	-	33		-	-	33
Total assets	**5,991**	**273**	**151**	**1,241**	**(3,229)**	**1,710**	**(1,366)**	**4,771**

in CZK million	Jan 17	Gain/loss in profit or loss	Losses OCI	Purchases	Sales/ Settle- ments	Transfer into Level 3	Transfer out of Level 3	Currency translation	Dec 17
ASSETS						**(1)**	**(837)**	**-**	**105**
Financial assets – held for trading	1,057	(101)	-	-	(13)				
Derivatives	1,057	(101)	-	-	(13)	(1)	(837)	-	105
Financial assets designated at fair value through profit or loss	80	23	-	-	4	-	-	(1)	106
Financial assets – available for sale	2,914	-	(101)	112	(15)	2,265	(1,617)	1	3,559
Total assets	**4,051**	**(78)**	**(101)**	**112**	**(24)**	**2,264**	**(2,454)**	**-**	**3,770**

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 2018 and in 2017 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', 'Financial assets – at fair value through profit or loss' (for the period ended 31 December 2017), 'Non-trading financial assets at fair value through profit or loss' (for the period ended 31 December 2018) and 'Hedge accounting derivatives' is disclosed in the income statement line item 'Net trading result'. Gains or losses from derecognition of 'Financial assets – available for sale' is shown in the income statement line item 'Gains/Losses from financial assets and liabilities not measured at fair value through profit or loss, net' for the period ended 31 December 2017. 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' for the period ended 31 December 2018. Impairments of 'Financial assets – available for sale' are disclosed in the line item 'Net impairment loss on financial assets' for the period ended 31 December 2017. Impairment of 'Financial assets at fair value through other comprehensive income' is disclosed in the line item 'Impairment result from financial instruments' for the period ended 31 December 2018. Gains or losses in other comprehensive income of Level 3 financial instruments disclosed in the balance sheet line item 'Financial assets – available for sale' are reported directly in equity under 'Available for sale reserve' for the period ended 31 December 2017. 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' for the period ended 31 December 2018.

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:

	2018	2017
in CZK million	**Unrealized gain/loss in profit or loss**	**Unrealized gain/loss in profit or loss**
ASSETS		
Financial assets - held for trading	105	(101)
Derivatives	105	(101)
Financial assets designated at fair value through profit or loss	-	23
Non-trading financial assets at fair value through profit or loss	335	-
Equity instruments	375	
Debt securities	(40)	-
Financial assets at fair value through other comprehensive income	(37)	-
Debt securities	(37)	-
Hedge accounting derivatives	33	
Total	**436**	**(78)**

The volume of Level 3 financial assets can be allocated to the following two categories:

- Market values of derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).

Illiquid bonds, shares and funds not quoted in an active market where either valuation models with non-observable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.

Sensitivity analysis for Level 3 measurements

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

in CZK million	Positive fair value changes when applying alternative valuation parameters		Negative fair value changes when applying alternative valuation parameters	
	2018	**2017**	**2018**	**2017**
Derivatives	12	9	(14)	(8)
Income statement	12	9	(14)	(8)
Debt securities	57	65	(76)	(87)
Other comprehensive income	57	65	(76)	(87)
Equity instruments	115	64	(231)	(129)
Income statement	52	-	(106)	(1)
Other comprehensive income	63	64	(125)	(128)
Total	**184**	**138**	**(321)**	**(224)**
Income statement	**64**	**9**	**(120)**	**(9)**
Other comprehensive income	**120**	**129**	**(201)**	**(215)**

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 the year-end 2018 and for the year-end 2017. For assets without contractual maturities (e.g. cash and cash equivalents), the carrying amount approximates their fair value.

2018 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
ASSETS					
Cash and cash balances	63,914	63,914	-	-	-
Financial assets at amortised costs	1,281,034	1,284,101	198,040	11,776	1,074,285
Loans and advances to banks	389,844	390,011	-	-	390,011
Loans and advances to customers	685,639	684,270	-	-	684,270
Debt securities	205,551	209,820	198,040	11,776	4
Finance lease receivables	2,006	2,006	-	-	2,006
Trade and other receivables	6,351	6,351	-	-	6,351
LIABILITIES					
Financial liabilities measured at amortised costs	1,279,931	1,281,024	-	5,397	1,275,627
Deposits from banks	318,861	322,485	-	-	322,485
Deposits from customers	952,506	950,036	-	-	950,036
Debt securities issued	5,458	5,397	-	5,397	-
Other financial liabilities	3,106	3,106	-	-	3,106
FINANCIAL GUARANTEES AND COMMETMENTS					
Financial guarantees	n/a	(57)	-	-	(57)
Irrevocable commitments	n/a	(155)	-	-	(155)

2017 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
ASSETS					
Cash and cash balances	280,221	280,221	-	-	-
Financial assets – held to maturity	163,679	189,419	159,613	29,806	-
Loans and receivables to credit institutions	157,525	157,924	-	1,874	156,050
Loans and receivables to customers	638,694	636,784	-	-	636,784
LIABILITIES					
Financial liabilities measured at amortised costs	1,179,929	1,192,947	-	16,113	1,176,834
Deposits from banks	295,232	295,008	-	-	295,008
Deposits from customers	881,997	880,032	-	-	880,032
Debt securities issued	1,805	17,012	-	16,113	899
Other financial liabilities	895	895	-	-	895
FINANCIAL GUARANTEES AND COMMETMENTS					
Financial guarantees	n/a	(5)	-	-	(5)
Irrevocable commitments	n/a	(275)	-	-	(275)

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.

Fair values of non-financial assets

The following table shows fair values and fair value hierarchy of non-financial instruments at the year-end 2018 and 2017:

2018 in CZK million	Carrying amount	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
Assets whose fair value is disclosed in the notes					
Investment property	2,327	2,327	-	-	2,327
Assets whose fair value is presented in the SoFP					
Assets held for sale (IFRS 5)	40	40	-	-	40

2017 in CZK million	Carrying amount	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
Assets whose fair value is disclosed in the notes					
Investment property	2,372	2,372	-	-	2,372
Assets whose fair value is presented in the SoFP					
Assets held for sale (IFRS 5)	19	19	-	-	19

Investment Property

The valuations of investment property is based on the valuation of accredited independent valuer with a recognised and relevant professional qualification. The valuation of investment property is carried out using the comparative and investment methods. The assessment is made on the basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the property, taking into account size, location, terms, covenant and other material factors.

Assets held for sale

Assets held for sale (real-estate funds being sold) are measured at fair value on non-recurring basis when their carrying amount is impaired down to fair value less costs to sell. The valuation techniques using the same inputs and techniques as described above for Investment Property

51. Financial instruments per category according to IAS 39

The Group classifies financial instruments into trading and banking (investment) portfolios in accordance with BASEL III rules as per CNB Regulation No. 163/2014 Coll., on the performance of the activity of banks, savings and lending associates and securities traders (henceforth 'Regulation 163/2014'). The Group applies various techniques to the management of the risk within the banking and trading books (refer to Note 40).

The table below shows the classes of financial assets and liabilities reported by the Group according to IFRS 7 requirements.

As of 31 December 2017

in CZK million	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Finance lease according to IAS 17	Total
									Category of financial instruments
ASSETS									
Cash and cash balances	280,221	-	-	-	-	-	-	-	280,221
Loans and receivables to credit institutions	157,525	-	-	-	-	-	-	-	157,525
Loans and receivables to customers	620,683	-	-	-	-	-	-	18,011	638,694
Derivative financial instruments	-	-	11,301	-	-	-	613	-	11,914
Trading assets	-	-	132	-	-	-	-	-	132
Financial assets – at fair value through profit or loss	-	-	-	407	-	-	-	-	407
Financial assets - available for sale	-	-	-	-	55,283	-	-	-	55,283
Financial assets - held to maturity	-	163,679	-		-	-	-	-	163,679
Total financial assets	**1,058,429**	**163,679**	**11,433**	**407**	**55,283**	**-**	**613**	**18,011**	**1,307,855**
LIABILITIES									
Deposits from banks	-	-	-	-	-	881,997	-	-	881,997
Deposits from customers	-	-	-	1,240	-	1,805	-	-	3,045
Debt securities in issue	-	-	-	-	-	895	-	-	895
Other financial liabilities	-	-	-	-	-	1,813	-	-	1,813
Derivative financial instruments	-	-	11,414	-	-	-	2,778	-	14,192
Trading liabilities	-	-	-	-	-	-	-		-
Total financial liabilities	**-**	**-**	**11,414**	**1,240**	**-**	**886,510**	**2,778**	**-**	**901,942**

52. Audit fees and other consultancy fees

The following table contains fundamental audit fees and other fees charged by the auditors - PricewaterhouseCoopers Audit, s.r.o. and PricewaterhouseCoopers Česká republika, s.r.o.

in CZK million	2018	2017
Audit fees	24	19
Other assurance, tax and consultancy fees	9	6
Total	**33**	**25**

53. Contingent assets and liabilities

In the ordinary course of business, the Group becomes party to various financial transactions that are not reflected in the statement of financial position and are referred to as off-balance sheet financial instruments. The table below represent the notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

It is not practicable to disclose the information about uncertainties relating to the amounts or timing of any outflows related to contingent liabilities or the possibility of any related reimbursements.

Legal Disputes

At the reporting date, the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The Czech legal environment is still evolving, legal disputes are costly and their outcome unpredictable. Many parts of the legislation remain untested and there is uncertainty about the interpretation that courts may apply in a number of areas. The impact of these uncertainties cannot be quantified and will only be known as the specific legal disputes in which the Group is named are resolved.

The Group is involved in various claims and legal proceedings of a special nature. The Group also acts as a defendant in a number of legal disputes filed with the arbitration court. The Group does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Group's interests. Based upon historical experience and expert opinion, the Group assesses the developments in these cases, and the probability and the amount of potential financial outcome which are appropriately provided for.

Whilst no assurance can be given with respect to the ultimate outcome of any such claim or litigation, the Group believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows.

If, in connection with the litigation, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation, the Group recognises a provision for legal disputes (refer to Note 32).

Commitments to Extend Credit and Commitments from Guarantees and Letters of Credit

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of clients' authorisations to extend credit in the form of loans, guarantees or letters of credit. The credit risk attached to commitments to extend credit represents a potential loss for the Group. The Group estimates the potential loss on the basis of historical developments of CCFs, PDs and LGDs. CCFs indicate the likelihood of the Group paying out on a guarantee or having to grant a loan on the basis of an issued commitment to extend credit.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. Management of the Group believes that the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments is minimal.

In 2018, the Group recorded impairment credit loss for off-balance sheet risks to cover expected credit losses that may be incurred in connection with these off-balance sheet transactions. As at 31 December 2018, the aggregate balance of these allowances was CZK 1,524 million (2017: CZK 784 million). Refer to Note 40.

in CZK million	**2018**	**2017**
Amounts owed under guarantees and letters of credit	23,298	19,461
Undrawn loan commitments	123,458	115,052
Total	**146,756**	**134,513**

54. Analysis of residual maturities

The breakdown of the Group's assets and liabilities based on residual contractual maturities as at 31 December 2018 and 2017 was as follows:

in CZK million	2018		2017	
	< 1 Year	> 1 Year	< 1 Year	> 1 Year
Cash and cash balances	63,914	-	280,221	-
Financial assets – held for trading	10,310	1	11,357	76
Financial assets designated at FVPL	x	x	-	407
Non-trading financial assets at fair value through profit or loss	68	1,384	x	x
Financial assets AFS	x	x	2,916	52,367
Financial assets at FVOCI	19,105	20,522	x	x
Financial assets HTM	x	x	11,330	152,349
Loans and receivables	x	x	258,720	537,499
Financial assets at AC	463,643	817,391	x	x
Finance lease receivables	407	1,599	x	x
Hedge accounting derivatives	1,152	-	613	-
Property and equipment	-	9,396	-	9,913
Investment properties	-	2,327	-	2,372
Intangible assets	-	5,247	-	4,854
Investments in associates and joint ventures	-	824	-	762
Tax assets	499	986	341	1,000
Assets held for sale	40	-	19	-
Trade and other receivables	6,351	-	x	x
Other assets	1,299	-	2,107	-
Total Assets	**566,788**	**859,677**	**567,624**	**761,599**
Financial liabilities – held for trading	10,172	-	11,414	-
Financial liabilities designated at FVPL	1,935	-	1,240	-
Financial liabilities measured at AC	710,788	569,143	652,868	527,061
Derivatives – hedge accounting	2,110	-	1,813	-
Provisions	53	3,531	-	2,778
Tax liabilities	69	218	89	220
Other liabilities	5,650	139	10,674	91
Total Liabilites	**730,777**	**573,031**	**678,098**	**530,150**

55. Details of the companies wholly or partly owned by the Group a.s. as of 31 December 2018

The tables below present material, fully consolidated subsidiaries, investments in associates accounted for at equity and other investments including direct and indirect ownership.

Company name, registered office		2018 Interest in %	2017 Interest in %
Fully consolidated subsidiaries			
Credit institutions			
Stavební spořitelna České spořitelny, a.s.	Prague	100.0%	100.0%
Other financial institutions			
brokerjet České spořitelny, a.s. v likvidaci	Prague	100.0%	100.0%
CEE Property Development Portfolio 2 a.s. ('CPDP 2 a.s.')	Prague	100.0%	100.0%
CEE Property Development Portfolio B.V. ('CPDP B.V.')	The Netherlands	20.0%	20.0%
CS Property Investment Limited ('CSPIL')	Cyprus	100.0%	100.0%
Czech and Slovak Property Fund B.V. ('CSPF B.V.')	The Netherlands	100.0%	20.0%
Czech TOP Venture Fund B.V.('CTVF B.V.')	The Netherlands	84.0%	84.0%
Česká spořitelna – penzijní společnost, a.s.	Prague	100.0%	100.0%
Erste Leasing, a.s.	Znojmo	100.0%	100.0%
Factoring České spořitelny, a.s.	Prague	100.0%	100.0%
MOPET CZ a.s.	Prague	100.0%	100.0%
REICO investiční společnost České spořitelny, a.s.	Prague	100.0%	100.0%
s Autoleasing SK, s.r.o.	Slovakia	100.0%	100.0%
s Autoleasing, a.s.	Prague	100.0%	100.0%
Other			
BGA Czech, s.r.o.	Prague	100.0%	100.0%
CP Praha s.r.o., v likvidaci	Prague	20.0%	20.0%
CPDP 2003 s.r.o.	Prague	100.0%	100.0%
CPP Lux S.A.R.L.	Luxemburg	20.0%	20.0%
ČS do domu, a.s. v likvidaci	Prague	- %	100.0%
Erste Corporate Finance, a.s.	Prague	100.0%	100.0%
Energie ČS, a.s.	Prague	100.0%	100.0%
Erste Grantika Advisory, a.s.	Brno	100.0%	100.0%
Realitní společnost České spořitelny, a.s.	Prague	100.0%	100.0%
s IT Solutions CZ, s.r.o. v likvidaci	Prague	- %	100.0%
Holding Card Service, s.r.o.	Prague	75.4%	69.0%
VĚRNOSTNÍ PROGRAM IBOD, a.s.	Prague	100.0%	100.0%
ČS NHQ s.r.o.	Prague	100.0%	- %
Other investments			
Other financial institutions			
DINESIA a.s.	Prague	100.0%	100.0%
Other			
CBCB - Czech Banking Credit Bureau, a.s.	Prague	20.0%	20.0%
Erste Group Shared Services (EGSS), s.r.o.	Hodonín	40.0%	40.0%
Investičníweb s.r.o	Prague	100.0%	100.0%
Procurement Services CZ, s.r.o.	Prague	40.0%	40.0%
První certifikační autorita, a.s.	Prague	23.3%	23.3%
RVG Czech, s.r.o	Prague	100.0%	100.0%
S SERVIS, s.r.o.	Znojmo	100.0%	100.0%
Global Payments, s.r.o.	Prague	36.9%	36.9%

The Group fully consolidates the investments in the real estate funds CPDP B.V., and CSPF B.V. in its consolidated financial statements. While the Group holds 20% of the issued share capital of CPDP B.V., and CSPF B.V., and does not have a majority of voting rights or Board representation, it has provided significant additional funding to the funds for investment purposes which results in the Group receiving substantially all of the rewards and bearing substantially all of the risks of the investment.

During the year ended 31 December 2018, the portfolio of subsidiary and associate undertakings underwent the following changes:

- In January 2018 the Bank increased the total capital of Holding Card Service, s. r. o. by CZK 345 million.
- In April 2018 the liquidation of the entity ČS do domu, a. s. v likvidaci was finalized and the entity was deleted from the commercial register.
- In April 2018 the Bank decreased its investment in Česká spořitelna – penzijní společnost, a. s. by CZK 150 million through repayment of additional paid-in-capital
- In June 2018 new company ČS NHQ, s. r. o. was included in Česká spořitelna Group's IFRS consolidation scope. The Bank contributed CZK 10 million of share equity in June 2018 and CZK 20 milllion of additional paid-in-capital in July 2018.
- In November 2018 the liquidation of the entity s IT Solutions CZ, s. r. o. v likvidaci was finalized and the entity was deleted from the commercial register.
- In November 2018 the Bank decreased its investment in v Erste Leasing, a. s. by CZK 300 million through repayment of additional paid-in-capital
- In November 2018 the Bank increased its investment in s Autoleasing, a. s. by CZK 300 million through additional paid-in-capital
- In December 2018 the Bank increased its investment in MOPET CZ, a. s. by CZK 10 million through additional paid-in-capital

Other changes:

- In January 2018 the Bank increased its interest in Holding Card Service, s. r. o. from CZK 423 million to CZK 582 million (of which contribution in kind was CZK 159 million). Contribution in kind represents the Group 10% share in Global Payments, s. r. o. This means that as of January 2018, the direct ownership of the Group in Global Payments, s. r. o. was fully transferred into Holding Card Service, s. r. o. Global Payments is the only material investment in associate.
- In December 2018 the Bank increased ist interest in Czech and Slovak Property Fund B. V. through settlement agreement with the other shareholder.

During the year ended 31 December 2017, the portfolio of subsidiary and associate undertakings underwent the following changes:

- In April ČS do domu, a. s. announced its liquidation
- In April the Bank increased the total capital of VĚRNOSTNÍ PROGRAM IBOD, a. s. by CZK 135 million
- In May the Group sold ist share in ÖCI-Unternehmensbeteiligungs G.m.b.H.
- In May the bank increased its investment in MOPET by CZK 7 million
- In May CPDP Prievozská, a. s. sale was finalized
- In June the Group returned part of the share premium of EUR 3 million back to CS Property Investment Limited
- In June Erste Grantika Advisory, a. s. sold its interest in Euro Dotácie, a. s.
- In July the liquidation of Trenčín Retail Park 1, a. s. and Trenčín Retail Park 2, a. s.was completed
- In August the Group return part of invested resources in the amount of CZK 200 million back to CEE Property Development Portfolio 2, a. s.
- In September the Bank increased its investment in MOPET by CZK 24 million
- In November the Bank increased its investment in Erste Leasing, a. s. by CZK 500 million
- In December the liquidation of ČS do domu, a. s. was finalized, but the fact was acknowledged by the Commercial Register as of 8th January 2018
- In December the liquidation of CPDP Logistics Park Kladno I a.s. and CPDP Logistics Park Kladno II a.s. was completed

Other changes:

- Starting 1 January 2017 s IT Solution CZ, s.r.o. and Brokerjet begun the liquidation of their businesses.

56. Net Debt reconciliation

The table below sets out an analysis of debt of the Group (i.e. debt securities issued) and the movements in the Group's debt (i.e. debt securities issued) for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

56. Net Debt reconciliation

The table below sets out an analysis of debt of the Group (i.e. debt securities issued) and the movements in the Group's debt (i.e. debt securities issued) for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

Cash-flows from debt securities issued

in CZK million	2018	2018
Openning balance of debt securities issued as of 1 January (Note 39)	1,805	9,173
Cash-flows reported within the cash-flow from financing activities	3,653	(7,663)
Non-cash adjustments	-	295
Closing balance of debt securities issued as of 31 December	**5,458**	**1,805**

57. Events after the balance sheet date

There are no events after the balance sheet date that would require adjustment to, or disclosure in these financial statements.

Separate Financial Statements

for the Year Ended 31 December 2018

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union

Statement of Comprehensive Income of Česká spořitelna, a.s.

for the Year Ended 31 December 2018

Income Statement

in CZK million	Notes	2018	2017
Net interest income	1	25,994	23,714
Interest income	1	28,961	25,654
Other similar income	1	3,493	x
Interest expenses	1	(3,508)	(1,940)
Other similar expenses	1	(2,952)	x
Net fee and commission income	2	7,675	7,864
Fee and commission income	2	10,959	10,917
Fee and commission expense	2	(3,284)	(3,053)
Dividend income	3	809	752
Net trading result	4	2,144	2,682
Gains/losses from financial instruments measured at fair value through profit or loss	5	313	(42)
Rental income from other operating leases	6	80	83
Personnel expenses	7	(8,893)	(8,569)
Other administrative expenses	7	(6,439)	(6,528)
Depreciation and amortisation	7	(1,829)	(1,877)
Gains from financial assets and liabilities not measured at fair value through profit or loss, net	8	x	269
Gains from derecognition of financial assets measured at amortised cost	9	18	x
Other gains from derecognition of financial instruments not measured at fair value through profit or loss	10	8	x
Net impairment loss on financial assets not measured at fair value through profit or loss	11	x	(101)
Impairment result from financial instruments	12	(343)	x
Other operating result	13	(1,065)	(73)
Pre-tax result from continuing operations		**18,472**	**18,174**
Taxes on income	14	(3,521)	(3,172)
Net result for the period		**14,951**	**15,002**

Statement of Comprehensive Income

in CZK million	Notes	2018	2017
Net result for the period		14,951	15,002
Other comprehensive income			
Items that may not be reclassified to profit or loss		184	x
Fair value reserve of equity instruments at FVOCI	14	223	x
Own credit risk reserve	14	3	x
Deferred taxes relating to items that may not be reclassified	14	(42)	x
Items that may be reclassified to profit or loss		(350)	(3,191)
Available for sale reserve (including currency translation)		x	(1,207)
Losses during the period		x	(1,207)
Fair value reserve of debt instruments	14	(828)	x
Losses during the period		(767)	x
Reclassification adjustments		(8)	x
Credit loss allowances	12	(53)	x
Cash flow hedge reserve		396	(2,732)
Gains/losses during the period	10,46	396	(2,732)
Deferred tax relating to items that may be reclassified	14	82	748
Gains during the period		80	748
Reclassification adjustments		2	x
Total other comprehensive income	**14**	**(166)**	**(3,191)**
Total comprehensive income for the year		**14,785**	**11,811**

The accompanying notes are an integral part of these separate financial statements.

Statement of Financial Position of Česká spořitelna, a.s.

as of 31 December 2018

in CZK million	Notes	2018	2017
Assets			
Cash and cash balances	16	59,569	259,837
Financial assets held for trading		10,315	11,439
Derivatives	17	10,095	11,308
Other financial assets held for trading	18	220	131
Thereof pledged as collateral		1	1
Financial assets at fair value through profit or loss	19	x	360
Non-trading financial assets at fair value through profit or loss	20	1,433	x
Equity instruments		749	x
Debt securities		616	x
Loans and advances to customers		68	x
Financial assets available for sale	21	x	55,007
Thereof pledged as collateral		x	2,781
Financial assets at fair value through other comprehensive income	22	39,416	x
Thereof pledged as collateral		722	x
Equity instruments		1,252	x
Debt securities		38,164	x
Financial assets held to maturity	23	x	156,309
Thereof pledged as collateral		x	76,335
Loans and receivables to credit institutions	25	x	157,025
Loans and receivables to customers	26	x	597,326
Financial assets at amortised cost	27	1,222,476	x
Thereof pledged as collateral		88,013	x
Debt securities		198,920	x
Loans and advances to banks		377,589	x
Loans and advances to customers		645,967	x
Hedge accounting derivatives	28	1,152	613
Property and equipment	30	8,995	9,532
Intangible assets	31	4,949	4,482
Investments in associates	32	9,140	9,397
Current tax assets	33	494	337
Deferred tax assets	33	653	719
Assets held for sale	35	40	19
Trade and other receivables	29	599	x
Other assets	34	1,065	1,135
Total assets		**1,360,296**	**1,263,537**

in CZK million	Notes	2018	2017
Liabilities and equity			
Financial liabilities held for trading	17	10,174	11,480
Derivatives		10,174	11,480
Financial liabilities at fair value through profit or loss	36	1,935	1,240
Deposits from customers		1,935	1,240
Financial liabilities at amortised cost	37	1,220,357	1,121,201
Deposits from banks		317,906	298,413
Deposits from customers		887,866	813,731
Debt securities issued		12,130	8,478
Other financial liabilities		2,455	579
Hedge accounting derivatives	28	2,110	1,813
Provisions	38	3,431	2,672
Other liabilities	39	5,191	9,515
Total equity	**40**	**117,098**	**115,616**
Share capital		15,200	15,200
Additional paid-in capital		12	12
Additional equity instruments		8,107	8,107
Retained earnings and other reserves		93,779	92,297
Total liabilities and equity		**1,360,296**	**1,263,537**

The accompanying notes are an integral part of these separate financial statements.

These separate financial statements were prepared by the Bank and authorized for issue by the Board of Directors on 19 March 2019 and are subject to approval at the General Meeting of shareholders.

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-chairman of the Board of Directors

Statement of Changes in Total Equity

for the Year Ended 31 December 2018

in CZK million	Share capital	Additional paid-in-capital	Retained earnings	Additional equity instruments	Cash flow hedge reserve	Available for sale reserve	Fair value reserve	Own credit risk reserve	Total equity
As of 1 January 2017	**15,200**	**12**	**89,759**	**8,107**	**294**	**2,580**	**x**	**x**	**115,952**
Dividends paid	-	-	(12,152)	-	-	-	x	x	(12,152)
Other	-	-	5	-	(1)	1	x	x	5
Total comprehensive income	-	-	15,002	-	(2,213)	(978)	x	x	11,811
Net result for the period	-	-	15,002	-	-	-	x	x	15,002
Other comprehensive income	-	-	-	-	(2,213)	(978)	x	x	(3,191)
Change in cash flow hedge reserve	-	-	-	-	(2,732)	-	x	x	(2,732)
Change in revaluation reserve	-	-	-	-	-	(1,207)	x	x	(1,207)
Change in tax	-	-	-	-	519	229	x	x	748
As of 31 December 2017	**15,200**	**12**	**92,614**	**8,107**	**(1,920)**	**1,603**	**x**	**x**	**115,616**
As of 1 January 2018	**15,200**	**12**	**92,614**	**8,107**	**(1,920)**	**1,603**	**-**	**-**	**115,616**
Changes of initial application of IFRS 9	-	-	(764)	-	-	(1,603)	1,362	-	(1,005)
Restated as of 1 January 2018	**15,200**	**12**	**91,850**	**8,107**	**(1,920)**	**x**	**1,362**	**-**	**114,611**
Dividends paid	-	-	(12,300)	-	-	x	-	-	(12,300)
Other changes	-	-	2	-	-	x	-	-	2
Total comprehensive income	-	-	14,951	-	321	x	(490)	3	14,785
Net result for the period	-	-	14,951	-	-	x	-		14,951
Other comprehensive income	-	-	-	-	321	x	(490)	3	(166)
Change in fair value reserve	-	-	-	-	-	x	(605)		(605)
Change in cash flow hedge reserve	-	-	-	-	396	x	-	-	396
Change in tax	-	-	-	-	(75)	x	115		40
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in own credit risk	-	-	-	-	-	x	-	3	3
As of 31 December 2018	**15,200**	**12**	**94,503**	**8,107**	**(1,599)**	**x**	**872**	**3**	**117,098**

The accompanying notes are an integral part of these separate financial statements.

Cash Flow Statement

for the Year Ended 31 December 2018

in CZK million	Notes	2018	2017 adjusted
Pre-tax result from continuing operations		**18,472**	**18,174**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation and net impairment of non-financial assets	7	2,432	1,877
Net allocation to provisions (including credit risk provisions)	13,38	291	719
Gains/(losses) from the measurement and derecognition of financial assets and financial liabilities		252	x
Gains/(losses) from the sale of non-financial assets		(228)	(248)
Change in fair values of trading derivatives		(111)	843
Accrued interest, amortisation of discount and premium		373	(829)
Other adjustments		(42)	(269)
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Deposits with the CNB		x	166
Loans and receivables to credit institutions		x	(136,843)
Loans and receivables to customers		x	(66,201)
Financial assets held for trading		(66)	7,463
Financial assets at fair value through profit or loss		x	40
Non-trading financial assets at fair value through profit or loss			
Equity instruments		(375)	x
Debt securities		(67)	x
Loans and advances to customers		(4)	x
Financial assets – available for sale: debt instruments		x	24,113
Financial assets at fair value through other comprehensive income: debt instruments		13,548	x
Financial assets held to maturity		x	2,502
Financial assets at amortised cost			
Debt securities		(38,662)	x
Loans and advances to banks		(222,418)	x
Loans and advances to customers		(48,595)	x
Hedge accounting derivatives		153	(2,732)
Other assets from operating activities		(430)	206
Financial liabilities at amortised costs			
Deposits from banks		18,075	184,752
Deposits from customers		73,266	105,242
Financial liabilities held for trading		-	(3,945)
Financial liabilities at fair value through profit or loss		643	-
Payments for taxes on income		(3,353)	(2,957)
Other liabilities from operating activities		(1,095)	762
Cash flow from operating activities		**(187,941)**	**132,835**
Financial assets – available for sale: equity instruments		x	(315)
Financial assets at fair value through other comprehensive income: equity instruments		(149)	x
Proceeds of disposal			
Property and equipment, intangible assets and investment properties	30,31	315	475
Acquisition of			
Property and equipment, intangible assets and investment properties	30,31	(2,818)	(2,780)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)		-	(665)
Disposal of subsidiaries	32	257	282
Cash flow from investing activities		**(2,395)**	**(3,003)**
Dividends paid to equity holders of the parent		(12,300)	(12,033)
Dividends paid to non-controlling interests		-	(119)
Capital increases		-	4
Proceeds from bonds issued		-	997
Sale / (Re-purchase) of bonds in issue	52	3,654	(11,611)

in CZK million	Notes	2018	2017 adjusted
Cash flow from financing activities		**(8,646)**	**(22,762)**
Cash and cash equivalents at beginning of period	**16**	**259,837**	**151,877**
Cash flow from operating activities		(187,941)	132,835
Cash flow from investing activities		(2,395)	(3,003)
Cash flow from financing activities		(8,646)	(22,762)
Effect of currency translation		(1,286)	890
Cash and cash equivalents at end of period		**59,569**	**259,837**
Cash flows related to taxes, interest and dividends (included in cash flow from operating activities)			
Payments for taxes on income (included in cash flow from operating activities)		(3,353)	(2,957)
Interest received		31,910	25,442
Dividends received	3	809	752
Interest paid		(6,370)	(2,139)
Dividends paid to equity holders of the parent		(12,300)	(12,152)

The accompanying notes are an integral part of these separate financial statements.

Notes to the Financial Statements

for the year ended 31 December 2018

A. 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's sole shareholder is Erste Group Bank AG ('Erste Group Bank'), having its registered office address at Am Belvedere 1, 1100, Vienna and which is the ultimate parent. The Bank together with subsidiaries and associated companies forms the Group. Information on the ultimate parent company's shareholder structure is published in the financial statements of Erste Group Bank AG for the year 2018. The General Meeting held on 3 October 2018 approved the squeeze-out of minority shareholders and transfer of all shares to a single shareholder, the Erste Group Bank.

The Bank 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 Bank, liquidity, interest rate risk, foreign currency positions and operating risk.

The Bank 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.

B. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation of financial statements

The separate financial statements of the Bank for the 2018 financial year and the related comparative information were prepared in compliance with applicable International Financial Reporting Standards as adopted by the European Union ('IFRS') on the basis of IAS Regulation (EC) No. 1606/2002.

The comparative period columns in the 2018 financial statements reflect the structure used in 2017 financial statements and present amounts based on the original classification and measurement requirements of IAS 39 (superseded by IFRS 9) and IFRS 7 (before the consequential amendments resulting from applying IFRS 9) – for more details see comments in the section Accounting and measurement methods in the text below.

The current period columns in the 2018 financial statements reflect the new structure of financial statements resulting from the adoption of IFRS 9, which came into force as of 1 January 2018 – for more details see comments in the section Accounting and measurement methods and in the section Application of new standards (where also financial impact of IFRS 9 transition is disclosed) in the text below.

The separate financial statements have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income, derivative financial instruments and other financial assets and liabilities held for trading, and financial assets and liabilities at fair value through profit or loss, all of which have been measured at fair value.

When the balances in the financial statements are not applicable for the particular reporting period, the cross („x") is used.

The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The separate financial statements have been prepared on a going concern basis. The Bank has not prepared the separate annual report and intends to include the required information in the consolidated annual report together with consolidated financial statements.

The Bank has also prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries (the ‚Group'). In the consolidated financial statements, subsidiaries have been fully consolidated. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2018 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

Except as otherwise indicated, all amounts are stated in millions of Czech crowns ('CZK'). The tables in this report may contain rounding differences.

The financial statements have been prepared in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

b) Accounting and Measurement Methods

IFRS 9 New standard

As of 1 January 2018 the Bank has adopted IFRS 9 Financial Instruments as endorsed by the EU in November 2016. This resulted in changes in accounting policies for classification and measurement of financial assets and financial liabilities, as well as for impairment of financial assets. IFRS 9 also significantly amends IFRS 7 Financial instruments: Disclosures, due to which disclosures of information on financial instruments have been adapted to the new requirements.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative amounts for the previous financial year 2017. As a result, the comparative period disclosures in the notes and comparative period columns in 2017's financial statements are based on the original classification and measurement requirements of IAS 39 and IFRS 7 (before the consequential amendments resulting from IFRS 9).

Due to this fact, accounting policies relevant for financial instruments in accordance with IAS 39 are also disclosed.

Accounting policies disclosed for both comparative (2017's financial statements) and current period (2018's financial statements) are disclosed in the Chapter Significant Accounting Policies in the following way:

1) Accounting policies and principles relevant only for the comparative period, i.e. accounting policies and principles, which were fully replaced by IFRS 9 requirements.
2) Accounting policies and principles, which are relevant for the current reporting period.
3) Accounting policies and principles, which are the same for both reporting period (i.e. remain unchanged).

As allowed by IFRS 9, the Bank has elected to continue applying hedge accounting requirements of IAS 39.

For the overall impact on the statement of financial position resulting from the implementation of IFRS 9 see the part Detailed information and disclosures in respect of transition to IFRS 9.

Detailed information and disclosures in respect of transition to IFRS 9

The tables make use of the following acronyms:
AC – amortised cost
AFS – available for sale
FV – fair value
FVO – fair value option
FVOCI – fair value through other comprehensive income
FVPL – fair value through profit or loss
HTM – held-to-maturity
L & R – loans and receivables
OCI – other comprehensive income
SPPI – solely payment of principal and interest
CLA – credit loss allowance

i. Classification and measurement of financial instruments

The table below presents changes between measurement categories and carrying amounts of financial assets and financial liabilities under IAS 39 and IFRS 9 as at 1 January 2018.

As required by IFRS 9, financial impact from IFRS 9 adoption (i.e. from revaluation and remeasurement of financial assets and liabilities originally measured and classified based on IAS 39) is recognized in equity (retained earnings or other comprehensive income „OCI").

To illustrate the transition impact, the effects are disclosed in respect of original statement of financial position reflecting IAS 39 requirements.

in CZK million	Comments	Original classification under IAS 39		New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
		Portfolio	Measurement method			
Financial assets						
Cash and cash balances		Loans and receivables	AC	Amortised cost	259,837	259,825
Derivatives		Held-for-trading	FVPL	Held-for-trading (FVPL)	11,308	11,308
Other trading assets		Held-for-trading	FVPL	Held-for-trading (FVPL)	131	132
Derivatives – hedge accounting		Hedge accounting	FV	Hedge accounting	613	613
Loans and receivables to credit institutions		Loans and receivables	AC	Amortised cost	157,025	157,018
Loans and receivables to customers		Loans and receivables	AC	Amortised cost	595,103	594,105
				Mandatorily at FVPL	2,223	2,223
Financial assets – available for sale (Debt securities)	a	AFS	FVOCI	Amortised cost	1,058	1,023
				Mandatorily at FVPL	254	254
				FVOCI	52,292	52,292
Financial assets – available for sale (Equity instruments)	a	AFS	FVOCI	Mandatorily at FVPL	374	374
				FVOCI	1,029	1,029
Financial assets – held to maturity		Held-to-maturity	AC	Amortised cost	156,309	156,272
Financial assets – at fair value through profit or loss		FV option	FVPL	Mandatorily at FVPL	71	71
				Designated at FVPL	289	289
Total financial assets					**1,237,916**	**1,236,828**
Financial liabilities						
Derivatives		Held-for-trading	FVPL	Held-for-trading (FVPL)	11,480	11,480
Derivatives – hedge accounting		Hedge accounting	FV	Hedge accounting	1,813	1,813
Financial liabilities measured at amortised cost		Amortised cost	AC	Amortised cost	1,121,201	1,121,201
Financial liabilities – at fair value through profit or loss (Deposits from customers)		FV option	FVPL	Designated at FVPL	1,240	1,240
Total financial liabilities					**1,135,734**	**1,135,734**

The original carrying amount under IAS 39 is adjusted by CZK 307 million in respect of debt securities and equity securities compared to the 2017 financial statements due to a reclassification between debt and equity instruments related to investments in open-ended funds. Investments in funds were treated as equity instruments in 2017. Emphasis was put on their economic substance of being equity securities like.

From 2018 the Bank has started to classify investments in open-ende funds as debt instruments. Preference is put on the puttable feature due to which they meet the definition of a liability in accordance with IAS 32. Thus, they are debt instruments both from the issuer and the investor perspective.

Under IFRS 9, investments in funds were reclassified to the mandatorily at FVPL category due to the assets having contractual cash flows that are not SPPI (solely payments of principal and interest). In the transition disclosures they are treated as debt instruments also in respect of the IAS 39 carrying amount.

Reconciliation of carrying amounts of financial assets is based on measurement categories.

ii. Reconciliation of carrying amounts of financial assets based on measurement categories

in CZK million	Comments	IAS 39 carrying amount 31 Dec 17	Reclassi-fications	Remeas-urement	IFRS 9 carrying amount 1 Jan 18	Retained earnings effects	OCI effects
Amortised cost							
Additions:							
from IAS 39 FVOCI (AFS) – debt securities	a	-	1,058	(35)		(1)	(34)
from IAS 39 AC (L&R, HTM) (impairment remeasurement)		-	-	(1,053)		(1,053)	-
Subtractions:		-					
to IFRS 9 Mandatorily at FVPL (IAS 39: L&R) – loans and advances to customers		-	(2,223)	-		-	-
Total - amortised cost	**b**	**1,170,496**	**(1,165)**	**(1,088)**	**1,168,243**	**(1,054)**	**(34)**
Fair value through other comprehensive income							
Fair value through other comprehensive income – debt securities	e					-	-
Additions:							
from IAS39 AFS (impairment remeasurement)						(104)	104
Subtractions:							
to IFRS 9 AC (IAS 39: AFS)	a	-	(1,058)	-		-	-
to IFRS 9 Mandatorily at FVPL (IAS 39: AFS)		-	(254)	-		-	-
Subtotal – debt securities at FVOCI		**53,605**	**(1,312)**	**-**	**52,293**	**(104)**	**104**
Fair value through other comprehensive income – equity instruments							
Subtractions:				-			
to IFRS 9 FVPL (IAS 39: AFS)	c	-	(374)	-		-	-
Subtotal – equity instruments at FVOCI		**1,402**	**(374)**	**-**	**1,028**	**-**	**-**
Total – fair value through other comprehensive income	**e**	**55,007**	**(1,686)**	**-**	**53,321**	**(104)**	**104**
				-			
Fair value through profit or loss							
Additions:				-			
from IAS 39 AC (L&R) (IFRS 9: Mandatorily at FVPL) – loans and advances to customers		-	2,223	-		-	-
from IAS 39 FVOCI (AFS) (IFRS 9: Mandatorily at FVPL) – debt instruments		-	254	-		80	(80)
from IAS 39 FVOCI (AFS) – equity instruments	c	-	374	-		287	(287)
Total – fair value through profit or loss	**d**	**11,800**	**2,851**	**-**	**14,651**	**367**	**(367)**
Total – financial assets		**1,237,303**	**-**	**(1,088)**	**1,236,215**	**(791)**	**(297)**

(a) Debt securities that were classified as available for sale and measured at FVOCI under IAS 39 and that are part of the portfolios connected to asset and liability management activities were reclassified to the amortised cost measurement category under IFRS 9 due to the business model of holding the assets to collect contractual cash flows.

(b) The IFRS 9 carrying amount as at 1 January 2018 includes IFRS 9 statement of financial position line items with the following carrying amounts in CZK million:

- cash and cash balances 259,825;
- financial assets at amortised cost:
  - a) debt securities: 157,295;
  - b) loans and advance to credit institutions: 157,018; and
  - c) loans and advances to customers: 593,670; and
  - d) trade and other receivables: 435

(c) The reclassification of CZK 374 million from the available for sale category under IAS 39 to the fair value through profit or loss category under IFRS 9 relates to those investments in equity instruments that are not held for trading and that were not designated as measured at FVOCI upon the transition to IFRS 9.

(d) The IFRS 9 carrying amount of the item Fair value through profit or loss as at 1 January 2018 includes IFRS 9 statement of financial position line items with the following carrying amounts in CZK million:

- derivatives – held for trading: 11,308;

- other trading assets: 132;
- non-trading financial assets at FVPL:
  a) equity instruments mandatorily at FVPL: 71;
  b) equity instruments designated at FVPL: 374;
  c) debt instruments mandatorily at FVPL: 254;
  d) debt instruments designated at FVPL: 289, and
  e) loans and advances to customers mandatorily at FVPL: 2,223.

(e) For the IFRS 9 carrying amount of the item FVOCI debt instruments see a) in previous table i. Classification and measurement of financial instruments.

As a result, the impairment remeasurements had a negative impact on the retained earnings amounting to CZK 791 million. Overall, the reclassifications and remeasurements impairment effects decreased the equity by CZK 1,088 million.

iii. Reconciliation of impairment allowances

The following table reconciles the amounts of loss allowances as at 31 December 2017 based on the IAS 39 incurred loss impairment model with the amounts as at 1 January 2018 subject to the IFRS 9 expected credit loss impairment model:

in CZK million	IAS 39 / IAS 37 carrying amount 31 Dec 17	Reclassi-fications	Remeasu-rement	IFRS 9 carrying amount 1 Jan 18
Debt instruments at AC	(10,800)	(1)	(1,442)	(12,243)
Debt instruments at FVOCI	-	(104)	-	(104)
Finance lease	-	-	-	-
Off balance-sheet exposures (loan commitments and guarantees given)	(767)	-	(138)	(905)
Total	**(11,567)**	**(105)**	**(1,580)**	**(13,252)**

The increase in impairment allowances amounting to CZK 1,580 million attributable to remeasurement includes following special effects that did not impact the group equity upon transition to IFRS 9:

- an increase of CZK 388 million representing additional impairment allowances against credit-impaired loans ('Stage 3') in respect of which interest receivables accruing after default were 'suspended' off-balance up to 31 December 2017 but were re-integrated in the on-balance gross carrying amounts of the related assets as of 1 January 2018 as required by IFRS 9.

iv. Deferred tax effects upon transition to IFRS 9

The following table illustrates the effects of IFRS 9 on the carrying amount of deferred tax assets and deferred tax liabilities:

in CZK million	IAS 39 carrying amount 31 Dec 17	IFRS 9 carrying amount 1 Jan 18	Retained earnings increase	OCI increase
Changes in deferred tax assets	719	940	164	57

v. De-designation from and designations to fair value option upon transition to IFRS 9

Financial assets with a carrying amount of CZK 65 million were de-designated from being measured at FVPL upon transition to IFRS 9 (i.e they were originally classified as designated on initial recognition at FVPL based on IAS 39). Reasons for the de-designation of Financial assets is that they should be classified as mandatorily at FVPL based on IFRS 9 due to failing the SPPI test.

No financial liabilities were de-designated from being measured at FVPL upon transition to IFRS 9.

IFRS 15 Revenue from Contracts with Customers

As of 1 January 2018, the Bank has adopted IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 specifies how and when an entity recognises revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative and more relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers, except for those revenue streams for which other standards like IFRS 9 provide more specific regulations. As a consequence, the standard is not focused on recognition of revenues from financial instruments. For the Bank the scope of application is therefore substantially restricted to revenue streams presented under fee and commission income. The adoption of the five step model did not impact the timing or amount of fee and commission income and the related assets and liabilities recognised by the Bank. Accordingly, the impact of the first time application of this standard is limited to new disclosures.

Foreign currency translation

The financial statements are presented in Czech crowns, which is the functional currency of the Bank. The functional currency is the currency of the primary business environment in which the Bank operates.

For foreign currency translation, exchange rates quoted by the Czech National Bank are used.

i. Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective as of the date of transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the income statement under the line item 'Net trading result'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Financial instruments

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IFRS 9 (as well as IAS 39), all financial assets and liabilities – which also include derivative financial instruments – have to be recognised in the statement of financial position and measured in accordance with their assigned categories.

Measurement methods for financial instruments

Measurement of financial assets and financial liabilities is subject to two primary measurement methods.

i. Amortised cost and effective interest rate

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance.

The effective interest rate („EIR") is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before adjusting for any loss allowance) or to the amortised cost of the financial liability. The estimated cash flows consider all contractual terms of the financial instrument but disregard the expected credit losses. The calculation includes transaction costs, origination fees that are an integral part of the EIR and all other premiums and discounts to the par amount.

For purchased or originated credit-impaired financial assets („POCI", see part 'Impairment of financial instruments under IFRS 9') credit-adjusted EIR is used. It is the rate that exactly discounts the estimated future cash flows which consider expected credit losses to the amortised cost of a financial asset.

The EIR is used for recognition of interest income and interest expense. Interest income is calculated in the following way:

- EIR applied to the gross carrying amount for financial assets which are not credit-impaired (Stage 1 and Stage 2, see part 'Impairment of financial instruments');
- EIR applied to the amortised cost for financial assets which are credit-impaired (Stage 3, see part 'Impairment of financial instruments'); and
- credit-adjusted EIR applied to the amortised cost for POCI financial assets.

Under IAS 39 the EIR was applied to the amortised cost of financial assets and financial liabilities.

Interest expense is calculated by applying the effective interest rate to the amortised cost of a financial liability.

ii. Fair value

Fair value is the price that would be received if an asset were sold or paid, if a liability were transferred in an orderly transaction between market participants on the measurement date. The definition also applies to fair value measurements of non-financial assets and liabilities. Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 47 Fair value of financial instruments.

Initial recognition and measurement

Initial recognition

Financial instruments are initially recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets stated at fair value are recognised at trade date and for financial assets not stated at fair value at settlement date. Regular way trades are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired.

Initial measurement of financial instruments

Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described in the chapters below.

'Day 1' profit

Where the transaction price differs from the fair value derived from other observable transactions for the identical instrument in active market or derived using valuation technique that has all significant inputs based on observable markets data, the Bank immediately recognises the difference between the transaction price and the fair value (a Day 1 profit) in the income statement in line item 'Net trading result'.

Classification and subsequent measurement of financial assets under IFRS 9

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:

(i) the business model for managing the financial assets – the assessment is focused on whether the financial asset is part of a portfolio where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business models.

(ii) the cash flow characteristics of the financial assets - the assessment is focused on whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest („SPPI") on the principal amount outstanding.

Application of these criteria leads to classification of financial assets into three measurement categories.

i. Financial assets at amortised cost

Financial assets are measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows and their contractual cash flows are SPPI compliant.

In the statement of financial position, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance. They are presented under the line 'Financial assets at amortised cost', 'Trade and other receivables' and 'Cash and cash balances'. Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

Interest income on these assets is calculated by effective interest method and is included under the line 'Net interest income' (sub-item „Interest income") in the statement of income. Impairment gains or losses are included in the line 'Impairment result from financial instruments'. Gains and losses from derecognition (such as infrequent or insignificant sales) of the assets are reported under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost'.

At the Bank, financial assets at amortised cost constitute the largest measurement category which includes the vast majority of loan business to customers (except for certain loans measured at fair value through profit or loss, if any), interbank lending business (including reverse repo transactions), deposits with central banks, amounts in the course of settlement, trade and other receivables. Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationship, substitution of loan business or other yield enhancement activities). Their common attribute is that significant and frequent sales of such securities are not expected. For a description of what sales are considered as compliant with the held to collect contractual cash flows business model see the „Business model assessment" part in chapter Significant accounting judgements, assumptions and estimates.

ii. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income - Debt securities

Debt instrument financial assets are measured at fair value through other comprehensive income (FVOCI) if their contractual cash flows are SPPI compliant and they are held within a business model whose objective is achieved by both to collect contractual cash flows and sell the assets. In the statement of financial position they are included as 'Debt securities' under the line 'Financial asset at fair value through other comprehensive income'.

Interest income on these assets is calculated using the effective interest method and is included under the line 'Net interest income' (sub-item „Interest income") in the income statement. Impairment gains and losses are recognised in profit or loss in the line 'Impairment result from financial instruments' with opposite entry in OCI rather than against the asset value.

The difference between the fair value at which the assets are carried in the statement of financial position and the amortised cost component is recognised as accumulated OCI in equity specifically under 'Fair value reserve' in the statement of changes in equity. The change for the period is reported as OCI in the statement of comprehensive income in the line 'Fair value reserve of debt instruments'. When the financial asset is derecognised the amount previously accumulated in OCI is reclassified to profit or loss and reported under the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

Financial assets at fair value through other compreshensive income - Equity instruments

For certain investments in equity instruments which are not held for trading, the Bank makes use of the option to measure them at FVOCI. This election is applied to strategic, significant banking business relationship investments. The fair value gains or losses for the period are reported as OCI in the line 'Fair value reserve of equity instruments at FVOCI' of the statement of comprehensive income. The cumulative gains or losses are included under 'Fair value reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition of the investments in equity instruments at FVOCI the amount accumulated in OCI is transferred to retained earnings. Dividends received on these investments are reported under the line 'Dividend income' of the income statement. In the statement of financial position, financial assets measured at fair value through OCI are included as 'Equity instruments' under the line 'Financial asset at fair value through other comprehensive income'.

iii. Financial assets at fair value through profit or loss

There are different reasons for assigning the fair value through profit or loss (FVPL) measurement category to financial assets.

Financial assets whose contractual cash flows are not considered as SPPI are mandatorily measured at FVPL.

Other source of FVPL measurement relates to financial assets which are part of residual business models, i.e. they are neither held to collect contractual cash flows, nor held either to collect contractual cash flows, or sell the assets. These financial assets are generally expected to be sold before their maturity or they are managed and their performance is evaluated on a fair value basis. In the business of the Bank, such business models are typical of assets which are held for trading (i.e. financial assets held by the trading function of the bank) and of assets whose value is expected to be primarily realised through sales.

The Bank also utilizes the option to designate some financial assets as measured at FVPL at initial recognition. Such classification is used if it eliminates or significantly reduces an accounting mismatch between the financial asset, which in the absence of such a classification would be measured at amortised cost or at FVOCI, and the related derivative measured at FVPL.

In the statement of financial position, debt instrument financial assets measured at FVPL are presented as 'Financial assets held for trading', sub-item 'Other financial assets held for trading' and 'Non-trading financial assets at fair value through profit or loss', (sub-items 'Debt securities', 'Loans and advances to banks' and 'Loans and advances to customers'). Non-trading financial assets consist of two sub-categories disclosed in Note 20 which are 'mandatorily at fair value through profit or loss' and 'designated at fair value through profit or loss'. Financial assets are mandatorily measured at fair value through profit or loss either because their contractual cash flows are not SPPI or they are held as part of residual business models that are other than held for trading.

Investments in equity instruments which are held for trading (i.e. financial assets held by the trading function of the bank) are measured at FVPL. They are included in the statement of financial position under the line 'Financial assets - held for trading', sub-item 'Other financial assets held for trading'. Investments in equity instruments which are not held for trading are also measured at FVPL (unless they are designated at FVOCI). They are presented in the statement of financial position under „Non-trading financial assets at fair value through profit or loss", sub-item „Equity instruments", sub-category „mandatorily at fair value through profit or loss" in Note 20.

In the income statement, the profit or loss effects of financial assets measured at FVPL are split into interest income or dividend income and fair value gains and losses. The interest income on debt instruments is presented in the line 'Net interest income' (sub-item „Other similar income"). The dividend income on equity instruments is presented in the line 'Dividend income'. The fair value gains or losses are calculated net of the interest or dividend income. They are reported in the line 'Net trading result' for financial assets held for trading and in the line 'Gains/losses from financial instruments measured at fair value through profit or loss' in case of non-trading financial assets at FVPL.

Classification and subsequent measurement of financial liabilities under IFRS 9

Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss.

i. Financial liabilities at amortised cost

For presentation in the statement of financial position, the line item 'Financial liabilities at amortised cost' is used. The liabilities are further broken down into 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are reported in the line item 'Net interest income' (sub-item „Interest expenses") in the statement of income. Gains and losses from de-recognition (mainly repurchase) are reported under the line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

ii. Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL.

Non-derivative financial liabilities held for trading are those which are incurred principally for the purpose of repurchasing them in the near term.

In the business of the Bank non-derivative held-for-trading liabilities comprise of short sales. These arise from obligations to return securities, which are purchased under agreements to resell or are borrowed through securities lending transactions and subsequently sold to third parties. In the statement of financial position such liabilities are presented under the line 'Financial liabilities held for trading', sub-item 'Other financial liabilities'. The gains or losses on financial liabilities held for trading are reported in the line 'Net trading result' in the income statement.

Furthermore, the Bank makes use of the option to designate some financial liabilities as measured at FVPL at initial recognition (referred to as fair value option) if:

- such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

Financial liabilities designated at fair value through profit or loss are reported in the statement of financial position under the line item 'Financial liabilities at fair value through profit or loss', sub-item „Deposits from customers".

Changes in fair value are recognised in the income statement under the line item 'Gains/losses from financial instruments measured at fair value through profit or loss'. Interest incurred is reported under the line item 'Net interest income' (sub-item „Other similar expenses").

The amount of the fair value change resulting from the credit risk of the financial liability for the period is presented as OCI in the statement of comprehensive income in the line 'Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their own credit risk'. The cumulative amount is recognised as accumulated OCI, specifically under 'Own credit risk reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition (mainly repurchases) of the financial liabilities designated at FVPL the amount accumulated in OCI is transferred to retained earnings.

The cumulative amount recognised in OCI is calculated as the difference between the present value of the liability determined by using the original credit spread and the fair value of the liability. When calculating the present value of the liability by using the original credit spread the rate used for discounting is the sum of the observed interest rate (swap yield curve) and the original credit spread. The original credit spread is determined at initial recognition of the liability and it equals the difference between the total yield of the liability and the observed interest rate (swap yield curve) at that time. For the purpose of calculation of the present value of the liability, the original credit spread remains fixed over the whole life of the liability. The amount of fair value change attributable to changes in credit risk of the liability for the period which is recognised in OCI is the difference between the cumulative amount of the credit risk at the end of the period and at the beginning of the period.

Classification, subsequent measurement and statement of financial position line items of financial instruments under IAS 39

As regards the comparative period information on financial instruments in accordance with IAS 39, the Bank used the following categories of financial instruments:

- financial assets or financial liabilities at fair value through profit or loss;
- available-for-sale financial assets;
- held-to-maturity investments;
- loans and receivables; and
- financial liabilities measured at amortised cost.

The line items as presented in the statement of financial position do not necessarily correspond with the IAS 39 categories of financial instruments. The correspondence between the statement of financial position line items and the categories of financial instruments is described in the table at item (ix).

i. Cash and cash balances in the comparative period

Balances with central banks include only claims (deposits) against central banks and credit institutions which are repayable on demand. Repayable on demand means that it may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this position.

ii. Derivative financial instruments in the comparative period

Please refer to the part 'Derivative financial instruments' below and in Note 1.

iii. Financial assets and financial liabilities - held for trading in the comparative period

Financial assets and financial liabilities – held for trading comprise derivatives and other trading assets and liabilities. Treatment of derivatives – held for trading is discussed below.

Other trading assets and liabilities are non-derivative instruments. They include debt securities as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. In the statement of financial position, they are presented as 'Other trading assets' or 'Other trading liabilities' under the heading 'Financial assets / financial liabilities – held for trading'.

Changes in fair value (clean price for debt instruments) resulting from other trading assets and liabilities are reported in the income statement under the line item 'Net trading result'. Interest income and expenses are reported in the income statement under the line item 'Net interest income'. Dividend income is shown under the line item 'Dividend income'.

If securities purchased under agreement to resell or borrowed through securities lending transactions are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Other trading liabilities'.

iv. Financial assets or financial liabilities designated at fair value through profit or loss in the comparative period

Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition (fair value option).

The Bank uses the fair value option in the case of financial assets managed on a fair value basis. In accordance with a documented investment strategy, the performance of the portfolio is evaluated and regularly reported to the management board. The portfolio contains mostly items of Funds, Financials and Sovereigns.

Financial assets - designated at fair value through profit or loss are recorded in the statement of financial position at fair value under the line item 'Financial assets - designated at fair value through profit or loss', with changes in fair value recognised in the income statement under the line item '' Result from financial assets and liabilities designated at fair value through profit or loss'. Interest earned on debt instruments is reported under the line item 'Net interest income'. Dividend income on equity instruments is shown under the line item 'Dividend income'.

Furthermore, the Bank uses the fair value option in case of some hybrid financial liabilities. This is relevant when:

- such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

Financial liabilities designated at fair value through profit or loss are reported in the statement of financial position under the line item 'Financial liabilities designated at fair value through profit or loss' further broken down into 'Deposits from customers' and 'Debt securities issued'. Changes in fair value are recognised in the income statement under the line item 'Result from financial assets and liabilities designated at fair value through profit or loss'. Interest incurred is reported under the line item 'Net interest income'.

v. Financial assets – available for sale in the comparative period

Available-for-sale financial assets include debt and equity securities as well as other interests in entities with lower than significant influence. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

Available-for-sale financial assets are measured at fair value. In the statement of financial position, available-for-sale financial assets are disclosed under the line item 'Financial assets – available for sale'.

Unrealised gains and losses are recognised in other comprehensive income and reported in the 'Available for sale reserve' until the financial asset is disposed of or impaired. If available-for-sale assets are disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss and reported in the line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net' in case of sale or in the line item 'Net impairment loss on financial assets' in case of impairment.

Interest income on available-for-sale financial assets is reported under the line item 'Net interest income' (sub-item „Interest income"). Dividend income is reported under the line item 'Dividend income'.

In 2017, as part of IFRS 9 implementation, valuation models for investments in unquoted equities were developed. The Bank considers that these models deliver reliable fair value measurement. As a result, these investments were remeasured to fair value throughout 2017.

vi. Financial assets – held to maturity in the comparative period

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity and reported in the statement of financial position as 'Financial assets – held to maturity' if the Bank has the intention and ability to hold them until maturity. After initial recognition, held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated by taking into account any discount, premium and/or transaction costs that are an integral part of the effective interest rate.

Interest earned on financial assets held to maturity is reported in the income statement under the line item 'Net interest income' (sub-item „Interest income"). Losses arising from impairment of such financial assets are presented as 'Net impairment loss on financial assets'. Occasional realised gains or losses from selling are recognised in the income statement under the line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'.

vii. Loans and receivables in the comparative period

The statement of financial position line items 'Loans and receivables to credit institutions' and 'Loans and receivables to customers' include financial assets meeting the definition of loans and receivables.

Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank, upon initial recognition, designates as available for sale; or
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost. Interest income earned is included under the line item 'Net interest income' (sub-item „Interest income") in the income statement. Impairment losses arising from loans and receivables are recognised in the income statement under the line item 'Net impairment loss on financial assets'.

viii. Financial liabilities measured at amortised cost in the comparative period

Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss.

For presentation in the statement of financial position the line item 'Financial liabilities measured at amortised cost' is used. The liabilities are further broken down by 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are reported in the line item 'Net interest income' (sub-item „Interest expenses") in the income statement. Gains and losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported under the line item 'Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net'

ix. Relationships between statement of financial position items, measurement methods and categories of financial instruments in the comparative period:

	Measurement principle		Financial instrument category
Statement of financial position	**Fair value**	**Amortised cost**	**Fair value**
Assets			
Cash and cash balances		x	n/a
Financial assets – held for trading			
Derivatives	x		Financial assets at fair value through profit or loss
Other trading assets	x		Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss	x		Financial assets at fair value through profit or loss
Financial assets – available for sale	x		Available for sale financial assets
Financial assets – held to maturity		x	Held to maturity investments
Loans and receivables to credit institutions		x	Loans and receivables
Loans and receivables to customers		x	Loans and receivables
Hedge accounting derivatives	x		n/a
Liabilities and equity			
Financial liabilities – held for trading			
Derivatives	x		Financial liabilities at fair value through profit or loss
Other trading liabilities	x		Financial liabilities at fair value through profit or loss
Financial liabilities – designated at fair value through profit or loss	x		Financial liabilities at fair value through profit or loss
Financial liabilities at amortised cost		x	Financial liabilities measured at amortised cost
Derivatives – hedge accounting	x		n/a

Reclassifications of financial assets in the comparative period

IAS 39 provides various possibilities to reclassify financial assets between categories of financial instruments. It also places restrictions on some reclassifications. The Bank makes use of reclassification alternatives only in the case of held-to-maturity financial assets. If a significant credit deterioration in a held-to-maturity financial asset results in a change in the intention and ability to hold the asset until maturity, the asset is reclassified into available-for-sale financial assets category. Such reclassifications were not included in the limit that triggers automatic reclassification of the entire held-to-maturity portfolio.

Impairment of financial instruments under IFRS 9

The Bank recognises loss allowances for impairment on its debt instrument financial assets, other than those measured at FVPL and its off-balance credit risk exposures arising from financial guarantees and certain loan commitments.

The impairment is based on expected credit losses whose measurement reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of the impairment loss is recognised as a loss allowance or provision. For the purpose of the measurement of the amount of expected credit loss and recognition of interest income the Bank distinguishes between three stages of impairment.

Stage 1 relates to financial instruments for which no significant increase in credit risk has been identified since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss. Interest income is recognised by effective interest rate applied to the gross carrying amount of the financial asset.

Financial instruments in Stage 2 are subject to significant increase in credit risk since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss. Interest income is recognised by effective interest rate applied to the gross carrying amount of the financial asset (same as for Stage 1).

Financial assets in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, the Bank generally adopted the approach of aligning it with the regulatory concept (i.e. CRR concept) of 'default' for lending exposures. The impairment for such financial assets is measured in the amount of lifetime expected credit loss. Interest income is recognised by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset. From balance sheet perspective, interest is accrued based on the financial assets' gross carrying amount. The difference between the interest accrued on the assets and the interest income recognised is recognised in the allowance account (without impacting the impairment loss).

More detailed information about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 45 Risk management, part Credit risk.

For financial assets measured at amortised cost the net carrying amount of the financial asset presented on balance sheet is the difference between the gross carrying amount and the cumulative loss allowance. However, for financial assets measured at FVOCI the loss allowance is recognised in accumulated OCI, specifically under 'Fair value reserve' in the statement of changes in equity.

Loss allowances for loan commitments and financial guarantees are presented under the statement of financial position line item 'Provisions'.

For financial assets which are credit-impaired at initial recognition (POCI - financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted effective interest rate. As a result, no loss allowance is recognised at inception. Subsequently only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.

In the statement of income, impairment losses and their reversals (gains) on all kinds of financial instruments not measured at FVPL are presented in the line item 'Impairment result from financial instruments'.

In order to maximise collection opportunities and minimise the number of defaults, the Bank renegotiates loans to customers in financial difficulties (referred to as forbearance cases). Both retail and corporate loans can be subject to forbearance. Under the Bank's forbearance policy, loan forbearance can be granted if the debtor is currently in default or if there is a high risk of default, there is evidence that the debtor made all efforts to pay according to the original contractual terms and it is expected that the debtor is able to meet the revised terms. Revised terms could be extended maturity, instalment reduction, changing the timing of the interest payments, interest reduction or forgiveness, revolving exposure change to instalments.

Loans subject to forbearance are generally not derecognised and are considered for impairment based on renegotiated conditions. However, if the renegotiation can be qualitatively assessed as a substantial extinguishment of the rights to collect the cash flows due to material changes in the timing and amount of the cash flows, the loan is derecognised and the renegotiated loan is recognized as a new loan initially recognised at fair value.

Impairment of financial assets and credit risk losses of contingent liabilities under IAS 39 in the comparative period

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated.

The Bank uses the Capital requirements regulation („CRR") definition of default as a primary indicator of loss events. Default, as a loss event, occurs when

- The obligor is more than 90 days past due on any material credit obligation;
- As a result of specific information or an event, the obligor is unlikely to fulfil its credit obligations in full, without recourse to actions such as realising security;
- The obligor is subject to distressed restructuring, i.e. a change in contract terms, for clients in financial difficulties, resulting in a material loss;
- The obligor is subject to bankruptcy or similar protection proceedings.

For assessment at portfolio level, the Bank uses the incurred but not reported losses concept; indications of impairment are observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. It identifies the time period between the moment of the loss event causing future problems and actual detection of the problems by the Bank at the moment of default. Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability that will result in a loss.

Write-offs

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered remote. The loan is written-off against the related account 'Net impairment loss on financial assets not measured at fair value through profit or loss' / 'Impairment result from financial instruments' in the income statement. If the reason for provisioning is no longer deemed appropriate, the redundant impairment charge is released into income. The relevant amount and recoveries of loans and advances previously written-off are also reflected in the income statement through 'Net impairment loss on financial assets not measured at fair value through profit or loss'/ 'Impairment result from financial instruments'.

Derecognition of financial instruments including treatment of contractual modifications

i. Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;

and either:

- it has transferred substantially all risks and rewards connected with ownership of the asset, or
- has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

The difference between the carrying amount of the derecognised asset and the consideration received is presented in the statement of income in the line 'Gains/losses from derecognition of financial assets measured at amortised cost' or, for financial assets at FVOCI, in the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'. For financial assets measured at FVPL the derecognition gains or losses are recognised together with the measurement result in the lines 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

ii. Derecognition criteria with respect to contractual modifications of financial assets

In the normal course of running its lending business and in agreement with the respective debtors, the Bank may renegotiate or otherwise modify some terms or conditions of the underlying contracts. This can involve either market-driven commercial renegotiations or contractual changes aimed at alleviating or preventing borrower's financial difficulty. For the purpose of capturing the economic substance and financial effect of such contractual modifications, the Bank has developed a set of criteria to assess whether or not the modified terms are substantially different from the original terms.

Contractual modifications leading to derecognition of the related original assets result in the initial recognition of new financial assets. If the debtor is in default or the significant modification leads to the default, then the new asset will be treated as POCI. The difference between the carrying amount of the derecognised asset and initial fair value of the new POCI asset is presented in the statement of income in the line 'Impairment result from financial instruments'.

If the debtor is not in default or the significant modification does not lead to default, the new asset recognised after derecognition of the original asset will be in Stage 1. For loans measured at amortised cost the unamortized balance of the origination fees/transaction costs considered in the effective interest rate is presented in the line 'Net interest income' at the derecognition date. The release of the credit loss allowance attached to the original asset at the date of that significant modification, as well as the credit loss allowance recognised for the new asset are presented in the line 'Impairment result from financial instruments'. The remaining difference is presented in the line 'Gains/losses from derecognition of financial assets measured at amortised cost'.

For debt instrument assets not measured at FVPL that are subject to contractual modifications that do not result in derecognition, the gross carrying amount of the asset is adjusted against recognising a modification gain or loss in profit or loss. The modification gain or loss equals the difference between the gross carrying amount before the modification and the present value of the cash flows based on the modified terms discounted with the original effective interest rate. In the statement of income the modification gain or loss is presented in the line 'Net interest income' (sub-item „Interest income")

iii. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. This normally occurs when the liability is repaid or repurchased. In the statement of income the difference between the carrying amount of the derecognised financial liability and the consideration paid is presented in the line 'Other gains/losses from financial instruments not measured at fair value through profit or loss', 'Gains/losses from financial instruments measured at fair value through profit or loss' and 'Net trading result' depending on the measurement category of the derecognised financial liability.

Derivative financial instruments

Derivatives used by the Bank include mainly interest rate swaps, currency futures, forward rate agreements, interest rate options, currency swaps and currency options. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

For presentation purposes derivatives are split into:
- Derivatives – held for trading; and
- Derivatives – hedge accounting.

Derivatives – held for trading are those which are not designated as hedging instruments. They are presented in the line item 'Derivatives' under the heading 'Financial assets / financial liabilities – held for trading'. All kinds of non-hedging derivatives without regard to their internal regulatory classification, i.e. both derivatives held in the trading book and banking book according with CRR are presented in this line item.

Derivatives – hedge accounting are those which are designated as hedging instruments fulfilling the conditions of IAS 39. In the statement of financial position, they are presented in the line item 'Hedge accounting derivatives' on asset or liability side.

Changes in fair value (clean price) of derivatives in fair value hedges are recognised in the income statement in the line item 'Net trading result'. The effective part of changes in fair value (clean price) of derivatives in cash flow hedges is reported in other comprehensive income in the line item 'Cash flow hedge reserve'. Ineffective part of changes in fair value (clean price) of derivatives in cash flow hedges is recognised in profit or loss under the line item 'Net trading result'.

Interest income/expense related to derivatives in fair value hedges is recognised in the income statement in the line item 'Net interest income' (sub-items „Other similar income" or „Other similar expenses").

Embedded derivatives

The Bank is involved in business with debt instruments containing structured features. Structured features mean that a derivative is embedded in the host instruments. Embedded derivatives are separated from the host debt instruments if
- The economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments;
- The embedded derivative meets the definition of derivative; and
- The hybrid instrument is not a financial asset or liability held for trading or designated at fair value through profit or loss.

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented in the statement of financial position under the line item 'Derivatives' in financial assets – held for trading or financial liabilities – held for trading.

At the Bank, derivatives that are not closely related and are separated are predominantly embedded in issued host debt instruments recognised as liabilities. The most typical cases are issues of bonds and deposits that contain interest caps, floors or collars that were in the money at origination, contractual features linking payments to non-interest variables such as FX rates, equity and commodity prices and indices, or third-party credit risk.

Hedge accounting

The Bank makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. The Bank elected to continue using IAS 39 for hedge accounting after 1 January 2018. At inception of a hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset the fair value changes of the hedging instrument in a range of 80% to 125%. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by the Bank are specified internally in hedge policy.

(i) Fair value hedges

Fair value hedges are employed to reduce market risk. For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the income statement under the line item 'Net trading result'. Interest income and expenses on hedging derivatives are reported under the line item 'Net interest income' (sub-items „Other similar income or „Other similar expenses"). The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the income statement under the line item 'Net trading result' and adjusts the carrying amount of the hedged item.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item is amortised to the income statement under the line item 'Net interest income' (sub-items „Other similar income or „Other similar expenses") until maturity of the financial instrument.

(ii) Cash flow hedges

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and reported under the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement under the line item 'Net trading result'. For determination of the effective and ineffective portions, the derivative is considered at its dirty price, i.e. including the interest component. If the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is reclassified from other comprehensive income in the corresponding income or expense line item in the income statement (mainly 'Net interest income'; sub-items „Other similar income or „Other similar expenses"). As far as accounting for hedged items in cash flow hedges is concerned there is no change compared to the situation when no hedging is applied.

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income remains separate in 'Cash flow hedge reserve' until the transaction occurs.

Repurchase and reverse repurchase agreements

Transactions where securities are sold under an agreement to repurchase at a specified future date are also known as 'repos' or 'sale and repurchase agreements'. Securities sold are not derecognised from the statement of financial position, as the Bank retains substantially all the risks and rewards of ownership because the securities are repurchased at a fixed price when the repo transaction ends. Furthermore, the Bank is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to the Bank or are reflected in the repurchase price.

The corresponding cash received is recognised in the statement of financial position with a corresponding obligation to return it as a liability under the line item 'Financial liabilities measured at amortised cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and recorded in the income statement under the line item 'Net interest income' (sub-item „Interest expenses") and is accrued over the life of the agreement. Financial assets transferred out by the Bank under repurchase agreements remain on the Bank's statement of financial position and are measured according to the rules applicable to the respective statement of financial position item. Moreover, they are presented in „Thereof pledged as collateral" positions under the respective balance sheet items.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. Such transactions are also known as 'reverse repos'. The consideration paid is recorded in the statement of financial position under the respective line items 'Loans and advances to banks' or 'Loans and advances to customers', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement and recorded in the income statement under the line item 'Net interest income' (sub-item „Interest income").

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by the Bank as a lender because the securities are received at the end of the securities lending transaction. Furthermore, the Bank is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities lendings. The securities lent are presented in „thereof pledged as collateral" positions under the respective balance sheet items.

Securities borrowed are not recognised in the statement of financial position unless they are then sold to third parties. In this case, the obligation to return the securities is recorded as a short sale within 'Other liabilities'.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees, consisting of various types of letters of credit and guarantees. A financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

If the Bank is in a position of being a guarantee holder, the financial guarantee is not recorded in the statement of financial position but is taken into consideration as collateral when determining impairment of the guaranteed asset.

The Bank as a guarantor recognises financial guarantees as soon as it becomes a contracting party. Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee.

The premium received is recognised in the income statement under the sub-item „Fee and commission income" under 'Net fee and commission income' and is amortized on a straight-line basis over the life of the guarantee and loan commitments.

Leasing

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. A finance lease at the Bank is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements at the Bank are classified as operating leases. This mainly includes the leasing of commercial real estate, automobiles and small trucks.

The Bank as a lessor

In the case of operating leases, the leased asset is reported by the lessor in 'Property and equipment' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the income statement under the line item 'Rental income from other operating leases'.

The Bank as a lessee

As a lessee, the Bank has not entered into any leases meeting the conditions of finance leases. Operating lease payments are recognised as an expense in the income statement on the line item 'Other administrative expenses' on a straight-line basis over the lease term.

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the income statement on the line item 'Depreciation and amortisation' and impairment under the line item 'Other operating result'.

The estimated useful lives are as follows:

	Useful life in years
Buildings	15–50
Office furniture and equipment	4–10
Passenger cars	4–8
Computer hardware	4–6

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement under the line item 'Other operating result'.

Intangible assets

The Bank's intangible assets include computer software, licences, know-how and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Costs of internally generated software are capitalised if the Bank can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement under the line item 'Depreciation and amortisation'.

The estimated useful lives are as follows:

	Useful life in years
Computer software	4–8

Brands are not amortised as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life, if there are no legal, contractual, regulatory or other factors limiting that useful life. Brands are tested for impairment annually within the cash-generating unit to which they belong, and impairment is recognised if appropriate. Furthermore, each period brands are reviewed as to whether current circumstances continue to support the conclusion as to indefinite life. In the event of impairment, impairment losses are recognised in the statement of income under the line item 'Other operating result'.

Impairment of non-financial assets (property and equipment, intangible assets)

The Bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash generating unit's (CGU) fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

At each reporting date an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Bank estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the income statement under the line item 'Other operating result'.

Non-current assets and disposal groups held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months. If assets are to be sold as part of a group that may also contain liabilities (e.g. a subsidiary) they are referred to as disposal group held for sale.

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported under the statement of financial position line item 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented on the statement of financial position under the line item 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Should the impairment loss in a disposal group exceed the carrying amount of the assets that are within the scope of IFRS 5 measurement requirements, there is no specific guidance on how to treat such a difference. The Bank recognises this difference as a provision under the statement of financial position line item 'Provisions'.

Investments in subsidiaries and associates

Investments in subsidiaries, associates and joint ventures are measured at cost less any impairment loss. The transaction costs are capitalised as part of the cost of the investment. The transaction costs are the costs directly attributable to the acquisition of the investment such a profession fees for legal services, transfer taxes and other acquisition related costs.

Initial cost of the investments comprises also the contingent consideration. The subsequent remeasurement of the contingent consideration classified as financial liability is recognised in profit or loss.

The investments are tested for impairment whenever there are indicators that the carrying amount of an investment may not be recoverable. If the recoverable amount of an investment (the higher of its fair value less cost to sell and its value in use) is less than its carrying amount, the carrying amount is reduced to its recoverable amount.

The carrying amount of an investment is derecognised on disposal. The difference between the fair value of the sale proceeds and the disposed share of the carrying amount of the investment is recognised in profit or loss as gain or loss on disposal. The same applies if the disposal result in a step down from subsidiary to joint venture or an associate measured at cost.

Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. In the statement of financial position, provisions are reported under the line item 'Provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigation and restructuring. Expenses or income related to provisions other than for credit loss impairment are reported under the line item 'Other operating result'. However restructuring expenses are presented under line item Personnel expenses.

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly before the end of the reporting period. Any restructuring provision only includes the direct expenditure arising from the restructuring which is necessarily entailed and is not associated with the ongoing activities of the Bank.

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the temporary difference is reversed or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed.

Deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Share capital

The issued capital (registered, subscribed and paid) as at the end of the reporting period is accounted for at an amount recorded in the Commercial register.

Fiduciary assets

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholder.

Items of the income statement

The description and recognition criteria of the line items reported in the income statement are as follows:

(i) Net interest income

Net interest income is broken down into line items of interest income, other similar income, interest expenses and other similar expenses. The distinguishing factor is whether the EIR method is mandatorily applied for recognition of interest income or expense in accordance with IFRS 9.

'Interest income' relates to interest revenue from financial assets measured at amortised cost and at fair value through other comprehensive income. It is calculated using the EIR method as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part 'i. Amortised cost and effective interest rate'.

'Other similar income' captures interest-like sources of income resulting from non-derivative financial assets measured at fair value through profit or loss, held-for-trading derivatives, hedge accounting derivatives and negative interest on financial liabilities.

'Interest expenses' relates to interest expense from financial liabilities measured at amortised cost calculated using effective interest rate as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part 'i. Amortised cost and effective interest rate'.

'Other similar expenses' capture interest-like sources of expense resulting from non-derivative financial liabilities measured at fair value through profit or loss, held-for-trading derivatives, hedge accounting derivatives, negative interest on financial assets, provisions recognised under IFRS 9 and IAS 37 (unwinding of the time value of the money effect due to passage of time).

As regards types of financial instruments, interest income and other similar income include interest income on loans and advances to banks and customers, on cash balances, and on debt securities in all measurement categories of financial assets. Interest expenses and other similar expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all measurement categories of financial liabilities. Net interest income also includes interest on derivative financial instruments.

The unamortised balance of the origination fees/transaction costs upon derecognition of assets in Stage 1 and 2 considered in the effective interest rate is presented as interest income at the derecognition date.

(ii) Net fee and commission income

The Bank earns fee and commission income from a diverse range of services that it provides to its customers. The determination of the timing and amount of income recognition follows the five step model of IFRS 15.

Fee and commission income is measured based on the consideration specified in the contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commitment fees, guarantee fees and other fees from lending business, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage, foreign exchange transactions. Payment services partly include fees for services satisfied over a period of time like periodic card fees.

Fee income earned from providing transaction services, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognised upon completion of the underlying transaction. Payment services partly include transaction based fees like withdrawal fees.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statement may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual. Fees and commission income that are integral to the effective interest rate of a financial instrument are in the scope of IFRS 9 and are included in the effective interest rate.

(iii) Dividend income

Dividend income is recognised when the right to receive the payment is established.

This line item includes dividends from all shares and other equity investments, i.e. from those that are held for trading, non-trading equity instruments at FVPL and at FVOCI.

(iv) Net trading result

Results arising from trading activities include all gains and losses from changes in the fair value (clean price) of financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. The net trading result also includes any ineffective portions recorded in fair value and cash flow hedge transactions as well as foreign exchange gains and losses on all monetary assets and liabilities.

(v) Gains/losses from financial instruments measured at fair value through profit or loss

Under this line item changes in fair value (clean price) of non-trading financial assets at fair value through profit or loss, including gains and losses on their derecognition, are presented. This concerns both non-trading financial assets designated and those mandatorily measured at FVPL. Further, gains and losses (clean price) of financial liabilities designated at FVPL, including gains and losses on their derecognition, are presented under this line item. However, the fair value changes resulting from own credit risk of financial liabilities designated at FVPL are recognised in OCI. In the comparative period this line item includes only changes in fair value (clean price, including the effect of credit risk of the liability) of financial assets and liabilities designated at FVPL.

(vi) Rental income from other operating leases

Rental income from other operating leases (i.e. mainly from real-estate and cars) is recognised on a straight-line basis over the lease term.

(vii) Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service cost for severance payment. Furthermore, restructuring provisions expenses are part of personnel expenses.

(viii) Other administrative expenses

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses. Furthermore the line item contains deposit insurance contributions expenses.

(ix) Depreciation and amortisation

This line item comprises depreciation of property and equipment, and amortisation of intangible assets, except for credit impaired financial instruments.

(x) Gains/losses from derecognition of financial assets measured at amortised cost

This line item includes selling and other derecognition gains or losses on financial assets measured at amortised cost, except for credit impaired financial instruments.

(xi) Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

This line item includes selling and other derecognition gains or losses on financial assets at FVOCI, financial liabilities measured at amortised cost and other financial instruments not measured at FVPL, such as financial guarantees.

(xii) Impairment result from financial instruments

Net impairment losses on financial instruments comprise impairment losses and reversals of impairment on all kinds of financial instruments, to which the IFRS 9 expected credit loss impairment model applies (i.e. financial assets as well as financial loan commitments and guarantees). The impairment result also includes recoveries on written-off financial assets.

(xiii) Other operating result

Other operating result reflects all other income and expenses not directly attributable to the Bank's ordinary activities.

Other operating result includes impairment losses or any reversal of impairment losses on non-financial assets as well as results on their sale.

In addition, other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries. Furthermore the line item contains contributions to the Resolution Fund.

Items of the income statement relevant for comparative period (2017, IAS 39), which are not relevant for the current period based on IFRS 9

The description and recognition criteria of the line items reported in the statement of income are as follows:

(i) Net interest income in the comparative period

Net interest income is broken down into line items of interest income and interest expenses.

Interest income or expense is recorded using the effective interest rate (EIR) method. The calculation includes origination fees resulting from the lending business as well as transaction costs that are directly attributable to the instrument and are an integral part of the EIR (apart from financial instruments at fair value through profit or loss), but no future credit losses. Interest income from individually impaired loans and receivables and held-to-maturity financial assets is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of measuring the impairment loss.

Interest income includes interest income on loans and receivables to credit institutions and customers, on cash balances and on bonds and other interest-bearing securities in financial assets categories available for sale, held to maturity and loans and receivables.

Interest expenses include interest paid on deposits from customers, deposits from banks, debt securities issued in financial liability category measured at amortised cost.

In net interest income also interest on derivative financial instruments held in the banking book (items Interest expense or Interest income) is included.

(ii) Dividend income in the comparative period

Dividend income is recognised when the right to receive the payment is established. This line item includes dividend from shares and other equity-related securities in all portfolios as well as income from other investments in companies categorised as available for sale.

(iii) Net trading result in the comparative period

Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. In addition, for derivative financial instruments held in the trading book. However, interest income or expenses on non-derivative trading assets and liabilities and on derivatives held in the banking book are not part of net trading result as they are reported as 'Net interest income'. It also includes any ineffective portions recorded in fair value and cash flow hedge transactions as well as foreign exchange gains and losses.

(iv) Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net in the comparative period

This line item includes selling and other derecognition gains or losses on available-for-sale and held-to-maturity financial assets, loans and receivables and financial liabilities measured at amortised cost. However, if such gains/losses relate to individually impaired financial assets they are included as part of the net impairment loss.

(v) Net impairment loss on financial assets in the comparative period

Net impairment losses on financial assets comprise impairment losses and reversals of impairment on loans and receivables, held-to-maturity and available-for-sale financial assets. Net impairment losses relate to allowances recognised both at individual and portfolio (incurred but not reported) level. Direct write-offs are considered as part of impairment losses. This line item also includes recoveries on written-off loans removed from the statement of financial position.

(vi.) Gains/losses from financial instruments measured at fair value through profit or loss in the comparative period

In the comparative period this line item includes only changes in fair value (clean price) of financial assets and liabilities designated at FVPL.

c) Significant accounting judgements, assumptions and estimates

The separate financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are as follows:

SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements which rely on the guidance in IFRS 9. These judgements are crucial in the IFRS 9 classification and measurement process as they determine whether the asset has to be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI. When taking into consideration specific features of loans in the business of the Bank, significant areas of judgement are prepayment fees, project financing loans and benchmark test for loans with interest mismatches features.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments are based on comparing the level of the fees with the economic costs incurred by the Bank upon the early termination. For these purposes, the Bank uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a potential decrease in the interest rates upon early termination or prepayment. The adequacy of the fees can also be defended on a qualitative basis such as common market practice regarding level of prepayment fees and their acceptance by authorities.

For project financing loans the Bank assesses whether they represent basic loan agreements rather than investments in the financed projects. In this respect credit rating, level of collateralisation, existing sponsor guarantees and the extent of equity funding of the financed projects are considered.

The most critical area of SPPI judgements in the business of the Bank comprises loans with interest mismatch features.

For this purpose, the Bank has developed a so called 'benchmark test' to assess whether the interest mismatch feature could result in contractual (undiscounted) cash flows that are significantly different from benchmark assets. The benchmark deal does not have the interest mismatch feature (i.e. if the floating rate reset frequency is 3 months then the floating rate would be the 3-month Euribor and/or no time lag exists in the floating rate fixation), but otherwise its terms correspond to the asset in the test.

For assets with interest mismatches resulting only from prior and average rates (i.e. no mismatches resulting from a tenor different from the reset frequency), the SPPI compliance is considered to be met based on a qualitative assessment if the time lag between the fixation of the rate and the start of the interest period does not exceed one month. This is supported by a quantitative analysis performed by the Bank for this purpose.

The quantitative benchmark test is performed (in case of the interest mismatch feature on tested deal) at the deal's initial recognition and uses forward-looking simulations of future market interest rates over the life of the deal.

Business model assessment

For each SPPI-compliant financial asset at initial recognition, the Bank has to assess whether it is part of a business model where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets, or they are held in other business models. As a consequence, the critical aspect in distinguishing the business models is frequency and significance of sales of assets in the respective business model. Since the asset allocation to business models is based on the initial assessment, it may happen that in subsequent periods cash flows are realised differently than originally expected and a different measurement method may seem to be appropriate. In accordance with IFRS 9 such subsequent changes do not generally lead to reclassifications or prior period error corrections in respect of existing financial assets.

The new information on how cash flows are realised may, however, indicate that the business model, and thus the measurement method changes for newly acquired or newly originated financial assets.

At the Bank, sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) are considered as not contradicting the held to collect contractual cash flows business model. Other kinds of sales carried out in the 'held to collect' business model are assessed retrospectively and if they exceed certain quantitative thresholds, or whenever it is considered necessary with regard to new expectations, the Bank performs a prospective test. If the outcome is that the carrying amount of assets expected to be sold over the expected life of the current business model portfolio, for reasons other than the cases above described, exceeds 10% of the carrying amount of the portfolio, any new acquisitions or originations of assets in the portfolio would be classified in a different business model.

Impairment of financial instruments

The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increases in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increases in credit risk, the Bank has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistic of probabilities of default and loss rates in case of defaults, their extrapolations in case of insufficient observations, individual estimates of credit-adjusted cash flows and probabilities of different scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of behavioural life mainly in the case of revolving credit facilities.

Under the IAS 39 incurred loss impairment model used for the comparative period, the Bank reviewed its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, this involved determining whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and estimating the amount and timing of future cash flows when determining an impairment loss.

Detailed disclosures about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 45 Risk management, part Credit risk. The development of loan loss provisions is described in Note 22 Financial assets at fair value through other comprehensive income, Note 27 Financial assets at amortised cost. The development of loan loss provisions in the comparative period is included in Note 25 Loans and receivables to credit institutions and Note 26 Loans and receivables to customers.

d) Application of amended and new IFRS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2018. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Bank are listed below.

Effective standards and interpretations

The following standards, their amendments and interpretation have become mandatory for our financial year 2018, endorsed by the EU:

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from Contracts with Customers including Amendments to IFRS 15: Effective date of IFRS 15
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRSs 20142016 Cycle (amendments to IAS 28 and IFRS 1)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration

The effects of application of IFRS 9 and IFRS 15 are decribed in chapter 'c) Accounting and measurement methods' above. Otherwise application of the above mentioned amendments and interpretation did not have a significant impact on Bank's financial statements.

Standards and interpretations not yet effective

The standards, amendments and interpretations shown below were issued by the IASB but are not yet effective.

Following standards, amendments and interpretations are already endorsed by the EU:

- IFRS 16: Leases
- Amendments to IFRS 9: Prepayment features with negative compensation
- IFRIC 23: Uncertainty over Income Tax Treatments

Although they have been endorsed by the EU, the Group decided not to apply them before they become effective.

Following standards, amendments and interpretations have not yet been endorsed by the EU until 19 March 2019:

- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRSs 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

IFRS 16 Leases (IASB Effective Date: 1 January 2019).

In January 2016, the IASB issued IFRS 16 which is effective for annual periods beginning on or after 1 January 2019. IFRS 16 replaces existing guidance for accounting for leases in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating leases – Incentives and SIC-27 Evaluation the Substance of Transactions Involving the Legal Form of a lease.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

At inception date of a contract, the contract is assessed for whether it contains a lease, i.e. whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. A right-of-use asset and a lease liability are recognised at the lease commencement date. It is initially measured at cost and subsequently depreciated from the commencement date to the earlier of the end of its useful life or the end of the lease term. The Bank will use the straight-line method of depreciation.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, the exercise price under a purchase option and lease payments in an optional renewal period if the lessee is reasonably certain to exercise the options and penalties for early termination if the lease term reflects the lessee exercising the termination option.

Subsequently the carrying amount of the lease liability is increased by interest using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. For leases of movables by Bank entities, the incremental borrowing rate will consist of a base rate, which is the PRIBOR, adjusted by a surcharge based on the entity's rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases shall generally be based on a rate that is readily observable. Such a rate might be the property yield reflecting the annual return expected on the property. Further, an adjustment to the property yield is necessary to reflect specific features of an entity or the lease agreement (such as creditworthiness and lease term).

Lessor accounting remains similar to the current IAS 17 standard, i.e. the lessor continues to classify leases as finance or operating leases. Compared to IAS 17 the notes will be much more comprehensive under IFRS 16.

The Bank will transit to IFRS 16 using the modified retrospective approach according to IFRS 16.C5 (b) whereby comparative information will not be restated. For leases previously classified as operating leases, the applicable discount rate will be the lessee's incremental borrowing rate determined at the date of initial application. The right-of-use asset will be recognised at an amount equal to the lease liability (IFRS 16.C8 (b)(ii)). As a result, the Bank does not expect any impact on the equity at initial application. All contracts which were previously identified as leases applying IAS 17 and IFRIC 4 will be taken over into IFRS 16. The Bank will not apply IFRS 16 to any leases on intangible assets. The Bank will use the exemption for short term leases and leases of low value whereby the right-of-use-asset is not recognised. The analysis and planning of proper IT solutions for requirements of IFRS 16 have continued throughout 2017 and 2018. At the same time the contract analysis has been in focus. The role out of proper IT structure was realised during 2018.

Based on currently available information, the Bank estimates at the transition date to IFRS 16 that the right of use assets and lease liabilities will increase the balance sheet by an amount of approximately CZK 2.9 billion. The vast majority (more than 95%) of the lease contracts refer to real estate.

Amendments to IFRS 3: Definition of a Business.

Amendments to IFRS 3 were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments clarify the three elements, i.e. inputs, process and outputs in the definition of a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Also, the amendments include an optional concentration test to permit a simplified assessment of whether an acquired set of activities and assets is an asset acquisition rather than a business combination. The test is met if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. Application of these amendments is not expected to have a significant impact on Bank's financial statements.

Amendments to IFRS 9: Prepayment features with negative compensation.

Amendments to IFRS 9 were issued in October 2017 and are effective for annual periods beginning on or after 1 January 2019. The amendments clarify that the contractual terms of a debt instrument are payments of principal and interest even if the reasonable compensation for an early termination of the instrument is negative, i.e. it has to be paid by the creditor. Further, the amendments explain that the requirements for accounting for modification gains or losses also apply to cases when financial liabilities are modified or exchanged and this does not lead to their derecognition. Application of these amendments is not expected to have a significant impact on Bank's financial statements.

Amendments to IAS 1 and IAS 8: Definition of 'Material'.

Amendments to IAS 1 and IAS 8 were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Application of these amendments is not expected to have a significant impact on Bank's financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (IASB effective date 1 January 2019).

Amendments to IAS 19 were issued in February 2018 and are effective for annual periods beginning on or after 1 January 2019. The amendments require that if a plan amendment, curtailment or settlement occurs, it is mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. Application of these amendments is not expected to have a significant impact on Bank's financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (IASB effective date 1 January 2019).

Amendments to IAS 28 were issued in October 2017 and are effective for annual periods beginning on or after 1 January 2019. The amendments clarify that a company applies IFRS 9 Financial Instruments including its impairment requirements to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. Application of these amendments is not expected to have a significant impact on Bank's financial statements.

Annual Improvements to IFRSs 2015–2017 Cycle (IASB effective date: 1 January 2019).

In December 2017, the IASB issued a set of amendments to various standards. The amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 are effective for annual periods beginning on or after 1 January 2019. Application of these amendments is not expected to have a significant impact on Bank's financial statements.

IFRIC 23: Uncertainty over Income Tax Treatments (IASB effective date: 1 January 2019).

IFRIC 23 was issued in June 2017 and is effective for annual periods beginning on or after 1 January 2019. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. An entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. If the entity concludes that it is not probable that a particular tax treatment is accepted by a taxation authority, the entity has to use the most likely amount or the expected value of the tax treatment. Otherwise the treatment used in the tax filings is applied. An entity has to reassess its judgements and estimates if facts and circumstances change. Application of the interpretation is not expected to have a significant impact on Bank's financial statements.

C. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION

1. Net interest income

in CZK million	2018	2017
Interest and other similar income		
Available-for-sale financial assets	x	658
Financial assets at fair value through other comprehensive income	614	x
Financial assets at amortised costs	28,347	x
Loans and receivables	x	18,877
Held-to-maturity investments	x	3,916
Interest income	**28,961**	**x**
Financial assets held for trading	3,070	1,553
Financial assets at fair value through profit or loss	x	15
Non-trading financial assets at fair value through profit or loss	15	x
Derivatives – Hedge accounting, interest rate risk	148	224
Other assets	3	25
Negative interest from financial liabilities	257	386
Other similar income	**3,493**	**x**
Total interest and other similar income	**32,454**	**25,654**
Interest and other similar expense		
Financial liabilities measured at amortised cost	(3,508)	(897)
Interest expenses	**(3,508)**	**x**
Financial liabilities at fair value through profit or loss	(2)	-
Financial liabilities held for trading	(2,850)	(1,015)
Derivatives – Hedge accounting, interest rate risk	16	6
Other liabilities	(1)	-
Negative Interest from financial assets	(115)	(34)
Other similar expenses	**(2,952)**	**x**
Total interest and other similar expense	**(6,460)**	**(1,940)**
Net interest income	**25,994**	**23,714**

Interest income on impaired financial assets amounted to CZK 218 million (2017: CZK 124 million).

Following the new IFRS requirements of 2018, interest income and expense cannot include interest from financial instruments measured at FVPL. Hence the interest component from FVPL financial instruments is reported as “Other similar income” and “Other similar expense”. Consequently, interest components of trading book derivatives are disclosed in ‘Other similar income of financial assests HfT’ and ‘Other similar expenses of financial liabilities HfT’.

In 2017, interest from trading book derivatives was presented in ‘Net trading result’. The presentation was changed due to the harmonisation of the disclosure of all interest from derivative financial instruments irrespective of their organisational assignment to the trading book or banking book. The amendment had no material impact on the ‘Net result for the period’ of the Bank.

The comparative period 2017 has not been adjusted since we believe this is a policy choice resulting from the initial application of IFRS 9, which does not require retrospective change of the comparative figures, however, it would increase the reported interest income and interest expense by CZK 2.2 billion. For further details regarding the disclosure of interest income or expenses from derivative financial instruments please refer to chapter B. Significant accounting policies c) Accounting and measurement methods.

2. Net fee and commission income

in CZK million	2018		2017	
	Income	Expenses	Income	Expenses
Securities	1,596	(123)	1,399	(98)
Clearing and settlement	114	-	166	-
Asset management	224	(44)	199	(76)
Custody	126	(12)	201	(11)
Payment services	4,900	(1,268)	5,182	(1,159)
Customer resources distributed but not managed	1,055	(198)	983	(143)
Insurance products	660	-	635	-
Building society brokerage	289	(198)	240	(143)
Other	106	-	108	-
Lending business	2,602	(1,264)	2,551	(1,254)
Other	342	(375)	236	(312)
Total fee and commission income and expenses	**10,959**	**(3,284)**	**10,917**	**(3,053)**
Net fee and commission income	**7,675**		**7,864**	

The fee and commission income and expense, which are presented in this table, are not capitalised as an integral part of the effective interest rate.

Asset management, custody and fiduciary transactions fees relate to fees earned by the Bank on trust and other fiduciary activities in which the Bank holds or invests assets on behalf of its customers and amount to CZK 687,082 million (2017: CZK 565,568 million).

3. Dividend income

in CZK million	2018	2017
Financial assets – at fair value through profit or loss	x	11
Non-trading financial assets at fair value through profit or loss	50	x
Financial assets – available for sale	x	38
Financial assets at fair value through other comprehensive income	11	x
Dividend income from equity instruments	(748)	703
Dividend income	**809**	**752**

4. Net trading and fair value result

in CZK million	2018	2017
Securities and derivatives trading	611	829
Foreign exchange transactions	1,567	1,905
Gains or losses from hedge accounting	(34)	(52)
Net trading result	**2,144**	**2,682**

Additional information relating to hedge accounting are described in detail in Note 46 Hedge accounting.

In 2008, Česká spořitelna transferred its financial markets trading to make use of Erste Group Bank's business model. The market risk arising from the sales activities of the Financial Markets Division (i.e., transactions with retail and corporate clients), with the exception of equity risk and transactions for the Erste Group's liquidity management purposes (money market), was transferred to Erste Group Bank using back-to-back transactions. Trading gains (i.e. from The Erste Group Bank's market positions) are distributed according to approved rules to the relevant banks within the Group and reported in the 'Net trading result'.

The basic principle underlying these rules involves Erste Group Bank absorbing potential loss in individual classes of assets in exchange for the risk premium derived from the Value at Risk ('VaR') indicator. The remaining positive result after deducting expenses (calculated using the Cost Income Ratio) is reallocated to individual participants in the model based on the results from the sale of assets of individual asset groups.

The portion of trading gains resulting from trading assets transferred to Erste Group Bank and reported within Net trading result is as follows:

in CZK million	2018	2017
Realised and unrealised gains on trading assets	742	656
Foreign exchange trading	232	174
Total	**974**	**829**

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

in CZK million	2018	2017
Result from measurement/sale of financial assets designated at fair value through profit or loss	(12)	(8)
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(50)	(22)
Result from financial assets and liabilities designated at fair value through profit or loss	**(62)**	**(30)**
Result from measurement/repurchase of financial assets mandatorily at fair value through profit or loss	375	(12)
Gains/losses from financial instruments measured at fair value through profit or loss	**313**	**(42)**

6. Rental income from other operating leases

in CZK million	2018	2017
Other operating leases (real estate)	80	83
Rental income from other operating leases	**80**	**83**

7. General administrative expenses

in CZK million	2018	2017
Personnel expenses	**(8,893)**	**(8,569)**
Wages and salaries	(6,363)	(6,108)
Compulsory social security	(2,032)	(1,956)
Other personnel expenses	(498)	(505)
Other administrative expenses	**(6,439)**	**(6,528)**
Deposit insurance contribution	(212)	(182)
IT expenses	(2,524)	(2,472)
Expenses for office space	(1,327)	(1,385)
Office operating expenses	(569)	(604)
Advertising / marketing	(841)	(880)
Legal and consulting costs	(270)	(237)
Sundry administrative expenses	(696)	(768)
Depreciation and amortisation	**(1,829)**	**(1,877)**
Software and other intangible assets	(924)	(908)
Owner occupied real estate	(578)	(624)
Office furniture and equipment and sundry property and equipment	(327)	(345)
General administrative expenses	**(17,161)**	**(16,974)**

Personnel expenses include expenses of CZK 2,032 million (2017: CZK 1,956 million) for the statutory defined contribution scheme.

The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme for health, social and pension purposes.

Board of Directors and Supervisory Board Remuneration

in CZK million	2018	2017
Remuneration	79	74

Remuneration to the members of the Board of Directors and Supervisory Board is accounted for as short - term employee benefits.

Headcount of full time employees per reporting date

in CZK million	2018	2017
Staff	9,480	9,549

8. Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net

in CZK million	2018	2017
From sale of financial assets available for sale	x	210
From sale of financial assets held to maturity	x	65
From sale of loans and receivables	x	(2)
From repurchase of liabilities measured at amortised cost	x	(4)
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net	**x**	**269**

9. Gains/losses from derecognition of financial assets measured at amortised cost

in CZK million	2018	2017
Gains from sale of financial assets at amortised cost	18	x
Losses from sale of financial assets at amortised cost	-	x
Gains from derecognition of financial assets measured at amortised cost	**18**	**x**

10. Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

in CZK million	2018	2017
Other gains from sale of financial assets at fair value through other comprehensive income	8	x
Other gains from derecognition of financial instruments not measured at fair value through profit or loss	**8**	**x**

11. Net impairment loss on financial assets not measured at fair value through profit or loss

in CZK million	2018	2017
Loans and receivables	x	(101)
Allocation to risk provisions	x	(8,764)
Release of risk provisions	x	8,104
Direct write-offs	x	(27)
Recoveries recorded directly to the income statement	x	586
Net impairment loss on financial assets not measured at fair value through profit or loss	**x**	**(101)**

12. Impairment result from financial instruments

in CZK million	2018	2017
Financial assets at fair value through other comprehensive income	53	x
Financial assets at amortised cost	259	x
Net allocation to risk provisions	(506)	x
Direct write-offs	(23)	x
Recoveries recorded directly to the income statement	788	x
Net allocation of credit loss allowances for loan commitments and financial guarantees given	(655)	x
Impairment result from financial instruments	**(343)**	**x**

13. Other operating result

in CZK million	2018	2017
Other operating expenses	**(513)**	**(1,882)**
Allocation to other provisions	(20)	(1)
Allocation to provisions for commitments and guarantees given	x	(1,449)
Other taxes	(5)	(5)
Recovery and resolution fund	(488)	(427)
Other operating income	**9**	**1,520**
Release of other provisions	9	127
Release of provisions for commitments and guarantees given	x	1,393
Result from properties/movables/other intangible assets other than goodwill	**(429)**	**413**
Result from other operating expenses/income	**(132)**	**(124)**
Other operating result	**(1,065)**	**(73)**

Due to the existence of the impairment's indication in 2018, the Bank recognized in the line "Result from properties/movables/other intangible assets other than goodwill" impairment loss of non-financial assets (buildings) in the amount of CZK 649 million (2017: CZK 702 million).

Based on the EU Directive and the related binding Delegated Act and their transposition in Czech law, the Bank contributes to the Single Resolution Mechanism (SRM) since 1 January 2016. In 2018 the final annual contribution paid to resolution fund of CZK 488 million was reported within the line "Recovery and resolution fund" (2017: CZK 427 million).

14. Taxes on income

Taxes on income are made up of current taxes on income based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

in CZK million	2018	2017
Current tax expense / income	(3,194)	(3,198)
current period	(3,221)	(3,198)
prior period	27	-
Deferred tax expense / income (+)	(327)	26
current period	(327)	26
Total taxes on income	**(3,521)**	**(3,172)**

The following table reconciles the income taxes reported in the income statement to the pre-tax profit/loss multiplied by the nominal Czech tax rate.

in CZK million	2018	2017
Pre-tax profit/loss	18,472	18,174
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(3,510)	(3,453)
Non-taxable income	513	491
Non-deductible expenses	(522)	(359)
Other	(2)	149
Total	**(3,521)**	**(3,172)**
Effective tax rate	**19.06%**	**17.46%**

Tax effects relating to each component of other comprehensive income:

in CZK million	2018			2017		
	Pre-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Pre-tax amount	Tax benefit	Net-of-tax amount
Available for sale reserve	x	x	x	(1,207)	229	(978)
Cash flow hedge reserve	396	(75)	321	(2,732)	519	(2,213)
Fair value reserve on debt instrument	(828)	157	(671)	x	x	x
Fair value reserve on equity instrument	223	(42)	181			
Own credit risk reserve	3	-	3	x	x	x
Other comprehensive income	**(206)**	**40**	**(166)**	**(3,939)**	**748**	**(3,191)**

15. Appropriation of profit

Management of the Bank has proposed that total dividends of CZK 11,362 million be declared in respect of the profit for the year ended 31 December 2018, which represents CZK 74,75 per both ordinary and preference share (2017: CZK 11,704 million, that is, CZK 77 per both ordinary and preference share). The declaration of dividends is subject to the approval of the Annual General Meeting. Dividends paid to shareholders are subject to a withholding tax of 15% or a percentage set out in the relevant double tax treaty. Dividends paid to shareholders that are tax residents of an European Union member country and whose interest in a subsidiary's share capital is no less than 10% and that hold the entity's shares for at least one year are not subject to withholding tax. As a result, dividends paid to the Erste Group Bank are not taxed.

Management of the Bank proposed that distribution to AT1 holders at the total nominal value of EUR 300 million (see Note 40 Total equity for descripition of AT1) would be CZK 600 million (2017: CZK 604,4 million). AT1 distribution is subject to the approval of the Annual General Meeting.

16. Cash and cash balances

in CZK million	2018	2017
Cash on hand	25,825	25,103
Cash balances at central banks	31,034	233,786
Other demand deposits	2,710	948
Cash and cash balances	**59,569**	**259,837**

A portion of 'Cash balances with central banks' includes mandatory reserve deposits of CZK 17,547 million (2017: CZK 11,158 milion). Mandatory reserve deposits accrue interest at the CNB's two week repo rate. The Bank is authorised to make withdrawals of minimum reserve deposits in an amount that exceeds the actual average level of minimum reserve deposits for the relevant holding period calculated pursuant to the CNB's regulations.

Other demand deposits consist of current accounts and overnight deposits with credit institutions.

Cash and cash equivalents

In relation to IFRS 9 classification change of financial instruments, the Group has decided to align cash and cash equivalence definition with the Erste Group Bank. Cash and cash equivalents are equal to cash in hand, cash balances at central banks and other demand deposits.

in CZK million	31 December 2017	December 2016
Cash on hand	25,103	24,144
Nostro accounts at central banks (net of mandatory reserve deposits)	222,628	120,350
Treasury bills and treasury bonds with maturity of less than three months	8	-
Nostro accounts with credit institutions	948	1,121
Loro accounts with credit institutions (Note 31)	(14,876)	(15,702)
Total cash and cash equivalents (reported)	**233,811**	**129,913**
Mandatory reserve deposits	11,158	6,262
Loro accounts with credit institutions	14,876	15,702
Treasury bills and treasury bonds	(8)	-
Total cash and cash equivalents (adjusted)	**259,837**	**151,877**

17. Derivatives – held for trading

in CZK million	2018			2017		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**753,297**	**9,348**	**(8,582)**	**649,223**	**10,063**	**(9,572)**
Interest rate	305,709	6,103	(5,489)	307,607	6,569	(6,146)
Foreign exchange	447,588	3,245	(3,093)	341,616	3,485	(3,367)
Commodity				-	9	(59)
Derivatives held in the banking book	**49,276**	**747**	**(1,592)**	**51,871**	**1,245**	**(1,908)**
Interest rate	15,575	596	(9)	9,249	756	(28)
Foreign exchange	33,701	151	(1,583)	42,442	489	(1,880)
Total	**802,573**	**10,095**	**(10,174)**	**701,094**	**11,308**	**(11,480)**

All derivatives not designated as hedging instruments are classified as held for trading, including those held in the banking book for regulatory purposes (economic hedges).

18. Other financial assets held for trading

in CZK million	2018	2017
Debt securities	220	131
General governments	117	90
Credit institutions	99	41
Other financial corporations	4	-
Other trading assets	**220**	**131**

19. Financial assets – at fair value through profit and loss

in CZK million	2018	2017
Equity instruments	x	6
Debt securities	x	289
Credit institutions	x	289
Loans and advances	x	65
Financial assets designated at fair value through profit and loss	**x**	**360**

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

in CZK million	2018	
	Designated	Mandatorily
Equity instruments	-	749
Debt securities	279	337
Credit institutions	279	-
Other financial corporations	-	337
Loans and advances to customers	-	68
Other financial corporations	-	68
Financial assets designated and mandatorily at fair value through profit or loss	279	1,154
Non-trading financial assets at fair value through profit or loss	**1,433**	

Financial assets classified as mandatorily at FVPL comprise of equity instruments which are valued at FVPL unless designated at FVOCI and debt instruments failing SPPI test or which are part of residual business models. Designated financial assets eliminate or significantly reduce an accounting mismatch. More details are described in Classification and subsequent measurement of financial assets under IFRS 9 in section Significant accounting policies.

21. Financial assets – available for sale

in CZK million	2018	2017
Equity instruments	x	1,657
Debt securities	x	53,350
General governments	x	36,571
Credit institutions	x	6,902
Other financial corporations	x	2,106
Non-financial corporations	x	7,771
Financial assets – available for sale	**x**	**55,007**

Equity instruments consist of stocks and other equity instruments.

22. Financial assets at fair value through other comprehensive income

Equity instruments

The carrying amount of Bank's equity instruments at FVOCI (fair value through other comprehensive income) as at 31 December 2018 amounts to CZK 1,252 million. These equity instruments are unlisted instruments denominated in USD (US based issuers).

Debt instruments

Gross carrying amounts and credit loss allowances per impairment buckets

In CZK million	Gross carrying amount				Credit loss allowances				Accumu-lated fair value changes	Fair value
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total		
2018										
Debt securities	36,301	1,785	-	38,086	(11)	(40)	-	(51)	78	38,164
General governments	25,167	-	-	25,167	(1)	-	-	(1)	130	25,297
Credit institutions	4,298	-	-	4,298	(2)	-	-	(2)	(9)	4,289
Other financial corporations	1,305	-	-	1,305	(1)	-	-	(1)	23	1,328
Non-financial corporations	5,531	1,785	-	7,316	(7)	(40)	-	(47)	(66)	7,250
Total	**36,301**	**1,785**	**-**	**38,086**	**(11)**	**(40)**	**-**	**(51)**	**78**	**38,164**

There are no purchased or originated credit-impaired (POCI) debt securities at FVOCI as of 31 December 2018.

Movement in credit loss allowances

in CZK million	As of	Additions	Derecogni-tions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 18						Dec 18
Stage 1	(82)	-	3	-	67	1	(11)
Stage 2	(22)	-	1	-	(19)	-	(40)
Stage 3	-	-	-	-	-	-	-
Total	**(104)**	**-**	**4**	**-**	**48**	**1**	**(51)**

In the column 'Additions' increases of CLA ("Credit loss allowances") due to the initial recognition of debt securities at FVOCI during the current reporting period are disclosed. Releases of CLA following the derecognition of the related debt securities at FVOCI are reported in column 'Derecognitions'. In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related FVOCI debt securities from Stage 1 at 1 January 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other'.

One significant driver of the above presented CLA movements for the year has been the transfer of the related instruments across different stages. The year-end GCAs of FVOCI debt securities that were assigned at 31 December 2018 to a different stage compared to 1 January 2018 (or to the initial recognition date, if purchased during the year) are summarized in the table below:

in CZK million	2018
Transfers between Stage 1 and Stage 2	**3,540**
To Stage 2 from Stage 1	1,825
To Stage 1 from Stage 2	1,715
Transfers between Stage 2 and Stage 3	-
To Stage 3 from Stage 2	-
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**-**
To Stage 3 from Stage 1	-
To Stage 1 from Stage 3	-

23. Financial assets – held to maturity

in CZK million	Gross carrying amount		Collective allowances		Net carrying amount	
	2018	2017	2018	2017	2018	2017
General governments	x	144,836	x	-	x	144,836
Credit institutions	x	11,004	x	(4)	x	11,000
Other financial corporations	x	471	x	(1)	x	470
Non-financial corporations	x	3	x	-	x	3
Financial assets – held to maturity	**x**	**156,314**	**x**	**(5)**	**x**	**156,309**

24. Securities

	2018					2017				
	Financial assets					Financial assets				
	At AC	Trading assets	Manda-torily at FVPL	Desig-nated at FVPL	At FVOCI	Loans and recei-vables	Trading assets	FVPL	AFS	HTM
Bonds and other interest-bearing securities	**198,920**	**220**	**337**	**279**	**38,164**	**2,638**	**131**	**289**	**53,350**	**156,309**
Listed	187,377	69	-	-	29,339	-	54	-	41,967	142,532
Unlisted	11,543	151	337	279	8,825	2,638	77	289	11,383	13,777
Equity-related securities	**-**	**-**	**749**	**-**	**1,252**	**-**	**-**	**7**	**1,312**	**-**
Unlisted	-	-	749	-	1,252	-	-	7	1,312	-
Equity holdings at cost	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**345**	**-**
Total	**198,920**	**220**	**1,086**	**279**	**39,416**	**2,638**	**131**	**296**	**55,007**	**156,309**

Securities lending and repurchase transactions are disclosed in Note 43 Transfers of financial assets – repurchase transactions and securities lending.

25. Loans and receivables to credit institutions

in CZK million As of 31 December 2017	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
Debt securities	1,892	-	(24)	1,868
Credit institutions	1,892	-	(24)	1,868
Loans and receivables	155,170	-	(13)	155,157
Central banks	135,515	-	-	135,515
Credit institutions	19,655	-	(13)	19,642
Total	**157,062**	**-**	**(37)**	**157,025**

As at 31 December 2017, the Bank granted financial institutions and central banks loans of CZK 139,297 million under reverse repurchase transactions which were collateralised by securities amounting to CZK 137,831 million.

in CZK million	As of Dec 16	Allocations	Release	Exchange rate and other changes	As of Dec 17
Specific allowances	**(2)**	**(4)**	**5**	**1**	**-**
Loans and receivables	(2)	(4)	5	1	-
Credit institutions	(2)	(4)	5	1	-
Collective allowances	**(10)**	**(55)**	**27**	**1**	**(37)**
Debt securities	(7)	(27)	10	-	(24)
Credit institutions	(7)	(27)	10	-	(24)
Loans and receivables	(3)	(28)	17	1	(13)
Credit institutions	(3)	(28)	17	1	(13)
Total	**(12)**	**(59)**	**32**	**2**	**(37)**

26. Loans and receivables to customers

Loans and receivables to customers

in CZK million As of 31 December 2017	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
Debt securities with customers	774	-	(4)	770
Non-financial corporations	774	-	(4)	770
Loans and receivables to customers	607,310	(8,558)	(2,196)	596,556
General governments	17,176	-	(11)	17,165
Other financial corporations	36,306	(134)	(51)	36,121
Non-financial corporations	230,139	(5,176)	(1,593)	223,370
Households	323,689	(3,248)	(541)	319,900
Total	**608,084**	**(8,558)**	**(2,200)**	**597,326**

Allowances for loans and receivables to customers

in CZK million	As of 31 Dec 2016	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/-)	As of 31 Dec 2017	Recoveries of amounts previously written off	Amounts written off
Specific allowances	**(11,515)**	**(5,895)**	**3,249**	**5,700**	**124**	**(296)**	**75**	**(8,558)**	**586**	**(27)**
Loans and receivables to customers	(11,515)	(5,895)	3,249	5,700	124	(296)	75	(8,558)	586	(27)
General governments	(1)	(4)	-	5	-	-	-	-	-	
Other financial corporations	(145)	(70)	69	10	-	-	2	(134)		
Non-financial corporations	(6,092)	(3,267)	694	3,410	78	(72)	73	(5,176)	41	-
Households	(5,277)	(2,554)	2,486	2,275	46	(224)	-	(3,248)	545	(27)
Collective allowances	**(2,073)**	**(2,810)**	**-**	**2,372**	**-**	**296**	**15**	**(2,200)**	**-**	**-**
Debt securities with customers	(2)	(4)	-	2	-	-	-	(4)	-	-
Non-financial corporations	(2)	(4)	-	2	-	-	-	(4)	-	-
Loans and receivables to customers	(2,071)	(2,806)	-	2,370	-	296	15	(2,196)	-	-
General governments	(10)	(15)	-	15	-	(1)	-	(11)	-	-
Other financial corporations	(33)	(74)	-	56	-	-	-	(51)	-	-
Non-financial corporations	(1,395)	(1,705)	-	1,430	-	62	15	(1,593)	-	-
Households	(633)	(1,012)	-	869	-	235	-	(541)	-	-
Total	**(13,588)**	**(8,705)**	**3,249**	**8,072**	**124**	**-**	**90**	**(10,758)**	**586**	**(27)**

There were no provisions for doubtful debts related to the outstanding balances with related parties.

27. Financial assets at amortised cost

Debt securities at amortised cost

The analysis of the GCA and of related CLA of Bank's debt securities at amortised cost (AC) per impairment buckets as of 31 December 2018 is provided in the table below:

Gross carrying amounts and credit loss allowances per impairment buckets

	GCA				CLA				
In CZK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
Dec 18									
General governments	187,904	-	-	187,904	(9)	-	-	(9)	187,895
Credit institutions	11,024	-	-	11,024	(6)	-	-	(6)	11,018
Other financial corporations	-	4	-	4	-	-	-	-	4
Non-financial corporations	3	-	-	3	-	-	-	-	3
Total	**198,931**	**4**	**-**	**198,935**	**(15)**	**-**	**-**	**(15)**	**198,920**

There are no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2018.

The movement in the credit loss allowances for debt securities at AC in the reporting period is provided in the table below:

Movement in credit loss allowances

in CZK million	As of	Additions	Derecogni-tions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 18						**Dec 18**
Stage 1	(18)	(1)	4	-	(1)	1	(15)
Stage 2	(51)	(50)	50	-	51	-	-
Total	**(69)**	**(51)**	**54**	**-**	**50**	**1**	**(15)**

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related AC debt securities from Stage 1 at 1 January 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different stages. The year-end GCAs of AC debt securities that were assigned at 31 December 2018 to a different stage compared to 1 January 2018 (or to the initial recognition date, if originated during the year) are summarized in the table below:

in CZK million	2018
Transfers between Stage 1 and Stage 2	**4**
To Stage 2 from Stage 1	4
To Stage 1 from Stage 2	-
Transfers between Stage 2 and Stage 3	-
To Stage 3 from Stage 2	-
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**-**
To Stage 3 from Stage 1	**-**
To Stage 1 from Stage 3	**-**

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2018 and not sold by 31 December 2018 amounts to CZK 20,557 million. The GCA of AC debt securities that were held at 1 January 2018 and de-recognized (sold/matured) during the year 2018 amounts to CZK 5,278 million.

Loans and advances to banks at amortised cost

The analysis of the GCA and of related CLA of Bank's loans and advances at AC to banks per impairment buckets as of 31 December 2018 is provided in the table below:

Gross carrying amounts and credit loss allowances per impairment buckets

	GCA				CLA				
In CZK million	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Carrying amount**
Dec 18									
Central banks	357,448	-	-	357,448	(2)	-	-	(2)	357,446
Credit institutions	20,153	-	-	20,153	(10)	-	-	(10)	20,143
Total	**377,601**	**-**	**-**	**377,601**	**(12)**	**-**	**-**	**(12)**	**377,589**

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2018.

The movement in the credit loss allowances for AC loans and advances to banks in the reporting period is provided in the table below:

Movement in credit loss allowances

in CZK million	As of	Additions	Derecogni-tions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 18						**Dec 18**
Stage 1	(32)	(690)	653	2	55	-	(12)
Stage 2	-	(53)	46	-	8	(1)	-
Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**(32)**	**(743)**	**699**	**2**	**63**	**(1)**	**(12)**

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related AC loans and advances to banks from Stage 1 at 1 January 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different impairment stages. The year-end GCAs of AC loans and advances to banks that were assigned at 31 December 2018 to a different stage compared to 1 January 2018 (or to the initial recognition date, if originated during the year) are summarized below:

in CZK million	2018
Transfers between Stage 1 and Stage 2	**77**
To Stage 2 from Stage 1	-
To Stage 1 from Stage 2	77
Transfers between Stage 2 and Stage 3	
To Stage 3 from Stage 2	-
To Stage 2 from Stage 3	-
Transfers between Stage 1 and Stage 3	**-**
To Stage 3 from Stage 1	-
To Stage 1 from Stage 3	-

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2018 and not fully de-recognized by 31 December 2018 amounts to CZK 377,260 million. The GCA of AC loans and advances to banks that were held at 1 January 2018 and fully de-recognized during the year 2018 amounts to CZK 6,750 million.

Loans and advances to banks at amortised cost

The analysis of the GCA and of related CLA of Bank's loans and advances at AC to banks per impairment buckets as of 31 December 2018 is provided in the table below:

Gross carrying amounts and credit loss allowances per impairment buckets

	GCA					CLA					
In CZK million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
Dec 18											
General governments	18,321	1,848	-	-	20,169	(4)	(39)	-	-	(43)	20,126
Other financial corporations	34,099	98	6	-	34,203	(27)	(3)	(5)	-	(35)	34,168
Non-financial corporations	224,407	17,877	5,856	484	248,624	(1,004)	(701)	(4,198)	(242)	(6,145)	242,479
Households	337,640	11,850	4,260	46	353,796	(667)	(992)	(2,941)	(2)	(4,602)	349,194
Total	**614,467**	**31,673**	**10,122**	**530**	**656,792**	**(1,702)**	**(1,735)**	**(7,144)**	**(244)**	**(10,825)**	**645,967**

The movement in the credit loss allowances for AC loans and advances to customers in the reporting period is provided in the table below:

Movement in credit loss allowances

in CZK million	As of	Additios	Derecog-nitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 18							**Dec 18**
Stage 1	**(1,698)**	**(794)**	**858**	**2,945**	**(3,031)**	**19**	**(1)**	**(1,702)**
General governments	(9)	(3)	3	22	(17)	-	-	(4)
Other financial corporations	(35)	(96)	179	37	(110)	-	(2)	(27)
Non-financial corporations	(1,011)	(609)	572	2,075	(2,032)	-	1	(1,004)
Households	(643)	(86)	104	811	(872)	19	-	(667)
Stage 2	**(2,376)**	**(1,762)**	**524**	**(1,005)**	**2,849**	**35**	**-**	**(1,735)**
General governments	(178)	(3)	0	(38)	180	-	-	(39)
Other financial corporations	(27)	(308)	167	(1)	148	18	-	(3)
Non-financial corporations	(1,282)	(1,121)	300	(311)	1,710	3	-	(701)
Households	(889)	(330)	57	(655)	811	14	-	(992)
Stage 3	**(7,944)**	**(30)**	**886**	**(280)**	**(1,236)**	**1,460**	**-**	**(7,144)**
Other financial corporations	(129)	-	-	1	100	23	-	(5)
Non-financial corporations	(4,480)	(11)	573	(89)	(663)	472	-	(4,198)
Households	(3,335)	(19)	313	(192)	(673)	965	-	(2,941)
POCI	**(123)**	**-**	**-**	**-**	**(121)**	**-**	**-**	**(244)**
Non-financial corporations	(121)	-	-	-	(121)	-	-	(242)
Households	(2)	-	-	-	-	-	-	(2)
Total	**(12,141)**	**(2,586)**	**2,268**	**1,660**	**(1,539)**	**1,514**	**(1)**	**(10,825)**

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related AC loans and advances to customers from Stage 1 at 1 January 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are fa-vourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'. This column also captures the passage-of-time adverse effect ('unwinding correction') over the lifetime expected cash shortfalls of AC loans and advances to customers that were assigned to Stage 3 for any period throughout the year, as well as of any POCI loans and advances to customers. This adverse effect amounted to CZK 204 million cumulatively for the year 2018, which also reflects the unrecognized interest income out of the related AC loans and advances to customers throughout the year.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different impairment stages. The year-end GCA of AC loans and advances to customers that were assigned at 31 December 2018 to a different stage compared to 1 January 2018 (or to the initial recognition date, if originated during the year) are summarized below:

in CZK million	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
General governments	1,662	813	-	-	-	-	-	-
Other financial corporations	5	339	2	-	-	-	-	-
Non-financial corporations	5,623	16,192	238	180	1,166	125	-	-
Households	3,931	6,876	413	212	1,062	168	-	-
Total	**11,221**	**24,220**	**653**	**392**	**2,228**	**293**	**-**	**-**

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the year 2018 and not fully de-recognized by 31 December 2018 amounts to CZK 140,724 million. The GCA of the AC loans and advances to customers that were held at 1 January 2018 and fully de-recognized during the year 2018 amounts to CZK 96,594 million.

The undiscounted amount of the lifetime expected credit losses considered in the initial measurement of the AC loans and advances to customers initially recognized and identified as POCI during the year 2018 amounted to CZK 136 million.

28. Derivatives – hedge accounting

in CZK million	As of 31 December 2018			As of 31 December 2017		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	**9,504**	**73**	**(3)**	**11,893**	**12**	**(20)**
Interest rate	9,504	73	(3)	11,893	12	(20)
Cash flow hedge	**121,713**	**1,079**	**(2,106)**	**90,690**	**601**	**(1,793)**
Interest rate	91,944	937	(1,646)	61,560	254	(1,686)
Foreign exchange	29,769	142	(461)	29,130	347	(107)
Total	**131,217**	**1,152**	**(2,110)**	**102,583**	**613**	**(1,813)**

29. Trade and other receivables

Gross carrying amounts and credit loss allowances per impairment buckets

In CZK million	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Dec 18											
General governments	99	148	-	-	247	-	(148)	-	-	(148)	99
Credit institutions	82	12	6	-	100	-	(12)	(6)	-	(18)	82
Other financial corporations	366	1	-	-	367	-	(1)	-	-	(1)	366
Non-financial corporations	42	2	4	-	48	-	(1)	(5)	-	(6)	42
Households	2	123	16	-	141	-	(116)	(15)	-	(131)	10
Total	**591**	**286**	**26**	**-**	**903**	**-**	**(278)**	**(26)**	**-**	**(304)**	**599**

Movement in credit loss allowances

in CZK million	As of Jan 18	Additios	Derecog-nitions	Transfers between stages	Other changes in credit risk (net)	Insigni-ficant modifi-cations (net)	Write-offs	Other	As of Dec 18
Stage 1	(18)	-	18	-	-	-	-	-	-
Stage 2	(228)	(53)	-	-	3	-	-	-	**(278)**
Stage3	(7)	(14)	-	-	(5)	-	-	-	**(26)**
POCI	-	-	-	-	-	-	-	-	-
Total	**(253)**	**(67)**	**18**	**-**	**(2)**	**-**	**-**	**-**	**(304)**

30. Property and equipment

A) AT COST

	Property and equipment – Acquisition and production costs			
	Land and buildings (used by the Bank)	**Office and plant equipment / other fixed assets**	**IT assets (Hardware)**	**Total property and equipment**
Balance as of 1 Jan 2017	**19,716**	**4,440**	**1,760**	**25,916**
Additions in current year (+)	979	224	176	1,379
Disposals (–)	(1,632)	(445)	(75)	(2,152)
Reclassification (+/–)	-	91	(91)	-
Assets held for sale (–)	(126)	-	-	(126)
Balance as of 31 Dec 2017	**18,937**	**4,310**	**1,770**	**25,017**
Additions in current year (+)	790	291	338	1,419
Disposals (–)	1,541	(437)	(125)	(2,103)
Reclassification (+/–)	-	8	(8)	
Assets held for sale (–)	(153)	-	-	(153)
Balance as of 31 Dec 2018	**18,033**	**4,172**	**1,975**	**24,180**

B) ACCUMULATED DEPRECIATION

	Property and equipment – Accumulated depreciation			
in CZK million	**Land and buildings (used by the Bank)**	**Office and plant equipment / other fixed assets**	**IT assets (Hardware)**	**Total property and equipment**
Balance as of 1 Jan 2017	**(11,135)**	**(3,344)**	**(1,367)**	**(15,846)**
Depreciation (–)	(624)	(227)	(118)	(969)
Disposals (+)	1,422	429	74	1,925
Impairment (–)	(702)	-	-	(702)
Assets held for sale (+)	107	-	-	107
Balance as of 31 Dec 2017	**(10,932)**	**(3,142)**	**(1,411)**	**(15,485)**
Depreciation (–)	(579)	(217)	(110)	(906)
Disposals (+)	1,198	417	126	1,741
Reversal of impairment (+)	0	2	-	2
Impairment (–)	(650)	-	-	(650)
Assets held for sale (+)	113	-	-	113
Balance as of 31 Dec 2018	**(10,850)**	**(2,940)**	**(1,395)**	**(15,185)**

C) CARRYING AMOUNTS

in CZK million	Property and equipment			
	Land and buildings (used by the Bank)	Office and plant equipment/other fixed assets	IT assets (Hardware)	Total property and equipment
Balance as of 1 Jan 2017	8,581	1,096	393	10,070
Balance as of 31 Dec 2017	8,005	1,168	359	9,532
Balance as of 31 Dec 2018	**7,183**	**1,232**	**580**	**8,995**

The balances as at 31 December 2018 shown above include CZK 1,109 million (2017: CZK 1,064 million) in property and equipment under construction.

The acquisition cost of fully depreciated tangible assets still in use was CZK 4,528 million as at 31 December 2018 (2017: CZK 4,527 million).

As at 31 December 2018, land and buildings were impaired in the amount of CZK 2,362 million (2017: CZK 2,342 million).

31. Intangible assets

A) AT COST

in CZK million	Acquisition and production costs		
	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2017	**11,642**	**4,935**	**16,577**
Additions in current year (+)	1,216	185	1,401
Disposals (–)	(283)	(2,393)	(2,676)
Reclassification (+/–)	(10)	10	-
Balance as of 31 Dec 2017	**12,565**	**2,737**	**15,302**
Additions in current year (+)	1,355	44	1,399
Disposals (–)	(346)	(218)	(564)
Reclassification (+/–)	659	(659)	-
Balance as of 31 Dec 2018	**14,233**	**1,904**	**16,137**

B) AMORTISATION

in CZK million	Amortisation		
	Software acquired	Other (licenses, patents, etc.)	Total intangible assets
Balance as of 1 Jan 2017	**(8,106)**	**(4,477)**	**(12,583)**
Amortisation charge (–)	(835)	(73)	(908)
Disposals (+)	283	2,393	2,676
Impairment (–)	(5)	-	(5)
Reclassification (+/–)	49	(49)	-
Balance as of 31 Dec 2017	**(8,614)**	**(2,206)**	**(10,820)**
Amortisation charge (–)	(846)	(78)	(924)
Disposals (+)	346	218	564
Impairment (–)	(8)	-	(8)
Reclassification (+/–)	(445)	445	-
Balance as of 31 Dec 2018	**(9,567)**	**(1,621)**	**(11,188)**

C) CARRYING AMOUNTS

in CZK million	Software acquired	Other (licenses, patents, etc.)	Total intangible sassets
Balance as of 1 Jan 2017	3,536	458	3,994
Balance as of 31 Dec 2017	3,951	531	4,482
Balance as of 31 Dec 2018	**4,666**	**283**	**4,949**

Other intangible assets include licenses and know-how. In addition, the item includes CZK 1,546 million in intangibles under construction as at 31 December 2018 (2017: CZK 1,105 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 2,643 million as at 31 December 2018 (2017: CZK 2,372 million).

32. Investments in subsidaries and associates

As of 31 December 2018	Share capital in MCZK/ TEUR	Currency	Ownership %	Voting power in %	Net carrying amount in MCZK
Investments in subsidaries					
brokerjet ČS, a.s. v likvidaci	120.0	CZK	100%	100%	45
CEE Property Development Portfolio B.V.	20.0	EUR	20%	20%	-
CEE Property Development Portfolio 2 a.s.	2.0	CZK	100%	100%	1,272
CS Property Investment Limited	120.0	EUR	100%	100%	66
Czech and Slovak Property Fund B.V.	30.0	EUR	100%	100%	345
Czech TOP Venture Fund B.V.	19.0	EUR	84%	84%	-
Erste Grantika Advisory, a.s.	7.0	CZK	100%	100%	-
Factoring ČS, a.s.	114.0	CZK	100%	100%	985
Česká spořitelna - penzijní společnost, a.s.	350.0	CZK	100%	100%	691
Mopet, a.s.	102.0	CZK	100%	100%	-
REICO investiční společnost ČS, a.s.	25.0	CZK	100%	100%	130
sAutoleasing, a.s.	500.0	CZK	100%	100%	2,313
Erste leasing, a.s.	200.0	CZK	100%	100%	942
Stavební spořitelna ČS, a.s.	750.0	CZK	100%	100%	1,515
Věrnostní program IBOD, a.s.	2.0	CZK	100%	100%	50
Holding Card Service, s.r.o.	614.0	CZK	75%	75%	583
Energie ČS, a.s.	2.0	CZK	100%	100%	173
ČS NHQ, s.r.o.	10	CZK	100%	100%	30
Subtotal					**9,140**
Investments in associates					
Erste Group Shared Services (EGSS), s.r.o.	0.2	CZK	40%	40%	-
Procurement Services CZ, s.r.o.	0.2	CZK	40%	40%	-
Subtotal					**-**
Foreign exchange differences hedges relating to equity investments denominated in EUR					-
Total					**9,140**

*) reported within associates as the Bank has significant influence in the entity

The liquidation of CS do domu, a.s. was acknowledged by the Commercial Register as of 8 January 2018. The liquidation of s IT Solutions CZ, s.r.o. was acknowledged by the Commercial Register as of 6 November 2018.

ČS NHQ, s.r.o. was established on 25 June 2018.

As of 31 December 2017	Share capital in MCZK/ TEUR	Currency	Ownership %	Voting power in %	Net carrying amount in MCZK
Investments in subsidaries					
brokerjet ČS, a.s. v likvidaci	120.0	CZK	100%	100%	45
CEE Property Development Portfolio B.V.	20.0	EUR	20%	20%	-
CEE Property Development Portfolio 2 a.s.	2.0	CZK	100%	100%	1,387
CS Property Investment Limited	120.0	EUR	100%	100%	33
Czech and Slovak Property Fund B.V.	30.0	EUR	20%	20%	303
Czech TOP Venture Fund B.V.	19.0	EUR	84%	84%	-
Erste Grantika Advisory, a.s.	7.0	CZK	100%	100%	-
Factoring ČS, a.s.	114.0	CZK	100%	100%	985
ČS do domu, a.s. v likvidaci**)	4.0	CZK	100%	100%	-
Česká spořitelna - penzijní společnost, a.s.	350.0	CZK	100%	100%	841
Mopet, a.s.	102.0	CZK	100%	100%	-
REICO investiční společnost ČS, a.s.	25.0	CZK	100%	100%	130
sAutoleasing, a.s.	500.0	CZK	100%	100%	2,013
s IT Solutions CZ, s.r.o. v likvidaci	0.2	CZK	100%	100%	28
Erste leasing, a.s.	200.0	CZK	100%	100%	1,242
Stavební spořitelna ČS, a.s.	750.0	CZK	100%	100%	1,515
Věrnostní program IBOD, a.s.	2.0	CZK	100%	100%	135
Holding Card Service, s.r.o.	614.0	CZK	69%	69%	423
Energie ČS, a.s.	2.0	CZK	100%	100%	174
Subtotal					**9,254**
Investments in associates					
Erste Group Shared Services (EGSS), s.r.o.	0.2	CZK	40%	40%	**-**
Procurement Services CZ, s.r.o.	0.2	CZK	40%	40%	-
Global Payments s.r.o. *	1,590.0	CZK	10%	10%	159
Subtotal					**159**
Foreign exchange differences hedges relating to equity investments denominated in EUR					(16)
Total					**9,397**

* reported within associates as the Bank has significant influence in the entity

Name of company	Registered office	Principal activities
Investments in subsidaries		
brokerjet ČS, a.s. v likvidaci	Prague	Investment services
CEE Property Development Portfolio B.V.	The Netherlands	Real estate investment
CEE Property Development Portfolio 2 a.s.	Prague	Real estate investment
CS Property Investment Limited	Cyprus	Investments in securities, issuance of loans
Czech and Slovak Property Fund B.V.	The Netherlands	Real estate investment
Czech TOP Venture Fund B.V.	The Netherlands	Management and financing services
Energie ČS, a.s.	Prague	Electricity and gas trading
Erste Grantika Advisory, a.s.	Brno	Business consulting
Factoring České spořitelny, a.s.	Prague	Factoring
ČS do domu, a.s v likvidaci.	Prague	Financial advisory network
Česká spořitelna - penzijní společnost, a.s.	Prague	Pension insurance
Mopet, a.s.	Prague	Mobile payment services
REICO investiční společnost ČS, a.s.	Prague	Real estate investment
sAutoleasing, a.s.	Prague	Leasing
s IT Solutions CZ, s.r.o. v likvidaci	Prague	Provision of software and advisory involving hardware and software
Erste leasing, a.s.	Znojmo	Leasing
Stavební spořitelna ČS, a.s.	Prague	Construction savings bank
Věrnostní program IBOD, a.s.	Prague	Management of loyalty program
Holding Card Service, s.r.o.	Prague	Property Management
ČS NHQ, s.r.o.	Prague	Real estate investment
Investments in associates		
Global Payments s.r.o.	Prague	Payment services
Procurement Services CZ, s.r.o.	Prague	Provision of procurement services
Erste Group Shared Services (EGSS), s.r.o.	Hodonín	Foreign payments services

33. Tax assets and liabilities

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 19%, depending on the year in which the relevant asset/liability will be realised/settled.

in CZK million	Tax assets		Tax liabilities		Net variance 2018		
	Dec 18	Jan 18	Dec 18	Jan 18	Total	Profit or loss	Other comprehensive income
Temporary differences related to the following items:							
Financial assets and liabilities HfT and non-trading financial assets at FVPL	(70)	-	-	-	(70)	(70)	-
Financial assets at FVOCI	(185)	-	-	-	(185)	20	(205)
Financial assets at AC	229	-	-	-	229	229	-
Hedge accounting derivatives	406	-	-	-	406	-	406
Property and equipment (useful life in tax law different)	237	-	-	-	237	237	-
Intangible assets other than goodwill	(278)	-	-	-	(278)	(278)	-
Derivatives – cash-flow hedges	(31)	-	-	-	(31)	-	(31)
Provisions	66	-	-	-	66	66	-
Other liabilities	279	-	-	-	279	279	-
Effect of netting gross deferred tax position	-	940	-	(940)	-	-	-
Total deferred taxes	**653**	**940**	**-**	**-**	**653**	**483**	**170**
Current taxes	**494**	**337**	**-**	**-**	**494**	**494**	**-**
Total taxes	**1,147**	**1,277**	**-**	**-**	**1,147**	**977**	**170**

34. Other assets

in CZK million	2018	2017
Prepayments and accrued income	299	238
Sundry assets	766	897
Other assets	**1,065**	**1,135**

'Sundry assets' consist mainly of long-term advances of CZK 287 million (2017: CZK 208 million).

35. Assets held for sale and liabilities associated with assets held for sale

in CZK million	2018	2017
Assets held for sale	40	19

Assets held for sale are represented by buildings for sale as a result of ongoing management of the branch network.

36. Financial liabilities at fair value through profit and loss

in CZK million	2018	2017
Deposits		
Non financial corporations	53	2
Households	1,882	1,238
Financial liabilities at fair value through profit and loss	**1,935**	**1,240**

Deposits classified as Financial liabilities at fair value through profit and loss represent hybrid instruments i.e. contain one or more not closely related embedded derivatives, which are not separated from those hybrid instruments.

in CZK million	Amount of change in fair values attributable to changes in credit risk for the period		Amount of cumulative change in fair values attributable to changes in credit risk	
	2018	2017	2018	2017
Financial liabilities at fair value through profit or loss				
Deposits from customers	(1)	(1)	(4)	3

The change in the fair value arising from the changes in the credit profile of the issuer (the Bank) is determined as equal to the difference between the fair values of the liabilities as at the previous and current reporting dates, net of the effect of the change in fair value due to the change in the risk-free interest rate.

37. Financial liabilities measured at amortised costs

in CZK million	2018	2017
Deposits	1,205,772	1,112,144
Deposits from banks	317,906	298,413
Deposits from customers	887,866	813,731
Debt securities issued	12,130	8,478
Bonds	12,130	8,478
Other financial liabilities	2,455	579
Financial liabilities measured at amortised costs	**1,220,357**	**1,121,201**

In 2018 Other financial liabilities included mainly Payables to securities clearing entities of CZK 620 million (2017: CZK 367 million).

Deposits from bank

in CZK million	2018	2017
Current accounts/Overnight deposits	10,261	14,876
Term deposits	30,098	127,621
Repurchase agreements	277,547	155,916
Deposits from banks	**317,906**	**298,413**

Deposits from customers

in CZK million	2018	2017
Current accounts/Overnight deposits	**812,253**	**747,763**
General governments	63,793	62,372
Other financial corporations	31,350	32,814
Non financial corporations	132,366	125,131
Households	584,744	527,446
Term deposits	**38,446**	**39,278**
General governments	45	30
Other financial corporations	8,932	11,276
Non financial corporations	6,736	2,896
Households	22,733	25,076
Repurchase agreements	**37,167**	**26,690**
General governments	-	-
Other financial corporations	37,167	26,306
Non-financial corporations	-	384
Deposits from customers	**887,866**	**813,731**
General governments	63,838	62,402
Other financial corporations	77,449	70,396
Non financial corporations	139,102	128,411
Households	607,477	552,522

All deposits are from customers and entities within the Czech Republic.

Debt securities issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Bonds traded on regulated market	Dec 2018	Dec 2017
Mortgage bonds	CZ0002001407	December 2007	December 2022	floating	Yes	4,003	4,000
Mortgage bonds	CZ0002001191	October 2007	October 2022	floating	Yes	2,010	2,002
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	Yes	1,109	1,135
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	No	53	60
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	No	540	81
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	No	351	178
Mortgage bonds	CZ0002002777	December 2012	June 2018	1.75%	No	-	40
Mortgage bonds	CZ0002002785	December 2012	December 2019	2.50%	No	4,064	80
Promissory note	1950087	December 2017	January 2018			-	400
Promissory note	1950084	December 2017	January 2018			-	500
Cumulative change in carrying amount due to fair value hedging						-	2
Bonds issued						**12,130**	**8,478**

Of the aggregate carrying value of the mortgage bonds, CZK 439 million (2017: CZK 447 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate. In accordance with the applicable accounting policies, these mortgage bonds are remeasured at fair value to the extent of the hedged interest rate risk.

Information about issues of mortgage bonds and bonds which are traded on the official regulated market meaning the Prague Stock Exchange ('PSE') is included in the table above.

Assets in cover pools used for covered bond issuance amounted to CZK 127,086 million (2017: CZK 110,768 million). The main holders of debt securities are companies belonging into Ceska sporitelna group.

38. Provisions

in CZK million	2018	2017
Restructuring	59	107
Pending legal issues	1,808	1,758
Commitments and guarantees given	1,514	768
Provisions for guarantees – off balance (defaulted customers)	x	423
Provisions for guarantees – off balance (non defaulted customers)	x	345
CLA for loan commitments and financial guarantees in Stage 1	495	x
CLA for loan commitments and financial guarantees in Stage 2	113	x
CLA for loan commitments and financial guarantees – Defaulted	906	x
Other provisions	50	39
Provisions	**3,431**	**2,672**

'Provisions for guarantees – off balance' exposures are recorded to cover losses that result from off-balance sheet exposures.

Provision for 'Pending legal issues' are explained in detail in Note 50 Contingent assets and liabilities.

The restructuring provision was created at the end of 2016 for the reorganization of the Bank's redundant activities performed by the HQ departments of the Bank and their employees. The restructuring started at the end of 2016 and is expected to be completed by the year-end 2019.

Credit loss allowances for loan commitments and financial guarantees

The yearly movement in the credit loss allowances (CLA) for loan commitments and financial guarantees is provided below.

Movement in credit loss allowances for loan commitments and financial guarantees

in CZK million	As of	Additions	Derecogni-tions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 18						**Dec 18**
Stage 1	237	1,018	(764)	(1,377)	1,381	-	495
Stage 2	186	-	(609)	90	446	-	113
Defaulted	482	3	(1,346)	29	1,737	1	906
Total	**905**	**1,021**	**(2,719)**	**(1,258)**	**3,564**	**1**	**1,514**

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related loan commitments and financial guarantees from Stage 1 at 1 January 2018 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2018 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in the line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in the column 'Other changes in credit risk (net)'. This column also captures the passage-of-time adverse effect ('unwinding') over the lifetime expected cash shortfalls of defaulted loan commitments and financial guarantees.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different stages. The year-end volumes of loan commitments and financial guarantees that were assigned at 31 December 2018 to a different stage compared to 1 January 2018 (or to the initial recognition date, if originated during the year) are summarized below:

in CZK million	2018
Transfers between Stage 1 and Stage 2	**4,859**
To Stage 2 from Stage 1	2,219
To Stage 1 from Stage 2	2,640
Transfers between Stage 2 and Defaulted	**66**
To Defaulted from Stage 2	25
To Stage 2 from Defaulted	41
Transfers between Stage 1 and Defaulted	**344**
To Defaulted from Stage 1	324
To Stage 1 from Defaulted	20

The year-end nominal amounts of unused off-balance commitments and financial guarantees that were initially recognized during 2018 and not fully de-recognized by 31 December 2018 amounts to CZK 68,612 million. The nominal amounts of unused off-balance commitments or financial guarantees that were held at 1 January 2018 and fully de-recognized during the year 2018 amounts to CZK 33,587 million.

Sundry provisions 2018

in CZK million	As of Dec 17	Allocations	Use	Releases	Exchange rate and other changes	As of Dec 18
Pending legal issues	1,758	21	(1)	(1)	31	1,808
Other provisions	146	650	(667)	(39)	19	109
Provisions	**1,904**	**671**	**(668)**	**(40)**	**50**	**1,917**

The level of sundry provisions is the best possible estimate of expected outflow of economic benefits at the reporting date, while taking into account the risks and uncertainties underlying the commitment to fulfill the obligation. Risks and uncertainties are taken into account in the estimate.

in CZK million	As of Dec 16	Allocations	Use	Releases	Reclassi-fication	Exchange rate changes – Input	As of Dec 17
Provision for restructuring	149	-	(42)	-	-	-	107
Pending legal issues	1,764	-	(2)	(4)	-	-	1,758
Commitments and guarantees given	716	1,449	(2)	(1,393)	-	(2)	768
Provisions for guarantees – off balance sheet (defaulted customers)	431	768	(2)	(749)	(24)	(1)	423
Provisions for guarantees – off balance sheet (non-defaulted customers)	285	681	-	(644)	24	(1)	345
Other provisions	167	628	(614)	(142)	-	-	39
Provisions	**2,796**	**2,077**	**(660)**	**(1,539)**	**-**	**(2)**	**2,672**

39. Other liabilities

in CZK million	2018	2017
Deferred income and accrued expenses	233	160
Sundry liabilities	4,958	9,355
Other liabilities	**5,191**	**9,515**

Sundry liabilities consist mainly of unbilled supplies of CZK 1,168 million (2017: CZK 1,212 million) and costs of staff bonuses for 2018 amounting to CZK 1,683 million (2017: CZK 1,590 million).

40. Total equity

in CZK million	2018	2017
Share capital	15,200	15,200
Additional paid-in capital	12	12
Other capital instruments	8,107	8,107
Retained earnings and other reserves	93,779	92,297
Total equity[1)]	**117,098**	**115,616**

(1) Details on equity are provided in Section III, Statement of Changes in Total Equity

As of 31 December 2018, share capital consists of 140,788,787 voting ordinary shares and 11,211,213 preference shares. Additional paid-in capital represents the amount by which the issue price of the shares exceeded their par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognized in other comprehensive income.

In December 2015 Česká spořitelna, a.s. has launched an issue of Additional Tier 1 Notes ("AT 1") , denominated in Euro, for a total of EUR 300 million, with characteristics compliant with Article 52 of the CRR (Regulation EU No 575/2013). This issue is reported within the line of Other capital instruments in Equity.

The main reasons for the issuance of AT1 is optimisation of capital structure and preparation for regulatory changes (full implementation of CRR, TLAC/MREL) while using the currently favourable market conditions (interest rates and credit spreads).

As the AT1 do not represent financial liabilities in terms of IAS 32.11, they are classified as equity instruments.

Classification of the AT1 as financial liabilities is not met from the following reasons:

- Based on the AT1 features (i.e. conditions of issue) the Bank has right to avoid delivering cash or another financial asset to settle this contractual obligation – The Holders of the AT1 do not have a right to demand redemption of the AT1 and distribution from the AT1.
- Based on the AT1 features (i.e. conditions of issue) the AT1 do not have a maturity date.

Number of shares and share capital

Authorised, Issued and Fully Paid Share Capital is as follows:

	2018		2017	
	Number of shares	in CZK million	Number of shares	in CZK million
Ordinary shares of CZK 100 each	140,788,787	14,079	140,788,787	14,079
Preference shares of CZK 100 each	11,211,213	1,121	11,211,213	1,121
Share capital	**152,000,000**	**15,200**	**152,000,000**	**15,200**

Preference shareholders are not entitled to vote at the annual shareholders' meeting. They have a right to receive dividends each year if the Bank is profitable. The amount of the dividend is proposed by the Board of Directors and subject to approval at the annual shareholders' meeting. In the case of liquidation, preference shareholders have a right to the assets of the Bank before ordinary shareholders but after other creditors. Preference shareholders have a right to purchase shares offered by the Bank when it increases its share capital in the same proportion as the current holding. Preference shares can only be issued to municipalities and local governments in the Czech Republic. The preference shares can only be transferred to entities other than municipalities and local governments of the Czech Republic subject to the approval of the Board of Directors.

41. Leases

a) Finance leases

The Bank does not lease any real estate and moveable property to other parties under finance lease arrangements.

b) Operating leases

Under operating leases, the Bank leases both real estate and moveable property from other parties.

Operating leases from the view of the Bank as lessee

Minimum lease payments from non-cancellable operating leases were as follows:

in CZK million	2018	2017
< 1 year	535	530
1-5 years	1,223	920
> 5 years	300	311
Total	**2,058**	**1,761**

Lease payments from operating leases recognised as expense in the period amounted to CZK 609 million (2017: CZK 594 million).

42. Related party transactions

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

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

Pursuant to the definitions outlined above, the categories of the Bank's related parties principally comprise Erste Group Bank, the Bank's subsidiaries, which include both direct and indirect investments with controlling influence, 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 standard commercial rates. Outstanding balances at the year-end are unsecured except for loans to finance investment property and property under construction.

Guarantees received represent payment guarantees related to the Bank's credit exposures. Issued guarantees relate to amounts owed by the Bank's subsidiaries to financial institutions outside of the Group. They are provided under standard market conditions.

There was no impairment related to the outstanding balances with Related Parties reported by the Group.

Loans and advances to and amounts owed to related parties

in CZK million	Erste Group Bank AG (2018)	Subsi-daries (2018)	Other related parties (2018)	Members of the Board of Directors and Supervisory Board (2018)	Erste Group Bank AG (2017)	Subsi-daries (2017)	Other related parties (2017)	Members of the Board of Directors and Supervisory Board (2017)
Assets								
Cash and cash balances	1,462	-	95	-	661	-	54	-
Financial assets – held for trading	3,440	4	-	-	5,078	8	-	-
Financial assets – amortised costs	17,071	19,698	281	17	-	-	-	-
Trade and other receivables	-	128	32	-	-	-	-	-
Loans and receivables to credit institutions	-	-	-	-	14,908	-	-	-
Loans and receivables to customers	-	-	-	-	-	19,873	307	22
Derivatives Hedge Accounting	411	-	-	-	377	-	-	-
Other assets	-	23	-	-	21	67	36	-
Liabilities								
Financial liabilities held for trading	3,679	2	-	-	2,949	66	-	-
Financial liabilities measured at amortised costs	273,400	11,069	430	39	250,028	13,005	2,860	39
Derivatives Hedge Accounting	310	-	-	-	69	-	-	-
Other Liabilities	2	114	236	-	89	162	233	-
Profit&Loss statement								-
Net interest income	(1,136)	62	5	-	501	8	5	-
Net fee and commision income	47	607	797	-	39	415	693	-
Dividend income	-	746	2	-	-	697	-	-
Net trading result and fair value result	(2,136)	(1)	-	-	4,568	(38)	-	-
Rental income from other operating lease	-	25	16	-	-	24	17	-
Other administrative expenses	(237)	(102)	(638)	(79)	(296)	(52)	(606)	(74)
Other operating result	38	91	6	-	25	93	8	-
Loans commitments, financial guarantees and other commitments given	15	6,749	213	-	22	5,924	74	-
Loan commitments, financial guarantees and other commitments received	-	-	-	-	20	-	3	-

'Other related parties' include companies wholly or partly owned by Erste Group Bank.

Financial liabilities measured at amortized costs as at 31 December 2018 include primarily repurchase agreements in CZK 265,192 million and term deposits of CZK 19,654 million.

The repurchase agreements are mainly denominated in CZK (CZK 222,428 million as at 31 December 2018, 2017: CZK 104,584 million) and EUR (CZK 41,086 million as at 31 December 2018, 2017: CZK 48,922 million), the interest rates on repurchase agreements are in the range of 0,2% to 7,5% and maturity of these transactions is up to 12 months.

The term deposits are mainly denominated in CZK (CZK 19,044 million as at 31 December 2018, 2017: CZK 101,565 million) and EUR (CZK 23 million as at 31 December 2018, 2017: CZK 1,903 million), the interest rates on term deposits are in the range of 2.7% to 7.4% and maturity of these transactions is up to 52 months.

Both financial assets held for trading and financial liabilities held for trading as at 31 December 2018 include derivative instruments only (currency and interest rate derivative instruments). The net trading result consists primarily of foreign currency gains/ losses from derivative transactions and also currency revaluation result from other balance sheet positions with related parties denominated in foreign currencies.

Financial assets at amortized cost include primarily standard money-market deposits, denominated in EUR (CZK 10,768 million as at 31 December 2018, 2017: CZK 7,882 million) and CZK (CZK 5,039 million as at 31 December 2018, 2017: CZK 5,000 million) and long-term and short-term loans denominated in CZK (CZK 15,077 million as at 31 December 2018).

43. Transfers of financial assets – repurchase transactions and securities lending

in CZK million	2018 Carrying amount of transferred assets	2018 Carrying amount of associated liabilities	2017 Carrying amount of transferred assets	2017 Carrying amount of associated liabilities
Repurchase agreements				
Trading assets	-	-	1	1
Financial assets at AC	74,671	71,835	-	-
Financial assets at FVOCI	722	718	-	-
Financial assets – available for sale	-	-	2,781	2,565
Financial assets – held to maturity	-	-	70,119	72,810
Total - repurchase agreements	**75,393**	**72,553**	**72,901**	**75,376**
Securities lendings				
Loans and advances to customers	-	-	7,578	7,578
Financial assets – held to maturity	-	-	6,216	6,402
Financial assets at AC	13,342	-	-	-
Trading assets	1	-	-	-
Total – securities lendings	**13,343**	**-**	**13,794**	**13,980**
Total	**88,736**	**72,553**	**86,695**	**89,356**

The transferred financial instruments consist of bonds and other interest-bearing securities.

The total amount of CZK 75,393 million (2017: CZK 72,901 million) represents the carrying amount of financial assets under the respective statement of financial position items for which the transferee has a right to sell or repledge.

Liabilities from repo transactions in the amount of CZK 72,553 million (2017: CZK 75,376 million), which are measured at amortised cost, represent an obligation to repay the borrowed funds.

The following table shows the fair values of the transferred assets and associated liabilities that have recourse only to the transferred assets. In case of the Bank, these assets and liabilities relate to repo transactions.

in CZK million	2018 Fair value of transferred assets	2018 Fair value of associated liabilities	2018 Net position	2017 Fair value of transferred assets	2017 Fair value of associated liabilities	2017 Net position
Trading assets	-	-	-	1	1	-
Financial assets – available for sale	-	-	-	2,781	2,565	216
Financial assets – held to maturity	-	-	-	74,540	72,964	1,576
Financial assets at AC	76,525	71,904	4,621	-	-	-
Financial assets at FVOCI	722	718	4	-	-	-
Total	**77,247**	**72,622**	**4,625**	**77,322**	**75,530**	**1,792**

44. Offsetting

Financial assets subject to offsetting and potential offsetting agreements in 2018

				Potential effects of netting agreements not qualifying for balance sheet offsetting			
	Gross amounts in balance sheet	**Amounts set off against financial liabilities**	**Net amounts in balance sheet**	**Financial instruments**	**Cash collateral received**	**Non-cash financial collateral received**	**Net amount after potential offsetting**
Derivatives	11,247	-	11,247	7,728	1,903	-	1,616
Reverse repurchase agreements	358,493	-	358,493	-	-	356,254	2,239
Other financial instruments	22,016	-	22,016	-	-	22,016	-
Total	**391,756**	**-**	**391,756**	**7,728**	**1,903**	**378,270**	**3,855**

Financial liabilities subject to offsetting and potential offsetting agreements in 2018

				Potential effects of netting agreements not qualifying for balance sheet offsetting			
	Gross amounts in balance sheet	**Amounts set off against financial liabilities**	**Net amounts in balance sheet**	**Financial instruments**	**Cash collateral received**	**Non-cash financial collateral received**	**Net amount after potential offsetting**
Derivatives	12,283	-	12,283	7,728	384	-	4,171
Repurchase agreements	314,713	-	314,713	-	-	314,713	-
Total	**326,996**	**-**	**326,996**	**7,728**	**384**	**314,713**	**4,171**

Financial assets subject to offsetting and potential offsetting agreements in 2017

				Potential effects of netting agreements not qualifying for balance sheet offsetting			
	Gross amounts in balance sheet	**Amounts set off against financial liabilities**	**Net amounts in balance sheet**	**Financial instruments**	**Cash collateral received**	**Non-cash financial collateral received**	**Net amount after potential offsetting**
Derivatives	11,921	-	11,921	6,683	2,489	-	2,749
Reverse repurchase agreements	139,276	-	139,276	-	-	137,831	1,445
Total	**151,197**	**-**	**151,197**	**6,683**	**2,489**	**137,831**	**4,194**

Financial liabilities subject to offsetting and potential offsetting agreements in 2017

				Potential effects of netting agreements not qualifying for balance sheet offsetting			
	Gross amounts in balance sheet	**Amounts set off against financial liabilities**	**Net amounts in balance sheet**	**Financial instruments**	**Cash collateral received**	**Non-cash financial collateral received**	**Net amount after potential offsetting**
Derivatives	13,294	-	13,294	6,683	1,593	-	5,018
Repurchase agreements	182,607	-	182,607	-	-	182,607	-
Total	**195,901**	**-**	**195,901**	**6,683**	**1,593**	**182,607**	**5,018**

The Bank uses repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements.

Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all contracts in the event of default of any counterparty. For derivative transactions the amount of assets and liabilities which would be set off as a result of master netting agreements is presented in the column Financial instruments. If the net position is further secured by cash collateral the effect is disclosed in the respective columns Cash collateral received/pledged.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities stay in hands of lender as collateral in case that borrower defaults in fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column Non-cash financial collateral received / pledged. Collateral is presented at fair value of the transferred securities. However, if fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral.

Cash and non-cash financial collateral involved in these transactions is restricted from use by the transferor during the time of the pledge.

45. Risk management

Risk management strategy

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 Bank aims to achieve an optimal balance of risk and return in order to achieve a sustainable, high return on equity.

The Bank uses a control and risk management system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, the Bank control and risk management systems have been developed to fulfil external and, in particular, regulatory requirements. Given Česká spořitelna's business strategy, the key risks are credit risk, market risk, liquidity risk and operational risk. The most significant risk is credit risk. In addition, the investment portfolio of the Bank is exposed to interest rate risk and liquidity risk. The risks attached to the trading portfolio include market risks, specifically foreign exchange, interest rate, commodity and equity risks and other risks relating to trading with complex instruments. All financial transactions and other banking activities also carry operational risk.

Risk management organization and decision bodies

Risk management for the Bank is performed by a division of the Bank managed by a member of the Board of Directors exclusively responsible for risk management – the Chief Risk Officer. This division, which is completely independent of the business divisions of the Bank, centralises all departments tasked with risk management, namely:

- Legal services;
- Strategic Risk Management;
- Credit Risk Management for Corporate Banking;
- Credit Risk Management for Retail Banking;
- Nonfinancial Risk Management and Compliance; and
- IS/IT Security.

The Management board deals with risk issues in its regular board meetings. All types of risks are reported periodically and actions are taken when needed. In addition, the Board is concerned with current risk issues and, through the internal risk reporting receives ad hoc reports for all types of risk.

In order to carry out risk management activities and support the Board of Directors in its risk taking and risk managing decisions, certain committees have been established, including the following:

- Risk Management Committee;
- Credit Risk Committee;
- Asset Liability Committee (ALCO);
- Operational Liquidity Committee;
- Financial Markets Risk Management Committee (FMRMC); and
- Compliance, Operational Risk and Security Committee.

The Internal audit continuously verifies and evaluates the management and control system, and reports annually on the results of this evaluation.

45.1 Risk and capital management

Overview

The Bank's risk and capital management framework has been continuously strengthened and developed into a comprehensive framework which is part of the Erste Group's enterprise risk management system. The fundamental pillar of this system is the Internal Capital Adequacy Assessment Process (ICAAP), as required under Pillar 2 of the Basel framework.

The risk and capital management and steering system is an integral part of the Bank's overall steering and management system. To ensure all aspects of regulatory requirements and support the Bank's management in pursuing its strategy the main components of this system can be clustered as follows:

- Risk appetite statement;
- Risk materiality assessment including concentration risk management;
- Stress testing;
- Risk-bearing capacity calculation;
- Risk planning & forecasting;
- Capital allocation and risk adjusted performance measurement; and
- Recovery and resolution plans.

Risk appetite statement and Risk Materiality Assessment

The risk appetite statement (RAS) serves as a formalised, high-level steering tool from which top-down targets for the Bank's limit system on lower aggregation levels can be derived. The objective of the Bank's RAS is to contain earnings volatility, avoid net losses and protect external and internal stakeholders. In order to reach these goals, general indicators are defined as well as indicators for credit, market and liquidity risk. To ensure that the RAS is operationally efficient, the indicators are classified as either targets, limits or principles, where the main differences are in the mechanisms triggered in case of a breach of the RAS. Regular reviews are performed and management reports are prepared in order to ensure effective limit oversight and identify any excesses.

For the purpose of systematically and continuously assessing all relevant risk types and identifying risks that are significant for the Bank, the Bank has defined a clear and structured risk materiality assessment approach that is based on defined quantitative and qualitative factors for each risk type and is carried out annually. This process constitutes the basis for the determination of material risk types to be included in the risk-bearing capacity calculation and stress testing. Insights generated by the assessment are also used to improve risk management practices to further mitigate risks within the Bank. The Bank has implemented a framework to identify, measure, control, report and manage concentration risks. Concentration risks also comprise an integral part of stress test analyses. Additionally, the results of concentration risk assessments are used in defining the Risk Appetite Statement, defining stress factors for stress tests, and calibrating the Bank's limit system.

Internal Capital Adequacy Assessment Process and Stress Testing

With respect to the 'ICAAP', the Bank has been using the Erste Group Bank methodology, which serves as a uniform set of rules for capital management within the Bank.

The Bank methodology is continuously updated in order to reflect the latest trends, best practices and regulatory requirements. The Bank's approach contains minor modifications driven by local regulatory requirements or other local specifics.

Within ICAAP, all major risks are quantified and covered by internal capital. The Bank's economic capital is measured at a confidence level of 99.9% and a 1-year holding period. From a modelling point of view, complex advanced approaches based on VaR methodology are used for market risk, operational and liquidity risks or IRB for credit risk. The Bank also developed models for other risk types (business, strategic, reputational and concentration risk). The overall risk of the Bank is calculated as the sum of individual risk requirements, i.e. no diversification effect is considered among risk types in order to keep a conservative approach. The resulting aggregate risk exposure is compared to internal capital resources derived from Pillar 1 capital resources with some adjustments (mainly profit of the current year is added to capital resources). Finally, the results of the economic capital quantification are allocated to business lines in order to compare their risk adjusted profitability.

Additionally, the Bank performs stress testing which is used as an additional input for internal capital adequacy assessment. The results of stress testing are updated on a quarterly basis and are reflected into both pillars – regulatory Pillar 1 and internal Pillar 2.

The ICAAP results for the Bank are submitted to the Board of Directors on a quarterly basis; the Board decides on any measures to be adopted with respect to ICAAP as well as risks and capital management in general. The Bank meets the internal limits approved by the Board of Directors with a sufficient buffer.

The Bank has also approved a recovery plan in line with the Bank Recovery and Resolution Directive (BRRD) requirements. The aim of the recovery plan is to be well prepared for severe unfavourable market developments and, if appropriate, to take adequate measures in a timely manner.

From the long-time perspective, the Bank manages its capital with the objective of maintaining a strong capital base in order to support its business activities, to comply with all regulatory capital requirements including capital buffers (currently conservation, systemic risk, countercyclical and SREP buffers) and to ensure a stable return for shareholders.

Statement of capital for the Bank's capital adequacy calculation on a standalone basis as reported to the regulator in accordance with applicable rules* as of 31 December 2018 and as of 31 December 2017:

in CZK million	**2018**	**2017**
Tier 1 capital	98,587	96,460
Tier 1 + Tier 2 capital	102,181	99,696
Exposure to credit risk	473,603	450,850
Exposure to market risk	9,984	9,669
Exposure to operational risk	53,226	75,309
Total risk exposure	**536,813**	**535,828**
Capital adequacy ratio for the year (Tier 1 ratio)	**18.4%**	**18.0%**
Capital adequacy ratio for the year (Tier 1+Tier 2 ratio)	**19.0%**	**18.6%**

* Reported figures are based on the methodology, where the Bank has used the possibility stated in the Article 26/2 of the CRR to include in the Common Equity Tier 1 capital credit risk adjustments.

The Bank meets all capital adequacy requirements as requested by regulators as of 31 December 2018 and 2017.

45.2 Credit risk

In the course of its business, the Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts owing in full when due.

Credit risk arises in Bank's traditional lending and investment businesses. It involves both credit losses incurred as a result of borrowers' default (Stage 3) and credit losses expected if default occurs either within 1 year (Stage 1) or at any time until maturity (Stage 2).

Stage 1 credit losses apply to non-defaulted credit risk exposures without significant increase in credit risk (SICR) since inception, whilst Stage 2 credit losses applicable to non-defaulted credit risk exposures for which SICR is observed at the reporting date. It also involves credit losses due to counterparty risk from trading in instruments and derivatives bearing market risk. Country risk and related macro-economic forward looking information is also recognised in the calculation of credit risk.

In contrary to large corporates, banks and governments managing credit risk in retail involves dealing with a large number of relatively small exposures extended to private individuals, free professionals, entrepreneurs or to micro companies in line with the Basel definitions. Credit risk related to retail loan portfolios is managed with a common interest to ensure regulatory compliant risk management practices and to provide customers with manageable loan facilities that are within their financial capacities supported by underlying profitability.

Credit Risk Management Methodology

In managing credit risk, the Bank applies a unified methodology which sets out applicable procedures, roles and authorities. The lending policy defines a comprehensive policy for the Bank's credit risk management. It defines the basic principles related to identification, measurement, monitoring, controlling and credit risk management. It contains the basic lending rules including limitations for loan granting and describes individual credit risk management tools, such as the rating system, collateral management, limit setting, setting of approval policy, monitoring, provisioning, reporting, controlling and portfolio management. In addition it defines credit risk management organization and discloses the lending process.

Breakdown of the Portfolio for Credit Risk Management Purposes

For credit risk management purposes, the Bank's loan portfolio is broken down as follows:

- **Retail receivables** are receivables from individuals/households and small enterprises with an annual turnover of up to CZK 60 million ('MSE'). The methods of managing the credit risk of retail receivables are based on statistical models calibrated using historical data and forward looking information.
- **Receivables from corporate counterparties** include receivables from small and medium sized enterprises with an annual turnover of between CZK 60 to 2,000 million ('SME'), receivables from large businesses (with an annual turnover exceeding CZK 2,000 million) and public sector receivables. While the methods of managing the credit risk of corporate receivables are based on statistical models (particularly for the portfolio of receivables from mid-size enterprises), great emphasis is also put on regular, discrete analysis of individual customers.

With the exception of a limited number of borderline cases, the implemented breakdown of the portfolio corresponds to the asset classes as defined in CNB Regulation 163/2014 Coll. which implements the BASEL III rules.

For the purpose of provisioning, monitoring and predicting losses, the Bank differentiates between individually significant and individually insignificant exposures. The credit risk attached to individually significant exposures is managed on an individual basis with the minor use of portfolio models. The Bank aggregates individually insignificant exposures into portfolios and manages the risk on a portfolio basis.

Individually significant loans predominantly include loans from the Bank's corporate portfolio. These loans are additionally split into the following sub-portfolios:

- Large corporate clients with an annual turnover exceeding CZK 2,000 million (the exposure of which is managed using a unified method throughout Erste Group Bank and its subsidiaries ('the Erste Group') or at the Bank level);
- Project finance and corporate mortgages;
- Small and medium sized enterprises (turnover from CZK 60 to 2,000 million);
- Municipality loans; and
- Loans in the Workout Department.

Corporate loans match the 'corporate' or 'special funding' asset class (segment) under BASEL III.

Individually insignificant loans (below CZK 5 million), including MSE loans, principally encompass the Bank's retail loans. These loans are divided into 17 product portfolios. The key portfolios include mortgage retail loans (with 5 LTV segments), credit card loans, overdraft loans and consumer loans. The Bank's retail loans match the 'Retail' asset class (segment) under BASEL III.

Collection of Key Risk Management Information

In managing credit risk, the Bank refers not only to the Bank's portfolio information but also the portfolio information of other members of the Group. The Bank also uses information obtained from external sources such as credit bureaus or ratings provided by reputable rating agencies. This data provides a basis for modelling credit risk and supports debt recovery, valuation of receivables and the calculation of credit losses.

Internal Rating System

The internal ratings of the Bank reflect the ability of counterparties to meet their financial obligations. The degree of risk is reflected in the internal rating and corresponding probability of default of the debtor in the following twelve months. The definition of default is in line with the requirements set out in CRR (Regulation EU No 575/2013).

The Bank allocates internal ratings to all clients with credit exposures. The Bank uses the rating scale with thirteen grades for non-defaulted counterparties and one grade for default counterparties (internal rating 'R'). In the case of private individuals, there are only eight rating grades for non-defaulted clients.

To allocate the internal rating grade, the Bank uses several rating models for different counterparty segments. All rating models comply with Erste Group Bank standards:

Segment	Rating tool
Government (sovereign) and banking	Unified model for the whole Erste Group. The model places great emphasis on independent external ratings combined with other information
Specialized financing	Unified model for the whole Erste Group, which is primarily based on projected cash flows
Corporate customers	Rating based on financial information and soft factors
MSE	In addition to the financial results of the company, information about the enterprise owner or the entrepreneur himself is also taken into account
Individuals	Behavioural and application scoring
Municipal clients	Model based on budget analysis

The Bank reviews ratings on a regular basis. The ratings of counterparties from the banking, corporate and sovereign segments are reviewed at least annually. For retail customers the Bank has developed a 'behavioural rating' and the client ratings are updated monthly.

The rating instruments are periodically adjusted to reflect changing economic conditions and the Bank's business plans, validation (consistency of results testing) and performance testing undertaken by the Enterprisewide Credit Risk Management Department.

In the case of counterparties with an external rating provided by an external rating agency, the Bank uses this information as an additional source of information. Based upon its historical experience, the Bank has created a transfer bridge between its own internal ratings and the external ratings.

In compliance with the regulatory requirements arising from BASEL III, rating instruments are subject to annual validations performed by the Enterprisewide Credit Risk Management Deparment, Erste Group Bank Competence Centre and Internal Audit.

For the purpose of external reporting, internal rating grades of the Bank are grouped into the following four risk categories:

Low risk: Typically regional customers with well-established and rather long-standing relationships with the Bank or large internationally recognized customers. Strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the Bank, or clients with a wide product pool use. No late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention: Vulnerable non-retail clients that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders. These clients typically have good recent histories and no current delinquencies.

Substandard: The borrower is vulnerable to negative financial and economic developments. Such loans are managed in specialized risk management departments.

Non-performing: One or more of the default criteria under Basel III are met: 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. For purposes of analyzing non-performing positions, the Bank applies the customer view. Accordingly, if a customer defaults on one product then all of that customer's performing products are classified as non-performing.

In order to enhance the comparability of the Group's asset quality, in 2018 Erste Group developed and implemented a new model for the assignment of exposures to risk categories. Based on the calibration of internal PDs (probabilities of default) for regulatory purposes to the default rates published by rating agencies, the equivalent external customer rating was used for the assignment to risk categories. For the agency ratings, average one-year default rates resulting from long-term time series were applied.

Compared to the method used for the assignment of credit exposures to risk categories until 2017, the most prominent impact concerns the migration of exposures in the category „low risk" to „management attention", less significant changes include the migration from „management attention" to „substandard" The „non-performing" risk category was not affected by the change in the methodology. As the newly developed model was implemented during 2018, the disclosure of comparative figures is not appropriate.

Exposure Limits

Exposure limits are defined as the maximum exposure that the Bank may accept in respect of a client with a given rating and underlying collateral. In setting the system of limits, the Bank strives to protect its revenues and capital from concentration risk.

The VaR of Wholesale portfolio increased relative to 1.34% in 2018 from 1.08% in 2017, whereas in absolute values it decreased to CZK 8.627 million from CZK 12.043 million in the previous year. This can be explained both by moderate increase in single-name concentration and increasing quality of the whole portfolio.

In terms of expected loss riskiness the portfolio reverted to 0.18% in 2018 from 0.12% in 2017 which was influenced by high exposures in fully collateralized repurchase operations. Comparing VaR to Tier 1 capital confirms strong capital position of the bank: the indicator decreased from 12.49% in 2017 to 8.35% in 2018.

Structure of Approval Authorities

The structure of approval authorities is based on the materiality of the impact of a potential loss from a provided exposure on the Bank's financial performance and the risk profile of the relevant loan transaction. The highest approval authorities rest with the Credit Committee of the Board and/or Statistical Model Committee, with the Risk Committee of the Supervisory Board only having an advisory role for Credit Committee of the Board. Lower approval authorities are categorised taking into account the seniority of the staff of the Corporate and the Retail Credit Risk Management Departments.

Risk Parameters

The Bank uses its own internal models in determining the risk parameters, namely PD, LGD and CCF risk parameters. All of the models are developed according to BASEL III requirements and are subject to regular independent validation and review by the regulator. The monitoring of historical risk parameters and their prediction serve as a basis for the quantitative management of portfolio credit risk.

The Bank currently employs risk parameters for portfolio monitoring, non-performing (defaulted) loan portfolio management, portfolio protection measurement, risk valuation and prediction of the Bank's risk profile development under different scenarios.

All models are back tested at least annually and validated by the Bank's specialists who are independent of the Risk Management Department.

Management of Credit Risk in the Trading Portfolio

The credit risk inherent in the trading portfolio is managed through the limits system applied to all counterparties.

Credit risk pricing

The accepted risk is reflected in risk margins used in the pricing of individual types of counterparties and deals. The risk margins are based on estimated risk parameters, the expected development of the macroeconomic environment and changes in the credit process within the Bank, which may have an impact on risk level within the credit portfolio.

Stress testing

The Bank regularly performs stress testing of the sensitivity of its portfolio to the deterioration of the credit quality of receivables. In addition to the sensitivity of the portfolio to stress changes in the PD and LGD risk factors, the Bank performs scenario analysis modelling the impact of adverse developments in macroeconomic factors (such as changes in the economic growth rate, changes in interest rates and changes in inflation). The breakdown of credit risk by industries is shown in section 'Gross Credit risk exposure by industry and financial instrument and section' and 'Credit risk exposure by risk category'.

Write-offs

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered remote. The loan is written-off against the related account 'Net impairment loss on financial assets not measured at fair value through profit or loss' in the income statement. If the reason for provisioning is no longer deemed appropriate, the redundant impairment charge is released into income statement through 'Net impairment loss on financial assets not measured at fair value through profit or loss'. The relevant amount and recoveries of loans and advances previously written-off are also reflected in the income statement through 'Net impairment loss on financial assets not measured at fair value through profit or loss'.

Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:

- cash and cash balances - demand deposits to central and 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);
- debt instruments at amortised cost (AC), other than trade and other receivables;
- debt instruments held for sale in disposal groups;
- 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 equates the gross carrying amount (or nominal value in the case of off-balance sheet positions) excluding:

- account loan loss allowances;
- provisions for guarantees;
- any collateral held (including risk transfer to guarantors);
- netting effects;
- other credit enhancements;
- credit risk mitigating transactions.

Between 31 December 2017 and 31 December 2018, the credit risk exposure increased from CZK 1,126 billion to CZK 1,436 billion. This is an increase of 27.6% or CZK 310 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
Dec 18				
Cash and cash balances – demand deposits to central banks and credit institutions	2,711	-	-	2,711
Debt instruments held for trading	10,315	-	-	10,315
Non-trading debt instruments at FVPL	684	-	-	684
Debt securities	616	-	-	616
Loans and advances to customers	68	-	-	68
Debt instruments at FVOCI	38,086	(51)	78	38,164
Debt securities	38,086	(51)	78	38,164
Debt instruments at AC	1,233,328	(10,852)	-	1,222,476
Debt securities	198,935	(15)	-	198,920
Loans and advances to banks	377,601	(12)	-	377,589
Loans and advances to customers	656,792	(10,825)	-	645,967
Trade and other receivables	903	(304)	-	599
Positive fair value of hedge accounting derivatives	1,152	-	-	1,152
Off balance-sheet exposures	148,619	(1,564)	-	-
Total	**1,435,798**	**(12,771)**	**78**	**1,276,100**

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.

Breakdown of credit risk exposure

On the next pages the credit risk volume is categorized in the following way:

- Basel 3 exposure class and financial instrument;
- counterparty sector and financial instrument;
- off-balance sheet exposure by product;
- industry and financial instrument;
- industry and IFRS 9 treatment;
- risk category;
- industry and risk category;
- composition of credit loss allowances;
- forbearance exposure and credit loss allowances;
- types of forbearance exposure;
- financial instrument and collateral;
- credit risk exposure neither past due nor credit impaired by financial instrument and risk category;
- credit risk exposure past due and not covered by credit loss allowances by financial instrument and collateralisation.

Credit risk exposure by Basel 3 exposure class and financial instrument

The assignment of obligors to Basel 3 exposure classes is based on legal regulations. For reasons of clarity, individual Basel 3 exposure classes are aggregated in the table below and in other tables in section 'Credit risk'. Additionally to central governments, central banks, international organizations, and multinational development banks, the aggregated exposure class 'sovereigns' contains regional and local governments as well as public sector entities. Institutions include banks and recognized investment firms.

Credit risk exposure by Basel 3 exposure class and financial instrument in 2018

in CZK million	Cash and cash balances - demand deposits to central banks and credit institutions	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	Debt securities	Loans and advances to banks	Loans and advances to customers	Trade and other receivables	Positive fair value of hedge accounting derivatives	Off balance-sheet exposures	Total
Dec 18											
Sovereigns	-	2,318	62	25,168	187,904	357,449	18,862	-	-	8,461	600,224
Institutions	2,711	5,368	279	4,297	11,024	20,152	19	197	1,094	1,042	46,183
Corporates	-	2,628	343	8,621	7	-	263,833	706	58	82,331	358,527
Retail	-	1	-	-	-	-	374,078	-	-	56,785	430,864
Total	**2,711**	**10,315**	**684**	**38,086**	**198,935**	**377,601**	**656,792**	**903**	**1,152**	**148,619**	**1,435,798**

Credit risk exposure by Basel 3 exposure class and financial instrument in 2017

				Debt instruments						
	Balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent liabilities	Credit risk exposure
in CZK million			At amortised cost				Fair value			
Sovereign	-	135,515	15,830	152,124	90	289	40,056	2,817	6,813	353,534
Institutions	948	21,547	-	3,716	41	-	3,416	7,874	583	38,125
Corporates	-	-	249,385	474	-	65	9,878	1,230	74,263	335,295
Retail	-	-	342,869	-	-	-	-	-	55,751	398,620
Total	**948**	**157,062**	**608,084**	**156,314**	**131**	**354**	**53,350**	**11,921**	**137,410**	**1,125,574**

Credit risk exposure by counterparty sector and financial instrument

					At amortised cost						
in CZK million	Cash and cash balances – other demand deposits to credit institutions	Debt instruments – held for trading	Non-trading financial assets at FVPL	Debt instruments at FVTOCI	Debt securities	Loans and advances to banks	Loans and advances to customers	Trade and other receiv-ables	Positive fair value of hedge accounting derivatives	Off balance-sheet exposures	Gross exposure
Dec 18											
Central banks	-	-	-	-	-	357,448	-	-	-	-	357,448
General governments	-	2,318	-	25,167	187,904	-	20,169	247	-	10,487	246,292
Credit institutions	2,711	5,354	279	4,298	11,024	20,153	-	100	1,094	1,042	46,055
Other financial corporations	-	642	405	1,305	4	-	34,202	367	-	11,358	48,283
Non-financial corporations	-	2,001	-	7,316	3	-	248,625	48	58	72,830	330,881
Households	-	-	-	-	-	-	353,796	141	-	52,902	406,839
Total	**2,711**	**10,315**	**684**	**38,086**	**198,935**	**377,601**	**656,792**	**903**	**1,152**	**148,619**	**1,435,798**

Contingent liabilities / Off balance-sheet exposures by product

in CZK million	2018	2017
Financial guarantees	29,999	25,356
Irrevocable commitments	-	-
Loan commitments	117,726	112,054
Other commitments	894	-
Total	**148,619**	**137,410**

Credit risk exposure by industry and financial instrument

Dec 18 in CZK million	Cash and cash balances - demand deposits to central banks and credit institutions	Debt instruments held for trading	Non-trading debt instru-ments at FVPL	Debt instruments at FVOCI	At amortised cost Debt securities	At amortised cost Loans and advances to banks	At amortised cost Loans and advances to customers	Trade and other receivables	Positive fair value of hedge accounting derivatives	Off balance-sheet exposures	Total
Agriculture and forestry	-	12	-	-	-	-	12,944	-	-	1,840	14,796
Mining	-	6	-	-	-	-	1,089	-	-	806	1,901
Manufacturing	-	792	-	1,191	-	-	63,770	45	-	17,463	83,261
Energy and water supply	-	306	-	1,734	-	-	20,032	-	34	3,511	25,617
Construction	-	13	-	-	-	-	8,187	-	-	19,133	27,333
Development of building projects	-	1	-	-	-	-	3,337	-	-	8,067	11,405
Trade	-	123	-	-	-	-	39,755	102	-	11,651	51,631
Transport and communication	-	287	-	3,482	-	-	15,318	1	-	6,357	25,445
Hotels and restaurants	-	36	-	-	-	-	8,288	-	-	1,155	9,479
Financial and insurance services	2,711	5,996	684	5,602	11,029	377,601	34,194	464	1,094	12,400	451,775
Holding companies	-	160	22	1,209	-	-	5,042	-	-	1,152	7,585
Real estate and housing	-	305	-	826	3	-	75,352	1	9	9,965	86,461
Services	-	65	-	84	-	-	21,449	5	-	5,464	27,067
Public administration	-	2,318	-	25,167	187,903	-	19,648	148	-	8,462	243,646
Education, health and art	-	56	-	-	-	-	7,247	-	15	1,369	8,687
Households	-	-	-	-	-	-	329,519	137	-	49,043	378,699
Other	-	-	-	-	-	-	-	-	-	-	-
Total	**2,711**	**10,315**	**684**	**38,086**	**198,935**	**377,601**	**656,792**	**903**	**1,152**	**148,619**	**1,435,798**

Gross credit risk exposure by industry and financial instrument in 2017

	Balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Debt instruments Held to maturity	Debt instruments Trading assets	Debt instruments At fair value through profit or loss	Debt instruments Available for sale	Positive fair value of derivative financial instruments	Contingent liabilities	Credit risk exposure
in CZK million		**At amortised cost**					**Fair value**			
Agriculture and forestry	-	-	12,540	-	-	-	-	14	2,393	14,947
Mining	-	-	1,623	-	-	-	-	29	68	1,720
Manufacturing	-	-	56,340	-	-	-	2,098	145	19,585	78,168
Energy and water supply	-	-	22,346	-	-	-	1,719	357	3,616	28,038
Construction	-	-	8,317	-	-	-	-	3	13,987	22,307
Trade	-	-	37,130	-		-	-	74	10,134	47,338
Transport and communication	-	-	14,958	-	-	-	3,870	266	7,310	26,404
Hotels and restaurants	-	-	5,199	-	-	-	-	21	1,119	6,339
Financial and insurance services	948	157,062	36,301	11,475	41	354	9,008	8,258	8,947	232,394
Real estate and housing	-	-	70,019	3	-	-	-	134	8,880	79,036
Services	-	-	20,810	-	-	-	84	19	5,445	26,358
Public administration	-	-	16,033	144,836	90	-	36,571	2,549	6,812	206,891
Education, health and art	-	-	5,980	-	-	-	-	52	1,112	7,144
Private households	-	-	300,488	-	-	-	-	-	48,002	348,490
Total	**948**	**157,062**	**608,084**	**156,314**	**131**	**354**	**53,350**	**11,921**	**137,410**	**1,125,574**

Credit risk exposure by industry 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
Dec 18							
Agriculture and forestry	13,368	1,214	199	3	14,784	12	14,796
Mining	1,792	1	102	-	1,895	6	1,901
Manufacturing	73,282	5,423	3,339	319	82,363	898	83,261
Energy and water supply	23,218	1,560	432	67	25,277	340	25,617
Construction	22,458	3,417	1,070	33	26,978	355	27,333
Development of building projects	8,718	2,398	265	23	11,404	1	11,405
Trade	46,673	2,936	1,390	62	51,061	570	51,631
Transport and communication	23,237	1,801	120	-	25,158	287	25,445
Hotels and restaurants	7,467	1,846	125	5	9,443	36	9,479
Financial and insurance services	443,452	536	12	-	444,000	7,775	451,775
Holding companies	7,401	3	-	-	7,404	181	7,585
Real estate and housing	79,620	6,048	478	1	86,147	314	86,461
Services	24,598	1,760	639	5	27,002	65	27,067
Public administration	239,186	2,142	0	1	241,329	2,317	243,646
Education, health and art	8,016	523	77	-	8,616	71	8,687
Households	363,218	11,555	3,892	34	378,699	-	378,699
Total	**1,369,585**	**40,762**	**11,875**	**530**	**1,422,752**	**13,046**	**1,435,798**

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

The defaulted part of POCI amounted to CZK 424 million, the non-defaulted part to CZK 106 million.

Credit risk exposure by risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Total exposure as of 31 Dec 2018	1,304,313	94,182	24,729	12,574	1,435,798
Share of credit risk exposure	90.8%	6.6%	1.7%	0.9%	100.0%
Total exposure as of 31 Dec 2017	1,049,634	57,841	5,224	12,875	1,125,574
Share of credit risk exposure	**93.3%**	**5.1%**	**0.5%**	**1.1%**	**100.0%**

From 31 December 2017 to 31 December 2018, the non-performing exposure (NPE) as well as the NPE ratio (non-performing exposure as a percentage of total credit risk exposure) decreased. With respect to the risk categories for performing exposures a comparison between the two balance sheet dates is not meaningful because the methodology of assigning exposures to risk categories was changed during the year; see "risk grades and categories" in chapter 45.2 Credit risk.

Credit risk exposure by industry and risk category in 2018

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
Agriculture and forestry	9,065	4,762	763	206	**14,796**
Mining	1,695	103	1	102	**1,901**
Manufacturing	64,306	13,607	1,727	3,621	**83,261**
Energy and water supply	22,783	1,963	372	499	**25,617**
Construction	15,697	6,976	3,547	1,113	**27,333**
Trade	37,791	10,022	2,305	1,513	**51,631**
Transport and communication	15,532	4,224	419	96	**20,271**
Hotels and restaurants	11,624	1,839	1,028	163	**14,654**
Financial and insurance services	449,585	2,162	15	12	**451,774**
Real estate and housing	57,108	23,737	5,132	484	**86,461**
Services	17,156	4,391	1,027	582	**23,156**
Public administration	241,740	1,381	526	-	**243,647**
Education, health and art	7,001	1,204	403	79	**8,687**
Private households	353,230	17,811	7,464	4,104	**382,609**
Total	**1,304,313**	**94,182**	**24,729**	**12,574**	**1,435,798**

Credit risk exposure by industry and risk category in 2017

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
Agriculture and forestry	12,544	2,025	169	209	**14,947**
Mining	1,554	166	-	-	**1,720**
Manufacturing	66,812	6,397	2,018	2,941	**78,168**
Energy and water supply	25,097	2,278	66	597	**28,038**
Construction	16,940	3,579	879	909	**22,307**
Trade	38,361	6,391	638	1,948	**47,338**
Transport and communication	22,110	4,052	100	142	**26,404**
Hotels and restaurants	3,495	2,468	168	208	**6,339**
Financial and insurance services	229,643	2,503	1	247	**232,394**
Real estate and housing	66,861	11,174	223	778	**79,036**
Services	19,965	5,503	298	592	**26,358**
Public administration	206,294	597	-	-	**206,891**
Education, health and art	5,890	1,131	17	106	**7,144**
Private households	334,068	9,577	647	4,198	**348,490**
Total	**1,049,634**	**57,841**	**5,224**	**12,875**	**1,125,574**

Non-performing credit risk exposure and credit loss allowances

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the subsection 'Internal rating system'. Credit risk provisions include specific and collective allowances and provisions for guarantees.

Credit loss allowances (all stages combined) covered 101.6% (2017: 89.8%) of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2018. For the portion of the non-performing credit risk exposure that is not covered by allowances, Bank assumes there are sufficient levels of collateral and expected other recoveries.

During 2018, the non-performing credit risk exposure decreased by CZK 301 million, or 2.3%, from CZK 12,875 million to CZK 12,574 million. The substantial improvement of asset quality resulted on the one side from a strong decline of new non-performing loans, and on the other side from high recoveries and write-offs, including from sales of non-performing loans. The credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees increased by CZK 1,155 million, or 10.0%, from CZK 11,567 million as of 31 December 2017 to CZK 12,722 million as of 31 December 2018. .

The following tables show the coverage of the non-performing credit risk exposure by credit loss allowances (without taking into consideration collateral) as of 31 December 2018 and 31 December 2017. The differences in the credit allowance levels between the reporting

segments result from the risk situation in the respective markets, different levels of collateralisation as well as the local legal environment and regulatory requirements.

The non-performing exposure ratio (NPE ratio) is calculated as the non-performing credit risk exposure divided by total credit risk

exposure while the NPE coverage ratio (excl. collateral) is computed as the credit loss allowances divided by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

Expected credit loss measurement

The general principles and standards for credit loss allowances are governed by internal policies in the Bank. 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 meet the applicable IFRS 9 respective definitions.

According to the IFRS 9 there are three main stages outlined for expected credit loss (ECL) determination:

- If financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 month.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. Instruments in Stage 2 have their ECL measured based on expected credit losses on a lifetime (LT) basis. If the financial instrument is credit impaired, the financial instrument is then moved to Stage 3. Instruments in Stage 3 have their ECL measured based on expected credit losses on a LT basis.
- Purchased or originated credit-impaired (POCI) financial instruments are those financial instruments that are credit-impaired on initial recognition. Their ECL is always measured on LT basis.

The key judgments and assumptions adopted by the Bank in addressing the requirements of the standard are presented below:

In the area of expected credit loss (ECL) modelling and calculation of credit loss allowances (CLA), the Bank 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 criteria

Quantitative SICR indicators include adverse changes in annualized lifetime probability of default and in lifte-time probability of defaults with significance being assessed by reference to a mix of relative and absolute threshold changes. In order to positively conclude on SICR for particular financial instrument, both relative and absolute thresholds need to be breached. 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 criteria

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. These indicators are used internally for identification of insolvency or increased probability that borrower will enter bankruptcy and there is increased risk of default in the foreseeable future. Besides the qualitative indicators defined on client level, the assessment of significant increase in credit risk is performed on portfolio level if the increase in credit risk on individual instrument or client level is only available with a certain time lag or is observable exclusively on portfolio level.

Low credit risk exemption

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 the Bank. 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.

Measuring ECL – explanation of inputs and measurement

Collective allowances are calculated for exposures to non-defaulted customers according to a rule-based approach irrespective of the significance of the customer, except for credit loss allowances against in-scope debt securities issued by non-defaulted issuers, for which, in general, an individual calculation approach is applied.

The calculation of collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The grouping criteria may differ on the customer segment (retail, corporate) and include product type, collateral type, and repayment type, loan to value band or credit rating band.

The calculation of credit loss allowances is done on a daily basis on single exposure level in the contractual currency of the exposure. To compute the credit loss allowance, the Bank 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. ECL is discounted product of exposure at default (EAD) that includes as well credit conversion factor in case of off balance sheet exposures, probability of default (PD) and loss given default (LGD).

Incorporation of forward looking information

Parameters are determined to reflect the risk as a "point-in-time" measure and with consideration of forward-looking information ("FLI"), which resulted in introducing a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. These are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by Bank's research department. Given multiple scenarios, the "neutral" PDs (and also LGDs, with a few exceptions) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Same macro-shift models as for external and internal stress test are employed. Forward looking information is incorporated for first three years of ECL measurement. Measurement of the remaining life time returns back to through the cycle observations in the year four immediately.

Thus, the unbiased, probability-weighted ECL is derived with the weights representing the occurrence probabilities of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. Nevertheless, main indication of the estimated economic development can be predicted through GDP development.

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.

Classification into stages and definition of credit-impaired financial instruments

Stage 1 includes not credit-impaired financial instruments at initial recognition and not credit-impaired 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 not credit-impaired financial instruments with a significant increase in credit risk since initial recognition 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 but were not credit-impaired at initial recognition. In principle, a financial instrument becomes credit-impaired when the customer defaults. The Bank 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.

POCI includes financial instruments which were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are always calculated on a lifetime basis, but those attributable to POCI on-balance exposures for which lifetime expected recoveries remained constant or improved since initial recognition are not recognized as credit loss allowances distinct from the related gross carrying amounts.

Grouping of instruments

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 defaulted customer is classified as individually 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.

Composition of credit loss allowances

in CZK million	2018	2017
Specific allowances	(8,558)	x
Collective allowances	(3,009)	x
Credit loss allowances	x	(11,208)
Loss allowances for loan commitments and financial guarantees	x	(1,514)
Provisions for other commirments	x	(50)
Total	**(11,567)**	**(12,772)**

Credit loss allowances and loss allowances for loan commitments and financial guarantees are computed based on IFRS 9 requirements, while provisions for other commitments are subject to IAS 37.

Exposures with forbearance measures

The Bank implemented the forbearance methodology according to the EBA regulation in 2014. Forborne exposures are exposures where the debtor is considered unable to comply with the contract due to its financial difficulties and the Bank decided to grant a concession to a debtor. Forbearance measure can be either modification of terms and conditions or refinancing of the contract. Modification of terms includes payment schedule changes (deferrals or reductions of regular payments, extended maturities, etc.), interest rate reductions or penalty interest waivers.

Forborne exposure initially receives default rating 'R'; such exposure is classified as non-performing defaulted forborne exposure. After minimum 12 months and when the pre-defined conditions are fulfilled the exposure can be reclassified into performing forborne exposure. The performing forborne exposure has to be closely monitored during the probation period which takes minimum 2 years. When the exposure within the probation period defaults, the exposure is downgraded into the non-performing forborne exposures. If after 2 years' probation period the stated conditions are met, the exposure ceases to be classified as forborne.

All exposures with forbearance measures relates to financial assets' category loans and advances. There are no exposures with forbearance measure reported by the Bank resulting from debt instruments or loan commitments.

Analysis of performing and non-performing forborne exposures

2018 in CZK million	Forborne exposures	Performing forborne exposure	Non-perfoming forborne exposure	of which: Defaulted
Non-financial corporations	1,201	168	1,033	1,001
Households	1,602	583	1,019	886
Total	**2,803**	**751**	**2,052**	**1,887**

2017 in CZK million	Forborne exposures	Performing forborne exposure	Non-perfroming forborne exposure	of which: Defaulted
Non-financial corporations	1,498	182	1,316	1,244
Households	2,095	847	1,249	1,063
Total	**3,593**	**1,029**	**2,565**	**2,307**

Analysis of the credit quality of financial assets as required by IFRS 7 including level of impairment and collateral as of 31 December 2018

	Outstanding					
in CZK million	Neither past due nor impaired	Past due but not impaired	Impaired	Total gross forborne	Provisions	Collateral
Households	607	108	887	1,602	551	596
Non-financial corporations	194	6	1,001	1,201	650	268
Total	**801**	**114**	**1,888**	**2,803**	**1,201**	**864**

Analysis of the credit quality of financial assets as required by IFRS 7 including level of impairment and collateral as of 31 December 2017

	Outstanding					
in CZK million	Neither past due nor impaired	Past due but not impaired	Impaired	Total gross forborne	Provisions	Collateral
Households	851	196	1,049	2,095	638	763
Non-financial corporations	256	47	1,195	1,498	763	324
Total	**1,107**	**241**	**2,244**	**3,593**	**1,401**	**1,087**

Dissaggregation of the forborne financial assets by type of forbearance measure

	2018			2017		
in CZK million	Modification	Refinancing	Total	Modification	Refinancing	Total
Households	1,571	31	1,602	2,065	30	2,095
Non-financial corporations	1,087	114	1,201	1,385	113	1,498
Total	**2,658**	**145**	**2,803**	**3,450**	**143**	**3,593**

The carrying amount of forborne assets in comparison with other assets remaining the portfolio

	2018			2017		
in CZK million	Total portfolio	Forborne portfolio	Share on total portfolio	Total portfolio	Forborne portfolio	Share on total portfolio
Central banks	357,446	-	0,0%	135,515	-	0,0%
General governments	208,121	-	0,0%	17,165	-	0,0%
Credit institutions	31,242	-	0,0%	19,642	-	0,0%
Other financial corporations	34,538	-	0,0%	36,120	-	0,0%
Non-financial corporations	242,524	551	0,2%	223,371	735	0,3%
Households	349,203	1,050	0,3%	319,900	1,457	0,5%
Total	**1,223,074**	**1,601**	**0,1%**	**751,713**	**2,192**	**0,3%**

The Bank does not report data in respect of carrying amount of the newly recognised assets for original forborne assets, which have been derecognised during the reporting period.

Level of the collective and specific impairment allowance held against forborne assets

in CZK million	2018			2017		
	Specific allowances	Collective allowances	Total	Specific allowances	Collective allowances	Total
Households	41	510	551	578	60	638
Non-financial corporations	484	166	650	735	28	763
Total	**525**	**676**	**1,201**	**1,313**	**88**	**1,401**

Reconciliation from the opening balance to the closing balance of forborne assets

2018

in CZK million	General governments	Non-financial corporations	Households	Total
Opening balance (1 January 2018)	-	1,498	2,095	3,593
Inflow (+)	-	148	232	380
Outflow (–)	-	(157)	(428)	(585)
Changes in outstanding (+/–)	-	(288)	(298)	(586)
Closing balance (31 December 2018)	**-**	**1,201**	**1,601**	**2,802**

2017

in CZK million	General governments	Non-financial corporations	Households	Total
Opening balance (1 January 2017)	7	2,454	3,011	5,472
Inflow (+)	-	312	271	583
Outflow (-)	(5)	(162)	(372)	(539)
Changes in outstanding (+/-)	(2)	(1,106)	(815)	(1,923)
Closing balance (31 December 2017)	**-**	**1,498**	**2,095**	**3,593**

Gains/Losses from the forborne exposures

2018

in CZK million	Gain/(Loss)	Direct write-offs
Non-financial corporations	47	-
Households	(86)	-
Total	**(39)**	**-**

2017

in CZK million	Loss	Direct write-offs
Non-financial corporations	67	-
Households	20	-
Total	**87**	**-**

Interest income from the forborne exposures

in CZK million	2018	2017
Non-financial corporations	49	78
Households	121	188
Total	**170**	**266**

Collateral

The Bank defines collateral as assets that can be realized in case the primary source of repayment fails. Collateralisation of the Bank's receivables represents the Bank's protection as a creditor that may be used as a secondary source of payment. The selection of individual collateral instruments required to secure a specific deal depends on the Bank's loan products, requirements and professional assessment by the Bank's responsible employees. The possibility to pledge the collateral is always assessed before the collateral is accepted by the Bank.

The value of collateral (nominal value of collateral) is determined with reference to the market prices of similar types of collateral. If more than one market price for the collateral is determined using various valuation techniques in a particular business transaction, the lowest market price is used.

If the collateral instrument involves real estate, movable assets, a business or its branch, trademarks, an asset declared as a historical monument, etc., the price has to be determined on the basis of an appraisal made by an expert appraiser contracted by the Bank or an internal appraiser for the purpose of evaluating the loan application. The expert appraisal or price estimate should not be older than six months at the date on which the loan contract is entered into. For real estate valuation purposes a detailed, in-house methodology is used.

The realisable value of collateral is determined by using the valuation rates set in the Collateral Catalogue. In determining the valuation rates, it is necessary to assess individual instruments by their specific features, e.g. real estate by the character of its construction, etc. and always following a physical inspection. The overall setup of maximum valuation rates is reviewed annually. The expert valuation always has to be reviewed. Other conditions taken into account in determining the realisable value of collateral are, among others, as follows:

- A comprehensive assessment of all available and, with respect to the particular case, significant circumstances and background documentation;
- Any insurance or pledges of receivables from insurance proceeds in favour of the Bank;
- The possibility of realising the collateral at a particular time and place and the amount of realisation costs which, in most cases, needs to be viewed as a sale in distress; and
- Comparison to market trends.

The Collateral Catalogue also includes requirements for the periodic revaluation of collateral. Typically, the collateral value is analysed and updated upon the regular monitoring/credit review of clients. With respect to product portfolios of retail mortgages, the Bank uses portfolio models for updating base collateral values. In addition, the Bank regularly monitors the loan-to-value ratio, mainly in respect of mortgage loans and project financing loans.

The following tables compare the credit risk exposure broken down by business and financial instruments to the allocated collateral. The amount of allocated collateral corresponds to the accepted value after internal haircuts capped by the exposure amount.

in CZK million	Total credit risk exposure	Collate-ral total	Collateralised by Guaran-tees	Real estate	Other	Credit risk expo-sure net of colla te ral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
Dec 18									
Cash and cash balances - demand deposits to central banks and credit institutions	2,711	-	-	-	-	2,711	2,711	-	-
Debt instruments held for trading	10,315	-	-	-	-	10,315	-	-	-
Non-trading debt instruments at FVPL	684	265	265	-	-	419	-	-	-
Debt instruments at FVOCI	38,086	1,932	1,932	-	-	36,154	38,086	-	-
Debt instruments at AC	1,234,231	691,092	25,529	294,232	371,331	543,139	1,229,083	4,724	10,573
Debt securities	199,935	5,389	5,389	-	-	193,546	198,935	-	-
Loans and advances to banks	377,601	355,135	-	-	355,135	22,466	377,601	-	-
Loans and advances to customers	656,792	330,568	20,140	294,232	16,196	326,224	651,922	4,446	10,547
Trade and other receivables	903	-	-	-	-	903	625	278	26
Positive fair value of hedge accounting derivatives	1,152	-	-	-	-	1,152	-	-	-
Off balance-sheet exposures	148,619	-	-	-	-	148,619	147,623	102	1,727
out of which: other commitments	894	-	-	-	-	894	-	-	-
Total	**1,435,798**	**693,289**	**27,726**	**294,232**	**371,331**	**742,509**	**1,417,503**	**4,826**	**12,300**

in CZK million	Total credit risk exposure	Collate-ral total	Guaran-tees	Real estate	Other	Credit risk expo-sure net of colla te ral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
Dec 17									
Cash and cash balances – other demand deposits	715	-	-	-	-	715	715	-	-
Loans and receivables to credit institutions	14,908	-	-	-	-	14,908	14,908	-	-
Loans and receivables to customers	20,168	785	-	499	287	19,383	20,065	-	103
Financial assets – held to maturity	-	-	-	-	-	-	-	-	-
Financial assets – held for trading	40	-	-	-	-	40	40	-	-
Positive fair value of derivatives	5,423	-	-	-	-	5,423	5,423	-	-
Contingent liabilities	5,999	-	-	-	-	5,999	5,999	-	-
Total	**47,253**	**785**	**-**	**499**	**287**	**46,468**	**47,150**	**-**	**103**

Credit risk exposure neither past due nor credit impaired by financial instrument and risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total
Cash and cash balances – demand deposits to central banks and credit institutions	2,710	1	-	-	2,711
Debt instruments held for trading	9,790	516	1	8	10,315
Non-trading debt instruments at FVPL	370	312	2	-	684
Debt instruments at FVOCI	38,086	-	-	-	38,086
Debt instruments at AC	1,123,547	75,958	18,680	150	1,218,335
Debt securities	198,935	-	-	-	198,935
Loans and advances to banks	377,601	-	-	-	377,601
Loans and advances to customers	547,011	75,958	18,680	150	641,799
Trade and other receivables	491	108	-	-	599
Positive fair value of hedge accounting derivatives	1,150	2	-	-	1,152
Off balance-sheet exposures	126,605	16,233	3,901	47	146,786
out of which: other commitments	347	498	1	43	889
Total	**1,302,749**	**93,130**	**22,584**	**205**	**1,418,668**

Credit risk exposure past due and not covered by credit loss allowances by financial instrument and collateralisation

	Total credit risk exposure						Thereof collateralised					
in CZK million	Total	Thereof 1–30 days past due	Thereof 31–60 days past due	Thereof 61–90 days past due	Thereof 91–180 days past due	Thereof more than 180 days past due	Total	Thereof 1–30 days past due	Thereof 31–60 days past due	Thereof 61–90 days past due	Thereof 91–180 days past due	Thereof more than 180 days past due
Dec 18												
Loans and advances to customers	4,446	3,771	482	193	-	-	1,079	817	196	66	-	-
Trade and other receivables	278	-	-	-	-	278	-	-	-	-	-	-
Off balance-sheet exposures	107	61	21	25	-	-	-	-	-	-	-	-
Total	**4,831**	**3,832**	**503**	**218**	**-**	**278**	**1,079**	**817**	**196**	**66**	**-**	**-**
Dec 17												
Loans and receivables to credit institutions	89	-	-	12	1	76	-	-	-	-	-	-
Loans and receivables to customers	4,572	3,615	468	462	14	13	1,625	1,383	172	70	-	-
Positive fair value of derivatives	9	9	-	-	-	-	-	-	-	-	-	-
Contingent liabilities	303	241	42	4	1	15	-	-	-	-	-	-
Total	**4,973**	**3,865**	**510**	**478**	**16**	**104**	**1,625**	**1,383**	**172**	**70**	**-**	**-**

45.3 Market Risk

The Bank is exposed to the impact of market risks. The Bank's market risk arise from open positions in an interest rate, currency, equity, volatility financial instruments and even the credit spread included in the relevant positions within the Banking book (i.e. the credit spread is a part of a discounting factor). The value of open positions changes subject to general and specific financial market movements. The Bank is exposed to the market risk arising from open positions in the Trading book. However, a significant component of market risk is also the interest rate risk associated with assets and liabilities and credit spread risk associated with marked-to-market positions included in the Banking book. There are several reasons why the credit spread is included: 1. The requirement in calculating economic capital to include the credit spread and to cover the impact of this risk factor; 2. A more precise calculation of security prices; and 3. To reflect the credit rating of issuers/counterparties.

Trading book transactions in the capital, money, interbank and derivative markets can be segmented as follows:
- Client quotations and client transactions, execution of client orders;
- Interbank and derivative market quotations (market making); and
- Managing open positions in the interbank, derivative and capital markets arising from above mentioned activities.

The Bank trades in the following derivative financial instruments through the OTC market:
- Foreign currency forwards (including non-delivery forwards) and swaps;
- Foreign currency options;
- Interest rate swaps;
- Asset swaps;
- Forward rate agreements;
- Cross-currency swaps; and
- Interest rate options such as swaptions, caps and floors;

In the area of exchange traded derivatives, the Bank trades the following instruments:
- Equity index futures

The Bank also trades, on behalf of its clients, with other less common currency options, such as digital or barrier. Certain option contracts or options on various underlying equity baskets or equity indices form part of other financial instruments as embedded derivatives.

Derivative financial instruments are also entered into in order to hedge against interest rate risk inherent in the Banking book (interest rate swaps) and to refinance the mismatch between foreign currency assets and liabilities (foreign exchange swaps and cross currency swaps).

The majority of open positions arising from client transactions in the Bank's Trading book are transferred to the Erste Group Bank portfolio through back-to-back transactions. As such, the market risk arising from the Bank's OTC transactions is managed within the Erste Group Bank portfolio. The Bank retains in the trading portfolio the money market risk due to liquidity management (money market), equity risk and partially a residual risk from previously closed transactions. This residual risk is dynamically hedged at a macro level in line with the Bank's limits trading strategy and set for market risk.

In addition to the calculation of sensitivities to individual risk factors, the Bank uses the value at risk (VaR) methodology to estimate and manage the market risk of open positions held and to determine the maximum losses expected on these positions. The VaR values are calculated in a group Market Risk System (MRS) on a confidence level of 99% and one day horizon. The MRS uses historical simulation for the VaR calculation based on two years history. VaR on different probability level and/or different time horizon is derived from the VAR 99% on 1 day horizon using the scaling assuming a normal distribution of profit and losses. For other purposes the VaR is also scaled up to one month or one year and probability level 99.92%. The Board of Directors establishes VaR limits for the Trading and Banking book portfolio as the Bank's maximum acceptable exposure to market risk. For the trading portfolio VaR sub-limits (1 day, 99%) in respect of individual trading desks are established and limits for sensitivity values of the trading portfolio to individual risk factors such as foreign exchange rates, interest rates, volatility and other risk parameters of option contracts facilitate the maintenance of the overall market risk profile. These limits are approved by the Financial Market and Risk Management Committee and are monitored on a daily basis.

The market risk VaR indicator is used for the Banking book too. For the purposes of the VaR calculations the Banking book loans and deposits are represented by equivalent interest rate positions. The Banking book VaR (1 month, 99%) is reported to the Assets and Liabilities Committee ('ALCO') on a monthly basis while compliance with the limit is monitored by Risk Management on a daily basis. The acceptable level of risk is based on the assessment of the capital available to cover risks based on the 'ICAAP' methodology. The overall VaR is subsequently allocated to individual sub-portfolios of the Banking book, taking into account both the perspective of strategic portfolio management and the accounting measurement of securities portfolios.

Apart from the VAR limit also Earnings at Risk measure is calculated and checked against the EaR limit on a monthly basis.

The table below summarizes the VaR values as at 31 December 2018 and 2017 on the confidence level of 99%.

As at 31 December 2018 **in CZK million**	**Total Market Risk**	**Correlation Effect**	**Interest Rate Risk**	**Foreign Currency Risk**	**Equity Risk**	**Volatility Risk**	**Commodity risk**	**Credit Spread risk**
Trading book								
Daily value	12	-	12	-	-	-	-	-
Monthly value	58	(2)	57	1	1	-	-	2
Average of daily values per year	21	-	21	-	-	-	-	-
Average of monthly values per year	97	(2)	97	1	1	-	-	2
Banking book								
Daily value	87	(33)	71	7	-	-	-	41
Monthly value	407	(155)	335	35	-	-	-	192
Average of daily values per year	235	(59)	213	6	-	-	-	75
Average of monthly values per year	**1,101**	**(277)**	**999**	**28**	**1**	**-**	**-**	**350**

As at 31 December 2017 **in CZK million**	**Total Market Risk**	**Correlation Effect**	**Interest Rate Risk**	**Foreign Currency Risk**	**Equity Risk**	**Volatility Risk**	**Commodity risk**	**Credit Spread risk**
Trading book								
Daily value	10	-	10	-	-	-	-	-
Monthly value	45	(1)	45	-	-	-	-	-
Average of daily values per year	15	(1)	15	1	-	-	-	-
Average of monthly values per year	69	(5)	69	3	1	-	1	-
Banking book								
Daily value	319	(58)	280	5	-	-	-	91
Monthly value	1,494	(272)	1,312	25	1	-	-	427
Average of daily values per year	450	(53)	453	4	-	2	-	44
Average of monthly values per year	2,112	(250)	2,124	19	1	11	-	207

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. The Scenarios are based on the historical extremes and experts' opinion 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). In the Comprehensive Stress testing the complex scenario impact on the Bank is analysed on a quarterly basis.

The Bank monitors financial news, analyses market movements and prepares for different scenarios with respect to the position of the economy.

INTEREST RATE RISK

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Bank manages the interest rate risk of the Banking book by monitoring the repricing dates of the Bank's assets and liabilities and using models which show the potential impact that changes in interest rates may have on the Bank's net interest income.

For monitoring and measuring the Banking book interest rate exposures, the Bank uses shifts in the yield curves focused on monitoring potential impacts of market interest rate movements on the net interest income. A basic analysis focuses on the sensitivity of the net interest income to one-off changes of market interest rates ('rate shock').

The Banking book interest rate exposures analyses are performed on a monthly basis. The current level of the interest rate risk exposure is assessed by ALCO on a monthly basis in the context of the overall development of financial markets and the Czech banking sector, as well as any structural changes in the Bank's statement of financial position.

In order to measure the interest rate risk exposure within the trading portfolio, the Bank uses the present value of a basis point ('PVBP) defined as a sensitivity to interest rates by currency for individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product portfolio by currency.

The following table is based on the exposure of the Bank to interest rates for derivative and non-derivative instruments as of the reporting date. The model assumes a fixed structure of the statement of financial position according to interest rate sensitivity. The determined changes which occurred at the beginning of the year are constant during the reported period, i.e. the model is based on the assumption that the funds released as a result of the payment or sale of interest rate assets and liabilities will be re-invested in assets and liabilities with the same interest rate sensitivity and residual maturity. Calculation method used takes credit spreads into account. The following table shows the impact on the income statement and other comprehensive income of the Bank if the CZK or EUR yield curves sharply increased/decreased by 100 points at the beginning of the respective year and other interest rates remained unchanged.

		2019		2018
in CZK million	**Interest rate increase**	**Interest rate decrease**	**Interest rate increase**	**Interest rate decrease**
CZK				
Income statement	1,248	(1,253)	945	(1,846)
Other comprehensive income	(4,677)	4,976	(4,106)	4,105
EUR				
Income statement	(8)	294	(61)	272
Other comprehensive income	386	(412)	347	(306)

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the value of financial instruments in both the Trading and Banking books will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions, also including delta equivalents of currency options. In addition, the Bank monitors special sensitivity limits for foreign currency option contracts known as 'greeks' sensitivity analysis. The foreign currency risk of all financial instruments is transferred via the currency positions which are managed by the Trading Department in accordance with set currency sensitivity limits. In addition to the monitoring of limits, the Bank uses the VaR concept for measuring the risk arising from open positions in all currency instruments.

EQUITY RISK

The bank uses VaR methodology to monitor and manage the equity risk inherent in the trading and Banking books. The equity risk comes from underlying assets (equity and equity indices) of structured bonds. Equities Market Making activities were transferred to Erste Group Bank.

COMMODITY RISK

The Bank closed the business with commodity derivatives by the end of 2017. The commodity risk comes from an underlying asset (WTI oil) of structured bonds only and it is measured by VaR methodology.

45.4 Liquidity Risk

Definition and overview

The liquidity risk is defined in the Bank in line with the principles set out by the Basel Committee on Banking Supervision and Czech National Bank. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Bank 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 the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Bank members.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Bank's own refinancing cost or spread.

Liquidity ratios

With the implementation of the CRR at the beginning of 2014, new liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been introduced as ratios relevant for reporting purposes. For the LCR, the European Commission released a Delegated Regulation (EU) 2015/61 of 10 October 2014 (LCR DA), published in the Official Journal of the European Union on 17 January 2015, specifying details on the ratio and setting a binding minimum requirement for the ratio. The LCR represents a ratio of highly liquid assets held by the Bank, which have to cover net cash outflows over a 30 day time horizon. The Bank reports LCR to the national regulator according to the Delegated Act.

The Bank monitors also the NSFR which is currently not limited by the regulator. Unlike the LCR, the NSFR strives to promote resilience over a longer time horizon by creating incentives for banks to fund their activities with more stable sources of funding.

At the end of 2018, both LCR and NSFR for the Bank were significantly above 100% and confirm a sound liquidity situation of the Bank. The Bank also 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.

Methods and instruments employed

In addition to the regulatory indicators, the Bank also monitors and limits internal metrics to ensure sufficient levels of liquidity which are monitored at both total currency level and for significant currencies.

Short-term insolvency risk is monitored by calculating the survival period analysis. This analysis determines the maximum period during which the entity can survive a set of defined scenarios, including a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflows. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of customer, as well as the potential outflows from collateralised derivative transactions estimating the effect of collateral outflows in the case of adverse market movements. Starting with 2018, an updated version of the survival period analysis came into force. It contained, among other improvements, an extension of the stress horizon up to 12 months, dependent on the stress scenario.

Similarly, long-term structural liquidity is additionally monitored by an internal metric. The structural liquidity metric is measuring the structural funding gap ensuring an appropriate balance between assets and liabilities in the medium and long term time horizons avoiding excessive maturities transformation and consequently avoiding increased pressure on the short term liquidity position.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by Erste Group.

The short-term liquidity risk is managed by limits resulting from the survival period model and by internal LCR targets and Intraday liquidity buffer target. Limit breaches are reported to the ALCO. The Comprehensive Contingency Funding Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

Liquidity gap

The long-term liquidity position is managed using liquidity gaps on the basis of expected cash flows. This liquidity position is calculated for each significant currency and based on the assumption of ordinary business activity.

Expected cash flows are broken down by contractual maturities in accordance with the amortisation schedule and arranged in maturity ranges. For demand deposits, expected cash flows are calculated based on their liquidity profile which is provided by ALM and also used for FTP.

The following table shows the liquidity gaps as of 31 December 2018 and 31 December 2017

In CZK million	< 1 month		1 –12 months		1–5 years		> 5 years	
	2018	2017	2018	2017	2018	2017	2018	2017
Liquidity GAP	227,151	243,750	26,049	23,376	(191,179)	(216,762)	39,819	30,514

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value. The cash inflows from liquid securities, which are accepted as collateral by the central banks to which the Bank has access, are shifted to the first time bucket instead of showing them at their contractual maturity.

Counterbalancing capacity

The Bank regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including changes from repos, reverse repos and securities lending transactions. These assets can be mobilised in a short term to offset potential cash outflows in a crisis situation. The term structure of the Bank's counterbalancing capacity as of year-end 2018 and year-end 2017 are shown in the tables below:

	< 1 week	
in CZK million	**2018**	**2017**
Cash, excess reserve	39,647	242,837
Liquid assets	231,129	119,273
Counterbalancing capacity	**270,776**	**362,110**

The figures above show the total amount of potential liquidity available for the Bank in a going concern situation.

Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as of 31 December 2018 and 31 December 2017 respectively, were as follows:

As at 31 December 2018 in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1–12 months	1–5 years	> 5 years
Non-derivative liabilities	**1,222,291**	**1,224,151**	**1,140,233**	**42,563**	**32,330**	**9,025**
Deposits by banks	317,906	318,884	258,423	30,300	23,075	7,086
Customer deposits	889,800	889,979	879,344	7,978	718	1,939
Debt securities in issue	12,130	12,833	11	4,285	8,537	-
Other financial liabilities	2,455	2,455	2,455	-	-	-
Derivative liabilities	**10,174**	**11,585**	**482**	**1,171**	**6,187**	**3,745**
Contingent liabilities	**148,619**	**148,619**	**148,619**	**-**	**-**	**-**
Financial guarantees	29,999	29,999	29,999	-	-	-
Irrevocable commitments	118,620	118,620	118,620	-	-	-
Total	**1,381,084**	**1,384,355**	**1,289,334**	**43,734**	**38,517**	**12,770**

As at 31 December 2017 in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1–12 months	1–5 years	> 5 years
Non-derivative liabilities	**1,121,201**	**1,128,297**	**896,006**	**109,872**	**80,330**	**42,089**
Deposits by banks	298,413	302,535	111,541	81,736	70,256	39,002
Customer deposits	813,731	815,985	783,149	27,981	3,161	1,694
Debt securities in issue	8,478	9,198	901	155	6,913	1,229
Other financial liabilities	579	579	415	-	-	164
Derivative liabilities	**11,480**	**12,835**	**618**	**2,073**	**5,670**	**4,474**
Contingent liabilities	**137,396**	**137,396**	**137,396**	**-**	**-**	**-**
Financial guarantees	25,342	25,342	25,342	-	-	-
Irrevocable commitments	112,054	112,054	112,054	-	-	-
Total	**1,270,077**	**1,278,528**	**1,034,020**	**111,945**	**86,000**	**46,563**

The presentation of maturities of contractual undiscounted cash flows from financial guarantees and irrevocable commitments has been amended in order to reflect the first moment when these contingent liabilities can be exercised.

45.5 Operational Risk

In accordance with regulatory requirements, the Bank defines operational risk as the risk of losses arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of losses arising from external events, including losses due to the breach of or failure to fulfil legal regulations.

With assistance from Erste Group Bank, the Bank put in place a standardised categorisation of operational risks. This classification became the basis of the 'Book of Risks of The Bank', developed in cooperation with the Risk Management and Internal Audit departments. The Book of Risks is a tool used to achieve unification of risk categorisation in order to ensure consistent risk monitoring and evaluation.

The Bank has cooperated with an external supplier in developing a specialised software application EMUS to collect data about operational risk which conforms to the data collection requirements. The data is not only used with a view to quantifying operational risks and monitoring trends in the development of these risks but also for the purpose of preventing recurrence of operational risks. The system is also used as a case management tool for all fraud investigations (i.e. final investigation report, list measures and monitoring of its fulfilment, communication exchange with law enforcement authorities…). In addition to monitoring actual occurrence of operational risk, the Bank also pays attention to how the operational risk is perceived by management. In this respect, the Bank has introduced and is further expanding methods with the aim of identifying severe potential threats in order to implement preventative measures before losses materialise. For this purpose, the following tools are used: Risk and Control Self-Assessment, Key Risk Indicators and Scenario Analysis. The Bank also actively manages risks related to outsourced activities. Depending on the specific method, this type of assessment is done on a continuous, monthly or annual basis.

The Bank successfully passed validation for managing of operational risk according to Advanced Measurement Approaches (AMA). Based on this method a capital charge related to operational risk is properly computed and allocated since 1 July 2009.

An important tool in mitigating losses arising from operational risks is the Bank's insurance programme which was put in place in 2002. This insurance programme involves insurance against property damage as well as risks arising from banking activities and liability risks. Since 2004, the Bank has been a member of the Erste Group insurance programme which enhances the insurance protection specifically with regard to damages that may materially impact the income statement.

Special focus is put on assessment of non-financial risk based on a methodology called Risk Return Decisions (i.e. assessment of reputational, legal and financial impacts put in relation with its expected return). The analysis must be developed for each decision taken by Board of Directors or any Advisory Committee, all material outsourcing projects and all PAP (Product Approval Process) relevant topics. The significant Risk Return Decisions are also evaluated by ROCC Office in Holding which provides its recommendation in order to support local decision process.

Top management of the bank is informed quarterly about the risk profile and the most important operational risk events via the CORS (Compliance, Operational Risk and Security) committee. The chairman of the committee is the Head of Non-financial Risk and Compliance section, who further presents selected topics at the Risk Committee (chairmen - Chief Risk Officer).

Information Disclosure and Transparency

The Bank rigorously endeavours to prevent the misuse of insider information that might allow persons who have special relationships with the Bank to enjoy unauthorised gains in dealing with the Bank's securities. Board of Directors members and parties close to them are obliged to promptly notify the Czech National Bank of transactions with securities issued by the Bank or with investment instruments derived from such securities, which they perform on their own account. Erste Bank Group's rules for securities trading are applied to ensure identical terms and conditions for all members of the Board of Directors of Erste Group Bank companies – members of the Bank's Board of Directors as well as designated employees are obliged to inform the Bank's Compliance Department of dealings with Erste Group Bank's shares or derivatives and to comply with an imposed trading moratorium during a stipulated period. Compliance department periodically monitors fulfillment of above obligations.

Compliance

The Bank has established a Compliance Department whose principal activities include ensuring compliance of the Bank's internal regulations with valid legal and regulatory requirements and their observance and ensuring compliance of the employees' conduct with the legal regulations, internal regulations, Code of Ethics and other adopted standards and rules governing employee conduct. Compliance is involved in all aspects of Bank activities and administration and forms a part of its corporate culture. The Compliance Department evaluates insider information included in the Watch List and Restricted List of investment instruments as well as any dealings with investment instruments recorded in these lists. The Compliance Department informs the Bank's Board of Directors and Supervisory Board of its activities on a regular basis. A list of persons with access to insider information is available with the Compliance department; the list is regularly updated.

The Compliance department also maintain whistleblowing channels for ensuring protection of whistleblowers reporting non-ethical or non-legal behaviour.

AML unit as an integral part of Compliance department ensures meeting Bank's obligations in the area of anti money laundering and terrorist financing and also secures the compliance of the Bank's operations with sanction regimes enforced by the Czech Republic, EU, UN and OFAC.

46. Hedge accounting

The interest rate and FX risk of the Banking book is managed by the Bank's ALM department. Preference in managing interest rate risk is given to using bonds, loans or derivatives, with hedge accounting for derivatives applied in accordance with IFRS. The main guideline for interest rate risk positioning is the Bank Interest Rate Risk Strategy that is approved by the Bank ALCO for the relevant time period.

Fair value hedges are employed to reduce interest rate risk of issued bonds, purchased securities, loans or deposits on the Bank's statement of financial position. In general, the Bank's policy is to swap substantial fixed or structured issued bonds to floating items to manage the targeted interest rate risk profile by other statement of financial position items. Interest rate swaps are the most common instruments used for fair value hedges.

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilize Net interest income. Interest rate swaps are the most common derivatives used to hedge variable cash flows of floating assets.. By using cross currency interest rate swaps, the Bank hedges currency risk of its foreign currency assets. Floors or caps are used to secure the targeted level of interest income in a changing interest rate.

In the reporting period, CZK 34 million (2017: CZK 52 million) was taken from the cash flow hedge reserve and recognised as expense in the income statement; while CZK 1,974 million (2017: CZK 2,370 million) was recognised directly in other comprehensive income.

As at 31 December 2018, the gain on hedging derivatives used for fair value hedging was CZK 79 million (2017: loss CZK 22 million); the loss due to changes in the fair value of hedged items was CZK 91 million (2017: gain CZK 0 million).

in CZK million	2018		2017	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Hedging instrument – fair value hedge	73	3	12	20
Hedging instrument – cash flow hedge	1,079	2,106	601	1,793
Total	**1,152**	**2,109**	**613**	**1,813**

At the end of 2018 the Bank had 267 cash flow hedge structures with maturity from 2019 to 2027. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor), ČNB 2W Repo Rate or fixed rate in respect of cash flow hedges where FX risk is being hedged. Summary of total nominal hedged in cash flow hedge structures according their maturity can be seen in the following table:

Maturity	Nominal hedged In CZK million	Nominal hedged In EUR million	Nominal hedged In USD million
2019	100	94	-
2020	1,800	60	-
2021	9,910	558	-
2022	10,962	157	-
2023	19,905	430	50
2024	12,521	88	-
2025	25,038	-	-
2026	1,840	-	-
2027	4,251	-	-
Total	**86,327**	**1,387**	**50**

At the end of 2017 the Bank had 180 cash flow hedge structures with maturity from 2018 to 2027. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor) or fixed rate in respect of cash flow hedges where FX risk is being hedged. Summary of total nominal hedged in CF hedge structures according their maturity can be seen in the following table:

Maturity	Nominal hedged In CZK million	Nominal hedged In EUR million	Nominal hedged In USD million
2018	2,000	50	-
2019	2,350	44	-
2020	1,800	60	-
2021	6,211	558	-
2022	10,462	157	-
2023	18,078	430	50
2024	7,200	55	-
2025	7,050	-	-
2026	540	-	-
2027	71	-	-
Total	**55,762**	**1,354**	**50**

Quantitative disclosures

In the tables below, detailed information related to hedging instruments and hedged items in fair value and cash flow hedges are reported.

Hedging instruments

in CZK million	Carrying amount		Change in FV for the period used for calculating hedge ineffective-ness	Notional	Timing of the nominal amounts of the instruments			
	Assets	Liabilities			≤ 3 m	> 3 m and ≤ 1 y	> 1 y and ≤ 5 y	> 5 y
Fair value hedges								
Interest rate risk	71	(3)	-	9,404	-	-	5,545	3,859
Cash flow hedges								
Interest rate risk	939	(1,644)	735	91,944	100	-	48,194	43,650
Foreign exchange risk	142	(462)	(334)	30,704	900	1,518	26,025	2,261
Total	**1,152**	**(2,109)**	**401**	**132,052**	**1,000**	**1,518**	**79,764**	**49,770**

The hedging instruments are presented in the line 'Hedge accounting derivatives' in the balance sheet.

Hedged items in fair value hedges

in CZK million	Carrying amount	Hedge adjustments		
		included in the carrying amount of assets/liabilities	Thereof: for the period used for recognition of hedge ineffectiveness	Remaining adjustments for terminated hedges
Liabilities				
Financial liabilities at AC				
Interest rate risk	9,404	(113)	(91)	-

Hedged items in cash flow hedges

in CZK million	Change in FV for the period used for calculating hedge ineffectiveness	Cash flow hedge reserve for continuing hedges	Cash flow hedge reserve for terminated hedges
Interest rate risk	735	840	7
Foreign exchange risk	(334)	1,127	-
Total	**401**	**1,967**	**7**

Effects of hedge accounting in profit or loss and other comprehensive income

in CZK million	Hedge ineffectiveness recognised in P&L	Hedging gains/losses recognized in OCI	Cash flow hedge reclassified to profit or loss because:	
			hedged item affected profit or loss	hedged item no longer expected
Fair value hedges				
Interest rate risk	12	-	-	-
Cash flow hedges				
Interest rate risk	21	(871)	187	(48)
Foreign exchange risk	1	336	-	-
Total	**34**	**(535)**	**187**	**(48)**

47. Fair value of assets and liabilities

Determination of fair value

The best indication of fair value is quoted market prices in an active market. Where such prices are available, they are used to measure the fair value (level 1 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.

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these cases individual valuation parameters 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 typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters.

Fair values 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.

According to the described methodology the accumulated CVA-adjustments amounted to CZK (153) million (2017: CZK (90) million) and the total DVA-adjustment amounted to CZK 28 million (2017: CZK 32 million).

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.

Fair value hierarchy

The table below details the methods used to determine the fair value with respect to levels of fair value hierarchy.

	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		Total	
in CZK million	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
ASSETS								
Financial assets – held for trading	69	54	9,897	11,280	349	105	10,315	11,439
Derivatives	-	-	9,746	11,203	349	105	10,095	11,308
Other trading assets	69	54	151	77	-	-	220	131
Financial assets designated at fair value through profit or loss	-	-	-	289	-	71	-	360
Non-trading financial assets - FVPL	-	-	279		1,154		1,433	
Equity instruments	-	-	-		749		749	
Debt securities	-	-	279		337		616	
Loans and advances	-	-	-		68		68	
Financial assets – available for sale	-	41,966	-	9,542	-	3,499	-	55,007
Debt securities	-	41,966	-	9,542	-	1,842	-	53,350
Equity instruments	-	-	-	-	-	1,657	-	1,657
Financial assets – FVOCI	29,339		6,847		3,230		39,416	
Equity instruments	-		-		1,252		1,252	
Debt securities	29,339		6,847		1,978		38,164	
Derivatives Hedge Accounting	-	-	1,119	613	33	-	1,152	613
Total assets	**29,408**	**42,020**	**18,142**	**21,724**	**4,766**	**3,675**	**52,316**	**67,419**
LIABILITIES								
Financial liabilities held for trading	-	-	10,169	11,472	4	9	10,173	11,481
Derivatives	-	-	10,169	11,472	4	9	10,173	11,481
Other trading liabilities	-	-	-	-	-	-	-	1,240
Financial liabilities designated at fair value through profit or loss	-	-	1,935	1,240	-	-	1,935	1,240
Deposits from customers	-	-	1,935	1,240	-	-	1,935	1,240
Debt securities issued	-	-	-	-	-	-	-	-
Derivatives Hedge Accounting	-	-	2,109	1,813	-	-	2,109	1,813
Total liabilities	**-**	**-**	**14,213**	**14,525**	**4**	**9**	**14,217**	**14,534**

The allocation of positions to levels and any changes between the levels are reflected 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.

In CZK million	2018		2017	
	Level 1	Level 2	Level 1	Level 2
Securities				
Net transfer from Level 1	-	626	-	-
Net transfer from Level 2	(625)	-	-	-
Net transfer from Level 3	-	(191)	(74)	(1,177)
Purchases/sales/expiries	(11,988)	(2,008)	(25,355)	(7,473)
Changes in derivatives	-	(1,213)	-	(1,104)
Total year-to-date change	**(12,613)**	**(2,786)**	**(25,429)**	**(9,754)**

In 2018 the relevant unquoted bonds were reclassified from Level 1 to Level 2 due to lower market activity.

The reclassification of securities from Level 1 and from Level 2 to Level 3 was caused by a decrease in market liquidity.

The reclassification from Level 1 to Level 3 resulted from the fact that quoted prices for equity securities do not exist as of 31 December 2018.

Unquoted bonds were reclassified from Level 2 to Level 3 as quoted prices (observable inputs) were not available as at 31 December 2018.

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	Addition to Group	Disposal out of Group	Transfer into Level 3	Transfer out of Level 3	Currency translation	
	Jan 18										Dec 18
Assets											
Financial assets HfT	105	(9)		116		-	-	139	(2)	-	349
Derivatives	105	(9)		114		-	-	139	-	-	349
Other financial assets held for trading	-			2		-	-	-	(2)	-	-
Non-trading financial assets at FVPL	2,922	370		1,091	(3,229)	-	-	-		-	1,154
Equity instruments	374	375		961	(961)	-	-	-		-	749
Debt securities	261	(5)		126	(45)	-	-	-		-	337
Loans and advances	2,287	-		4	(2,223)	-	-	-		-	68
Financial assets at FVOCI	2,871	-	151	-		-	-	1,573	(1,365)	-	3,230
Equity instruments	1,029	-	223	-		-	-	-	-	-	1,252
Debt securities	1,842	-	(72)	-		-	-	1,573	(1,365)	-	1,978
Hedge accounting derivatives	-	-	-	33		-	-	-	-	-	33
Total assets	**5,898**	**361**	**151**	**1,240**	**(3,229)**	**-**	**-**	**1,712**	**(1,367)**	**-**	**4,766**

in CZK million		Gain/loss in profit or loss	Gain/loss in other comprehensive income	Purchases	Sales/ Settlements	Additions to the group	Disposal of group	Transfer into Level 3	Transfers out of Level 3	Currency translation	
ASSETS	Jan 17										Dec 17
Financial assets – held for trading	1,057	(101)	-	-	(13)	-	-	-	(838)	-	105
Derivatives	1,057	(101)	-	-	(13)	-	-	-	(838)	-	105
Financial assets designated at fair value through profit or loss	80	(12)	-	-	4	-	-	-	-	(1)	71
Financial assets – available for sale	2,873	-	(101)	111	-	-	-	2,232	(1,617)	1	3,499
Total assets	**4,010**	**(113)**	**(101)**	**111**	**(9)**	**-**	**-**	**2,232**	**(2,455)**	**-**	**3,675**

A part of the OTC derivatives was categorized as Level 3 / was recategorized into Level 3 as 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 2018 and in 2017 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', 'Financial assets – at fair value through profit or loss' (for the period ended 31 December 2017), 'Non-trading financial assets at fair value through profit or loss' (for the period ended 31 December 2018) and 'Hedge accounting derivatives' is disclosed in the income statement line item 'Net trading result'. Gains or losses from derecognition of 'Financial assets – available for sale' is shown in the income statement line item 'Gains/Losses from financial assets and liabilities not measured at fair value through profit or loss, net' for the period ended 31 December 2017. 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' for the period ended 31 December 2018. Impairments of 'Financial assets – available for sale' are disclosed in the line item 'Net impairment loss on financial assets' for the period ended 31 December 2017. Impairment of 'Financial assets at fair value through other comprehensive income' is disclosed in the line item 'Impairment result from financial instruments' for the period ended 31 December 2018. Gains or losses in other comprehensive income of Level 3 financial instruments disclosed in the balance sheet line item 'Financial assets – available for sale' are reported directly in equity under 'Available for sale reserve' for the period ended 31 December 2017. 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' for the period ended 31 December 2018.

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:

in CZK million	2018	2017
	Unrealized gain/loss in profit or loss	Unrealized gain/loss in profit or loss
ASSETS		
Financial assets – held for trading	(9)	(101)
Derivatives	(9)	
Financial assets designated at fair value through profit or loss	-	(12)
Non-trading financial assets at fair value through protif or loss	370	
Equity instruments	375	
Debt securities	(5)	
Total	**361**	**(113)**

The volume of Level 3 financial assets can be allocated to the following two categories:

- Market values of derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).
- Illiquid bonds, shares and funds not quoted in an active market where either valuation models with non-observable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.

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	**Dec 2018**	**Dec 2017**	**Dec 2018**	**Dec 2017**
Derivatives	12	9	(14)	(8)
Income statement	12	9	(14)	(8)
Debt securities	57	65	(76)	(87)
Other comprehensive income	57	65	(76)	(87)
Equity instruments	115	64	(231)	(129)
Income statement	52	-	(106)	(1)
Other comprehensive income	63	64	(125)	(128)
Total	**184**	**138**	**(321)**	**(224)**
Income statement	**64**	**9**	**(120)**	**(9)**
Other comprehensive income	**120**	**129**	**(201)**	**(215)**

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 Bank 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 instruments Other comprehensive income of the above mentioned sensitivity analysis).

Fair values 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 the year-end 2018 and for the year-end 2017. For assets without contractual maturities (e.g. cash and cash equivalents), the carrying amount approximates their fair value.

2018 **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**
ASSETS					
Cash and cash balances	59,569	59,569	-	-	-
Financial assets at amortised costs	1,222,476	1,219,443	191,154	11,776	1,016,513
Loans and advances to banks	377,589	377,756			377,756
Loans and advances to customers	645,967	637,002			637,002
Debt securities	198,920	202,933	191,154	11,776	3
Trade and other receivables	599	-	-	-	599
LIABILITIES					
Financial liabilities measured at amortised costs	1,220,357	1,219,813	-	12,120	1,207,693
Deposits from banks	317,906	317,638	-	-	317,638
Deposits from customers	887,866	887,600	-	-	887,600
Debt securities issued	12,130	12,120	-	12,120	
Other financial liabilities	2,455	2,455	-	-	2,455
FINANCIAL GUARANTEES AND COMMETMENTS					
Financial guarantees	n/a	22	-	-	22
Irrevocable commitments	n/a	(105)	-	-	(105)

2017 **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**
ASSETS					
Cash and cash balances	259,837	259,837	-	-	-
Financial assets - held to maturity	156,309	165,878	151,695	14,183	-
Loans and receivables to credit institutions	157,025	159,326	-	3,796	155,530
Loans and receivables to customers	597,326	591,066	-	-	591,066
LIABILITIES					
Financial liabilities measured at amortised costs	1,121,201	1,120,989	-	7,624	1,113,365
Deposits from banks	298,413	298,189	-	-	298,189
Deposits from customers	813,731	813,699	-	-	813,699
Debt securities issued	8,478	8,523	-	7,624	899
Other financial liabilities	579	579	-	-	579
FINANCIAL GUARANTEES AND COMMETMENTS					
Financial guarantees	n/a	(50)	-	-	(50)
Irrevocable commitments	n/a	(256)	-	-	(256)

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.

48. Financial instruments per category according to IAS 39

The Bank classifies financial instruments into trading and banking (investment) portfolios in accordance with BASEL III rules as per CNB Regulation No. 163/2014 Coll., on the performance of the activity of banks, savings and lending associates and securities traders (henceforth 'Regulation 163/2014'). The Bank applies various techniques to the management of the risk within the banking and trading books (refer to Note 45).

The table below shows the classes of financial assets and liabilities reported by the Bank according to IFRS 7 requirements.

As of 31 December 2017	Category of financial instruments							
in CZK million	**Loans and receivables**	**Held to maturity**	**Trading**	**Designated at fair value**	**Available for sale**	**Financial liabilities at amortised cost**	**Derivatives designated as hedging instruments**	**Total**
ASSETS								
Cash and balances with central banks	259,837	-	-	-	-	-	-	259,837
Loans and advances to credit institutions	157,025	-	-	-	-	-	-	157,025
Loans and advances to customers	597,326	-	-	-	-	-	-	597,326
Derivative financial instruments	-	-	11,308	-	-	-	613	11,921
Trading assets	-	-	131	-	-	-	-	131
Financial assets - at fair value through profit or loss	-	-	-	360	-	-	-	360
Financial assets – available for sale	-	-	-	-	55,007	-	-	55,007
Financial assets – held to maturity	-	156,309	-	-	-	-	-	156,309
Total financial assets	**1,014,188**	**156,309**	**11,439**	**360**	**55,007**	**-**	**613**	**1,237,916**
LIABILITIES								
Deposits by banks	-	-	-	-	-	298,413	-	298,413
Customer deposits	-	-	-	1,240	-	813,731	-	814,971
Debt securities in issue	-	-	-	-	-	8,478	-	8,478
Other financial liabilities	-	-	-	-	-	579	-	579
Derivative financial instruments	-	-	11,480	-	-	-	1,813	13,293
Trading liabilities	-	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	-	-	-
Total financial liabilities	**-**	**-**	**11,480**	**1,240**	**-**	**1,121,201**	**1,813**	**1,135,734**

49. Audit fees and other consultancy fees

The following table contains fundamental audit fees and other fees charged by the auditors - PricewaterhouseCoopers Audit, s.r.o. and PricewaterhouseCoopers Česká republika, s.r.o.:

in CZK million	2018	2017
Audit fees	21	18
Other assurance, tax and consultancy fees	3	1
Total	**24**	**19**

50. Contingent assets and liabilities

In the ordinary course of business, the Bank becomes party to various financial transactions that are not reflected in the statement of financial position and are referred to as off-balance sheet financial instruments. The table below presents the notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

It is not practicable to disclose the information about uncertainties relating to the amounts or timing of any outflows related to contingent liabilities or the possibility of any related reimbursements.

Legal Disputes

At the reporting date, the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The Czech legal environment is still evolving, legal disputes are costly and their outcome unpredictable. Many parts of the legislation remain untested and there is uncertainty about the interpretation that courts may apply in a number of areas. The impact of these uncertainties cannot be quantified and will only be known as the specific legal disputes in which the Bank is named are resolved.

The Bank is involved in various claims and legal proceedings of a special nature. The Bank also acts as a defendant in a number of legal disputes filed with the arbitration court. The Bank does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Bank's interests. Based upon historical experience and expert opinion, the Bank assesses the developments in these cases, and the probability and the amount of potential financial outcome which are appropriately provided for.

Whilst no assurance can be given with respect to the ultimate outcome of any such claim or litigation, the Bank believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows.

If, in connection with the litigation, the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation, the Bank recognises a provision for legal disputes (refer to Note 38).

Commitments to Extend Credit and Commitments from Guarantees and Letters of Credit

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of clients' authorisations to extend credit in the form of loans, guarantees or letters of credit. The credit risk attached to commitments to extend credit represents a potential loss for the Bank. The Bank estimates the potential loss on the basis of historical developments of CCFs, PDs and LGDs. CCFs indicate the likelihood of the Bank paying out on a guarantee or having to grant a loan on the basis of an issued commitment to extend credit.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. Management of the Bank believes that the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments is minimal.

In 2018, the Bank recorded credit loss allowances for off-balance sheet risks to cover expected credit losses that may be incurred in connection with these off-balance sheet transactions. As at 31 December 2018 the aggregate balance of these allowances was CZK 1,514 million (2017: CZK 768 million). Refer to Note 38 Provisions

in CZK million	2018	2017
Amounts owed under guarantees and letters of credit	29,999	25,356
Undrawn loan commitments	118,620	112,054
Total	**148,619**	**137,410**

51. Analysis of residual maturities

The breakdown of the Banks's assets and liabilities based on residual contractual maturities as at 31 December 2018 and 2017 was as follows:

	2018		2017	
in CZK million	**< 1 Year**	**> 1 Year**	**< 1 Year**	**> 1 Year**
Cash and cash balances at central banks	59,569		259, 837	-
Financial assets held for trading	10,315		11,365	74
Financial assets designated at fair value through profit or loss	-	279	-	360
Non-trading financial assets at FVPL	68	1,086	x	x
Equity instruments	-	749	x	x
Debt instruments	-	337	x	x
Available-for-sale financial assets	-	-	2,915	52,092
Financial assets at FVOCI	19,102	20,314	x	x
Equity instruments	-	1,252	x	x
Debt securities	19,102	19,062	x	x
Financial assets at amortized cost	451,191	771,285	x	x
Loans and advances to banks	361,602	15,987	x	x
Loans and advances to customers	65,429	580,538	x	x
Debt securities	24,160	174,760	x	x
Loans and receivables	x	x	254,908	499,443
Held-to-maturity investments	x	x	10,611	145,698
Derivatives – Hedge accounting	1,152	-	613	-
Tangible assets	-	8,995	-	9,532
Intangible assets	-	4,949	-	4,482
Investments in subsidaries, joint ventures and associates	-	9,140	-	9,397
Tax assets	494	653	337	719
Other assets	1,065		1,135	-
Trade and other receivables	599			
Non current assets held for sale	40		19	-
TOTAL ASSETS	**543,595**	**816,701**	**541,740**	**721,797**
Financial liabilities held for trading	10,174	-	11,480	-
Financial liabilities designated at fair value through profit or loss	1,935	-	1,240	-
Financial liabilities measured at amortised cost	668,671	551,686	604,363	516,838
Derivatives – Hedge accounting	2,109	-	1,813	-
Changes in fair value in portfolio hedged items	1	-	-	-
Provisions	-	1,867	-	1,866
Commitments and guarantees given	-	1,514	-	767
Other provisions	-	50	-	39
Other liabilities	5,191	-	9,515	-
TOTAL LIABILITIES	**688,081**	**555,117**	**628,411**	**519,510**

52. Net Debt reconciliation

The table below sets out an analysis of debt of the Bank (i.e. debt securities issued) and the movements in the Bank's debt (i.e. debt securities issued) for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

Cash-flows from debt securities issued

in CZK million	**2018**	**2017**
Opening balance of debt securities issued as of 1 January (Note 37)	8,478	18,859
Cash-flows reported within the cash-flow from financing activities	3,654	(10,614)
Non-cash adjustments	(2)	233
Closing balance of debt securities issued as of 31 December (Note 37)	**12,130**	**8,478**

53. Events after the balance sheet date

There are no events after the balance sheet date that would require adjustment to, or disclosure in these financial statements.

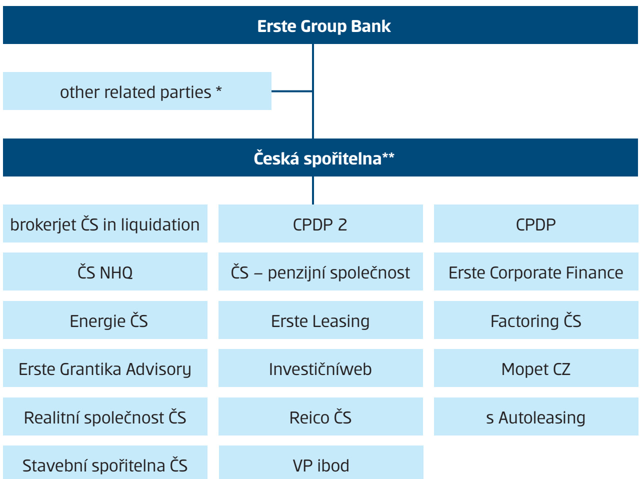
Report on Relations between Related Parties

Pursuant to Section 82 of Act No. 90/2012 Coll., on Business Corporations for the accounting period from 1. 1. 2018 to 31. 12. 2018

Česká spořitelna, a. s., a corporation with its registered seat in Prague 4, Olbrachtova 1929/62, postal code 140 00, ID No.: 45244782, registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Entry 1171 (hereinafter referred to as "**Česká spořitelna**" or the "**Bank**"), is a member of a business group in which the following relationships exist between Česká spořitelna and controlling parties, and between Česká spořitelna and parties controlled by the same controlling parties (hereinafter referred to as "Related Parties").

This Report on Relations between the parties listed below has been prepared in compliance with the provisions of Section 82 of Act No. 90/2012 Coll., on Business Corporations, as amended for the year ended 31 December 2018 (hereinafter the "**Reporting Period**"). The valid agreements set out below were made by and between Česká spořitelna and the parties stated below, and the following legal acts and other factual measures were taken in that period. The Report on Relations features a financial expression of relationships with related parties for the reporting period from 1 January 2018 to 31 December 2018

A. Chart of parties of which relationships are described



* Enterprises listed in Part C, Other related parties, Erste Group Bank

** Only significant entities with 100% ownership presented, all entities listed in Part C, Other related parties, Česká spořitelna Group

B. Controlling party

- **Erste Group Bank AG**, Am Belvedere 1, Vienna, Austria („Erste Group Bank")

The Erste Group Bank is also the ultimate controlling party of the group of Erste Group Bank (ereinafter referred to as „Erste Group"). Shares of Erste Group Bank are listed on Vienna Stock Exchange, Prague Stock Exchange and Bucharest Stock Exchange. Information on the Erste Group Bank's shareholder structure is published in the financial statements of Erste Group Bank for the year 2018.

C. Other related parties, of which relationships are described

Other related parties, Erste Group

- **Allgemeine Sparkasse Oberösterreich** Bankaktiengesellschaft, Promenade 11 – 13, Linz, Austria
- **Banca Comerciala Romana s.a.**, Regina Elisabeta Bvd 5, Bucharest, Romania
- **Banka Sparkasse d.d.**, Cesta v Kleče 15, Ljubljana, Slovenia
- **Erste Asset Management GmbH**, Am Belvedere 1, 1100 Vienna, Austria
- **Erste Bank Hungary Zrt**, Népfürdő u. 24-26, Budapest, Hungary
- **EB Erste Bank Internationale Beteiligungen GmbH**, Am Belvedere 1, Vienna, Austria
- **Epsilon Immorent s.r.o.**, Budějovická 1518/13a, Prague 4, Czech Republic
- **ERSTE BANK AKCIONARSKO DRUŠTVO**, NOVI SAD, Bulevar oslobođenja No.5 21000 Novi Sad, Serbia
- **Erste Bank und Sparkassen Leasing GmbH**, Am Belvedere 1, Vienna, Austria

- **Erste Befektetesi Zrt.**, Nepfuerd Utca 24-26. 8. EM, Budapest, Hungary
- **Erste Group Card Processor d.o.o.**, Radnička cesta 45, Zagreb, Croatia
- **Erste Group Immorent ČR, s.r.o.**, Budějovická 1518/13a, Prague 4, Czech Republic
- **Erste Group IT International GmbH**, Am Belvedere 1, Vienna, Austria
- **Erste Group IT HR društvo s ogranicenom odgovornošcu za usluge informacijskih tehnologija**, Jurja Haulika 19/A, Bjelovar, Croatia
- **Erste Group Shared Services (EGSS), s.r.o.**, Národní třída 44, Hodonín, Czech Republic
- **Erste & Steiermärkische Bank d.d.**, Jadranski Trg 3a 51000 Rijeka, Rijeka, Croatia
- **Erste Securities Polska S.A.**, ul. Królewska 16, Warsaw, Poland
- **Immorent Orion, s.r.o.**, Budějovická 1518/13a, Prague 4, Czech Republic
- **Immorent PTC, s.r.o.**, Budějovická 1518/13a, Prague 4, Czech Republic
- **Imobilia KIK s.r.o.**, Budějovická 1518/13a, Prague 4, Czech Republic
- **IMMORENT Vega, s.r.o.**, Budějovická 1518/13a, Prague 4, Czech Republic
- **Intermarket Bank AG**, Am Belvedere 1, Vienna, Austria
- **Invalidovna centrum, a.s.**, Budějovická 1518/13a, Prague 4, Czech Republic
- **OMEGA IMMORENT s.r.o.**, Budějovická 1518/13a, Prague 4, Czech Republic
- **Österreichische Sparkassenakademie GmbH**, Am Belvedere 1, Vienna, Austria
- **Procurement Services CZ, s.r.o.**, Budějovická 1912/64b, Prague 4, Czech Republic
- **Proxima Immorent, s.r.o.**, Budějovická 1518/13a, Prague 4, Czech Republic
- **S IT Solutions AT Spardat GmbH**, Geiselbergstrasse 21-25, Vienna, Austria
- **Slovenská sporiteľňa, a.s.**, Tomášikova 48, Bratislava, Slovakia
- **s IT Solutions HR d.o.o.**, Jurja Haulika 19/A, Bjelovar, Croatia
- **Sparkasse Bank dd Bosna i Hercegovina**, Zmaja od Bosne 7, Sarajevo, Bosnia and Herzegovina
- **SPARKASSE BANK MAKEDONIJA AD SKOPJE**, Makedonija Str. No 9-11, Skopje, Macedonia
- **Theta Immorent s.r.o.**, Budějovická 1518/13a, Prague 4, Czech Republic
- **Waldviertler Sparkasse Bank AG**, Sparkassenplatz 3, Zwettl, Austria
- **Zeta Immorent s.r.o.**, Budějovická 1518/13a, Prague 4, Czech Republic

OTHER RELATED PARTIES, Česká spořitelna Group

- **Brokerjet České spořitelny, a.s. in liquidation**, Budějovická 1518/13a, Prague 4, Czech Republic („Brokerjet ČS")
- **BGA Czech, s.r.o., in liquidatio**n, Olbrachtova 1929/62, Krč, 140 00 Prague 4, Czech Republic
- **CEE Property Development B.V.**, Naritaweg 165, Amsterdam, Netherlands
- **CEE Property Development Portfolio 2 a.s.**, Budějovická 1912/64B, Prague 4, Czech Republic („CPDP 2")
- **CPDP 2003 s.r.o.**, Budějovická 1912/64B, Prague 4, Czech Republic („CPDP 2003")
- **CPP Lux S.A.R.L.**, Avenue Charles de Gaulle 2-8, Luxembourg, Luxembourg
- **CP Praha s.r.o., in liquidation**, Pitterova 2855/13, Prague 3, Czech Republic
- **CS Property Investment Limited**, Diomidous street 10, Nicosia, Cyprus
- **Czech and Slovak Property Fund B.V.**, Prins Bernhardplein 200, Amsterdam, Netherlands
- **Czech TOP Venture Fund B.V.**, Postweg 11, Groesbeek, Netherlands

- **Česká spořitelna – penzijní společnost, a.s.**, Poláčkova 1976/2, Prague 4, Czech Republic („ČSPS")
- **Dinesia a.s.**, Střelničná 8, Prague 8, Czech Republic („Dinesia")
- **Erste Corporate Finance, a.s.**, Budějovická 1518/13a, Prague 4, Czech Republic („Erste Corporate Finance")
- **Energie ČS, a.s.**, Budějovická 1518/13a, Prague 4, Czech Republic („Energie ČS")
- **Erste Grantika Advisory, a.s.**, Jánská 448/10, Brno, Czech Republic („Erste Grantika")
- **Erste Leasing, a.s.**, Horní náměstí 264/18, Znojmo, Czech Republic („Erste Leasing")
- **Factoring České spořitelny, a.s.**, Budějovická 1518/13B, Prague 4, Czech Republic („Factoring ČS")
- **Holding Card Service s.r.o.**, Olbrachtova 1929/62, Prague 4, Czech Republic
- **Investičníweb s.r.o.**, Budějovická 1518/13a, Prague 4, Czech Republic („Investičníweb")
- **ČS NHQ, s.r.o.**, Olbrachtova 1929/62, Krč, 140 00 Prague 4, Czech Republic
- **Mopet CZ a.s.**, Budějovická 1518/13a, Prague 4, Czech Republic („Mopet")
- **Realitní společnost České spořitelny, a.s.**, Vinohradská 180/1632, Prague 3, Czech Republic („Realitní společnost ČS")
- **Reico investiční společnost České spořitelny, a.s.**, Antala Staška 2027/79, Prague 4, Czech Republic („Reico ČS")
- **RVG Czech s.r.o.**, Budějovická 1912/64B, Prague 4, Czech Republic
- **s Autoleasing, a.s.**, Budějovická 1912/64B, Prague 4, Czech Republic („s Autoleasing")
- **s Autoleasing SK, s.r.o.**, Vajnorská 100/A, Bratislava, Slovakia
- **S SERVIS, s.r.o.**, Horní náměstí 3561/14, Znojmo, Czech Republic
- **Stavební spořitelna České spořitelny, a.s.**, Vinohradská 180/1632, Prague 3, Czech Republic („Stavební spořitelna ČS")
- **Věrnostní program Ibod, a.s.**, Olbrachtova 1929/62, Prague 4, Czech Republic („VP Ibod")

D. Structure of relations between related parties, role of the controlled party, method and means of control

Česká spořitelna is a member of the Erste Group, with the ultimate parent being Erste Group Bank. The Česká spořitelna Financial Group (CSFG) is a business grouping of legal entities in which Česká spořitelna is the managing party, within the meaning of the applicable provisions of Act No. 90/2012 Coll., on business corporations and cooperatives (the Corporations Act) and other members of CSFG are the managed parties. The CSFG is the group formed for the purpose of attaining long-term prosperity and stability. The structure of relations in the Erste Group and in the Česká spořitelna Financial Group is graphically depicted in Sections A to C.

CSFG members apply a uniform group management system, whose goal is to ensure the influence of the managing party in advancing individual group policies and in the policy management of major components or activities in the group's business. The uniform group management system is embodied primarily in the group standards. In addition to CSFG members, also entities that are not CSFG members can adopt the uniform group management system. Criteria for including a company into the CSFG are as follows:

a) a comprehensive offer of financial services for target client segments,
b) a high level of cooperation and synergies,
c) shared distribution and communication channels,
d) use of business name and logo with a uniform group design,
e) co-responsibility for CSFG's consolidated results,
f) shared services.

CSFG members form the foundation of the consolidated group unit that is characterised by group strategic goals, consolidated results and reports, consolidated risk management rules, regulatory restrictions, and consolidated supervision.

Relations with the related parties bring benefits for Česká spořitelna in terms of the use of available resources (human, technical, material) in the field of sales and supporting activities, knowledge of back-ground and the systems used, etc. Unified systems and processes then enable broad synergies across the related parties. Centralisation of business support activities of CSFG members could involve a certain level of risk in exceptional situations; to that end, Česká spořitelna has drawn up and tests Business Continuity Plans.

E. Transactions with related parties

Česká spořitelna identified relationships with the related parties listed in Sections B and C and grouped them into the following categories.

Related Party Transactions Recorded on the Asset Side of Česká spořitelna's Statement of Financial Position

Financial asset at amortized cost

Loans and Advances to Credit Institutions
Česká spořitelna provided funds to related parties that are credit institutions, on the basis of contracts for, inter alia, the provision of loans, term deposits, current account administration and overdraft facilities, under standard market conditions, in an aggregate amount of CZK 18,678 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Loans and Advances to Customers
Česká spořitelna provided funds to related parties that are not credit institutions, on the basis of contracts for, inter alia, the provision of loans and overdraft facilities, under standard market conditions, in an aggregate amount of CZK 19,930 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Financial Assets – Held for Trading

Česká spořitelna holds held-for-trading bonds and similar securities issued by related parties, which were purchased under standard market conditions in an aggregate amount of CZK 98 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Positive Fair Value of Derivative Transactions

Česká spořitelna entered into contracts for trading or hedging derivatives with related parties under standard market conditions, the positive fair value of which at the end of the accounting period was CZK 3,757 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Trade and Other Receivables and Other Assets

Trade and Other Receivables and Other Assets include financial assets resulted from contracts for providing goods and services to the related parties of Česká spořitelna's in an aggregate amount of CZK 183 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Related Party Transactions Recorded on the Liability Side of Česká spořitelna's Statement of Financial Position

Financial liabilities measured at amortised costs

Deposits from Credit institutions
During the reporting period, Česká spořitelna provided related parties that are credit institutions with monetary services associated, inter alia, with the administration of current and term accounts, received loans and loro accounts based on contracts for the opening and administration of accounts under standard market conditions with an aggregate volume of balances at the end of the accounting period of CZK 275,879 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Deposits from Customers
During the reporting period, Česká spořitelna provided related parties that are not credit institutions with monetary services associ- ated, inter alia, with the administration of current and term accounts, loans received, and credit balances on overdraft facilities, based on contracts for the opening and administration of accounts under standard market conditions with an aggregate volume of balances at the end of the accounting period of CZK 2,348 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Debt Securities Issued
Related parties hold bonds and similar securities issued by Česká spořitelna, which were purchased under standard market conditions in an aggregate amount of CZK 6,672 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Other financial liabilities
Other financial liabilities includes other trade payables from contracts for receiving goods and services from related parties of Česká spořitelna's in an aggregate amount of CZK 352 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Negative Fair Value of Derivative Transactions

Česká spořitelna entered into contracts for trading or hedging financial derivatives under standard market conditions with related parties, the negative fair value of which at the end of the accounting period was CZK 3,991 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Related Party Transactions Impacting Česká spořitelna's Income Statement

Interest Income

During the reporting period, Česká spořitelna generated total interest income of CZK 1,798 million from transactions with related parties executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Interest Expense
During the reporting period, Česká spořitelna incurred a total interest expense of CZK 2,867 million from transactions with related parties executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Fee and Commission Income
During the reporting period, Česká spořitelna received fee and commission income, primarily comprising fees and commissions for asset management, depository services, and sale of subsidiaries' products, in an aggregate amount of CZK 1,665 million, as a part of transactions with related parties executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Fee and Commission Expense
During the reporting period, Česká spořitelna incurred fee and commission expenses, primarily comprising transaction fees and payments for the loyalty programme, in an aggregate amount of CZK 213 million, as a part of transactions with related parties enacted under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Dividend Income
Česká spořitelna received dividends in an aggregate amount of CZK 748 million from related parties of which Česká spořitelna is a shareholder. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Net trading and fair value result
During the reporting period, Česká spořitelna incurred a net loss of CZK 2,137 million from securities transactions, foreign currency transactions and similar transactions with related parties, enacted under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Rental Income from Operating Leases
During the reporting period, Česká spořitelna received income amounting to CZK 41 million from related parties from leasing executed under standard market conditions. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

General Administrative Expenses
During the reporting period, Česká spořitelna incurred CZK 977 million in general administrative expenses in respect of related parties, in particular for the purchase of goods, materials, insurance and advisory, professional, consulting or maintenance services under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Other Income/Expenses
During the reporting period, Česká spořitelna reported a positive balance of other income and expenses in an aggregate amount of CZK 135 million as part of other transactions with related parties, in particular the provision of outsourcing services and client shared services centers, etc., all executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Other Banking and Trading Relationships with Related Parties

Guarantees Provided
Česká spořitelna provided related parties with guarantees based on guarantee contracts entered into under ordinary market terms. Guarantees provided totalled CZK 6,764 million as at 31 December 2018. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Fixed-term Contracts
During the reporting period, Česká spořitelna entered into fixed-term contracts with related parties under ordinary market terms. The nominal value of fixed-term contracts concluded in 2018 was 464 million.

Equity investments with Related Parties
During the reporting period, Česká spořitelna, increased its investments in related partiesas in the amount of CZK 263 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Dividends and Additional Tier 1 Notes interest
Based on a 30 April 2018 General Meeting decision, Česká spořitelna paid dividends totalling CZK 11,583 million and interest in the amount of CZK 596 million to related parties in the reporting period. Česká spořitelna incurred no detriment as a result of the execution of this decision.

F. Non-banking contractual relationships

In prior years, Česká spořitelna entered into contracts with related parties listed in Sections B and C pertaining to non-banking relations, the financial details of which are presented in Section E for the reporting period. A list of valid contracts and agreements with the related parties discussed in Sections B and C of a non-banking nature is presented below. Contracts of a similar nature entered into with a particular related party are grouped.

Name	Contractual party	Description	Date	Detriment
Outsourcing services agreement (incl. amendments)	brokerjet ČS, a.s. in liquidation	Provision of selected outsourcing services	2016–2018	None incurred
Agreement on the transfer of information	brokerjet ČS, a.s. in liquidation	Agreement on the transfer of information on deposit insurance	2016	None incurred
Agreement on safekeeping and administration of investment instruments	brokerjet ČS, a.s. in liquidation	Safekeeping and administration of investment instruments	2016	None incurred
Agreement on management of securities	brokerjet ČS, a.s. in liquidation	Management of securities	2006	None incurred
Agreement on the sub-lease of non-residential premises and lease of chattel properties	brokerjet ČS, a.s. in liquidation	Sublease of non-residential premises and lease of chattel properties	2016	None incurred
14x Current account agreement	brokerjet ČS, a.s. in liquidation	Agreement on maintaining current account	2009–2015	None incurred
Agreement on the provision of the Multicash service	brokerjet ČS, a.s. in liquidation	Electronic data interchange via MultiCash service	2009	None incurred
2x Protocol related to Multicash service	brokerjet ČS, a.s. in liquidation	Maintaining safe data interchange via Multicash service	2018	None incurred
4x Agreement on the investment blocking account	brokerjet ČS, a.s. in liquidation	Agreement on the investment blocking account	2006	None incurred
Agreement on the provision of IT, telephony and data services	brokerjet ČS, a.s. in liquidation	Provision of IT services	2015	None incurred
Transfer agreement of tangible and intangible property	brokerjet ČS, a.s. in liquidation	Property transfer	2016	None incurred
2x Agreement to execute and perform internal audit	brokerjet ČS, a.s. in liquidation	Provision of selected services	2017–2018	None incurred
Assignment Agreement	brokerjet ČS, a.s. in liquidation	Transfer of rights and obligation related to brokerjetGO application	2018	None incurred
Framework agreement to open and maintain deposit accounts	brokerjet ČS, a.s. in liquidation	Open and maintain clients' deposit accounts	2018	None incurred
Agreement on the maintaining personal data	brokerjet ČS, a.s. in liquidation	Administration of personal data	2017	None incurred
Specimen signature and Account empowerment overview	brokerjet ČS, a.s. in liquidation	Administration of specimen signatures and maintaining account empowerment disponibility	2018	None incurred
2x Outsourcing agreement (incl. ammendments)	CEE Property Development Portfolio 2 a.s.	Provision of selected outsourcing services	2017–2018	None incurred
Agreement on the lease of non-residential premises	CEE Property Development Portfolio 2 a.s.	Agreement on the lease of non-residential premises	2015	None incurred
2014-8670-003 CPDP, IPT	CEE Property Development Portfolio B.V.	Agreement on the provision of telephony and data services to CPDP	2014	None incurred
Agreement on management of investment instruments	Česká spořitelna – penzijní společnost, a.s.	Client asset management	2016	None incurred
Agreement on the lease of non-residential premises and chattel properties	Česká spořitelna – penzijní společnost, a.s.	Lease of the building at Poláčkova 1976/2, Prague	2000	None incurred
Agreement on the lease vault boxes	Česká spořitelna – penzijní společnost, a.s.	Lease of 2 vault boxes	2003	None incurred
Agreement on the protection of confidential information	Česká spořitelna – penzijní společnost, a.s.	Protection of confidential information among partners	2003	None incurred
Service agreement	Česká spořitelna – penzijní společnost, a.s.	Mailing of tax certificates and confirmation letters	2003	None incurred
Agreement on access to the ČS Intranet	Česká spořitelna – penzijní společnost, a.s.	Access to Intranet for ZC ČSPS	2003	None incurred
Agreement on the lease of non-residential premises	Česká spořitelna – penzijní společnost, a.s.	Lease of office space in Přerov	2005	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement on the lease of non-residential premises	Česká spořitelna – penzijní společnost, a.s.	Lease of archive space at Olbrachtova, Prague	2006	None incurred
Cooperation agreement	Česká spořitelna – penzijní společnost, a.s.	Agreement on the ČS Client Centre services for ČSPS	2005	None incurred
Agreement on exchange of information (incl. amendments)	Česká spořitelna – penzijní společnost, a.s.	Use of the Klient application service	2009, 2018	None incurred
Cooperation agreement	Česká spořitelna – penzijní společnost, a.s.	Participation in the financing of the Pension Solution 2 campaign	2011	None incurred
Agreement on the provision of IT activities	Česká spořitelna – penzijní společnost, a.s.	Outsourcing of IT activities	2012	None incurred
Agreement on cooperation in the Partner24 service operation	Česká spořitelna – penzijní společnost, a.s.	Provision of certain services pertaining to the Partner24 service operation	2012	None incurred
Outsourcing services agreement (incl. amendments)	Česká spořitelna – penzijní společnost, a.s.	Outsourcing of selected activities	2016–2018	None incurred
Sales representation agreement	Česká spořitelna – penzijní společnost, a.s.	Sales representation for external distribution network	2016	None incurred
Framework agreement on trading in financial markets	Česká spořitelna – penzijní společnost, a.s.	Trading in financial markets	2016	None incurred
Agreement on the provision of outsourcing services for processing of co-action requests and distress warrants	Česká spořitelna – penzijní společnost, a.s.	Outsourcing of selected activities	2017	None incurred
5x Agreement on the lease of business premises	Česká spořitelna – penzijní společnost, a.s.	Lease of non-residential premises	2014–2018	None incurred
2x Cooperation agreement (incl. amendments)	Česká spořitelna – penzijní společnost, a.s.	Agreement on cooperation in the provision of post warranty service	2011, 2018	None incurred
Agreement on personal data processing	Česká spořitelna – penzijní společnost, a.s.	Processing of personal data in relation to outsourcing agreements	2018	None incurred
Outsourcing services agreement (incl. ammendments)	Energie ČS, a.s.	Outsourcing services	2017–2018	None incurred
6x Current account agreement	Energie ČS, a.s.	Maintaining current accounts	2013	None incurred
Framework agreement on trading in financial markets	Energie ČS, a.s.	Financial market transactions	2014	None incurred
Agreement on the provision of bank guarantees	Energie ČS, a.s.	Provision of bank guarantees	2013	None incurred
Overdraft facility agreement	Energie ČS, a.s.	Arranging an overdraft facility credit limit	2013	None incurred
Agreement on the provision of the BUSINESS 24 service	Energie ČS, a.s.	Utilisation of a higher security type of service	2014	None incurred
Cooperation agreement	Energie ČS, a.s.	Collection from client accounts of ČS's clients	2015	None incurred
Agreement on the provision of Cash Pooling	Energie ČS, a.s.	Optimization of cash flow, interest expense and income	2015	None incurred
Sub-lease agreement	Energie ČS, a.s.	The subject matter of the agreement includes sublease of space in the Trianon building	2016	None incurred
Agreement on the lease of jobs and lease of chattel properties	Energie ČS, a.s.	Lease of premises for Back Office in Nový Jičín and Ostrava branches	2016	None incurred
Agreement on exchange of information (incl. amendments)	Energie ČS, a.s.	Mutual exchange of information in application KLIENT	2017–2018	None incurred
Agreement on personal data processing	Energie ČS, a.s.	Processing of personal data in relation to outsourcing agreements	2018	None incurred
Agreement on the provision of IT services (incl. amendments)	Erste Asset Management GmbH, pobočka ČR	Agreement on the provision of IT services to ISČS, including two amendments to the agreement	2013–2018	None incurred
Agreement on personal data processing	Erste Asset Management GmbH, pobočka ČR	Processing of personal data in relation to outsourcing agreements	2018	None incurred
Outsourcing agreement (incl. amendments)	Erste Asset Management GmbH, pobočka ČR	Provision of selected outsourcing services including one amendment to the agreement	2017–2018	None incurred
Agreement about distribution of mutual funds certificates and related services (incl. amendments)	Erste Asset Management GmbH, pobočka ČR	Setting condition for services related to collective investments	2018	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement on providing outsourcing services in asset custody	Erste Asset Management GmbH, pobočka ČR	Custody services provided to the Bank clients	2018	None incurred
Agreement on co-action	Erste Asset Management GmbH, pobočka ČR	Cooperation in risk management	2016	None incurred
Outsourcing agreement (incl. amendments)	Erste Corporate Finance, a.s.	Provision of selected outsourcing services	2017–2018	None incurred
Agreement on personal data processing	Erste Corporate Finance, a.s.	Processing of personal data in relation to outsourcing agreements	2018	None incurred
Framework agreement regarding trading on financial markets	Erste Corporate Finance, a.s.	Trading on financial markets	2018	None incurred
Outsourcing agreement (incl. amendments)	Erste Grantika Advisory, a.s.	Provision of selected outsourcing services	2017–2018	None incurred
Agreement on personal data processing	Erste Grantika Advisory, a.s.	Processing of personal data in relation to outsourcing agreements	2018	None incurred
Service Level Agreement (incl. amangments)	Erste Group Bank AG	Sales support in the large corporate segment	2014	None incurred
4x Cost cooperation agreement (incl. amendments)	Erste Group Bank AG	Cost sharing agreements for Centralised services	2016–2018	None incurred
Master Agreement for the Provision of Services	Erste Group Bank AG	Master agreement on the provision of Erste Group Bank services to Česká spořitelna	2014	None incurred
2x Group Capital Markets Web Portal (incl. amandments)	Erste Group Bank AG	Agreement on the operation of a web portal	2014	None incurred
ARIS SLA (incl. amendments)	Erste Group Bank AG	Process documentation and process performance management	2015–2018	None incurred
ARIS SLA - Acknowledgement of termination	Erste Group Bank AG	Acknowledgement of SLA termination	2018	None incurred
Trademark License Agreement	Erste Group Bank AG	Trademark use agreement	2002	None incurred
3x Agreement in the sphere of IT services	Erste Group Bank AG	Providing services in IT	2017	None incurred
Colman Master Agreement	Erste Group Bank AG	Provision of services related to the Collateral Management system	2018	None incurred
MIFID2	Erste Group Bank AG	Providing central services related to MIFID	2018	None incurred
Master agreement on cooperation in the sphere of services	Erste Group Bank AG	Agreement on advisory services for various projects	2003	None incurred
GEORGE License Agreement (incl. amendments)	Erste Group Bank AG	License agreement	2016–2018	None incurred
2x Agreement about transfer of personal data	Erste Group Bank AG	Protection of personal data in compliance with GDPR	2018	None incurred
Card Processing Services Agreement (incl. amandments)	Erste Group Card Processor d.o.o.	Provision of services	2016, 2018	None incurred
Data Processing Agreement	Erste Group Card Processor d.o.o.	Provision of services.	2018	None incurred
Master Service Agreement (incl. amendments)	Erste Group IT International, Gmbh	Provision of services	2018	None incurred
40x Agreement on IT services and solutions	Erste Group IT International, Gmbh	Provision of services pertaining to IT solutions	2017	None incurred
29x Agreement on IT services and solutions	Erste Group IT International, Gmbh	Provision of services pertaining to IT solutions	2018	None incurred
Outsourcing agreement	Erste Group IT International, Gmbh	Provision of selected outsourcing services	2018	None incurred
Agreement on personal data processing	Erste Group IT International, Gmbh	Processing of personal data in relation to outsourcing agreements	2018	None incurred
Preliminary agreement	Erste Group IT International, Gmbh	Setting condition for future services	2016	None incurred
Termination of Preliminary agreement	Erste Group IT International, Gmbh	Termination of Preliminary agreement	2018	None incurred
Outsourcing agreement	Erste Group Immorent ČR, s.r.o.	Provision of selected outsourcing services	2017	None incurred
2xTermination of outsourcing agreement (incl. shorten termination period)	Erste Group Immorent ČR, s.r.o.	Termination of outsourcing agreement	2017–2018	None incurred

Name	Contractual party	Description	Date	Detriment
Contract on supply of Outsourcing Services (incl. amendments)	Erste Group Shared Services, s.r.o.	Provision of services	2017, 2018	None incurred
Agreement on the lease of non-residential premises (incl. amendments)	Erste Group Shared Services, s.r.o.	Lease of non-residential premises	2010, 2016	None incurred
Agreement on IT services (incl. amendments)	Erste Group Shared Services, s.r.o.	Provision of selected services	2013, 2016	None incurred
Service level agreement	Erste Group Shared Services, s.r.o.	Provision of selected services	2010	None incurred
Agreement on personal data processing	Erste Group Shared Services, s.r.o.	Processing of personal data in relation to outsourcing agreements	2018	None incurred
Data Processing Agreement	Erste Group Shared Services, s.r.o.	Data processing in accordance with GDPR	2018	None incurred
Agreement on Domestic Payments Processing Services (incl. amendments)	Erste Group Shared Services, s.r.o.	Domestic payment processing services	2013, 2015	None incurred
Outsourcing services agreement (incl. amendments)	Erste Leasing, a.s.	The subject matter of the agreement includes provision of outsourcing services in selected areas.	2016–2018	None incurred
Mandatory agreement to monitor receivables portfolio	Erste Leasing, a.s.	Provision of selected services	2012	None incurred
4x Agreement on the lease of non-residential premises and lease of chattel properties	Erste Leasing, a.s.	Agreement on the lease of non-residential premises and furnishings	2013–2016	None incurred
Business cooperation agreement	Erste Leasing, a.s.	Agreement on cooperation on business agreements and participation in the risks arising therefrom	2014	None incurred
Service agreement - logo	Factoring České spořitelny, a.s.	Assignment of the right to use the company logo	2002	None incurred
Agreement on subparticipation (incl. amendments)	Factoring České spořitelny, a.s.	Participation on credit risk of particular clients	2005–2018	None incurred
Framework agreement on subparticipation	Factoring České spořitelny, a.s.	Risk participation	2018	None incurred
Lease agreement – safe deposit box	Factoring České spořitelny, a.s.	Lease of safe-deposit box	2009	None incurred
Cooperation agreement	Factoring České spořitelny, a.s.	Addressing defaulted debts	2009	None incurred
Cooperation agreement – KLIENT (incl. amendments)	Factoring České spořitelny, a.s.	Exchange of information through the KLIENT application	2009–2018	None incurred
Agreement on the provision of services (ISIR_CS)	Factoring České spořitelny, a.s.	Agreement on the use, development, support and operation of the ISIR_CS application	2009	None incurred
Agreement on the provision of services (Linux)	Factoring České spořitelny, a.s.	System environment of the Linux server farm for operation of the eFactoring application	2010	None incurred
Cooperation agreement – verification pledged invoices	Factoring České spořitelny, a.s.	Verification – pledged invoice verification; monitoring, verification and evaluation of clients/pledgers "clients monitoring"	2015	None incurred
Lease agreement	Factoring České spořitelny, a.s.	Sublease of non-residential premises – Trianon	2014	None incurred
Lease agreement	Factoring České spořitelny, a.s.	Lease of premises used for business – Antala Staška	2014	None incurred
Agreement on the provision of services – Telefonie (incl. amendments)	Factoring České spořitelny, a.s.	IT services - Telefonie	2014–2016	None incurred
Outsourcing services agreement (incl. amendments)	Factoring České spořitelny, a.s.	The subject matter of the agreement includes provision of outsourcing services in selected areas.	2017–2018	None incurred
3x Cooperation agreements related to receivables	Factoring České spořitelny, a.s.	Risk monitoring of factoring receivables	2007–2017	None incurred
Agreement on the protection of confidential information (incl. amendments)	Mopet CZ, a.s.	Agreement on the protection of confidential information	2011	None incurred
2x Agreement on IT provision of services	Mopet CZ, a.s.	Agreement on IT services arrangement	2015	None incurred
Outsourcing agreement (incl. amendments)	Mopet CZ, a.s.	Provision of selected outsourcing services	2017–2018	None incurred
Agreement on personal data processing	Mopet CZ, a.s.	Processing of personal data in relation to outsourcing agreements	2018	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement on the provision of services	Procurement Services CZ, s.r.o.	Outsourcing of procurement services	2012	None incurred
Agreement	Procurement Services CZ, s.r.o.	Agreement on the division of powers	2012	None incurred
Provision of IT services (incl. amandments)	Procurement Services CZ, s.r.o.	Operation and support of IT services	2013, 2017	None incurred
Agreement on the provision of services (incl. amandments)	Procurement Services CZ, s.r.o.	Outsourcing of services in the area of financial accounting, asset management, procurement support, human resources, internal audit and IS/IT security	2017–2018	None incurred
Lease agreement (incl. amendments)	Procurement Services CZ, s.r.o.	Lease of parking lots in the Trianon building	2015–2017	None incurred
Agreement on the lease of non-residential premises	Procurement Services CZ, s.r.o.	Lease of non-residential premises	2015	None incurred
Agreement on personal data processing	Procurement Services CZ, s.r.o.	Processing of personal data in relation to outsourcing agreements	2018	None incurred
Sales representation agreement - TIPAŘ	Realitní společnost České spořitelny, a.s.	Sale of banking products (mortgages)	2018	None incurred
Order of services - rent	Realitní společnost České spořitelny, a.s.	Provision of real estate advisor services pertaining to the lease of selected immovable property owned by ČS	2018	None incurred
Order of services - sale	Realitní společnost České spořitelny, a.s.	Provision of real estate advisory services pertaining to the sale of selected immovable property owned by ČS	2018	None incurred
Purchase agreement	Realitní společnost České spořitelny, a.s.	Purchase of used assets – vehicle	2018	None incurred
Purchase agreement	Realitní společnost České spořitelny, a.s.	Purchase of used assets – MT	2018	None incurred
Agreement on the assignment of the right to use a logo	Realitní společnost České spořitelny, a.s.	Contractual rights and obligations related to the use of the ČS logo	2004	None incurred
Outsourcing agreement (incl. amendments)	Realitní společnost České spořitelny, a.s.	Provision of outsourcing services in the area of financial accounting, human resources, marketing, corporate communications, IS/IT security, compliance and contractual documentation	2017–2018	None incurred
Agreement on the protection of confidential information	Realitní společnost České spořitelny, a.s.	Protection of confidential information	2005	None incurred
Agreement on the provision of IT services to RSČS	Realitní společnost České spořitelny, a.s.	Access to Google Apps services	2016	None incurred
Cooperation agreement	Realitní společnost České spořitelny, a.s.	Cooperation in real estate area	2017	None incurred
Car leasing	Realitní společnost České spořitelny, a.s.	Leasing of car	2018	None incurred
Commission contract for the purchase or sale of domestic and foreign securities including amendments	Reico investiční společnost ČS, a.s.	Provision of services relating to the purchase or sale of domestic and foreign securities	2007–2016	None incurred
Agreement on trading in financial markets	Reico investiční společnost ČS, a.s.	Provision of services pertaining to trading in financial markets	2007	None incurred
Agreement on safekeeping foreign securities and settlement of related trades	Reico investiční společnost ČS, a.s.	Safekeeping of foreign securities and settlement of related trades	2007	None incurred
Agreement on safekeeping domestic securities and settlement of related trades including amendments	Reico investiční společnost ČS, a.s.	Safekeeping of domestic securities and settlement of related trades	2007	None incurred
Agreement on access to the ČS Intranet	Reico investiční společnost ČS, a.s.	Providing employees with access to the ČS Intranet	2007	None incurred
Agreement on the distribution of unit certificates and related activities including amendments (incl. amandments)	Reico investiční společnost ČS, a.s.	Provision of services related to the distribution of managed funds unit certificates	2017–2018	None incurred
Agreement on mediating client's participation in the Current bond system organized by ČNB	Reico investiční společnost ČS, a.s.	Mediation of client's participation in the Current bond system organized by ČNB	2008	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement on the provision of back-office activities including amendments	Reico investiční společnost ČS, a.s.	Provision of back-office activities	2009	None incurred
Agreement on keeping separate records of book-entered collective investment securities and related activities	Reico investiční společnost ČS, a.s.	Keeping separate records of book-entered securities of funds and provision of related activities	2010	None incurred
Agreement on the purchase and sale of securities issued by undertakings for collective investment	Reico investiční společnost ČS, a.s.	Provision of services relating to the purchase or sale of securities issued by undertakings for collective investment	2011	None incurred
Agreement on the provision of daily calculation of PL capital and PL current values as well as of current values of investment fund shares, and keeping of funds' accounting records and related activities including amendments	Reico investiční společnost ČS, a.s.	Provision of daily calculation of PL capital and PL current values as well as of current values of investment fund shares, and keeping of funds' accounting records and related activities	2012	None incurred
Agreement on cooperation in risk management	Reico investiční společnost ČS, a.s.	Supporting activities pertaining to risk management of funds	2017	None incurred
Agreement on the provision of outsourcing services pertaining to filing/archiving services and documentation of the company	Reico investiční společnost ČS, a.s.	Activities associated with the management of the company archive	2014	None incurred
Agreement on the lease of business premises no. 2014/2310_02/1357	Reico investiční společnost ČS, a.s.	Sublease of non-residential premises for alternate workplace	2014	None incurred
Depository agreement (ČS nemovitostní fond)	Reico investiční společnost ČS, a.s.	Provision of depository services	2015	None incurred
Agreement on the provision of IT activities	Reico investiční společnost ČS, a.s.	Provision of services in IT sector	2015	None incurred
Outsourcing services agreement (incl. amandments)	Reico investiční společnost ČS, a.s.	The subject matter of the agreement includes provision of outsourcing services by Česká spořitelna in favour of REICO investiční společnosti ČS in selected areas.	2017–2018	None incurred
Agreement on business cooperation (incl. amandments)	Reico investiční společnost ČS, a.s.	Provision of selected services in sphere of business cooperation	2017–2018	None incurred
Agreement on personal data processing	Reico investiční společnost ČS, a.s.	Processing of personal data in relation to outsourcing agreements	2018	None incurred
Sub-licence agreement	Reico investiční společnost ČS, a.s.	Usage of new logo	2018	None incurred
Creation of web portal on Emil platform	Reico investiční společnost ČS, a.s.	Creation of web portal	2018	None incurred
Outsourcing services agreement (incl. amandments)	s Autoleasing, a.s.	The subject matter of the agreement includes provision of outsourcing services by Česká spořitelna in favour of sAutoleasing in selected areas.	2017–2018	None incurred
Business cooperation agreement	s Autoleasing, a.s.	Commission	2006	None incurred
General mandate agreement pertaining to the receivable portfolio	s Autoleasing, a.s.	Receivable portfolio management	2006	None incurred
Agreement on cooperation in securing funds	s Autoleasing, a.s.	Letter of intent	2007	None incurred
Business cooperation agreement - Risk	s Autoleasing, a.s.	Risk participation	2006	None incurred
Agreement on the sub-lease of non-residential premises	s Autoleasing, a.s.	Sublease of non-residential premises at Budějovická 13B, Prague 4, Trianon	2014	None incurred
Agreement on the lease of non-residential premises	s Autoleasing, a.s.	Lease of non-residential premises – Brno Jánská	2012	None incurred
Agreement on exchange of information through special access to the KLIENT application (incl. amandments)	s Autoleasing, a.s.	Use of the KLIENT application	2008–2018	None incurred
Agreement on the lease of premises used for business	s Autoleasing, a.s.	Lease of non-residential premises in Prague 4, Antala Staška	2014	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement on the provision of IT services	s Autoleasing, a.s.	Provision of HW and SW infrastructure	2014	None incurred
General mandate agreement pertaining to the portfolio of receivables	s Autoleasing, a.s.	Receivable portfolio management	2014	None incurred
Agreement on the lease of premises used for business	s Autoleasing, a.s.	Lease of non-residential premises at Budějovická 1912/64b	2016	None incurred
6x Service agreement	s IT Solutions AT Spardat GmbH	Agreements on IT services	2017	None incurred
2x Service agreement	s IT Solutions AT Spardat GmbH	Agreements on IT services	2018	None incurred
3x Agreement on IT services	Slovenská sporiteľna, a.s.	Service agreement on the operation of selected IT applications and other IT services	2017	None incurred
3x Termination of IT services	Slovenská sporiteľna, a.s	Service agreement on the operation of selected IT applications and other IT services	2018	None incurred
eCommerce 3-D Secure Issuing	Slovenská sporiteľna, a.s	Statement of work	2018	None incurred
Decentralized and communication services	Slovenská sporiteľna, a.s	Provision of services	2018	None incurred
Aggregation API	Slovenská sporiteľna, a.s	Pilot and licence	2018	None incurred
E-Commerce - Issuing	Slovenská sporiteľna, a.s	Provision of services	2018	None incurred
Agreement on the assignment of the right to use a logo	Stavební spořitelna České spořitelny, a.s.	Assignment of the right to use a logo and trade name	2001	None incurred
Consignment agreement on the administration of securities and settlement of related trades	Stavební spořitelna České spořitelny, a.s.	Maintenance of a securities account and collection of proceeds	2006	None incurred
Agreement on data processing	Stavební spořitelna České spořitelny, a.s.	Data processing, printing of forms, personalization, completion of shipments, putting in envelopes and handing over to Czech Post for mailing	2005	None incurred
Sales representation agreement	Stavební spořitelna České spořitelny, a.s.	Activities aimed at entering into building savings scheme contracts	2016	None incurred
Cooperation agreement – client checks	Stavební spořitelna České spořitelny, a.s.	Check of clients in the KLIENT database against sanctioned persons	2008	None incurred
Outsourcing services agreement (incl. amandments)	Stavební spořitelna České spořitelny, a.s.	Provision of outsourcing services	2017–2018	None incurred
Agreement on cooperation in IT	Stavební spořitelna České spořitelny, a.s.	Co-action of SSČS and ČS in executing the agreement on outsourcing of selected activities	2016	None incurred
Agreement on the provision of filing/archiving services and shredding of product documentation	Stavební spořitelna České spořitelny, a.s.	Filing/archiving services and product documentation shredding services	2008	None incurred
Agreement on methodical support in internal audit	Stavební spořitelna České spořitelny, a.s.	Provision of methodical support in internal audit	2017	None incurred
2 x Contract for extraordinary commission	Stavební spořitelna České spořitelny, a.s.	Mediation and support of sale of Company's products and services	2016	None incurred
Agreement on the agency of payments	Stavební spořitelna České spořitelny, a.s.	Agency of payments	2013	None incurred
Agreement on cooperation in operating the REV module	Stavební spořitelna České spořitelny, a.s.	Contractual rights and obligations of parties pertaining to use of the module for credit products	2013	None incurred
Agreement on mediating client's participation in the current bond market	Stavební spořitelna České spořitelny, a.s.	Mediation of client's participation in the current bond market	1995	None incurred
2 x Agreement on the protection of confidential information	Stavební spořitelna České spořitelny, a.s.	Protection of confidential information	2003	None incurred
Agreement on a uniform risk management system	Stavební spořitelna České spořitelny, a.s.	Uniform risk management system and exchange of data on credit transactions	2003	None incurred
Agreement governing conditions for using the KLIENT application service (incl. amandments)	Stavební spořitelna České spořitelny, a.s.	Determination of terms and conditions for using the KLIENT application service	2008–2018	None incurred
Service Level Agreement	Stavební spořitelna České spořitelny, a.s.	Provision of services – certificates and certification services	2009	None incurred

Name	Contractual party	Description	Date	Detriment
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Cooperation in operating the SERVIS 24 service and SIS 24 module	2011	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Agreement on cooperation in operating the Partner 24 system – contractual rights and obligations related to the system operation and use	2013	None incurred
Agreement on transfer of data to DWH	Stavební spořitelna České spořitelny, a.s.	Stipulation of contractual rights and obligations related to transfer of data on transactions and clients	2007	None incurred
Power of attorney	Stavební spořitelna České spořitelny, a.s.	Power of attorney to enter into an "Agreement on the processing of tasks related to building savings scheme through SERVIS 24 direct banking services"	2006	None incurred
Service agreement	Stavební spořitelna České spořitelny, a.s.	Provision of the Home Banking direct banking service	2006	None incurred
Agreement on Intranet access	Stavební spořitelna České spořitelny, a.s.	Employees' access to the Česká spořitelna Intranet	2006	None incurred
Framework agreement on trading in financial markets	Stavební spořitelna České spořitelny, a.s.	Trading in financial markets	2016	None incurred
Agreement on administration of securities	Stavební spořitelna České spořitelny, a.s.	Administration of securities and settlement of related trades	2005	None incurred
Agreement on conditions of access	Stavební spořitelna České spořitelny, a.s.	Regulation of the conditions of granting access to customer files	2003	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Cooperation in data transfer from XEF templates	2004	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Cooperation in the processing of the SSČS's secured loans	2011	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Cooperation in operating the application aimed at supporting credit trading approval process	2014	None incurred
Agreement on the sublease of office space and two parking lots	Stavební spořitelna České spořitelny, a.s.	Lease of office space and parking lots	2016	None incurred
Agreement on the lease of non-residential premises	Stavební spořitelna České spořitelny, a.s.	Lease of non-residential premises	2006	None incurred
Donation agreement	Stavební spořitelna České spořitelny, a.s.	Donation agreement for providing services and operating of advisory center for people in financial distress in 2017	2018	None incurred
Agreement on transfer of data to DWH	Stavební spořitelna České spořitelny, a.s.	Stipulation of contractual rights and obligations related to Risk Data and SSČS Data and manipulation with it	2015	None incurred
Agreement on the provision of IP telephony services	Stavební spořitelna České spořitelny, a.s.	Provision of IP telephone services for the operation of telephone services and infrastructure	2015	None incurred
Agreement on the provision of the @FAKTURA 24 service	Stavební spořitelna České spořitelny, a.s.	Contractual rights and obligations relating to the provision of the @ FAKTURA 24 service as stipulated in the Terms and conditions of ČS's @ FAKTURA 24; transfer of documents into electronic banking applications and other services specified in the conditions	2015	None incurred
Secondment agreement	Stavební spořitelna České spořitelny, a.s.	Temporary secondment of an employee	2016	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Cooperation pertaining to insurance contracts with Kooperativa, a. s.	2014	None incurred
Agreement on access to application	Stavební spořitelna České spořitelny, a.s.	Access to application Visual Analytics	2017	None incurred
Agreement to provide services	Stavební spořitelna České spořitelny, a.s.	Agreement on provision of services of application LIC	2017	None incurred
2x Agreement on the lease of non-residential premises	Stavební spořitelna České spořitelny, a.s.	Agreement on the lease of offices and training area	2004, 2005	None incurred
Agreement on Intranet access	Stavební spořitelna České spořitelny, a.s.	Employees' access to the SSČS Intranet	2006	None incurred
Agreement on the maintaining personal data	Stavební spořitelna České spořitelny, a.s.	Administration of personal data	2018	None incurred
Agreement on the protection of information	Věrnostní program IBOD, a.s.	Protection of information	2016	None incurred
Master agreement on the development of the IBOD programme	Věrnostní program IBOD, a.s.	Master agreement on the development of the IBOD programme – development of SW IBOD	2013	None incurred
Outsourcing services agreement (incl. amendments)	Věrnostní program IBOD,a.s.	Provision of selected services	2017–2018	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement on the maintaining personal data	Věrnostní program IBOD,a.s.	Administration of personal data	2018	None incurred
Agreement on participation in the IBOD loyalty programme	Věrnostní program IBOD, a.s.	Implementation agreement on participation in the IBOD loyalty programme	2013	None incurred
Outsourcing services agreement	ČS NHQ, s.r.o.	Provision of selected outsourcing services	2018	None incurred
SA FASCOR	Erste Bank Hungary Zrt	Service Agreement	2018	None incurred
PDS – Performance and Development System (incl. amandments)	s IT Solutions HR, d.o.o.	Service Agreement	2017–2018	None incurred

G. Overview of actions performed at the initiative of the controlling party

During the reporting period, the Bank did not engage in any act at the direct initiative of its controlling party pertaining to assets in excess of 10% of its registered capital, within the meaning of Section 82 (2) (d) of Act No. 90/2012 Coll., the Corporations Act. The dividend payment referred to in Section E that is considered to be an action undertaken at the direct initiative of the controlling party (by means of exercising its shareholder's rights at the general meeting) and the portion of total equity of Česká spořitelna as at 31 December 2018 is 9.89 %.

H. Other legal acts

During the accounting period, the Bank neither adopted nor enacted any other legal acts to the benefit or at the initiative of related parties.

I. Other de facto measures

Within Erste Group Bank, Česká spořitelna takes part in group projects whose common aim is to fully exploit the business potential of Central European markets in all segments as well as economies of scale and cost synergies, the concentration of support activities within the group and performance measurement transparency and comparability. These projects cover, for example, information technology, risk management, and service activity. Česká spořitelna incurred no detriment as a result of its involvement in the foregoing group projects.

J. Conclusion

It can be concluded, based on the disclosed information and review of the legal relationships between Česká spořitelna and its related parties and also including the controlling party, that Česká spořitelna incurred no detriment as a result of contracts, other legal acts or other measures executed, effected or adopted by Česká spořitelna during the accounting period from 1 January 2018 to 31 December 2018 to the benefit or at the initiative of individual related parties, including the controlling party.

Prague 19 March 2019

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-Chairman of the Board of Directors

Česká spořitelna Financial Group

An overview of major members of the Česká spořitelna Financial Group, unaudited figures in accordance with International Financial Reporting Standards (IFRS), unless otherwise stated

Stavební spořitelna České spořitelny, a.s.

Stavební spořitelna České spořitelny, a.s. (Building Society), having its registered office at Vinohradská 180, 130 11 Prague 3, was established on 22 June 1994. The Company's line of business is the provision of financial services in accordance with Act No. 96/1993 Coll. The Building Society offers its clients building savings with government support and with a statutory right to a building savings loan. Česká spořitelna, a. s. has been its sole shareholder since the end of 2014.

As at the end of 2018, Stavební spořitelna České spořitelny, a.s. posted approximately 124,000 loan accounts and had lent its clients nearly CZK 41.5 bn for the acquisition of better housing. It maintained nearly 545 thousand building savings accounts with a target amount of CZK 158 bn and savings amounting to CZK 62.5 bn.

In 2018, the Company was very successful in achieving its long-term purpose – financing of better housing – even exceeding its performance in previous years. The volume of loans provided was up by more than 25% compared to the previous year. Its co-operation with housing co-operatives and condominiums, in the financing of investment projects related to the housing needs of their members, continued successfully. Stavební spořitelna České spořitelny offers its clients the possibility of arranging subsidies from government subsidy programmes and has developed co-operation with companies focusing on energy savings.

The increase in the number of deposit contracts concluded stands as evidence of the product's popularity. The number of new building savings accounts (including increases in target amounts) was up by 21% in a year-on-year comparison, and the volume of target amounts in new contracts was up by full 33%.

Stavební spořitelna České spořitelny, a.s. paid great attention to improving services for its clients by extending the possibilities of electronic communication and electronic operation. Newly, it has made it possible for its clients to enter into building savings contracts over the internet. Clients can thereby enter into building savings contracts through their computers, mobile phones, or tablets from anywhere, for example, from their office or from the comfort of their home. The number of new building savings contracts concluded online reached nearly 33 thousand.

Stavební spořitelna České spořitelny, a.s., strives to fulfil its mission, "Financing better housing for children as well as adults, helping to turn houses into homes." also by means of its charitable activities. That is why it has co-operated for more than 20 years with the non-profit organisation Portus Praha, which helps mentally handicapped people. Our co-operation is based on financial support for the popular charitable campaign and benefit art auction „The Beneficial Brick", through which Portus raises money for the financing of its activities. For many years, the Building Society's employees have helped at a sheltered housing facility at Slapy (working in the garden, house-cleaning, etc.) and alongside Portus's clients at cultural and sports events.

Stavební spořitelna České spořitelny, a.s.	2018	2017	2016	2015	2014
Share capital (CZK million)	750	750	750	750	750
Total assets (CZK billion)	72.3	75.5	82.6	79.7	87.3
Receivables from customers (CZK billion)	41.5	37.6	36.0	35.4	36.4
Client deposits (CZK billion)	62.5	65.4	69.7	74.6	81.4
Net profit (CZK million)	866	691	601	669	622
Number of accounts (million)	0.7	0.7	0.7	0.8	0.9
Average headcount	191	183	177	191	208

Correspondence address:
Vinohradská 180, 130 11 Prague 3

Free info-line: 800 120 120
Telephone: 224 309 111

Internet: www.burinka.cz
E-mail: burinka@burinka.cz

Česká spořitelna – penzijní společnost, a.s.

Česká spořitelna – penzijní společnost, a.s. (Pension Company) was established on 1 January 2013 by the transformation of Penzijní fond České spořitelny, a.s., which was established by a founding deed as a joint-stock company on 24 August 1994 and incorporated upon its registration in the Commercial Register of the court in Prague on 23 December 1994. The Pension Company's registered office is at Poláčkova 1976/2, 140 21 Prague 4. The Company has registered capital of CZK 350 mil. Česká spořitelna, a.s. has been its sole shareholder since March 2001. Its core business until to its transformation was the provision of supplementary pension insurance pursuant to Act No. 42/1994 Coll., on Supplementary Pension Insurance with a government contribution, as amended by Act No. 170/1999 Coll. and by Act No. 36/2004 Coll. Since 2013, Česká spořitelna – penzijní společnost has managed the savings of the participants of the transformed fund and offered supplementary pension savings pursuant to Act No. 427/2011 Coll., as amended by Act No 377/2015 Coll.

Česká spořitelna – penzijní společnost has been number one of the supplementary pension savings market on a sustained basis. As at 30 September 2018, Česká spořitelna – penzijní společnost held a market share of 30.8% according to the number of participants in participant funds, which is the highest on the market. As at 31 December 2018, it had 920,146 unique participants with an aggregate volume of funds of CZK 85.2 bn. Česká spořitelna – penzijní společnost manages the largest conservative participant fund on the market, with assets of nearly CZK 8.5 bn.

In 2018, the Company launched a unique portal available for its business partners, where they can get a quick overview of the status of savings, arrange new pension savings or make a change in accounts of existing clients, easily, safely, and paper-free.

For the fourth time, Česká spořitelna – penzijní společnost earned the Bronze Plaque from Life 90 for its major support for the Association in 2018. Life 90 helps isolated and handicapped seniors live decent lives and Česká spořitelna – penzijní společnost takes part in or supports a number of events, such as a Charitable Dragon Boat Race, the "Stáří spojuje" ("Old Age Connects") forum, Advent at Life 90.

The purpose of the public role of Česká spořitelna – penzijní společnost is to provide a supplementary income for people in their post-productive years. In all its actions, the Company accents the aspect of longevity, stability, and social responsibility.

Česká spořitelna – penzijní společnost, a.s.	2018	2017	2016	2015	2014
Share capital (CZK million)	350	350	350	350	350
Total assets (CZK billion)	2.1	2.0	1.8	1.6	1.6
Assets in individual funds (CZK million)					
Transformed Fund	70,761	66,796	64,369	60,354	55,757
Conservative Participation Fund	8,439	6,531	4,376	2,699	1,314
Ethical Participation Fund (from 1.11.2017)	325	4	–	–	–
Balanced Participation Fund	4,348	2,892	1,183	545	231
Dynamic Participation Fund	1,298	882	464	274	142
Net profit (CZK million)	221	182.5	139.8	52	49
Number of unique participants (thousand)	920	917	923	950	982
Average headcount	61.2	61.5	62.8	61.6	65

Correspondence address: Poláčkova 1976/2, 140 21 Prague 4
Telephone: 956 777 444
Internet: http://www.csps.cz
E-mail: info@csps.cz

s Autoleasing, a.s.

The s Autoleasing, a.s. leasing company was incorporated on 6 October 2003. Česká spořitelna is its sole shareholder. The Company's registered office is at Budějovická 1912/64b in Prague 4. The Company has registered capital of CZK 500 mil. The Company's activities focus primarily on the financing of vehicles of up to 3.5 tonnes for individuals not engaged in business, individuals engaged in business, and legal entities.

In 2018, s Autoleasing generated a profit of CZK 116 mil. During the year, the Company financed new transactions amounting to an aggregate level of input debt of CZK 5,785 mil. By creating provisions, s Autoleasing covers all known risks arising from the portfolio of the contracts it has concluded. Major circumstances that may have a positive impact on the performance of s Autoleasing's business objectives in upcoming years include a further intensification of its co-operation with the parent bank. In 2018, s Autoleasing focused on maintaining its position on the market. The Company also carried on in supporting its subsidiary s Autoleasing SK, s.r.o., which commenced its active operations in Slovakia in 2013, providing loans for new as well as used cars of up to 3.5 tonnes to individuals not engaged in business, individuals engaged in business, and legal entities, gradually developing a stronger position for itself in the Slovak market.

s Autoleasing, a.s.	2018	2017	2016	2015	2014
Share capital (CZK million)	500	500	500	500	500
Total assets (CZK billion)	12.3	11.1	9.8	8.9	8.2
New transaction volume (CZK billion)	5.8	4.9	4.6	4.0	3.5
Net profit (CZK million)	116	112	112	119	104
Number of new contracts	15,009	14,008	13,926	12,487	12,553
Number of own points of sale	1	1	1	1	1
Average headcount	109	111	115	113	112

Correspondence address:
Budějovická 1912/64b, Krč, 140 00 Prague 4

Telephone: 956 785 111
Internet: www.sautoleasing.cz

Erste Leasing, a.s.

Since 1991, Erste Leasing has been an important company in charge of financing of small and medium-sized enterprises in the Czech Republic. Since 2011, it has been a wholly owned subsidiary of Česká spořitelna. Thanks to its extensive network of points of sale and intensive co-operation with Česká spořitelna's regional corporate centres, it will be able to extend its sales to the whole Czech Republic. Erste Leasing offers leasing and credit financing for the purchase of machines and technologies to its clients and partners. The main industries that the largest volume of leasing and credit financing is directed to are agriculture, private sector services, and other industrial sectors, in particular machinery. Erste Leasing is regularly registered among the TOP10 in financing, as ranked by the Czech Leasing and Financial Association, and for 5 years, it has been number one in non-banking financing of agricultural machines and equipment.

In 2018, Erste Leasing generated a profit of CZK 63 mil., and the Company financed transactions in an aggregate amount of CZK 3.25 bn, which means a 9% drop in financing compared to 2017. Overall, 1,869 new leasing and loan agreements were signed. Average financing per contract amounts to CZK 1.74 mil. The main sector of financing is agriculture, where financing of CZK 2.26 bn was provided, pertaining to machines and equipment and the financing of purchases of agricultural land. Financing of agricultural sector accounts for 69.6% of total new financing in 2018. Another major sector was the financing of machines and equipment for the machinery industry and the construction industry, where financing of CZK 0.54 bn was provided, i.e., 17% in total.

Erste Leasing, a.s.	2018	2017	2016	2015	2014
Share capital (CZK million)	200	200	200	200	200
Total assets (CZK billion)	7.8	7.3	6.5	6.4	5.7
Volume of new transactions (CZK billion)	3.3	3.6	2.7	3.3	2.7
Number of new contracts	1,869	2,186	1,883	1,930	1,968
Net profit (CZK million)	63	66	65	69	46
Number of own points of sale	13	14	13	13	13
Average headcount	61	62	63	64	62

Correspondence address:
Horní náměstí 264/18, 669 02 Znojmo

Telephone: 515 200 511
Internet: www.ersteleasing.cz

Factoring České spořitelny, a.s.

Factoring České spořitelny, a.s. was incorporated in 1995. It has been a wholly owned subsidiary of Česká spořitelna since 2001. The Company is a founding member of the Association of Factoring Companies in the Czech Republic, a member of the Czech Leasing and Financial Association, and a long-standing member of the international association FCI (Factors Chain International). Since February 2019, the Company's registered office has been at Budějovická 1912/64B, Prague 4.

Factoring České spořitelny has been one of the largest factoring companies on the Czech market in a long term. In 2018, the market share of Factoring České spořitelny dropped slightly, to 20.5%, in spite of the year-on-year increase in overall revenues from assigned and managed receivables, by more than 6%, to CZK 35.9 bn. The value of closing net profit of CZK 53 mil. reflects not only the increase in business revenues and funds placed with clients, but also low creation of provisions.

The sustained focus of Factoring České spořitelny activities primarily has been on domestic, export, and import factoring, complex administration, and the monitoring of receivables for extensive corporate clientele throughout diverse sectors of the industry, trade, and services. In 2018, the Company introduced and started to actively offer reverse factoring supported with modern digital technologies. By doing this, Factoring České spořitelny has supplemented its offer of factoring services with another solution for Supply Chain Financing, primarily for larger corporations.

At the beginning of 2018, Factoring České spořitelny in co-operation with EDITEL launched a new service ediFactoring linking electronic document exchange EDI and factoring financing. Thanks to document transfer automation and integration of solutions to an internet platform, eFactoring facilitates maximum simplification of document management, minimisation of the risk of fraud, and faster inflow of money for clients.

In 2018, the Company carried on in its active commercial policy while closely observing the rules set for risk management and other measures for effective care for the portfolio of factoring client receivables under management.

In 2018, the Company changed its brand and logo from ERSTE Factoring to Factoring České spořitelny.

Factoring České spořitelny, a.s.	2018	2017	2016	2015	2014
Share capital (CZK million)	114	114	114	114	114
Equity (CZK million)	1,199	1,201	1,146	1,120	1,142
Total assets (CZK million)	5,860	5,480	4,768	4,623	5,892
Contracted amounts (CZK million)	35,916	33,682	31,848	41,375	63,952
Net profit (CZK million)	53	56	25	8	64
Average headcount	40	39	37	43	43

Correspondence address:
Budějovická 1912/64B, 140 00 Prague 4

Telephone: 956 770 711
Internet: www.factoringcs.cz

REICO investiční společnost České spořitelny, a.s.

REICO investiční společnost České spořitelny, a.s. was incorporated on 13 June 2006. Its sole shareholder has been Česká spořitelna, a.s. since its establishment. The Company's registered office is at Antala Staška 2027/79, 140 00 Prague 4.

In 2018, REICO investiční společnost České spořitelny managed a special real estate fund, ČS nemovitostní fond, an open-end mutual fund of REICO investiční společnost České spořitelny, a.s.

The equity of ČS nemovitostní fond in 2018 increased as compared to the previous year by CZK 4.4 bn, amounting to CZK 21.6 bn as at the end of the year. That means that ČS nemovitostní fond became the country's largest mutual fund. The reason for the repeated significant increase of the Fund's equity was the persisting environment of low interest rates, increased volatility of capital markets, and continued high-level of investor interest in real estate.

For the Czech real estate market, 2018 was a stable year, even given an above-average demand among investors, in particular in the sphere of office and logistical properties. More than one-half of real estate investments made on the Czech market last year came from domestic investors, and for the first time Czech capital exceeded foreign capital in investments directed to commercial properties.

In 2018, ČS nemovitostní fond carried on its expansion strategy and completed 4 acquisitions and 1 divestment. This had been the largest number of transactions the Fund carried out in a single year since its inception. First, in February, the Fund sold its building on Táborská 31 in Prague 4; in March, it purchased the Industrial Park Dubnica logistical building in Dubnica nad Váhom in Slovakia; at the end of June, it expanded its portfolio by adding the Metronom office building in Prague; in September, it purchased the second part of the Proximo complex in Warsaw; and it completed its 2018 acquisition activities in December with the purchase of the Ostrava Forum Nová Karolina shopping centre. As at the end of 2018, the total number of properties in the portfolio of ČS nemovitostní fond grew to 16 commercial buildings, of which 9 were in the Czech Republic, 4 in Slovakia, and 3 in Poland.

The performance of ČS nemovitostní fond in 2018 reached 3.4%. From the financial point of view, the portfolio of ČS nemovitostní fond is sound, most properties are leased from more than 90%, and it is secured by regular rental income. The current values of the buildings in Fund's portfolio are stable, with major potential for long-term growth.

The 2018 financial indicators of the REICO investment company reflect the continued favourable developments on the real estate market and great interest of investors in ČS nemovitostní fond. Consequently, the Investment company managed a greater volume of funds in 2018 than in previous years, attaining a profit of CZK 88 mil.

REICO investiční společnost České spořitelny, a.s.	2018	2017	2016	2015	2014
Share capital (CZK million)	25	25	25	25	25
Equity (CZK million)	156	158	143	112	72
Total assets (CZK million)	197	185	175	127	80
Net profit (CZK million)	88	79	66	41	26
Volume of managed assets (CZK billion)	21.6	17.2	13.1	8.2	6.5
Average headcount *	15	14	12	10	10

* including ČS nemovitostní fond employees

Correspondence address:
Antala Staška 2027/79, 140 00 Prague 4
Telephone: 956 786 511

Internet: www.reico.cz
E-mail: nemofond@reicofunds.cz

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.

A) 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
Loans and advances to customers	**S=M+N+O+P**	**Consolidated statement of financial position**
Deposits from customers	**T=Q+R**	**Consolidated statement of financial position**
Loans and advances to customers/deposits from customers	**U=S/T**	**Consolidated statement of financial position**

The purpose of the Alternative Performance Indicators

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

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

Operating Result
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.

B) 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 of 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 Crown 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) to the average monthly volume of equity attributable to the owners of the parent (internal figure for 13 periods – calculates with balances as of 1 January of the corresponding year and the last days of all months of the corresponding year).

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 of 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 profit or loss, Financial assets available for sale, Financial assets held to maturity, Financial assets at fair value through other comprehensive income, Financial assets at amortised costs, Loans and receivables to credit institutions, Loans and receivables to customers, Finance lease receivables to customers, Investments in associates and Investment properties.

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 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.

Ratio of Loss Allowances and Collateral to NPL Coverage
This indicator shows the volume of loss allowances and collateral relative to risk loans. It is used as one of the basic indicators for the monitoring of the credit risk coverage. The indicator is calculated as a ratio of consolidated impairment loss allowances for loans and advances to customers and consolidated volume of eligible collateral received for loans and advances to defaulted customers to consolidated gross loans and advances to defaulted customers.

C) Alternative Performance Indicators according to Appendix 14 to Regulation No. 163/2014 Coll.:

ROAA
The ROAA indicator shows how efficient a Bank's management is at using its assets to generate earnings. It is based on FIS reports (ČNB) 20–12 Profit and Loss Statement and FIS (ČNB) 10–12 Balance Sheet and Off-Balance Sheet for Česká spořitelna. Reported figures are part of the Obligatory information of Česká spořitelna, a.s. as of 31 December 2018 according to Regulation No. 163/2014 Coll.,

which is available on the Bank's website, in the section "Downloads" and subsection "Obligatory information in compliance with the ČNB Regulation". It is calculated as a ratio of Profit or Loss in the current year after tax to the average monthly volume of total assets (internal figure for 13 periods – calculates with balances as of 1 January of the current year and the last days of all months of the current year).

ROAE
The ROAE indicator measures the efficiency equity utilization and its final value expresses the share of the net profit attributed to one Czech Crown of the equity. It is based on FIS reports (ČNB) 20–12 Profit and Loss Statement and COS (ČNB) 10-04 Capital and Risk Exposures for Česká spořitelna. Reported figures are part of the Obligatory information of Česká spořitelna, a.s. as of 31 December 2018 according to Regulation No. 163/2014 Coll., which is available on the Bank's website, in the section „Downloads" and subsection „Obligatory information in compliance with the ČNB Regulation". It is calculated as the ratio of Profit or Loss in the current year after tax to the average monthly volume of Tier 1 (T1) capital (internal figure for 13 periods – calculates with balances as of 1 January of the current year and the last days of all months of the current year).

Assets per Employee
The Assets per Employee indicator is based on FIS reports (ČNB) 10–12 Balance Sheet and Off-Balance Sheet and E (ČNB) 5–04 Report on the organisational structure and qualified interests of the bank/PZB (Headcount of Reporting Entity - DIS60_04) for Česká spořitelna. It is calculated as a ratio of the average monthly volume of Total Assets (internal figure for 13 periods – calculates with balances as of 1 January of the current year and the last days of all months of the current year) to the Registered Headcount.

Administrative Costs per Employee
The Administrative Costs per Employee indicator is based on FIS reports (ČNB) 20–12 Profit and Loss Statement (reported figure is part of the Obligatory information of Česká spořitelna, a.s. as of 31 December 2018 according to Regulation No. 163/2014 Coll., which is available on the Bank's website, in the section „Downloads" and subsection „Obligatory information in compliance with the ČNB Regulation") and E (ČNB) 5–04 Report on the organisational structure and qualified interests of the bank/PZB (Headcount of Reporting Entity - DIS60_04) for Česká spořitelna (internal figure). It is calculated as a ratio of Administrative Costs to the Registered Headcount.

Gains per Employee
The Gains per Employee indicator is based on FIS reports FIS (ČNB) 20–12 Profit and Loss Statement (reported figure is part of the Obligatory information of Česká spořitelna, a.s. as of 31 December 2018 according to Regulation No. 163/2014 Coll., which is available on the Bank's website, in the section „Downloads" and subsection „Obligatory information in compliance with the ČNB Regulation") and E (ČNB) 5–04 Report on the organisational structure and qualified interests of the bank/PZB (Headcount of Reporting Entity - DIS60_04) for Česká spořitelna. It is calculated as a ratio of Profit or Loss in the current year after tax to the Registered Headcount.

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

Annual Report 2018

Published on internet: http://www.csas.cz/vzen_2018

Production: Omega Design, s.r.o.

Material for the Public