CONSOLIDATED ANNUAL REPORT

2019

RŮST. SPOLEČNĚ. | J&T BANKA

PRESENTATION PART

CORPORATE GOVERNANCE AND DATA ON THE ISSUER

FINANCIAL PART

SELECTED FINANCIAL INDICATORS

Selected financial indicators – individual

in millions of CZK	2019	2018	2017	2016	2015	2014
Annual figures						
Profit before tax	3,619	1,919	1,855	1,854	1,963	1,575
Tax	(740)	(385)	(359)	(302)	(230)	(332)
Profit for the year	2,879	1,534	1,496	1,552	1,733	1,243
Balance at year-end						
Equity	19,991	18,606	18,998	18,943	16,799	14,376
Deposits and loans from banks	4,492	3,048	22,009	3,338	4,343	4,537
Deposits from customers	107,549	112,936	84,484	93,833	117,058	100,356
Due from financial institutions	57,674	53,734	46,670	21,105	33,661	6,295
Loans and advances to customers	62,959	66,966	63,785	69,714	70,042	66,311
Total assets	141,889	143,766	134,940	123,554	146,990	126,041
Financial ratios						
Return on Equity	14.92%	8.16%	7.89%	8.68%	11.12%	9.11%
Return on Assets	2.02%	1.10%	1.16%	1.15%	1.27%	1.08%
Capital adequacy	18.28%	17.26%	18.45%	17.75%	15.83%	14.54%
Operating expenses/operating income	42.90%	42.21%	43.26%	39.75%	39.08%	46.14%
Average number of employees	529	485	468	454	443	434
Assets per employee	268	296	288	272	332	290
Administrative expenses per employee	(4.2)	(4.2)	(3.7)	(3.6)	(3.7)	(3.7)
Profit after tax per employee	5.4	3.2	3.2	3.4	3.9	2.9

Selected financial indicators – consolidated

in millions of CZK	2019	2018	2017	2016	2015	2014
Annual figures						
Profit before tax	3,978	2,538	2,617	1,360	2,186	1,383
Tax	(822)	(462)	(421)	(407)	(310)	(381)
Share of profit of equity-accounted investees	(1)	–	(17)	(50)	167	340
Profit from continuing operations	3,156	2,076	2,196	953	1,876	1,342
Profit from discontinued operations	–	–	–	–	–	–
Profit for the year	3,156	2,076	2,196	953	1,876	1,342
Balance at year-end						
Equity	21,514	19,230	19,476	19,128	16,945	15,343
Deposits and loans from banks	4,838	2,250	21,923	3,174	4,259	4,616
Deposits from customers	114,551	118,999	91,704	103,053	121,812	106,946
Due from financial institutions	57,687	54,115	47,757	23,423	34,379	7,164
Loans and advances to customers	68,320	71,528	69,109	76,139	74,668	71,170
Total assets	151,722	150,104	142,996	133,114	154,851	133,801
Financial ratios						
Return on Equity	15.49%	10.73%	11.38%	5.28%	11.62%	9.13%
Return on Assets	2.09%	1.42%	1.59%	0.66%	1.30%	1.10%
Capital adequacy	16.48%	15.31%	15.98%	15.88%	13.91%	13.44%
Operating expenses/operating income	47.29%	45.16%	40.84%	47.83%	44.65%	57.58%
Average number of employees	813	719	728	717	689	688
Assets per employee	187	209	196	186	225	194
Administrative expenses per employee	(3)	(4)	(3.0)	(3.0)	(3.1)	(2.8)
Profit after tax per employee	3.9	2.9	3.0	1.3	2.7	2.0

FOREWORD

Štěpán Ašer, MBA

Dear clients, business partners and friends,

It is our long-term mission to help successful people protect and appreciate their assets, finance their business activities and work with them to create attractive investment opportunities. I am highly pleased that we managed to fulfil this mission last year as well. I would like to thank you for the trust and long-term partnerships that connect us and let us grow together.

2019 was a record year for us in terms of numbers. We reached our historically highest profit of CZK 2.88 billion. We were also aided in achieving the record results by market developments. The growth of the Czech crown's interest rate was reflected in the increase in interest margin, and net interest income thus reached CZK 3.61 billion. Excess pressure of liquidity and investment capital on the market has manifested itself in the demand for bonds, bringing the Bank fee income for bond placement. Net fee and commission income thus exceeded the limit of CZK 1.13 billion.

Our flagship investment products - J&T MONEY CZK and J&T BOND CZK funds placed first in the Fincentrum & Swiss Life Select "2019 Investment of the Year" professional contest. Last year, we expanded the offer of funds to include two new dividend funds, J&T DIVIDEND and J&T RENTIER. The volume of assets in funds for small investors and funds for qualified investors under the administration of J&T INVESTIČNÍ SPOLEČNOST, a.s. grew year-on-year by CZK 0.85 billion. In total, CZK 28.56 billion were under administration.

We kept our position as the largest arranger of corporate bonds issues in the Czech Republic and Slovakia. We launched a total of 17 bond emissions in a total volume of CZK 28.8 billion on the market. As a co-arranger, we participated in last year's largest bond emission (SAZKA GROUP, a.s., a total volume of CZK 5 billion), when we placed bonds of over CZK 2.5 billion among our clients.

Noblesse Oblige. The French expression reminding us that with status comes responsibility has always been part of our business philosophy. Last year, we again devoted a part of the achieved profits to the support of the arts, sports and people in need. Prominent international sport events in women's tennis, horse show-jumping and also in beach volleyball could be held thanks to our support. Czech rugby, a sport we share many values with, also received support through a general partnership.

Apart from sports, we provide long-term support to culture, especially music and the fine arts. Thanks to our partnership, the Czech Philharmonic Orchestra can now aspire to become one of the best music orchestras in the world. We continue our partnership with the Jindřich Chalupecký Award and Oskar Čepan Award, major awards granted to contemporary young Czech and Slovak artists, as art needs to develop, and talents need to be recognised from a young age. We also helped arrange many a cultural event for art lovers through our partnership with Galerie Rudolfinum (Rudolfinum Gallery).

It is fair to admit that despite excellent financial results, we did not manage to achieve everything that we had strategically set out to achieve at the start of the year. We planned to finance many more interesting projects using loans. Likewise, we did not manage to expand our offer of investment products to include private equity funds. We still have work to do in the field of process digitisation and in the development of investment advisory services. Working on these two tasks thus remains a priority for this year as well.

At the time when this text is being prepared, the Czech Republic and Slovakia, as well as a large part of other countries, are in quarantine. The objective of the measures being introduced is to keep the number of people infected by the new coronavirus within manageable limits for the health care system, and thus protect human lives. We are also helping in this fight, as we are participating in securing medical devices and equipment for the Czech Republic and Slovakia financially and in terms of organisation.

I have no doubt that our country and the world will tackle and defeat the pandemic and that we will get COVID-19 under control. Similarly, I do not doubt that we will manage to overcome the economic shock caused by the necessary measures that individual countries had to introduce to contain this pandemic. Already today, it is clear that a difficult period and great challenges lie ahead of us. I firmly believe that we are well prepared for them and that together, we will handle them successfully.

More than ever, I would like to wish all of us especially health, and successful management of economic fluctuations. As always, we are prepared to provide you with support and security at this uncertain time.

Štěpán Ašer, MBA
Chief Executive Officer of J & T BANKA, a. s.

2019

BROUGHT RECORD

RESULTS

REPORT OF THE BOARD OF DIRECTORS

FINANCIAL RESULTS – THE BANK

The year 2019 was a record-breaking year in terms of profits for J&T Banka, one of the most important private banks active on the Czech and Slovak markets. Not only did the Bank confirm its ability to maintain the level of profitability from the previous periods, but it also generated the highest net profit after tax in its history, which equalled CZK 2.88 billion (2018: CZK 1.53 billion).

In connection with the previous periods in 2019 of dynamic growth in the balance sum due to the decreasing interest margins and increasing regulatory requirements, the Bank's strategy was to focus on stabilisation and optimisation of the structure of assets and liabilities in order to focus on transactions with an appropriate risk profile and return. At the end of 2019, the balance sum amounted to CZK 141.89 billion, which represents a 1.3% decrease compared to the previous year (2018: CZK 143.77 billion).

In 2019, three basic factors played the main role in the development of the loan portfolio, namely the sufficient volume of financial resources, the Bank's capital amount and the ability to seek investment opportunities complying with the Bank's strict internal criteria for the quality of loans. As a result, the Bank provided more than CZK 19 billion in new loans, guarantees and potential pledges in 2019 (in gross value). Due to a higher volume of planned instalments during the year and extraordinary repayment of a part of non-performing loans as a result of their successful resolution, the total volume of receivables from clients decreased by almost 6% on a year-by-year basis. By the end of 2019, the Bank reported a loan portfolio totalling CZK 62.96 billion (2018: CZK 66.97 billion). The share of non-performing exposures in the total loan portfolio (gross) decreased from 9.1% in 2018 to 5.27% on a year-by-year basis. The Bank considers the long-term lowering of credit quality rating to be one of its strategic goals.

In accordance with the development of the loan portfolio, the Bank optimised the deposit base in terms of volume, product structure and tenor in order to maintain stable values of the Loan-To-Deposit ratio as well as compliance with regulatory and internal requirements on sufficient liquidity cushion. Compared to the previous period, there was only a slight change in the Loan-To-Deposit ratio, decreasing from 59.3% to 58.5%.

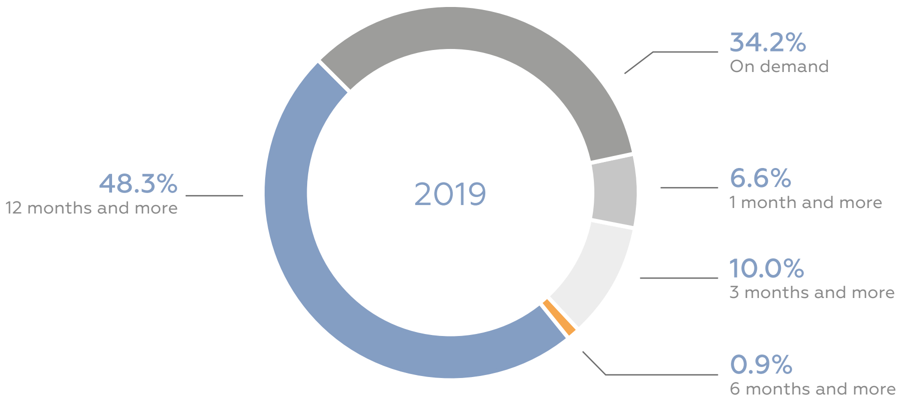
The total volume of deposits from clients was CZK 107.55 billion, which represents a year-by-year decrease of 4.8% (2018: CZK 112.94 billion). More than 70% of the total volume of deposits from clients are deposits in fixed-term accounts, which remain the main source of financing of the Bank's active transactions; approximately 50% of the deposits are long-term deposits with a period of maturity of 1 year and more. The total number of active deposit clients increased to 62,648 (2018: 62,086); natural persons continue to be the key segment, with a share of 64% in the total volume of fixed-term deposits.

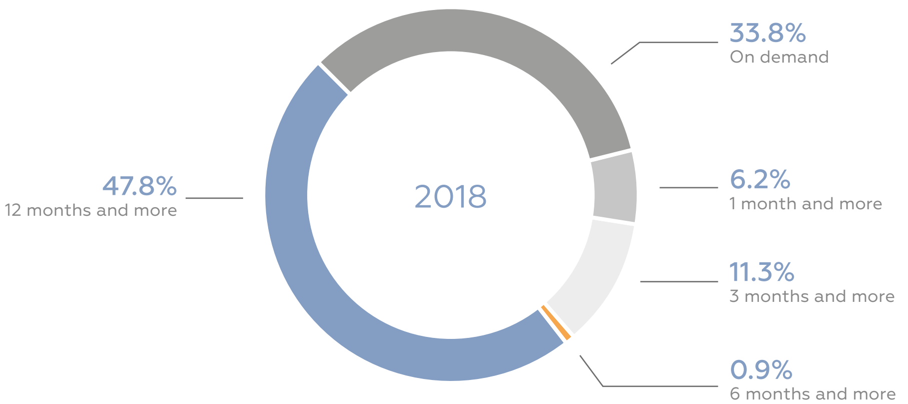
The Bank allocated the available funds to the receivables from clients and receivables from banks, which favourably affected the interest revenue. The volume of receivables from the central bank, banks and other financial institutions together with available funds reached CZK 59.39 billion (in 2018: CZK 57.10 billion).

The volume of financial assets held for trading decreased to CZK 2.32 billion (2018: CZK 4.39 billion); on the other hand, the share of financial assets revaluated to profit and loss in the portfolio of securities increased by almost 25% on a year-by-year basis, reaching CZK 7.58 billion (2018: CZK 6.07 billion). The volume of financial assets revaluated to other comprehensive income did not change on a year-by-year basis and remained at approximately CZK 3 billion.

The Bank's equity capital amounted to CZK 19.99 billion at the end of 2019 (in 2018: CZK 18.61 billion), where the year-by-year increase was primarily driven by higher profits of the current year. In 2019, the Bank paid a dividend in the amount of CZK 1.29 billion to its parent company J&T FINANCE GROUP SE, which represents

STRUCTURE OF DEPOSITS





less than 85% of the net profit for 2018. The Bank is sufficiently equipped with capital in the long term, meets all limits set by the Czech National Bank and has an adequate capital reserve for the planned development also for the following years. The capital adequacy ratio reached 18.28% (in 2018: 17.26%).

Operating profit before establishing adjustments, reserves and taxation increased by 11.2% to CZK 3.18 billion (2018: CZK 2.86 billion) on a year-by-year basis as a result of an increase in the net interest revenue, the continued trend in provision of investment banking services and the related fee income, together with a favourable result from trading.

The net interest revenue increased to CZK 3.61 billion (2018: CZK 3.36 billion). Despite the year-by-year decrease in fixed-term deposits, the Bank recorded an increase of 21.9% in interest costs, which equals to CZK 0.25 billion in absolute terms. This fact was dominantly affected by the dynamic increase in the deposit base in the previous year, which the Bank stabilised in accordance with its liquidity management strategy and needs. In connection with the adjustment of the basic interest rate, the CNB increased the accrual of interest in fixed-term client deposits, as attractive interest rates on deposit products remain one of the business goals in the long term. However, the Bank strives to offer its clients a favourable return not only on bank deposits, but also on a wide range of alternative investment products.

At the same time, interest revenues increased by 11.03% on a year-by-year basis, which corresponds to CZK 0.50 billion. Their positive development was influenced primarily by two basic factors. The average volume of commercial loans provided to clients in 2019 was comparable with the previous year, which provided the Bank with a stable volume base of revenue assets. At the same time, it was possible to fully compensate the decrease in interest rates on loans due to the increase in the CNB reference rates.

In the long term, the net profit from fees represents a stable component in the structure of the Bank's operating revenues. Following the extraordinary result of 2018, the Bank managed to maintain this positive result in 2019 and confirm the success of the strategy of investment banking services. The net profit from fees in the amount of CZK 1.13 billion means that the Bank exceeded the billion threshold for the second time in its history (2018: CZK 1.35 billion); the introduction of new bond issues to the market played a significant role. In 2019, the Bank placed corporate bonds in the total amount of CZK 28.8 billion and provided services in the area of securities management and client investment management. The volume of assets in funds for small investors and funds for qualified investors under the administration of J&T INVESTIČNÍ SPOLEČNOST, a.s. increased year-on-year by CZK 0.85 billion.

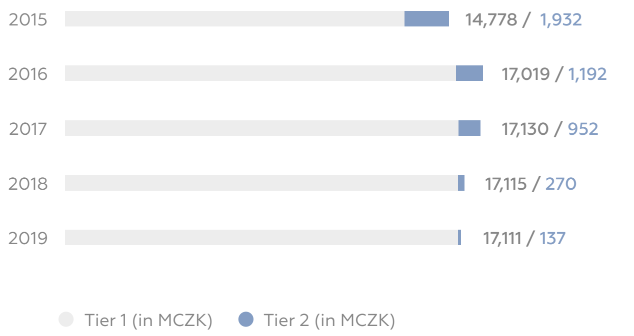
Dividend income received from subsidiaries equalled CZK 0.23 billion in 2019 (2018: CZK 0.27 billion).

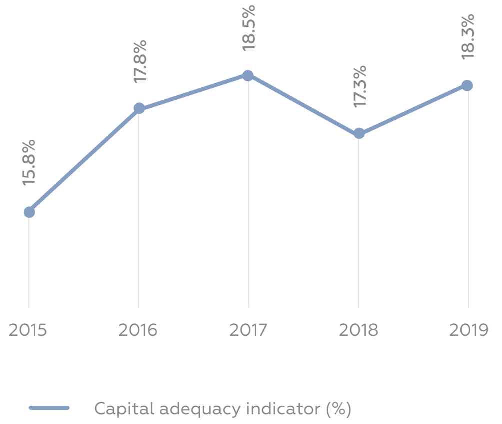
The net profit from trading with amount of CZK 0.59 billion (2018: loss of CZK 0.1 billion) had the fastest growing trend in 2019 within profit and loss items. This result was substantially affected both by the revenues from trading in securities, mainly from revaluation of participation certificates and revenues from the sale of securities, and from trading on currency and interest markets, including derivative transactions.

The Bank's operating costs in the total amount of CZK 2.39 billion increased by 14.4% compared to the previous year (2018: CZK 2.09 billion). As in the previous year, the ratio of operating costs to operating revenues did not exceed 43%. The year-by-year operating costs per employee increased slightly, to CZK 4.5 million (2018: CZK 4.2 million).

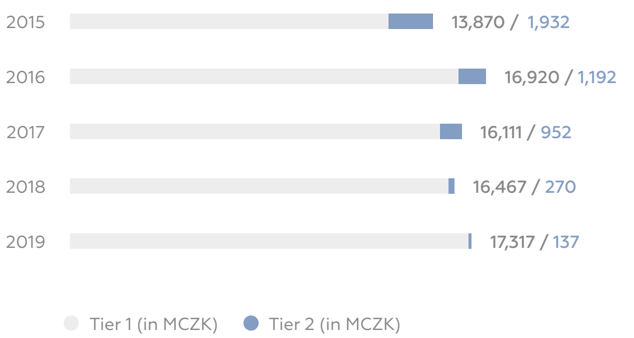
Successful resolution and repayment of part of the portfolio, in particular the non-performing loans for which the Bank created allowances for impairment in the previous years, resulted in their release, in the amount of CZK 0.76 billion reflected in the Bank's results. In the year 2018, the Bank created allowances for impairment of the loan portfolio in the amount of CZK 0.57 billion.

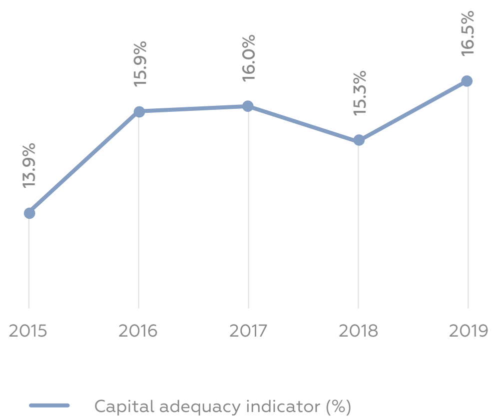
REGULATORY CAPITAL AND CAPITAL ADEQUACY
INDIVIDUAL DATA





REGULATORY CAPITAL AND CAPITAL ADEQUACY
CONSOLIDATED DATA





FINANCIAL RESULTS – THE GROUP

The Bank's assets in the Group's balance comprise almost 95% of the total balance sum and, therefore, the results of the Group are directly influenced by the Bank's economic management. The Group's net profit after tax for 2019 in the amount of CZK 3.16 billion is historically the highest result. Compared to the previous year, the Group's net profit after tax increased by more than CZK 1 billion. The Group concluded the year with a balance sum of CZK 151.72 billion (2018: CZK 150.10 billion).

The development of the loan portfolio recorded a year-by-year decrease of CZK 3.21 billion to a total of CZK 68.32 billion (2018: CZK 71.53 billion); at the same time, the volume of client deposits decreased by CZK 4.45 billion compared to the previous year, to the resulting CZK 114.55 billion. However, despite the decrease in the volume of deposits, the total number of the Group's deposit clients stabilised, equalling 67,289 at the end of 2019. Since the trend in the development of client receivables and liabilities was the same, there was only a minor year-by-year change in the key Loan-to-Deposit Ratio, which decreased just under 60%.

The Group's equity capital recorded a year-by-year growth, reaching CZK 21.51 billion at the end of 2019. The profit of the current year, which is part of the equity capital, contributed substantially to this growth. The sufficient capital amount will enable the Group to grow and develop also in the coming years. The capital adequacy ratio on a consolidated basis was 16.48% at the end of the year.

The dominant component of the Group's operating profit consists of net interest revenues and net profit from fees and commissions. Despite the year-by-year decrease in client deposits, the Bank recorded an increase in interest costs by 19.4%, which equals to CZK 0.26 billion in absolute terms. Yet, the volume of interest revenues increased by CZK 0.42 billion, which resulted in an 8.1% increase in the interest revenue.

The revenues from fees and commissions reflected the impact of the Bank's activities in the area of issuing corporate bonds and sale of other investment products. To a large degree, the Group managed to repeat the successful result in 2018, when the profit from fees increased by almost 40%. The net profit from fees reached CZK 1.40 billion in 2019.

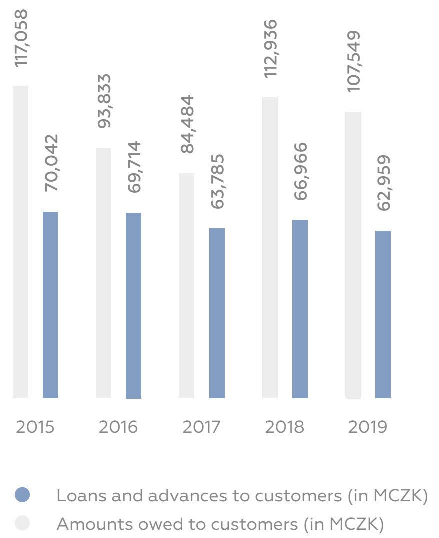
Net profit from trading, which amounted to CZK 0.66 billion in 2019 (2018: CZK 0.19 billion) had a significant impact on the increase of the operating profit. Its development on a consolidated level in each year reflects the development of exchange rates of the Czech crown vis-à-vis RUB, USD and EUR, revaluation of securities, as well as profit from trading with securities.

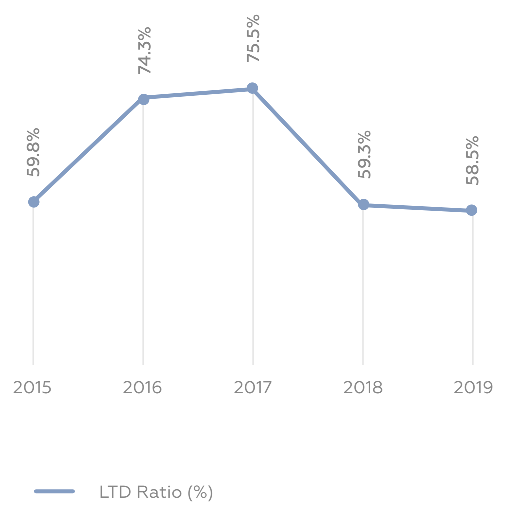
In 2019, the operating costs increased by 12.7%, reaching total amount of CZK 2.99 billion, especially due to the increase in personnel costs. The net change in allowances for impairment of financial assets represents a revenue of CZK 0.62 billion (2018: cost of CZK 0.68 billion).

FINANCIAL MARKETS

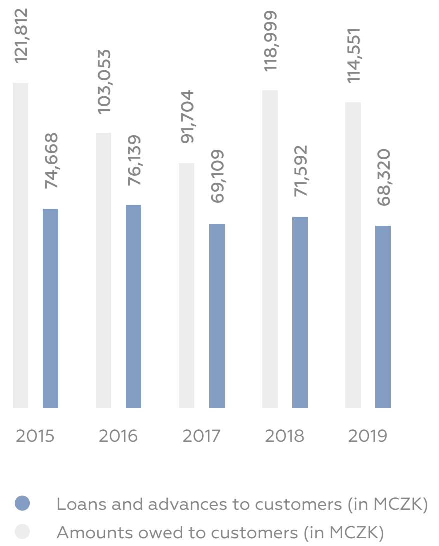
The Financial Markets Division celebrated many successes and record-breaking achievements in the year 2019. In the spring, the Bank presented 2 new funds from the J&T family in the area of collective investment – J&T RENTIER FUND and J&T DIVIDEND FUND. During their first nine months, these funds managed to obtain assets exceeding CZK 0.28 billion. Both new funds extend the possibilities of investing in shares – J&T RENTIER FUND is more conservative, its portfolio consists of corporate bonds and shares in a 50:50 ratio. J&T DIVIDEND FUND then offers a pure stock portfolio focused primarily on stable titles with a high dividend. Both funds allow for

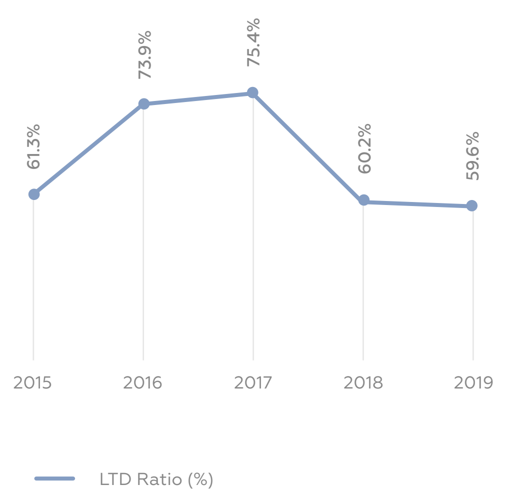
CLIENT DEPOSITS AND LOANS
INDIVIDUAL DATA





CLIENT DEPOSITS AND LOANS
CONSOLIDATED DATA





investments in Czech crowns and in euros and, at the same time, provide the client with a choice between a growth and dividend share.

As in previous years, in 2019, the Bank received two prestigious awards from the Fincentrum & Swiss Life Select – Investment of the year 2019. In the Mixed Fund 2019 category, J&T MONEY CZK defended successfully its 1st place, followed by our J&T BOND CZK, which placed 2nd.

The year 2019 confirmed the Bank's strong position in the area of corporate bonds issues across various sectors. Let us name, for example, the issue for the company Aquila Real Asset Finance a.s., focusing on projects in the area of renewable energy and real estate, Eurovea Byty (another part of the successful Bratislava project), the real estate developer NATLAND and the increasingly popular online grocery store Rohlík. At the end of the year, the Bank was able to obtain a mandate to issue bonds of the BigBoard company, which is concerned primarily with outdoor advertising; the issue itself will probably take place in 2020.

The Bank considers it a great success that, as the co-ordinator and co-manager of the issue, it participated in the placement of bonds of SAZKA Group a.s. The purpose of the issue was to obtain funds to increase the issuer's share in OPAP, the Greek leading lottery. The total volume of the bonds issued equalled CZK 6 billion. Together with SAZKA Group a.s., the Bank also participated as a co-manager in the placement of their Eurobonds on the London Stock Exchange.

During the year, the Bank placed 17 issues in the total volume of CZK 28.8 billion.

The Bank's share of the total transactions carried out at the Prague Stock Exchange increased significantly, reaching almost 14% (compared to 7% in 2015 and 10.6% in 2018).

The Bank has substantially improved its multi-currency cashpooling – a service where clients use effective management of their cash accounts balances, including securing their currency position, without the need to close any complex derivative transactions. The Bank newly provides cashpooling to all accounts in its business system and, when calculating fees, the Bank began to take into account not only the current balances of client accounts, but also the current differences in the market interest on individual currencies. This change better reflects the market conditions on financial markets, contributes to a better comfort in trading and a greater flexibility in the choice of investment opportunities. By doing so, the Bank optimises the client's costs of the portfolio's currency hedging.

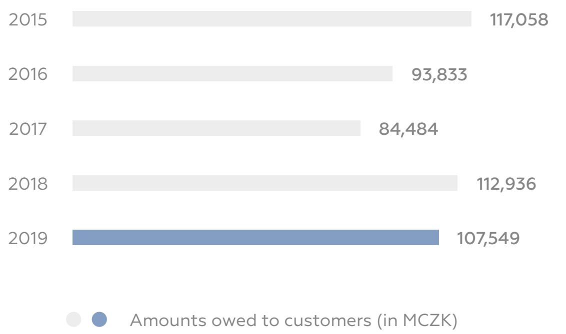
INFORMATION TECHNOLOGIES

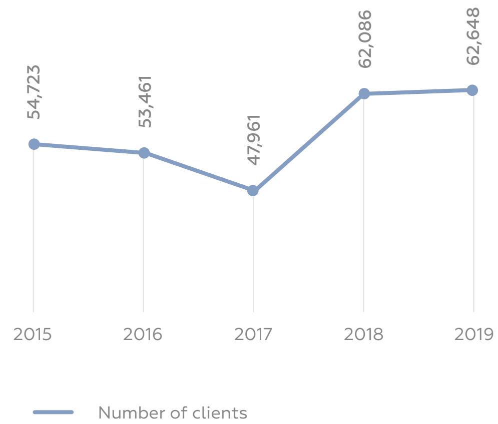
In 2019, the activities in the area of information systems and technologies were aimed at improving the quality and extending the services offered to clients, compliance with legislative and regulatory requirements and ensuring availability and security of the information technologies.

Infrastructure

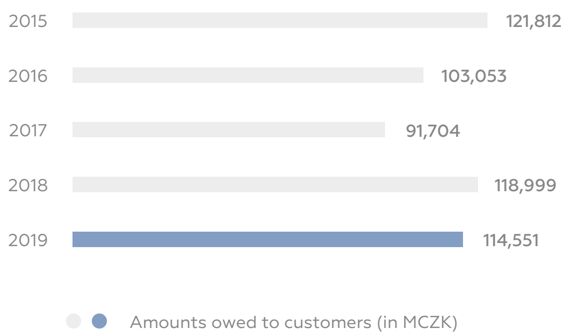
The ICT infrastructure is located in the Czech Republic in the Bank's own two geographically separated data centres (hereinafter also the "DC"). These are constructed using redundant components in the power supply, cooling systems and the ICT components themselves. The ICT infrastructure and information systems are administered by the Bank's employees. Moreover, support of suppliers for all important systems is guaranteed by virtue of the respective service contracts. Outside the usual working time, the IT teams provide a continuous support of the ICT infrastructure and information systems in the form of an on-call service. The information systems are subject to regular audits in terms of operation and safety. Data centres and ICT facilities operat-

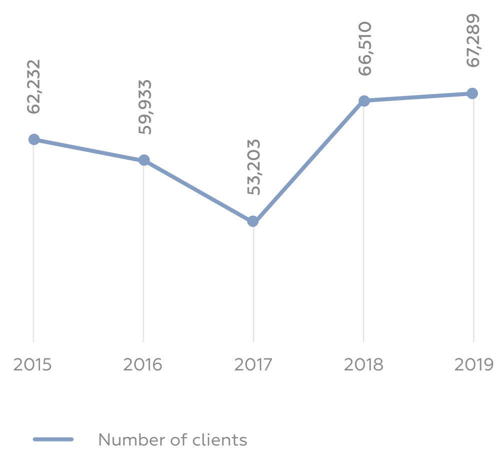
CLIENT DEPOSITS AND NUMBER OF CLIENTS
INDIVIDUAL DATA





CLIENT DEPOSITS AND NUMBER OF CLIENTS
CONSOLIDATED DATA





ed there are monitored by several independent systems. In 2019, several power supplies from the distribution network were interrupted and some of the ICT components were replaced during the operation. There were no failures of the ICT technology and 100% availability of the DC was ensured.

In 2019, the comprehensive design of the DC construction at the Bank's new headquarters was under way, as well as extension of the second DC. After completion in 2020, both DCs will have two separate rooms, fully redundant power supply and cooling in the 1+1 regime, as well as new comprehensive monitoring. This will increase the availability and security of the Bank's processes and the data being processed.

Banking and Trading Systems

In 2019, the Bank completed the transition to a new ERP system in part of the operational accounting, which should make the internal process of circulation and approval of documents more efficient and transparent.

The Bank also implemented new manner of reporting the RIAD information to the CNB and NBS, thus fulfilling its statutory duty in relation to the AnaCredit (Analytical Credit Datasets) project.

In 2019, the Bank continued to implement PSD2 according to the latest specifications of COBS 3.0. and commenced the preparation of the project which aims at implementing immediate (instant) payments.

The Bank implemented a system for processing loan applications and records of loans (Loan Origination System), the workflow of which meets all regulatory requirements. The system increases the effectiveness of the approval process by using a mobile application.

In 2019, the Bank implemented a short-term liquidity management system for the Departments of Financial Markets and Treasury, which reduces the risk of errors and increases the effectiveness of the performed operations due to the high degree of automation of routine operations.

Within the development of the new concept of external sales, the Bank provides our sales partners with external API for access to services and data.

In 2019, architecture optimisation and interconnection of information systems were also implemented using the Integration platform, which brings uniform communication and promotes the correct architectural approach.

Development in the Bank is ensured by internal departments and in co-operation with selected external suppliers.

IT Security

The Security Department (hereinafter also the "SD") integrates both supervisory and forensic activities in the area of IT security. The standards defined and put into force by SD fully reflect the current threats and, thanks to the development strategy, prepare IT support in the area of cyber security for new threats. SD performs these activities both through its own resources and with the assistance of its contractual partners; SD supervises the activities of its contractual partners with a view to providing a comprehensive protection for the entire IT environment of the Bank, or the Group.

HUMAN RESOURCES

The Bank realises that every employee is a key corporate asset and that development in the field of human resources is necessary to maintain the high standard of services to clients. Therefore, the Bank continues to support learning and keep employees motivated.

The present management, including human resources management, focuses not only on work performance but also on an appropriate work-life balance. The Bank invests in the development of an internal learning system focused in particular on financial thinking and soft skills. For internal learning, the Bank uses the expertise of its internal staff to the maximum extent possible and focuses on a mutual exchange of experience and knowledge across the Bank's departments.

The Bank is also open to young talents. It co-operates with universities and its experts take part in university lectures. It continuously supports the Trainee programme for students and graduates of higher-education institutions focusing on the financial sector, and in the future, the Bank also plans to support the area of IT/IS. This programme has been enjoying an ever-growing interest.

When electing members of the Supervisory Board and the Board of Directors and when filling management positions and positions in the Committees of the Bank, the Bank does not apply a diversity policy in terms of age, gender or education. The aspects that are taken into account for all positions are, in particular, professional experience and qualification of the prospective members and employees. The Bank does not have any diversity policy set forth by an internal standard, it does not have any policy objectives or prescribed quotas in place. However, it ensures equal treatment and equal opportunities for all its employees. The Bank had a total of 558 employees (working at its Prague headquarters and in the Slovak branch) at the end of the year.

PARTNER OF THE FINE ARTS, MUSIC AND SPORTS

In the area of art, the Bank maintained its partnership with the Rudolfinum Gallery, one of the most important gallery institutions of fine arts in the Czech Republic, which was reflected primarily in the Bank-supported exhibition of the American artist Arthur Jafa. In the course of the year, the gallery presented new possibilities of spatial depiction of figures in contemporary art via the A COOL BREEZE exhibition, and did so by exhibiting a set of works by seventeen international artists. The gallery marked the end of the year by housing the Paper Tower exhibition by Daniel Pitín, a Czech artist, who is one of the leading personages of his generation, possessing an extraordinary painting talent.

In Slovakia, the Bank continued its general partnership with the Slovak Design Center (SDC), which, in addition to making the area of design accessible to the public, organises the prestigious National Design Award. The National Design Award is the most prestigious design award in Slovakia. The most important long-term project of our co-operation with the SDC, which culminated in 2019, was the completion and subsequent presentation of the model of the Slovak design masterpiece – Tatra 603 X Coupé sports car.

In the Czech Republic, the Bank has been, as usual, the partner of the Jindřich Chalupecký Award, the most prominent award granted to contemporary young Czech artists. Andreas Gajdošík became a laureate in 2019 and entered the competition with a virtual project openly criticising the current political and social situation. The Bank also supported young artists in Slovakia, where the Bank continue to be a partner of the Oskár Čepan Award.

We continued our co-operation with the ART+ project aimed at observing the developments in the Czech art market, and we updated the J&T Banka Art Index, a ranking of the top one hundred most prominent Czech artists born after 1950. Potential collectors and investors considering acquisition of contemporary art works were thus again able to get oriented in the contemporary artistic scene and get acquainted with the artists who made it into the top hundred.

A showcase of the contemporary art in the J&T BANKA ART INDEX POP-UP was also linked to the ranking. It was the largest exhibition of contemporary artists, introducing 36 artists with more than 90 works. Therefore, the visitors of the exhibition had the opportunity to get acquainted, free of charge, with the best pieces that were created in the contemporary Czech art, as well as buy the exhibited works if they were interested in them. In view of the great success of the exhibition with both the professional and general public, the Bank laid the foundations of a Czech biennial that could be established also in the Czech Republic following the footsteps of the famous biennials abroad.

The short film Dolls by the director Jakub Gulyás won the first year of the ASVOFF (A Shaded View on Fashion Film), where the Bank was the general partner. The jury appreciated, in particular, the distinctive style of the artistic depiction of fashion.

In addition to popular recitals, the partnership with the violin prodigy Josef Špaček also resulted in a unique music album, gifted not only to the Bank's clients in the form of vinyl discs. Long-term support of and co-operation with the Czech Philharmonic Orchestra continued. The members of the Philharmonic Orchestra are given not only the possibility to play the top-level violoncello purchased by the Bank and immediately lent to the Czech Philharmonic Orchestra, but also the opportunity to strive to reach the top ten orchestras in the world.

In addition to classical music, the Bank has also supported jazz and other music genres for several years now. Music enthusiasts could thus meet the famous Canadian artist Laila Biali or enjoy the concert of Ondřej Štveráček accompanied by the American musician Gene Jackson. Both artists arrived in the Czech Republic to organise a private concert for the Bank's clients and friends.

In 2019, the Bank again supported the international Chorea Dance Festival. The Ballet Nacional de Cuba, Victor Ullate Ballet Madrid and Bangkok City Ballet introduced themselves to Slovakia for the first time in an open-air setting on the Dunaj riverbank.

Prague has already seen the tenth annual J&T Banka Prague Open tennis tournament, where fans could enjoy the performances of Czech stars led by Karolína Plíšková and Barbora Strýcová. The young Czech tennis player Karolína Muchová, who was the wild card of the tournament, gained the favour of the whole audience and for the first time reached the finals of a world tournament. The Bank also supports tennis in Slovakia, where it has long been a partner of Slovak women's and men's tennis national teams. The Bank also continues to support the young promising tennis player Jana Čepelová and the National Tennis Centre, which focuses on the development of young talents.

In June, horse lovers could once again attend the prestigious international horse show-jumping race, J&T Banka CSI Olomouc 2019; and they could also newly meet during the St. Leger competition held in Prague – Chuchle, at the horse races supported by the Bank. In Slovakia, the Bank supported the exclusive polo tournament Polo&Charity Slovakia Open.

Integrity, Passion, Solidarity, Discipline and Respect, those are the values honoured by rugby players around the world. Even though it is a tough sport, rugby is fair and that's why we like it. Not only the Czech Rugby Union, but also we, as their general partner, are proud to say that we share those values. With respect to our partnership and the ongoing World Championship, the Rugby Union together with the Bank launched the Maparugby.cz project, which represents all Czech rugby teams and invites the public to become acquainted with and participate in this sport.

The last novelty in the area of sports is the Bank's involvement in beach volleyball, as the general partner. Volleyball has almost a hundred-year tradition in the Czech Republic. We belong to the countries with the highest number of beach volleyball courts in Europe, and the popularity of this sport has been growing constantly. The main impulse for our partnership with J&T Banka Ostrava Beach Open was that we could witness the beginning of an international tradition and provide the fans with another great sporting experience, which has been held primarily in the countries of Western Europe, the USA or Australia so far.

OUTLOOK FOR 2020

An outlook should not mainly be about a macroeconomic view; this, however, this year, it cannot be avoided as the key factor which will affect our business activities in 2020. If we could call the economic situation in 2019 explosive due to the escalation of customs duties and economic sanctions, continued protests in France, and uncertainty around Brexit, no fitting expression exists for the current situation, when financial markets experience slumps comparable to the crisis in 2008 and all the world still has not found an effective remedy for the outbreak of the coronavirus (COVID-19). It may be said that this year, an explosion has already occurred, and for the time being, we have no idea how large the damage will be since the dust has not settled yet. We do not know how long the current restrictions will last, how extensive the negative impact will be on the economy, and whether a financial crisis will subsequently start to spread from the worst-struck states. 2020 will thus be about higher risks, a crisis of trust, but also about opportunities that always come along at times like these.

Our goals remain unchanged. The Bank remains committed to deepening its knowledge of clients and their needs, and our clients' perception of the Bank as an investment adviser, not just an intermediary into the world of interesting investments. In this context, we may realise more than ever the importance of the cornerstones our business is built on – trust and mutual knowledge arising from long-term partnership.

Although private banking is especially based on a personal and individual approach, investments in digitisation and the ability to assist clients remotely to the fullest extent and in the highest quality must not be ignored. The possibility of contracting clients fully in a couple of minutes without them needing to interact with the banker in any manner or offering them a mobile application with which they may manage most necessary operations on the way to work is no longer the privilege of retail banks today, but may be included in a basic package of services of a private bank. We are working on development projects that will enable these services to our clients. At the same time, the Bank will do its best to improve the user-friendliness of the entire digital world.

Digitisation is not just an outwardly visible trend but is also related to a change in internal procedures and processes that the Bank is going through. Last year, the Bank launched the first part of an entirely new ERP system, and this year, we are expecting its completion. The Bank will also launch a new system that will enable assisting and effectively controlling a larger than ever number of clients in the area of loan transactions, which is linked to our effort to reinforce the SME segment in the loan portfolio.

After an extended period of growth, we are expecting a decline in the demand for investments and investment products in connection with the current events in the world, and thus possible shifts in the timing of some new issues, and potentially their non-implementation. The current emissions may be impacted by the current market situation and a certain crisis of trust.

Although we can predict a certain cooling and slowing down on the transactional market, the Bank expects sufficient opportunities based on the decreased appetite of other banks caused by a general risk increase, in particular in the area of lending. It is in situations just like the current one when an individual approach and long-term partnership with clients will prove to be an advantage. We will continue to find good-quality projects that may have problems with lending. We are understandably aware of the risk, and we are monitoring and evaluating its impacts both with current clients, and even more so for new opportunities.

2020 unfortunately did not start as we had imagined. In spite of this, we are doing everything to make it a successful year for us, to fulfil our shareholders' expectations and reinforce our partnerships with clients. The Bank will change its registered office after 18 years, although it will remain loyal to Karlín. Hence, we look even more forward to a time when it will again be normal to meet clients in person and we will be able to welcome them to our new and more generous premises in Prague's Rustonka.

DECLARATION

To the best of our knowledge, this Consolidated Annual Report presents a true and fair view of business activities, financial position and the economic results of the Bank and the Group in 2019 and of the outlook of the future development of their financial position, business activities and economic results.

Patrik Tkáč
Chairman of the Board of Directors

Štěpán Ašer
Member of the Board of Directors
and Chief executive officer, J&T Banka, a.s.

CZK 3.16 billion

NET PROFIT AFTER TAX FOR 2019 REACHED RECORD HIGH, GROWING 52% YEAR-ON-YEAR

NON-FINANCIAL INFORMATION

In accordance with Section 32g (1) of Act No. 563/1991 Coll., on accounting, the Bank as a large accounting entity and a public interest entity provides, within this Consolidated Annual Report, non-financial information and information concerning diversity, supplementing financial and non-financial information set out in other chapters of this Consolidated Annual Report. The Bank, as a consolidating entity, applies values, access to working conditions and equality and other non-financial information set below even at the level of the Group. In addition to its economic interests, the Bank also defines its long-term goals in the area of sustainable development and strategies with a view to attaining them, while taking into account especially its statutory duties in defined areas as well as the values that are important for the shareholders and that the Bank strives to achieve and develop through its approach to business. These include, in particular, strategies in the area of the environment, social and employee strategies, respect for human rights and combating corruption.

PROFILE OF THE COMPANY AND ITS MARKET POSITION

The Bank is a popular private and investment bank focused on care of its clients' property and joint implementation of opportunities. The Bank's mission is to connect capital of its clients and market opportunities through appropriate products and services. The Bank's activities in the area of banking affect the financial and capital market situation in the individual countries where it operates. Its position in the individual countries regarding its market share is not significant enough to raise concerns that the potential Bank's difficulties could cause significant shocks on the market.

STAKEHOLDERS

The Bank identified individual groups of entities that affect or are affected by the Bank and/or the environment in which it operates. The Bank's clients, employees, shareholders and the regulatory authority, i.e. the Czech National Bank, are deemed to be the most important stakeholders of the Bank from this point of view. Suppliers, media and local communities are the other counterparties. The Bank strives to engage all the stakeholders in dialogue and maintain appropriate relations with them while taking into account the interests of these groups in decision-making.

The regular employee satisfaction surveys, in which the employees may participate, represent one of the tools for determining the employees' needs. The information obtained within the surveys is used by the Bank in decision-making on changes in working conditions, remuneration and other motivational tools.

ENVIRONMENTAL PROTECTION

In the area of environmental protection, the Bank considers it important to minimise the negative impacts of its own activities on the environment and, as far as possible, attempts to support projects that could lead to improvement of the environment. Within its activities, the Bank does not perform any activity that would directly result in environmental damage; nevertheless, the Bank is aware that it is an important consumer of energy and goods whose consumption may generate waste and, as a result of this activity, the Bank may create environmental impacts that the Bank is able to minimise through its own programmes and strategies. Similarly, the Bank motivates its employees to also implement measures to protect the environment in their working and private lives. Below, we provide several specific activities of the Bank in the area of environmental protection:

- financing of projects and investing in the area of renewable energy sources;
- where possible and provided that the purpose of the supply is met, the Bank shall select a local or regional supplier of goods and services;

- in 2020, the Bank will relocate to new premises that meet the strictest environmental standards in the area of heating as well as water and electricity consumption;
- long-term reduction of the volume of waste, use of recycled packaging and other materials and waste sorting;
- employees may drink water from the dispensers connected to the water mains, the use of which minimises plastic waste in the long term;
- the Bank has long minimised the number of business trips by using conference and videoconference calls, thus reducing fuel consumption.

As a result of the adopted measures, the Bank expects gradual reduction of the energy and environmental burden in the future arising in direct connection with the Group's activities. Within its investment and business strategy, the Bank will also assess, among other indicators, the environmental impact of projects and investments and their conformity with the Bank's strategy in this area. At the present time, the Bank has no information on the extent of the carbon footprint caused directly and/or indirectly by its activities.

SOCIAL AND EMPLOYEE AFFAIRS

The Bank operates only in countries where it can be expected that European standards in the area of working and social conditions and prohibition of child labour and forced labour might be expected. Therefore, the Bank evaluated the risk that the mentioned problems could also be encountered at the suppliers of goods or services as minimal. In case of a suspected violation of these standards by any business partner, the Bank would terminate its business co-operation with such partner. No violation of labour-law regulations or occupational safety rules by the Bank was recorded in 2019 and no penalty or sanction was imposed on the Bank in this respect.

In the long term, the Bank creates social and economic conditions for its employees and has in place internal procedures for determining a fair remuneration for the work performed, so that the remuneration is motivating and promoting employees' loyalty towards the Bank and the Group. For this purpose, the remuneration policy combines a fixed and a variable component ensuring employees' economic stability but, at the same time, encouraging employees to continue their personal development and self-improvement and contribute to the performance of the whole Group, while reflecting not only short-term business goals but also the strategy of sustainable development and growth. In particular, the Bank allows its employees to take one extra week of annual leave in addition to the mandatory annual leave as stipulated by law, as well as take sick days in case of their short-term unfitness to work. If this is compatible with their job position, the Bank also allows employees to work from home and use flexible working time, also encouraging its employees to work on maternal and parental leave thus enabling them to increase their income at the time when they care for their family and, at the same time, maintain the level of their expertise when on parental leave. Furthermore, the Bank supports parents in returning to their positions in the form of part-time jobs. In 2018, the Bank employed 34 part-time employees in the Czech Republic and Slovakia; in 2019, this number increased to 51 part-time employees. In 2018, 43% of employees returned from maternity and parental leave to employment in the Czech Republic and 67% in Slovakia. In 2019, the return rate was higher in the Czech Republic – 67% compared to 44% in Slovakia.

The Bank determines salaries on the basis of an analysis of employment opportunities prepared by the HR Department on the basis of externally available data, work experience and expertise of each employee, while respecting, in particular, the prohibition of any discrimination on the basis of sex, sexual orientation, race or ethnic origin, nationality, citizenship, social origin, birth, language, medical condition, age, religion or faith, property, marital and family status and relationship or obligations towards the family, political or other opinions, membership and activities in political parties or political movements.

The Bank enables its employees to increase their professional qualifications and develop their personal or managerial skills in the long term. The Bank's values are pursued primarily by individuals' own initiative; in spite of that, the Bank has a group of cross-sectional competences which are taken into account while setting individuals' development plans, i.e. as a part of the individual KPI of each employee. Improving knowledge and skills on the basis of competences results in an effective implementation of the goals of individuals and, subsequently, of the Bank and the Group as a whole.

The Bank provides its employees with support in improving of their qualifications, especially through the possibility to complete their studies related to the type of the work performed, such as CFA, ACCA, etc. This offer includes both the financial support where the Bank is prepared to pay the costs of the employee's studies as well as the temporal support where the employees are provided with the required time. The Bank promotes knowledge of foreign languages and provides the employees with the opportunity to participate in various language courses and also promotes their participation in expert conferences and seminars.

The specific activities of the Bank in the area of social and employee affairs are specified below:
- regular training of employees in the area of occupational safety and health protection, fire protection and provision of work aids and office equipment in the highest quality in an attempt to minimise or eliminate the risk of occupational disease;
- regular evaluation of the employees' satisfaction and motivation with a view to ascertaining their wishes and needs, which the Bank subsequently attempts to fulfil within the human resources management strategy;
- for several years now, the Bank has been systematically concerned with care for the health of its employees: the Bank organises "Dny zdraví" (Health Days) three times a year, when the employees can undergo individual physiotherapy, massages or professional consultations, especially in relation to the negative consequences of the sedentary job. A total of 450 employees took advantage of this opportunity in 2019;
- the Bank, its shareholders and employees have long supported the J&T Foundation, which provides support to families with children in the following areas: substitute family care, assistance in need, provision of help to the disabled and ill, hospice care. In 2019, the Bank supported such projects with the amount of CZK 10.9 million;
- the Bank defines partnership as one of its basic values. Each employee is considered to be a partner of the Bank and, in case of a personal predicament, the Bank strives to help such employee as much as possible. Such assistance is always provided on a case-by-case basis in view of the employee's current life situation – it may include financial support, maintaining the working position, reducing the working time, etc.;
- all senior employees, regular employees and members of the governing body are bound by the Bank's internal regulations defining the prohibition of discrimination and the obligation of equal treatment. The Bank employs a total of 49% of women (51% in 2018) and 51% of men (49% in 2018). No changes occurred in the Bank's management compared to 2018: the Bank employs 29% of women and 71% of men;
- in addition to their salary, the Bank provides its employees with a contribution towards relaxation, sports or a health programme, including a programme for prevention of cancer;
- the Bank supports education of its employees – it is a long-term partner of the Investor Club that co-operates with the University of Economics, the University of Finance and Administration, the CFA and newly also the Czech Technical University, by co-organising educational activities and workshops for students;
- the Bank enables students in selected fields to gain experience in banking through trainee programmes; in Slovakia, the Bank also supports national competitions for talented young people "Študentská osobnosť roka" (Student of the Year) and "Mladý inovatívny podnikateľ" (Young Innovative Entrepreneur);
- creating relaxation zones in the Bank's new headquarters, available to employees for their rest or individual training during or after the working time.

RESPECT FOR HUMAN RIGHTS

J&T FINANCE GROUP SE (JTFG) considers human rights to be one of the most important values. In addition to the fact that the Bank has always respected human rights and all legal obligations imposed on the Bank's activities in all areas of its business, the Bank also respects, throughout the Group, the restrictions following from the restrictive measures imposed by the United Nations, the EU or the U.S.A. on persons violating human rights. Neither the Bank nor any of its companies shall enter into a transaction with a person against whom international sanctions have been imposed, and to this end, the Bank defines Group rules and controls compliance therewith.

Within its activities, the Bank shall always proceed in a non-discriminatory manner vis-à-vis all customers, workers as well as other persons regardless of their sex, sexual orientation, religion, political opinion, citizenship, nationality or education.

COMBATING CORRUPTION AND BRIBERY

Within its activities, the Bank is not engaged in any corrupt or other unethical practices when promoting its interests, it always strives to comply with all its statutory duties to the maximum extent and respects the third-party interests. Some of the Bank's employees may be exposed to the risk of corrupt practices in view of their work or may be financially or otherwise incentivised by customers or third parties to carry out a transaction in accordance with the instructions of these persons. For this reason, the Bank has a strong interest in limiting the risk of such conduct that could have a significant impact on the reputation of the Group and its business interests. For this reason, the Bank does not tolerate any form of corruption or bribery and manages and mitigates the risks of a conflict of interests that harm the interests of the Bank and the Group, its clients or third parties.

In its internal regulations, the Bank defines strict rules for ethical behaviour of its employees; it motivates them to comply with the rules and adequately monitors this compliance. These rules define, in particular, the prohibition of corrupt practices, soliciting, accepting or providing bribes, as well as the rules for managing potential conflicts of interests. All employees are regularly trained in this area and the Bank defines preventive and subsequent control mechanisms with a view to detecting such conduct, where any such case is considered a serious breach of working duties in accordance with the internal regulations. Any conduct that has the potential to correspond to the elements of a criminal offence, shall be notified by the Bank to the competent prosecuting bodies.

The option to anonymously report any unfair conduct by employees and third parties, i.e. whistleblowing, constitutes the Bank's basic tool for detecting any unethical conduct or conduct at variance with internal regulations or laws. The tool is administered by the Compliance & AML Department, which is obliged to investigate each reported conduct and submit the results of the investigation to the Bank's Board of Directors with a view to adopting subsequent measures. The Bank's internal regulations guarantee protection of the whistleblower against any negative consequences of reporting unfair conduct, even if the unfair conduct is not confirmed.

In relation to corruption committed by third parties, the Bank defines, in particular, measures aimed at preventing the legalisation of the proceeds of crime and financing terrorism, including, but not limited to, procedures of client identification and control in conformity with Act No. 253/2008 Coll., on certain measures against legalising the proceeds of crime and financing terrorism, including the implementing regulations and directly effective legislative acts issued by the EU. In particular, the Bank pays increased attention to cash transactions, as they may be a potential instrument of corrupt practices, and transactions of politically exposed persons. The Bank shall notify all non-standard transactions to the competent authorities, especially to the Financial Analytical Department.

BANK'S MANAGEMENT

BOARD OF DIRECTORS

Patrik Tkáč
Board Chairman

Štěpán Ašer, MBA
Board Member

Igor Kováč
Board Member

Tomáš Klimíček
Board Member

Anna Macaláková
Board Member

PROCURATION

Milan Sležka

Alena Tkáčová

Mária Kešnerová
(appointed on 21 March 2019)

Vlastimil Nešetřil
(termination of procuration on 21 March 2019)

SUPERVISORY BOARD

Jozef Tkáč
Supervisory Board Chairman

Ivan Jakabovič
Supervisory Board Vice-Chairmam

Dušan Palcr
Supervisory Board Member

Jozef Šepetka
Supervisory Board Member

Jitka Šustová
Supervisory Board Member

Tomáš Janík
Supervisory Board Member

Patrik Tkáč

Štěpán Ašer, MBA

Igor Kováč

Anna Macaláková

Tomáš Klimíček

BOARD OF DIRECTORS

The Board of Directors is the Bank's statutory body which manages the Bank's business activities and acts in its name in a manner laid down in the Articles of Association and the Commercial Register. The Board of Directors decides all matters of the Bank unless they fall within the powers of the general meeting or the Supervisory Board under the law or the Articles of Association or resolutions of the general meeting.

The Board of Directors is elected by the Supervisory Board. The Czech National Bank reviews professional skills, credibility and experience of all members of the Board. The members of the Board elect its chairman. The general meeting decides on the remuneration of the members of the Bank's Board of Directors. Individual members of the Board are elected for five years (their re-election is possible).

The Board of Directors is responsible for the establishment of a comprehensive and appropriate management and control system and for keeping the system functional and effective. It is responsible for ensuring the setting of the Bank's overall strategy, the rules which clearly define ethical and professional principles and expected models of behaviour of employees and for the determination of human resources management standards. The Board of Directors is also responsible for ensuring the determination, observance and application of requirements for credibility, knowledge and experience of persons through which it ensures the performance of its activities and for the consistent application of proper management, administrative, accounting and other procedures by the Bank.

The Bank's Board of Directors approves and regularly assesses primarily the Bank's overall strategy, organizational structure, the risk management strategy including risks arising from the macroeconomic environment in which the Bank operates even depending on the economic cycle including principles of assuming, identifying, measuring, monitoring, reporting and limiting the occurrence or impacts of risks to which the Bank can be exposed. It approves the strategy related to capital, strategy of the information and communication system development, principles of the internal control system, including principles preventing any occurrence of a possible conflict of interests. It also approves compliance and internal audit, security principles including security principles for information and communication systems, a set of limits including the total acceptable risk rate and potential internally determined capital, liquidity and other prudential provisions or premiums which the Bank uses to mitigate risks within the risk rate acceptable for it.

The Bank's Board of Directors also approved new products, activities, systems and other matters being of significant importance for the Bank or having other potential substantial impact on it (the Board of Directors can delegate this power to a specialized committee determined by it). It approves the strategic (four-year) and periodical (annual) internal audit plan.

At 31 December 2019, the Bank's Board of Directors had 5 members:

Patrik Tkáč
Chairman of the Board

Appointed to the Board of Directors on: 3 June 1998
Term of office to: 22 July 2023

He graduated from the Faculty of National Economy of the University of Economics in Bratislava. In 1994, he obtained a broker's licence from the Slovak Ministry of Finance and in the same year he co-founded J & T Securities, s.r.o., an investment firm. He is a leading representative of the J&T Group and chairman of the Board of Directors of the J&T BANK. Patrik Tkáč is responsible for the Financial Markets Unit.

In addition, in the past five years he is or was involved in the following companies:

J&T FINANCE GROUP SE, Id. No.: 27592502, Prague 8, Pobřežní 297/14, Postal Code 186 00
Board of Directors - Vice-Chairman

Nadace J&T, Id. No.: 27162524, Prague 1, Malostranské nábřeží 563/3, Malá Strana, Postal Code 118 00
Managing Board - Member

ATLANTIK finanční trhy, a.s., Id. No.: 26218062, Prague 8, Pobřežní 297/14, Postal Code 186 00
Supervisory Board - Chairman

J&T IB and Capital Markets, a.s., Id. No.: 24766259, Prague 8, Pobřežní 297/14, Postal Code 186 00
Supervisory Board - Member

CZECH NEWS CENTER a.s., Id. No.: 2346826, Prague 7, Komunardů 1584/42, Postal Code 170 00
Supervisory Board - Chairman

J&T banka d.d., Id. No.: 675539, Aleja kralja Zvonimira 1, 42000 Varaždin, Croatia
Supervisory Board - Member

J&T Family Office, a.s., Id. No.: 3667529, Prague 1 Malá Strana, Malostranské nábřeží 563/3, Postal Code 118 00
Supervisory Board - Member

Nadace Sirius, Id. No.: 28418808, Prague 1, Všehrdova 560/2, Malá Strana, Postal Code 118 00
Founder

PBI, a.s., Id. No.: 03633527, Sokolovská 394/17, Karlín, 186 00 Prague 8
Board of Directors – Member

CZECH MEDIA INVEST, a. s., Id. No.: 24817236, Pařížská 130/26, Josefov, 110 00 Prague 1
Supervisory Board – Member

J&T Wine Holding SE, Id. No.: 06377149, Pobřežní 297/14, Karlín, 186 00 Prague 8
Board of Directors – Member

Stamina Private Equity Investments a.s., Id. No.: 03841669, Pobřežní 297/14, Karlín, 186 00 Prague 8
Supervisory Board – Member

J&T ENERGY FINANCING CZK I, a.s., Id. No.: 06433855, Pobřežní 297/14, Karlín, 186 00 Prague 8
Supervisory Board – Member

J&T ENERGY FINANCING CZK II, a.s., Id. No.: 06433901, Pobřežní 297/14, Karlín, 186 00 Prague 8
Supervisory Board – Member

J&T ENERGY FINANCING CZK III, a.s., Id. No.: 07084030, Pobřežní 297/14, Karlín, 186 00 Prague 8
Supervisory Board – Member

J&T ENERGY FINANCING CZK IV, a.s., Id. No.: 07381158, Pobřežní 297/14, Karlín, 186 00 Prague 8
Supervisory Board – Member

Bermont94, a.s., Id. No.: 07234660, Pobřežní 297/14, Karlín, 186 00 Prague 8
Supervisory Board – Member

EP Global Commerce, a.s., Id. No.: 05006350, Pařížská 130/26, Josefov, 110 00 Prague 1
Supervisory Board – Chairman

J&T INVESTMENTS SICAV, a.s., IČ: 08800693, Pobřežní 297/14, Karlín, 186 00 Prague 8
Managing Board – Member

Štěpán Ašer, MBA
Board Member and Chief Executive Officer

Appointed to the Board of Directors on: 30 May 2006
Term of office to: 2 June 2021

He graduated from the School of Business and Public Management at George Washington University in Washington, in finance and financial markets. He holds an MBA at the Rochester Institute of Technology. He has been working in finances in the Czech Republic since 1997, first as an analyst, a portfolio manager in Credit Suisse Asset management. In 1999 – 2002, he was a member of the Board of Directors of Commerz Asset Management responsible for the portfolio management and sales. In Česká spořitelna he focussed on institutional clients in the asset management. Since 2003, he has been working in J&T BANKA, a.s. He is responsible for the Trade Unit, Operations Unit and Administration Unit.

In addition, in the past five years he is or was involved in the following companies:

J&T INVESTIČNÍ SPOLEČNOST, a.s., Id. No.: 47672684, Prague 8, Pobřežní 297/14, Postal Code 186 00
Supervisory Board – Member

ATLANTIK finanční trhy, a.s., Id. No.: 26218062, Prague 8, Pobřežní 297/14, Postal Code 186 00
Board of Directors – Chairman

J&T IB and Capital Markets, a.s., Id. No.: 24766259, Prague 8, Pobřežní 297/14, Postal Code 186 00
Supervisory Board – Chairman

J&T Bank, a.o., Id. No.: 1027739121651, Moscow, Kadshevskaya, Russian Federation
Supervisory Board – Member

PBI, a.s., Id. No.: 03633527, Sokolovská 394/17, Karlín, 186 00 Prague 8
Supervisory Board – Member

J&T Leasingová společnost, a.s., Id. No.: 28427980, Prague 8, Pobřežní 297/14, Postal Code 18600
Supervisory Board – Chairman

J&T Mezzanine, a.s., Id. No.: 06605991, Pobřežní 297/14, Karlín, 186 00 Prague 8
Supervisory Board – Member

J&T banka d.d., Id. No.: 675539, Aleja kralja Zvonimira 1, 42000 Varaždin, Croatia
Supervisory Board – Member

Igor Kováč
Board Member

Appointed to the Board of Directors on: 16 February 2011
Term of office to: 16 February 2021

In 1998, he graduated from the Faculty of National Economy of the University of Economics in Bratislava. He has spent his entire professional career in finance. Since 2000, he has been working in the banking industry. He joined Hypovereinsbank Slovakia where he worked as a Senior Controller. In 2002 – 2008, he worked in Volksbank Slovakia as the manager of the Economic Department. Since 2008, he has been working in J&T BANKA, a.s.In the Bank he is responsible for the Finance Unit and Project Unit.

In addition, in the past five years he is or was involved in the following companies:

J&T IB and Capital Markets, a.s., Id. No.: 24766259, Prague 8, Pobřežní 297/14, Postal Code 186 00
Supervisory Board – Member

J&T INVESTIČNÍ SPOLEČNOST, a.s., Id. No.: 47672684, Prague 8, Pobřežní 297/14, Postal Code 186 00
Supervisory Board – Member

J&T SERVICES ČR, a.s., Id. No.: 28168305, Prague 8, Pobřežní 297/14, Postal Code 186 00
Supervisory Board – Member

J&T banka d.d., Id. No.: 675539, Aleja kralja Zvonimira 1, 42000 Varaždin, Croatia
Supervisory Board – Member

J&T Bank, a.o., Id. No.: 1027739121651, Moscow, Kadshevskaya, Russian Federation
Supervisory Board – Chairman

J&T Leasingová společnost, a.s., Id. No.: 28427980, Prague 8, Pobřežní 297/14, Postal Code 18600
Supervisory Board – Member

J&T Mezzanine, a.s., Id. No.: 06605991, Pobřežní 297/14, Karlín, 186 00 Prague 8
Supervisory Board – Member

Tomáš Klimíček
Board Member

Appointed to the Board of Directors on: 1 December 2016
Term of office to: 1 December 2021

In 2010, he graduated from the Faculty of Finance and Accounting of the University of Economics. In 2008-2011, he worked in PricewaterhouseCoopers Audit, s.r.o. He joined J&T BANKA, a.s. in 2011, and became the Head of the Credit Risk Management department in 2012. In the Bank he is responsible for the Risk Management Department, Administration Unit and Information systems Unit.

In addition, in the past five years he is or was involved in the following companies:

J&T Leasingová společnost, a.s., Id. No.: 28427980, Prague 8, Pobřežní 297/14, Postal Code 18600
Supervisory Board - Member

Ing. Anna Macaláková
Board Member

Appointed to the Board of Directors on: 11 June 2018
Term of office to: 11 June 2023

She graduated from the Faculty of National Economy of the University of Economics in Bratislava. Since the end of her studies in 2006, she has worked in the Bratislava Branch at various positions. At the present time, she works in the Bank and occupies the position of head of J&T BANKA, a.s., the foreign bank's branch in Bratislava. Within the Bank, she is responsible for the Bratislava Branch.

In the past five years she has not been involved in any other companies.

SUPERVISORY BOARD

The Supervisory Board is the Bank's control body. Its activity is regulated by legal regulations and the Bank's Articles of Association. The Supervisory Board supervises the activities of the Board of Directors and the business activities of the Bank. The members of the Supervisory Board are elected and removed by the general meeting (resp. the sole shareholder). According to the Articles of Association the Supervisory Board has 6 members. At 31 December 2019, it had six members. The members of the Supervisory Board are elected for a five-year term.

Jozef Tkáč
Chairman of the Supervisory Board (not an employee of the Bank)

Appointed to the Supervisory Board on: 3 June 1998
Term of office to: 15 October 2023

After he graduated from the University of Economics, he joined the Main Institute of the State Bank of Czechoslovakia ("SBCS") in Bratislava. In 1989, the Slovak Government and the SBCS authorized him to prepare activities of an investment bank in Slovakia. In 1990, he became the leading director of the Main Institute for the Slovak Republic in Investiční banka, s.p.ú., Praha and after Investiční banka Praha was privatized and divided, he became president of Investičná a rozvojová banka, a.s. in Bratislava. After a change in the bank's owners and the end of the privatization of Investičná a rozvojová banka, a.s. he became president of the J&T Group and chairman of the Board of Directors of J&T FINANCE GROUP.

In addition, in the past five years he is or was involved in the following companies:

J&T FINANCE GROUP SE, Id. No.: 27592502, Prague 8, Pobřežní 297/14, Postal Code 186 00
Board of Directors – Chairman

Geodezie Brno, a.s. in liquidation, Id. No.: 46345906, Brno, Dornych 47, Postal Code 602 00
Supervisory Board – Chairman

J&T Investment Pool - I - SKK, a.s., Id. No.: 35888016, Bratislava, Dvořákovo nábrežie 8, Postal Code 811 02
Board of Directors - Vice-Chairman

ATLANTIK finanční trhy, a.s., Id. No.: 26218062, Prague 8, Pobřežní 297/14, Postal Code 186 00
Supervisory Board- Member

Poštová banka, a.s., Id. No.: 31340890, Bratislava, Dvořákovo nábrežie 4, Postal Code 811 02
Supervisory Board- Member

J&T SERVICES ČR, a.s., Id. No.: 28168305, Prague 8, Pobřežní 297/14, Postal Code 186 00
Supervisory Board – Chairman

Equity Holding, a.s., Id. No.: 10005005, Prague 8, Pobřežní 297/14, Postal Code 186 00
Board of Directors – Chairman

Ivan Jakabovič
Deputy chairman of the Supervisory Board (not an employee of the Bank)

Appointed to the Supervisory Board on: 3 June 1998
Term of office to: 15 October 2023

He graduated from the Faculty of Economic Informatics of the University of Economics in Bratislava. He obtained a broker's licence from the Slovak Ministry of Finance. In 1994, he co-founded J&T Securities, s.r.o., an investment firm.

In addition, in the past five years he is or was involved in the following companies:

J&T FINANCE GROUP SE, Id. No.: 27592502, Prague 8, Pobřežní 297/14, Postal Code 186 00
Board of Directors - Vice-Chairman

KOLIBA REAL, s. r. o., Id. No.: 35725745, Bratislava, Dvořákovo nábrežie 8, Postal Code 811 02
Board of Directors – Chairman

EP Power Europe, a.s., Id. No.: 27858685, Pařížská 130/26, Josefov, 110 00 Prague 1
Supervisory Board- Member

Nadace J&T, Id. No.: 27162524, Malostranské nábřeží 563/3, Malá Strana, 118 00 Prague 1
Managing Board- Member

Energetický a průmyslový holding, a.s., Id. No.: 28356250, Pařížská 130/26, Josefov, 110 00 Prague 1
Supervisory Board – Chairman

EP Energy, a.s., Id. No.: 29259428, Pařížská 130/26, Josefov, 110 00 Prague 1
Supervisory Board – Chairman

EP Industries, a.s., Id. No.: 29294746, Pařížská 130/26, Josefov, 110 00 Prague 1
Supervisory Board – Member

Dušan Palcr
Supervisory Board Member (not an employee of the Bank)

Appointed to the Supervisory Board on: 15 June 2004
Term of office to: 15 October 2023

He graduated from the Faculty of Business and Economics of Mendel University in Brno. From 1995 to 1998, he worked in banking supervision in the Czech National Bank. He joined the J&T Group in 1998. He was a member of the Board of Directors of J&T BANKA, a.s. in charge of the Finance and the Banking Operations Department. Since 2003, he has been a member of the Board of Directors of J&T FINANCE GROUP SE.

In addition, in the past five years he is or was involved in the following companies:

J&T FINANCE GROUP SE, Id. No.: 27592502, Prague 8, Pobřežní 297/14, Postal Code 186 00
Board of Directors - Vice-Chairman

J&T Sport Team ČR, s.r.o., Id. No.: 24215163, Prague 8, Pobřežní 297/14, Postal Code 186 00
Statutory Representative

AC Sparta Prague fotbal, a.s., Id. No.: 46356801, Prague 7, Tř. Milady Horákové 1066/98, Postal Code 170 00
Supervisory Board – Chairman

PBI, a.s., Id. No.: 3633527, Prague 8, Pobřežní 297/14, Postal Code 186 00
Supervisory Board- Member

I. Český Lawn - Tennis Klub Praha, Id. No.: 45243077, Prague 7 Holešovice, Ostrov Štvanice č.ev. 38, Postal Code 170 00, Managing Board – Member

Nadace J&T, Id. No.: 27162524, Malostranské nábřeží 563/3, Malá Strana, 118 00 Prague 1
Managing Board – Member

Karlín development II. s.r.o., Id. No.: 28161980, Prague 8, Pobřežní 620/3, Postal Code 18600
Supervisory Board – Member

Karlín development III. s.r.o., Id. No.: 05783216, Praha 8, Pobřežní 620/3, Postal Code 18600
Supervisory Board – Member

J&T REAL ESTATE CZ, a.s., Id. No.: 28255534, Pobřežní 620/3, Karlín, 186 00 Prague 8
Supervisory Board – Member

Skytoll CZ, s.r.o, Id. No.: 03344584, Pobřežní 297/14, Karlín, 186 00, Prague 8
Statutory Representative

GLOBDATA a.s., Id. No.: 05642361, Na příkopě 393/11, Staré Město, 110 00 Prague 1
Supervisory Board – Member

Doblecon a.s., Id. No.: 07015381, Pobřežní 620/3, Karlín, 186 00 Prague 8
Supervisory Board- Member

Jozef Šepetka
Supervisory Board Member

Appointed to the Supervisory Board on: 9 September 2008
Term of office to: 15 October 2023

He graduated from Faculty of Law of Charles University in Prague. From 1990 he worked in state administration – e.g. from 1992 he worked at the Ministry of Foreign Affairs of the Czech Republic. In 1998 he joined J & T BANKA, a.s. as adviser.

In the past five years he has not been involved in any other companies.

Jitka Šustová
Supervisory Board - Member (elected by employees)

Appointed to the Supervisory Board on: 10 December 2018
Term of office to: 10 December 2023

She has worked in the Bank since 1998. Since then, she has occupied many positions within the Economic Unit and currently she is the head of the Economic Department. In December 2018, the Bank's employees elected her as the member of the Supervisory Board.

In the past five years she has not been involved in any other companies.

Tomáš Janík
Supervisory Board Member (elected by employees)

Appointed to the Supervisory Board on: 10 December 2018
Term of office to: 10 December 2023

He graduated from the Faculty of National Economy of the University of Economics in Bratislava. He has worked in the Bank since 2016. In December 2018, the Bank's employees elected him as the member of the Supervisory Board.

In addition, in the past five years he is or was involved in the following company:

STAVKONZULT s.r.o., Id. No.: 03938921, Revoluční 1403/28, Nové Město, 110 00 Prague 1
Statutory representative

DECLARATION

The members of the board of directors and supervisory board have neither been convicted of a fraudulent offence nor dis-qualified by a court from acting as members of the administrative, management or supervisory bodies of another issuer or from acting in the management or conduct of the affairs of another issuer. The Bank's management members are not and have not been the subject of any official public incrimination or sanction by statutory or regulatory authorities. In the past five years, the Bank's management members have not been involved in any bankruptcy of another company.

COMMITTEES OF THE BANK

EXECUTIVE BOARD

The Executive Board (hereinafter the "EB") has been established by the Bank's Board of Directors. The main objective and purpose of establishing the EB is to provide operational and procedural management of the Bank's activities. In particular, EB participates in the creation of a comprehensive and appropriate management and control system and continuous maintenance of its functioning and effectiveness in its whole and parts; discusses and adopts measures to earmark appropriate and adequate capacities for the performance of the Bank's activities; discusses and approves specific procedures for the purpose of implementing the overall strategy approved by the Bank's Board of Directors; discusses and proposes creation of and changes in rules that unambiguously formulate ethical and professional principles and expected models of behaviour and conduct of employees in accordance therewith; discusses and approves specific measures necessary for the Bank to consistently implement proper management, administrative, accounting and other procedures; discusses and approves specific procedures and measures necessary to ensure that the Bank uses such systems and management procedures that ensure the fulfilment of determined strategies, principles, goals and procedures and lead to prevention of undesirable activities or phenomena; discusses and approves strategies of information and communication systems development; discusses principles of the internal control system including principles for prevention of possible conflict of interests, compliance and internal audit, and proposes changes thereto; discusses specification and principles of the Bank's approach towards outsourcing; approves new products, activities and systems and other matters that are of fundamental importance for the Bank or have other possible fundamental impact; discusses and approves the Bank's tariffs of fees and changes thereto; and discusses and approves new projects in the context of the Bank's strategic development, regulatory requirements and business plans. The EB has 7 members appointed and removed by the Bank's Board of Directors.

As of 31 December 2019, the EB had the following members:
- Macaláková Anna, Member of the EB, Board Member
- Klimíček Tomáš, Member of the EB, Board Member
- Kešnerová Mária, Member of the EB, Director of the Finance Division
- Tkáčová Alena, Member of the EB, Director of the Department of Trade and Operation in the Czech Republic
- Vodička Petr, Member of the EB, Director of the Financial Markets Department
- Kotek Jan, Member of the EB, Director of the Credit Transactions Department
- Dvořák Michal, Member of the EB, Director of the Information Systems Department

ASSETS AND LIABILITIES COMMITTEE

The Assets and Liabilities Committee ("ALCO") has been established by the Bank's Board of Directors. ALCO's main objective and purpose is to facilitate the Bank's asset and liability management process in terms of liquidity, interest rates, the Bank's profitability and capital adequacy. ALCO especially monitors liquidity, the Bank's interest and FX risks, observance of internal and external limits in those areas, analyses possible scenarios of the future development, monitors the observance of internal and regulatory capital adequacy limits at an individual and consolidated level, resp. prudential consolidation, evaluates an impact of legislative changes on the Bank's assets and liabilities, responds to the situation in financial markets, analyses prices and products offered by competitive banks and their influence on the Bank's trades and prices, monitors maturity of significant asset and liability transactions, evaluates an impact of expected new trades on the risk, limits and profitability, decides on interest rates of deposit products, measures taken in the market risk management, prudential business activities and in trades. ALCO also has at least 3 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2019, ALCO had the following members:
- Kováč Igor, Chairman of ALCO, Board Member

- Tkáč Patrik, Member of ALCO, Chairman of the Board of Directors
- Ašer Štěpán, Member of ALCO, Board Member
- Klimíček Tomáš, Member of ALCO, Board Member
- Macaláková Anna, Member of ALCO, Board Member
- Jakabovič Ivan, Ing., Member of ALCO, partner of J&T FINANCE GROUP SE

INVESTMENT COMMITTEE

The Investment Committee (the "IC") has been established by the Bank's Board of Directors. The IC's main objective and purpose is to support investments assigned in the business portfolio, the Bank's currency and commodity positions. The IC especially discusses and approves limits or other parameters for the business portfolio trades, the Bank's currency and commodity positions to an extent specified by the Bank's internal rules governing limits for making the Bank's transactions; the IC prescribes a set of liquidity risk figures and approves the Bank's emergency liquidity plan and approves the enlistment of a security for trading as a part of the client portfolio management; it regularly evaluates the observance of set limits. The IC always has at least 3 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2019, the IC had the following members:
- Míšek Radoslav, Chairman of the IC, Manager of the Risk Management Department
- Vodička Petr, Member of the IC, Manager of the Financial Markets Department
- Kováč Igor, Member of the IC, Board Member
- Klimíček Tomáš, Member of IC, Board Member
- Pavlík Jan, Member of the IC, Manager of the Financial Markets Department – foreign account
- Kešnerová Mária, Member of the IC, Manager of Economic Department

PROJECT COMMITTEE

The Committee was dissolved by a decision of the Bank's Board of Directors as of 24 April 2019. The Committee's agenda was taken over by the Executive Board.

INFORMATION SYSTEMS COMMITTEE

The Committee was dissolved by a decision of the Bank's Board of Directors as of 11 September 2019. The Committee's agenda was taken over by the Executive Board.

SECURITY COMMITTEE

The Security Committee (the "SC") has been established by the Bank's Board of Directors. The SC's main objective and purpose is to manage security risks. The SC is responsible for working out and submitting proposals for the risk mitigation to an acceptable level, for the check and evaluation of the Bank's security risks and supervision over the implementation of approved proposals for the elimination of security risks by the Bank's Board of Directors. The SC has at least 3 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2019, the SC had the following members:
- Volek Petr, Chairman of the SC, Director of the Security Unit

- Slobodník Michal, Member of the SC, Security Specialist
- Krotký Michal, Member of the SC, Director of the System and application integration Unit
- Sležka Milan, Member of the SC, Director of Operations division in CR
- Šimek Jaromír, Member of the SC, Director of Compliance and AML division

OPERATIONAL RISK AND DAMAGE COMMITTEE

The Operational Risk and Damage Committee ("ORDC") has been established by the Bank's Board of Directors. The ORDC's main objective and purpose is to discuss damage and the Bank's operational risk. The ORDC is responsible for working out and submitting proposals for the risk and damage mitigation to an acceptable level, for the check and evaluation of Bank's operational risk and supervision over the implementation of approved proposals for the elimination of operational risk and damage by the Bank's Board of Directors. The ORDC has at least 6 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2019, the ORDC had the following members:
- Mastný Miloslav, Chairman of the ORDC, Director of the Administration Unit
- Sležka Milan, Member of the ORDC, Director of the Operation CR Division
- Míšek Radoslav, Member of the ORDC, Manager of the Risk Management Department
- Šustová Jitka, Member of the ORDC, Manager of the Economic Department
- Tomeš Libor, Member of the ORDC, Manager of the Process and Project Management Department
- Šimek Jaromír, Member of the ORDC, Director of Compliance and AML division
- Maxim Ján, Member of the ORDC, Compliance Officer SR (J & T BANKA, a.s., foreign bank branch)

VALUATION COMMITTEE

The Valuation Committee (the "VC") has been established by the Bank's Board of Directors. The VC's main objective and purpose is regular assessment of the suitability of the applied valuation methodology for investment instruments, or its revision in relation to the development of legislation. The VC mainly evaluates the up-to-date status of the valuation methodology, procedures and other facts that may influence the valuation, assesses the current classification of investment instruments. The VC assesses current valuation models and valuation sources and assesses whether there has been any significant change in the criteria used for the determination of fair values. The VC approves recalibration of the model pro valuation of financial instruments within Level 3. The VC has at least 6 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2019, the VC had the following members:
- Míšek Radoslav, Chairman of the VC, Manager of the Risk Management Department
- Vodička Petr, Member of the VC, Manager of the Financial Markets Department
- Drahotský Daniel, Member of the VC, Chairman of the Board of Directors of J&T INVESTIČNÍ SPOLEČNOST, a.s.
- Kešnerová Mária, Member of the VC, Director of the Economic Department
- Kubeš Michal, Member of the VC, Adviser to the Bank's Board of Directors
- Zábojník Miloslav, Member of the VC, portfolio manager of Fund administration Department of J&T INVESTIČNÍ SPOLEČNOST, a.s.
- Bušek Lubomír, Member of the VC, External Cooperating Person, Member of the Board of Directors of PRVNÍ KLUBOVÁ pojišťovna, a.s.

INVESTMENT INSTRUMENTS COMMITTEE

The Investment Instruments Committee (the "IIC") has been established by the Bank's Board of Directors. The IIC's main objective and purpose is supervision of the development system of products – investment instruments, their placing on the market and their administration so as to ensure, in particular, that the interests, goals and characteristics of the clients are taken into account and to prevent potential damage to the clients and minimise conflicts of interests. The IIC evaluates the relevance and applicability of the design, development and administration methodology in relation to the new products and their changes, discusses proposals for change of methodology, discusses the designs of new products and their changes, monitors and evaluates the products offered, evaluates the co-operation with the distributors of the products, revises professional knowledge of persons responsible for creating own products, defines individual target client markets and their parameters reflecting knowledge, experience, financial goals, needs, ability to face loss and individual risk tolerance, regularly reviews individual target markets and their parameters, sets a positive and a negative market with respect to each individual investment product, regularly reviews placing the products offered in the target markets, defines and evaluates the manner of offering and distributing of the products and their compliance with the defined target markets, specifies the standard target markets for the products actively offered by the Bank, evaluates structure of the fees related to individual products and verifies if the costs and fees for the products are compatible with the needs, goals and characteristics of the respective target market; it further specifies the definitions of the client investment strategies linked to the defined investment strategies, analyses the risks of impacts of negative product development on the clients as well as the Bank's resources especially from the viewpoint of changes in the market, evaluates potential conflicts of interests in offering and distributing of the products. The IIC is concerned with the investment instruments owned as well as distributed. The IIC always has at least 3 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2019, the IIC had the following members:
- Vodička Petr, Chairman of the IIC, Director of the Financial Markets Unit
- Macaláková Anna, Member of the ICC, Board Member
- Tkáčová Alena, Member of the IIC, Director of the Trade CR Division
- Šimek Jaromír, Member of the IIC, Director of the Compliance and AML Department
- Kotek Jan, Member of the IIC, Manager of the Loan trade Department

REMUNERATION COMMITTEE

The Remuneration Committee (the "RC") has been established by the Bank's Supervisory Board. The RC's main objective and purpose is to support the Supervisory Board in defining and assessing the system and guidelines for the remuneration of Bank's employees. The RC drafts system amendments and remuneration policy for the Bank's supervisory board, regularly assesses the adherence to the remuneration policy and submits the assessment summary to the Bank's supervisory board, reviews the compliance of the remuneration policy with the Bank's current business model and with the Bank's business cycle; the RC submits the output of the assessment to the Bank's supervisory board, suggests classifying particular job positions as positions with an impact on Bank's risk profile to the Bank's supervisory board, and supports the Supervisory board in assessing the efficiency and functionality of the remuneration policy. The RC has at least 3 members appointed and removed by the Bank's Supervisory Board.

As at 31 December 2019, the RC had the following members:
- Jakabovič Ivan, Chairman of the RC, Partner of J&T Finance Group SE
- Závitkovský Pavel, Member of the RC, External Cooperating Person, Member of the Supervisory Board of Nadace Charty 77, Vice-Chairman of the Supervisory Board of Českomoravská záruční a rozvojová banka, a.s.
- Vinšová Eva, Member of the RC, HR Director

AUDIT COMMITTEE

The Audit Committee ("AC") has been established by the Bank's Supervisory Board. The AC's main objective and purpose as an advisory body of the Bank's Supervisory Board consists in supervision over the process of compilation of financial statements and the system of effectiveness of internal control and internal audit, including the risk management process. The AC monitors the effectiveness of internal control and management system, monitors the effectiveness of internal audit and its functional independence, discusses appointing and recalling of the head of Internal Audit Department, monitors the process of compiling financial statements and consolidated financial statements as well as the statutory audit process regarding the financial statements and consolidated financial statements, evaluates the independence of the statutory auditor and audit firm, and especially provides the audited person with additional services; it further selects and recommends to the Bank's Supervisory Board the statutory auditor, it informs the Bank's Supervisory Board of the statutory auditor's results and findings obtained during the statutory audit process monitoring. The AC has at least 3 members appointed and removed by the Bank's Supervisory Board.

As at 31 December 2019, the AC had the following members:
- Závitkovský Pavel, Chairman of the AC, External Cooperating Person, Member of the Supervisory Board of Nadace Charty 77, Vice-Chairman of the Supervisory Board of Českomoravská záruční a rozvojová banka, a.s.
- Kovář Jakub, Member of the AC, External Cooperating Person, Vice-Chairman of Board of Directors of NEXIA AP, a.s.
- Palcr Dušan, Member of the AC, Member of the Supervisory Board and Vice-Chairman of the Board of Directors of J&T FINANCE GROUP SE

ORGANISATIONAL CHART

Board of Direct

Office of the Chairmanof the Board of Directors	Unit Czech Republic (CR)			Unite Slovak Republic (SR)			
Top Management	Unit CR Support Department	Division Sales CR	Division Operation CR	Unit SR Management Department	DIVISION SALES SR	DIVISION OPERATION SR	DIVISION IT SR
Bank Management Department		Business Development Section	Family Office Support Section	Magnus Department	Division Sales SR Business Support Section	The High Tatras Exposition	Supporting Applications Department SR
Safety Department		Private Banking Department CR	Banking Operations and International Banking Department CR	Digital Experience Department SR	Private Banking Department SR	The Košice Exposition	Customer and Internal Interfaces Department
Internal Audit and Inspection Department		Private Banking Section 1	Banking Operations Section		Comfort Department SR	Division Operations SR Business Support Departments	Internet Banking Section
Advisors Department		Private Banking Section 2	International Banking Section		Business Call Centrum Section	Banking Operation Department SR	Banking Applications Department SR
Advisors Section 1.		Private Banking Section 3	Payment Cards, Internet Banking and Back Office Clear Deal Section		Comfort Line Section	Front Office Section SR	Bank and Information System Section
Advisors Section 2.		Private Banking Section 4	Financial Markets Back Office Department CR		Marketing and Communication Department SR	Payment Cards and Internet Banking Section	Financial and Securities Systems Section
Advisors Section 3.		Private Banking Section 5	New Issues Department			Back Office Department SR	
Advisors Section 4.		CIS Desk Section				Back Office Comfort Section	
		Back Office Section				Back Office PB Section	
		Branch Brno				Financial Markets Back Office Department SR	
		Branch Ostrava					
		Client Center Department CR					
		External Sale Department CR					
		External Sale Front Office Section					
		External Sale Support Section					
		Marketing Department CR					

ors of J&T Bank

Unit Lending Business		Unit Financial Markets	Unit Finance	Unit Administration	Unit Project	Unit Information Systems	Unit Risk Management
Large Corporates Department	DIVISION LENDING BUSINESS	DIVISION FINANCIAL MARKETS	DIVISION FINANCE	DIVISION ADMINISTRATION	**Process and Project Management Department**	DIVISION INFORMATION SYSTEMS	DIVISION RISK MANAGEMENT AND CREDIT AND LOANS ADMINISTRATION
	Lending Business Department CR	Division Operation CR Business Support Section	Division Finance Business Support Section	**Legal Department CR**		System and Application Integration Department	Risk Management and Credit and Loans Administration
	Lending Business Department SR	Investment Center Section	**Treasury Department**	**Legal Department SR**		IS/IT Delivery Section	**Risk Management Department**
		Financial Makets Department CR - Other Person's Account	Liquidity Management Section	**Compliance and AML Department**		IS/IT Governance Section	**Credit Risk Management Department**
		Financial Makets Department CR - Own Account	**Financial Analysis Department**			**IT Infrastructure Department**	**Credit and Loans Administration Department CR**
		Financial Makets Department SR	**Economy Department ČR**			Database Section	**Credit and Loans Administration Department SR**
		Client Portfolio Management Department	Accounting Section			**Supporting Applications Department**	
		Research Department	Reporting Section			**Customers and Internal Interfaces Department**	
			Economy Department SR			ePortal Section	
			Accounting Section			**Business Intelligence Department**	
			Reporting Section			BI DWH Section	
						BI Reporting Section	
						BI Architecture and Governance Section	
						Banking Applications Department	
						Bank and Information System Section	
						Financial and Securities Systems Section	

REPORT OF THE SUPERVISORY BOARD

In 2019, the Supervisory Board of J & T BANKA, a.s. had six members. In accordance with the company's valid Articles of Association, four (4) members are elected by the company's shareholders and two (2) members are elected by the company's employees. The Supervisory Board performed its activity in compliance with applicable law, in particular the Business Corporations Act, the Act on Banks and the Bank's Articles of Association. In 2019, the Supervisory Board held a total of four ordinary sessions. At the ordinary sessions, the Board discussed especially regular reports on the Bank's activity and its financial situation submitted by the Bank's Board of Directors and all other matters arising from respective legal regulations.

The Supervisory Board has reviewed financial statements as of 31 December 2019 audited by the Bank's external auditor, KPMG Česká republika Audit, s.r.o. According to the auditor's report issued 8 April 2020, the financial statements present, in all material respects, a true and fair view of the assets and liabilities of J & T BANKA, a.s. as of 31 December 2019 and expenses, income and the results of its operations and cash flows for the year 2019 in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union. The Supervisory Board states that the Bank's business activities were performed in compliance with applicable law and the Bank's Articles of Association. The Supervisory Board has reviewed the audited report on relations between related parties in 2019 prepared by the Board of Directors. The Supervisory Board confirms that it has no objections to the report. The Supervisory Board agrees with the results of the annual financial statements for 2019 and with the settlement of the profit/loss, i.e. the distribution of profit of J & T BANKA, a.s. for 2019 as proposed by the Bank's Board of Directors and has recommended that the sole shareholder exercising the powers of the general meeting approves the financial statements.

Prague, 8 April 2020

CORRESPONDENT BANKS

Československá obchodní banka, a.s.
Prague, Czech Republic
SWIFT: CEKO CZ PP
Currency: CZK

ING Belgium SA/NV
Brussels, Belgium
SWIFT: BBRU BE BB
Currency: EUR

ING Bank N.V.
Prague, Czech Republic
SWIFT: INGB CZ PP
Currency: CZK, EUR, CHF, GBP, USD, RUB, HUF, PLN, AUD, CAD, SEK, RON, TRY, NOK, CNY, JPY

J&T Bank, a.o.
Moscow, Russian Federation
SWIFT: TRRY RU MM
Currency: RUB

Poštová banka, a.s.
Bratislava, Slovak Republic
SWIFT: POBN SK BA
Currency: EUR

UniCredit Bank Czech Republic and Slovakia, a.s.
Prague, Czech Republic
SWIFT: BACX CZ PP
Currency: CZK, EUR, USD, HRK

J&T banka d.d.
Varazdin, Croatia
SWIFT: VBVZ HR 22
Currency: HRK

INFORMATION ABOUT SECURITIES, RIGHTS AND OBLIGATIONS

INFORMATION ON SECURITIES

In 2015 Česká národní banka approved and J & T BANKA, a.s., Id. No.: 47115378, Legal Entity Identifier: 31570010000000043842, registered office Prague 8, Pobřežní 297/14, postcode 186 00, maintained by the Metropolitan Court in Prague, Part B, entry 1731 (the "Bank" or the "Issuer") issued subordinated unsecured yield certificates without any maturity date with a yield of 9% p.a., in the nominal value of CZK 100,000, ISIN CZ0003704413 and subordinated unsecured yield certificates without any maturity date with a yield of 9% p.a., in the nominal value of EUR 5,000, ISIN CZ0003704421 (the "Certificates").

In 2014, the Bank issued Certificates with a yield of 10% p.a. in the nominal value of CZK 100,000, ISIN CZ0003704249.

Certificates are unnamed securities issued in the Czech Republic in accordance with Czech legal regulations. Certificates are hybrid financial instruments combining characteristics of equity and debt securities and are issued as book-entry registered shares.

Provided that conditions are met under Article 52 (1) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, Certificates can be included to Additional Tier 1 instruments of the Bank.

Certificates are traded at the Prague Stock Exchange, a.s. A volume of issued Certificates as at 31 December 2019 amounted to CZK 2,597 million (2018 – CZK 2,597 million).

As at 31 December 2019, neither the Certificates nor the Bank had a valid rating.

Data on the number of shares, their nominal value and the Issuer's shareholder structure are given in the financial statements. The Issuer's persons with managing powers do not own any shares, options or comparable investment instruments whose value relates to shares or similar securities representing an ownership interest in the Issuer.

RIGHTS AND OBLIGATIONS OF SHAREHOLDERS AND CERTIFICATE HOLDERS

The Certificates are not bonds as defined by Act No. 190/2004 Coll., the Bonds Act as amended. Holders of the Certificates are not the Bank's shareholders and are not entitled to dividend payments.

Holders of the Certificates have no ownership interest in the Bank's equity and their Certificates do not entitle them to exercise any direct or indirect voting rights. As approved by the Czech National Bank, the Bank is not subject to obligations stipulated in Section 118 (5) (a) through (l) of Act No. 256/2004 Coll., the Act on Business Activities on the Capital Market as amended.

Other rights and obligations are defined in issuing terms and conditions.

Rights and obligations of shareholders are governed by provisions of Act No. 90/2012 Coll., the Business Corporations Act. As the Bank has the sole shareholder, the general meeting is not held and its powers are exercised by the sole shareholder. Rights and obligations of the sole shareholders are identical to the powers of the general meeting, the position of which is defined in the Bank's Articles of Association. Other information on the performance of the sole shareholder, resp. the powers of the general meeting, is given in the chapter Corporate Governance and Data on the Issuer.

DEFINITION OF ALTERNATIVE PERFORMANCE MEASURES APPLIED

In accordance with the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA/2015/1415) and in order to maintain transparency, the Bank has applied the following performance measures in the Annual Report:

Loan to Deposit ratio (LTD ratio): 'Loans and other receivables from clients at the end of the period' divided by 'Client deposits as at the end of the period'.

Return on Equity: 'Profit for the accounting period' divided by average 'Equity' for the current period determined as arithmetic average of 'Equity' as at the end of the current and prior period.

Return on Assets: 'Profit for the accounting period' divided by average 'Assets' for the current period determined as arithmetic average of 'Assets' as at the end of the current and prior period.

Operating expense ratio: 'Operating expense' divided by 'Operating income'.

Operating expense to Assets ratio: 'Operating expense' divided by 'Assets'.

COMPANY MANAGEMENT

CORPORATE GOVERNANCE AND THE CODE

Within the management of the company, the Issuer performs and complies with all the laws of the Czech Republic and, at the same time, has adopted and complies with the main standards of management of the company as defined in the Code of Administration and Management based on the OECD Principles and recommendations of the EU Commission in the area of Corporate Governance. In particular, the Issuer adopted the basic principles of the Code, i.e. transparency, honesty and responsibility, which it considers to be of fundamental importance not only in terms of the corporate governance, but also in terms of access to customers and business partners. The Issuer shall provide shareholders and investors from time to time with information on business and financial results or other important facts. The Issuer also fulfils all the obligations to publish the relevant information and to keep the information transparent.

The Issuer prides itself on responsibility and long-term perspective reflected in its procedures and internal regulations. It performs the corporate governance in accordance with the principles stipulated herein; in order to achieve them, it defines the rules of the corporate governance especially in its internal regulations and Articles of Association which reflect all the statutory duties affecting the corporate (bank) governance. No fundamental changes occurred during 2019 that would have an adverse effect on the Issuer's standards and management.

The Issuer's financial performance depends mainly upon maintaining a good reputation, not only among clients, counterparties, investors but also in relation to the fulfilment of regulatory obligations of the company imposed by law and supervisory authorities. The potential loss of its good reputation might have an adverse impact on volume of deposits, availability of external financing, access to capital markets and as a result on the Issuer's business and financial performance, its ability to disburse yields and meet obligations arising from the issued investment instruments.

In conformity with the Articles of Association, the Board of Directors and the Supervisory Board are the Issuer's bodies and, in accordance with the Banks Act, the Issuer shall also establish the Audit Committee and the Remuneration Committee which both support more effective performance of supervisory activities of the Supervisory Board. Persons who are members of the corporate bodies meet the requirements related to professional qualification, credibility and experience. In selecting the members of the Issuer's bodies, the Issuer applies the diversity principle having regard to qualification and experience, which is supervised by the Appointment Committee, which performs its activities at the level of the Issuer's parent company. When assessing suitability of the members of the management body and employees in key positions, the Issuer follows the European Banking Authority document "Guidelines on the assessment of the suitability of members of the management body and key function holders". At the same time, the Issuer shall prevent misuse of internal information of the company that could allow unlawful benefit to persons with a special relationship to the Issuer in trading in the company's securities or derivatives and other financial instruments associated therewith.

The transparent shareholder's structure of the Issuer allows to govern the company by its owners effectively while exercising sufficient control rules to protect the interests of the Issuer, its customers and creditors in conformity with the rules governing business operations of banks and investment firms. As an investment firm, the Issuer is obliged to pay an annual contribution to the Guarantee Fund in the amount of 2% of the volume of income from fees and commissions for provided investment services under Act No. 256/2004 Coll., the Act on Business Activities on the Capital Market. In 2019, the contribution amounted to CZK 22.8 million (2018: CZK 25.7 million).

INFORMATION ABOUT INTERNAL CONTROL PRINCIPLES AND PROCEDURES RELATING TO THE FINANCIAL REPORTING PROCESS

The Issuer, to ensure that the accounts give a true and fair view of the state of affairs and financial statements are prepared in a due manner, uses various tools to appropriately recognize individual transactions and to subsequently present them in the financial statements of the Issuer and its Group. Key tools include in particular maximum automation of recurring transactions, procedures and processes within appropriate systems and applications, regular monitoring and testing of these systems and setting of access rights to individual systems and applications. In addition to periodical reviews of the general ledger, the Issuer also applies a system of allocating responsibility and reconciliation of accounts in terms of individual analytical account balances. Each general ledger account has its administrator who has to provide regularly, or on demand, information on the particular analytical account (balance, reconciliation to primary data, breakdown to individual amounts, etc.).

The compliance of applied accounting policies with, in particular, International Financial Reporting Standards and the setting of accounting controls fall within the responsibility of the Issuer's Economic Department that also lays down rules and methodology for the compilation of consolidated financial statements and examines the correctness of background materials used for the compilation of consolidated financial statements.

Information about applied accounting policies, valuation techniques and rules for establishing adjustments is disclosed in the Notes to the financial statements of this annual report.

The accuracy of information presented in the Issuer's financial statements is confirmed by the auditor's opinion. The annual report includes audited financial results of the Issuer and its Group.

In 2019, the Issuer and the Group spent financial means for audit and other services in a volume as follows:

In thousands of CZK	Charged to the Issuer 2019	Charged to the Issuer 2018	Charged to other companies in the Group 2019	Charged to other companies in the Group 2018
Statutory audit	7,723	7,773	6,093	5,689
Other assurance services	1,971	1,971	4,845	–
Tax advisory	–	–	–	–
Other non-audit services	508	350	–	–
Total	**10,202**	**10,095**	**10,938**	**5,689**

COMPETENCE OF THE GENERAL MEETING

The Bank has only a sole shareholder, the general meeting shall not be held and the shareholder shall act in the capacity of the general meeting. Decisions taken by the shareholder acting in the capacity of the general meeting must be made in writing and must be delivered to the company. The shareholder's decisions must be in the form of a notarial deed on legal actions in cases when a notarial deed is made on the decisions of the general meeting. Delivery to the Bank is made in writing for the attention of any member of the Board of Directors or to the address of the Bank's registered office recorded in the Commercial Register. The powers of the general meeting also include decisions on a change in the Articles of Association, an amount of registered capital and the authorization of the Board of Directors to increase registered capital, election and removal of members of the Supervisory Board, the approval of regular, extraordinary or consolidated financial statements and, in cases when their preparation is stipulated by another legal regulation, of interim financial statements. The general meeting also decides on the distribution of profit and other own resources or the settlement of a loss, it gives instructions to the Board of Directors and approves principles of the Board of Directors' activity unless they are contrary to legal regulations. The general meeting can particularly prohibit certain legal actions to any Board member if it is in the interest of the Bank. The powers of the general meeting (resp. the sole shareholder) are regulated in the Bank's valid Articles of Association and respective legal regulations, in particular Act No. 90/2012 Coll., the Business Corporations Act.

REMUNERATION POLICY

The Bank applies the remuneration principles in compliance with Decree No. 163/2014 Coll., on activities of banks, savings and credit co-operatives and investment firms (hereinafter the "Decree") and Directive 2013/36/EU (hereinafter the "Directive" or "CRD IV"). The key concepts of the remuneration policy, regulated in the Employee Remuneration Rules, include, in particular, transparency and predictability, compliance with regulatory requirements and fairness. Special remuneration principles and procedures are applied proportionately to the degree of influence of the individual selected persons on the Bank's overall risk profile and on selected employees in control functions.

The Bank's internal audit shall regularly, once a year, evaluate the remuneration principles and submit the results of evaluation to the Remuneration Committee.

The assessment period is a calendar year and the frequency of assessment of the individual employees are minimally 2 times per year, in November and April.

Board of Directors and Supervisory Board

The remuneration principles applicable to the members of the Board of Directors are approved by the Supervisory Board and the shareholders at the General Meeting based on a proposal of the Remuneration Committee, while complying with the condition that the variable component of remuneration of the members of the Board of Directors may not exceed 100% of the fixed remuneration component. The amount of the variable remuneration component is always proposed by the Remuneration Committee for the relevant calendar year; the Remuneration Committee subsequently evaluates the achievement of set targets and proposes the amount of the variable remuneration component to be awarded for the relevant period.

Members of the Supervisory Board only receive fixed remuneration based on the agreement on the discharge of office of a member of the Supervisory Board.

Based on an analysis performed, members of the Board of Directors and the Supervisory Board have been included among employees with a significant influence on the Bank's overall risk profile. At the same time, they are the persons holding executive powers of the issuer.

Fixed component of Bank employees' remuneration

The amount of the employees' fixed remuneration component is determined on the basis of their key abilities, professional experience and working tasks and based on a market comparison with the salaries of other entities of the financial and banking market in the Czech Republic.

Variable component of Bank employees' remuneration

Employees are not contractually entitled to receive this remuneration component. The variable component of remuneration depends on the fulfilment of the company-wide goals (corporate bonus), on the fulfilment of the individual goals (personal bonus), and, to the limited extent, also on the participation in the fulfilment of the objectives of the department in which the respective employee works (department bonus).

For the individual positions, the portions of the overall budget for this type of remuneration intended for the corporate, department and personal bonuses are set. The total budget for this type of remuneration is determined as a multiple of the monthly salary for the individual positions. The multiple of the salary for the individual positions is always determined for the respective calendar year by the statutory body and represents 15–100% of the fixed remuneration component.

The criteria under assessment include, in particular, a qualitative and quantitative performance assessment, fulfilment of the Bank's strategy in the area of performance, risk management and work development indicators. If the set targets (including the targets related to the degree of the risks to which the Bank is exposed) are not fulfilled, the combination of various levels of the criteria results in the decision not to award the variable remuneration component in part or in full – a penalty is applied. The Bank does not use the clawback option, i.e. the option to demand the return of remuneration, unless permitted by Czech labour-law legislation in the particular case.

If, for extraordinary reasons, the variable remuneration component of any employee exceeds 100% of the paid fixed remuneration for the assessment period, this amount of remuneration will be subject to approval by the General Meeting and notified in advance to the Czech National Bank in accordance with the requirements of the Decree. The variable remuneration component will not exceed 200% of the fixed remuneration paid for the assessment period and will be paid afterwards.

The Bank does not apply payment of the variable remuneration component in the form of capital or similar instruments, since its position on the market is not significant and it does not have suitable capital instruments that would enable a suitable manner of postponing a part of the variable remuneration component.

The amount and manner of payment of the variable remuneration component are determined in compliance with the following rules:

1. "Bonus Pool"
   The calculation of the amount of the Bonus Pool is based on the sum of the target variable components of individual employees, taking into account the ability of the Bank as a whole to strengthen its capital, and it is adjusted based on the regularly estimated degree of target performance on the level of the Bank and its individual divisions and departments.
2. "Corporate targets"
   Performance targets are set every year and are closely tied to the Bank's strategic plan. The Remuneration Committee annually approves their fulfilment on the basis of audited data and proposes the amount of remuneration for the assessment period. The corporate targets consist of the planned ROE values (35% weight), the volume of client's investments and deposits (15% weight), timely and quality reporting (15 % weight) and risk factors (25% weight). For individual employees, the corporate targets have a weight for the determination of the total variable remuneration component between 25% and 70% depending on their functional and organisational position in the Bank.
3. "Departmental and personal targets"
   The targets are set based on a proposal from direct superiors for each calendar year. The targets can have the nature of individual tasks, projects, activities or any other targets or behaviour. These targets are both quantitative and qualitative and are set on the basis of the priorities of the division for which the relevant manager is responsible. The departmental and personal targets also include the obligation to comply with the rules of prudent risk management within the degree of risk acceptable by the Bank and act in compliance with the Bank's strategy, targets, values and long-term interests.

4. "K.O. criteria"
   The Bank specifies conditions under which the variable remuneration component will not be awarded at all. This applies especially in situations where: (a) the volume of net assets decreases year-on-year without an increase in the Company's internal resources by shareholders and without dividend payment; (b) the operational profit decreases by more than 15%; (c) the ROE is less than 200 bps above the reference rate valid at the beginning of the accounting period; (d) the Bank did not initiate a recovery plan. The variable remuneration component awarded in previous years will not be paid should its payment result in a limitation of the Bank's ability to strengthen capital.

Rules for setting the variable remuneration component for selected groups of employees

1. Employees with a significant influence on the Bank's overall risk profile (from the viewpoint of qualitative and quantitative criteria)

The payment of the variable remuneration component to these employees is postponed in that 40% of the remuneration is paid in money immediately after the employee assessment process has been completed and remuneration has been awarded. The payment of the remaining 60% is postponed and will be paid during the next three years in the ratios of 20% - 20% - 20%; however, the Bank has the right not to pay this portion for objective reasons.

2. Employees in sales positions

Employees in sales positions who are not classified as employees with a significant influence on the Bank's overall risk profile and who receive remuneration exceeding 4 salaries are paid the variable component later, i.e. 40% of remuneration is payable in money immediately after the employee assessment process has been completed and remuneration has been awarded. The payment of the remaining 60% is postponed and will be paid during the next three years in the ratios of 20% - 20% - 20%; however, the Bank has the right not to pay this portion for objective reasons.

3. Employees in internal control functions

Employees in internal control functions are not assessed based on the performance results of the units they control but only based on the targets set for the relevant control function. The rules for remuneration of the heads of the risk management, internal audit and compliance functions are directly supervised by the Remuneration Committee and the Supervisory Board.

Remuneration of persons holding executive powers

The remuneration of persons holding executive powers for 2019 amounted to CZK 107.1 million in total and was distributed among 12 recipients, members of the Board of Directors and other persons holding executive powers and 6 members of the Supervisory Board. For 2019, members of the Board of Directors received remuneration in the amount of CZK 71.4 million in the form of salaries and CZK 2.4 million for the discharge of their office from the parent company.

Members of the Supervisory Board received remuneration in the form of salaries amounting to CZK 7.2 million. Other persons holding executive powers received remuneration in money in the form of salaries amounting to CZK 25.8 million. Furthermore, members of the Supervisory Board received remuneration for the discharge of their office in the amount of CZK 0.16 million. In 2019, the Bank did not pay any remuneration for the discharge of office to any other persons holding executive powers. (All the remunerations include contributions to health and social insurance).

Members of the Board of Directors, Supervisory Board and persons holding executive powers did not receive any income in money or in kind from the subsidiaries in 2019. No severance pay was paid or awarded and no remuneration exceeding EUR 1 million was paid in 2019. Neither the Bank nor its subsidiaries contribute to supplementary pension insurance schemes or any other similar schemes. The Bank declares that members of its administrative, management and supervisory bodies of the Bank and its subsidiaries do not enjoy any special advantages connected with the termination of activity.

COMPETENCE OF THE GENERAL MEETING

The Bank has only a sole shareholder, the general meeting shall not be held and the shareholder shall act in the capacity of the general meeting. Decisions taken by the shareholder acting in the capacity of the general meeting must be made in writing and must be delivered to the company. The shareholder's decisions must be in the form of a notarial deed on legal actions in cases when a notarial deed is made on the decisions of the general meeting. Delivery to the Bank is made in writing for the attention of any member of the Board of Directors or to the address of the Bank's registered office recorded in the Commercial Register. The powers of the general meeting also include decisions on a change in the Articles of Association, an amount of registered capital and the authorization of the Board of Directors to increase registered capital, election and removal of members of the Supervisory Board, the approval of regular, extraordinary or consolidated financial statements and, in cases when their preparation is stipulated by another legal regulation, of interim financial statements. The general meeting also decides on the distribution of profit and other own resources or the settlement of a loss, it gives instructions to the Board of Directors and approves principles of the Board of Directors' activity unless they are contrary to legal regulations. The general meeting can particularly prohibit certain legal actions to any Board member if it is in the interest of the Bank. The powers of the general meeting (resp. the sole shareholder) are regulated in the Bank's valid Articles of Association and respective legal regulations, in particular Act No. 90/2012 Coll., the Business Corporations Act.

ISSUER'S DIVIDEND POLICY AND SIGNIFICANT LITIGATIONS

The Issuer has not approved any specific dividend policy. The distribution of dividends, if any, is subject, for each accounting period, to assessment in terms of the possibilities and needs of the Issuer, as well as in terms of the Issuer's long-term business objectives. When assessing the payment of dividends, the goals to ensure a sufficient level of capital adequacy and further regulatory requirements, as well as the interests of the owners of certificates, are all taken into account.

Any payment of dividends shall be approved by the Issuer's sole shareholder or the general meeting if the Issuer has more shareholders and based on the proposal of the Issuer's Board of Directors. The management of the Issuer assumes that the relevant part of profits of 2019 will be transferred to a special-purpose fund intended for payment of revenues from the subordinated revenue certificates, and the remaining part will be used for payment of dividends from the profits of 2019.

As at 31 December 2019, the Issuer is not a party to any ongoing or pending legal or arbitration proceedings.

SIGNIFICANT CONTRACTS

The Issuer's significant transactions made after 31 December 2019 are disclosed in the Notes to the financial statements. Contracts entered into between the Group members are given in a separate part of the annual report, the Report on relations between related parties.

In the period preceding the release of the annual report, neither the Issuer nor any other member of the Issuer's group entered into contracts beyond the ordinary course of business which might be considered material. No member of the Group entered into a contract containing any provisions under which any member of the Group has any obligation or claim significant for the Group.

The Issuer confirms that it is not aware of any conflict of interest between obligations of the members of the Board of Directors or the Supervisory Board towards the Issuer and between their private interests and other obligations. The Issuer also confirms that it is not aware of any agreements with the major shareholders, clients, suppliers or other entities under which a member of the Board of Directors or Supervisory Board is appointed as a member of administrative, management and supervisory bodies or a top management member.

The Issuer further confirms that it is not aware of any restrictions agreed with any member of the Board of Directors or Supervisory Board on the treatment of their interests in the Issuer's securities for a certain period of time.

CZK 151.72 billion

BANK'S BALANCE SHEET TOTAL ENJOYS LONG-TERM STABILITY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

in millions of CZK	Note	31.12.2019	31.12.2018
Assets			
Cash and cash equivalents	5	59,834	56,104
Due from banks and financial institutions	6	1,455	2,467
Positive fair value of derivatives	7	978	374
Loans and advances to customers at amortised cost	10	68,320	71,528
Loans and advances to customers at fair value through profit or loss	10	–	64
Financial assets for trading	8a	3,055	5,122
Financial assets mandatorily at fair value through profit or loss	8b	7,736	6,111
Financial assets at fair value through profit or loss	8c	–	52
Financial assets at fair value through other comprehensive income	8d	7,091	5,892
Financial assets at amortised cost	8e	287	30
Disposal groups held for sale	18	133	252
Investment in associates and joint ventures	50	536	7
Current tax receivable	27	27	2
Deferred tax asset	28	267	312
Investment property	13	429	356
Property, plant and equipment	14	498	175
Intangible assets	15	123	115
Goodwill	15	33	33
Prepayments, accrued income and other assets	17	920	1,108
Total assets		**151,722**	**150,104**
Liabilities			
Deposits and loans from banks	19	4,838	2,250
Deposits from customers	20	114,551	118,999
Negative fair value of derivatives	7	582	240
Financial liabilities at fair value through profit or loss	21	–	50
Subordinated debt	22	809	937
Current tax liability	27	218	176
Deferred tax liability	28	108	89
Provisions	24	1,379	1,128
Other liabilities	23	7,723	7,005
Total liabilities		**130,208**	**130,874**
Share capital	25	10,638	10,638
Retained earnings and other reserves	25	7,473	5,423
Other equity instruments	25	2,597	2,597
Equity		**20,708**	**18,658**
Non-controlling interest	26	806	572
Total equity		**21,514**	**19,230**
Total equity and liabilities		**151,722**	**150,104**

The accompanying notes, set out on pages 68 to 166, are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

in millions of CZK	Note	2019	2018
Interest income calculated using effective interest rate	29	5,406	4,981
Other interest income	29	156	166
Interest expense	30	(1,602)	(1,342)
Net interest income		**3,960**	**3,805**
Fee and commission income	31	1,644	1,794
Fee and commission expense	32	(247)	(204)
Net fee and commission income		**1,397**	**1,590**
Net change in loss allowances for financial assets at fair value through other comprehensive income	11c	(29)	55
Net trading income	33	657	191
Gain on a bargain purchase	50	136	–
Other operating income	34	198	229
Operating income		**6,319**	**5,870**
Personnel expenses	35	(1,558)	(1,383)
Other operating expenses	36	(1,253)	(1,174)
Depreciation and amortisation	14,15	(177)	(94)
Operating expenses		**(2,988)**	**(2,651)**
Profit before allowances, provisions and income tax		**3,331**	**3,219**
Net change in loss allowances for loan commitments, provided guarantees and other financial activities	11	81	(1)
Net change in allowances for impairment of financial assets at amortised cost	11	619	(680)
Losses from loans and other receivables	11	(52)	–
Profit before tax, excluding profit from equity accounted investees		**3,979**	**2,538**
Loss from equity accounted investees, net of tax	49	(1)	–
Profit before tax		**3,978**	**2,538**
Income tax	27	(822)	(462)
Profit for the period		**3,156**	**2,076**

in millions of CZK	2019	2018
Attributable to:		
Shareholders of the parent company	3,173	2,086
Non-controlling interest	(17)	(10)
Profit for the period	**3,156**	**2,076**
Other comprehensive income - items that are or may be reclassified subsequently to profit or loss:		
Revaluation reserve - financial assets at fair value through other comprehensive income – debt instruments		
Remeasurement to fair value	55	23
Expected credit loss	25	(55)
Related tax	(8)	(3)
Revaluation differences	325	(353)
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods:		
Revaluation reserve - financial assets at fair value through other comprehensive income – equity instruments		
Remeasurement to fair value	5	21
Reclassified to retained earnings	–	1
Related tax	(1)	–
Other comprehensive income for the period, net of tax	**401**	**(366)**
Total comprehensive income for the period	**3,557**	**1,710**
Attributable to:		
Shareholders of the parent company	3,574	1,721
Non-controlling interest	(17)	(11)
Total comprehensive income for the period	**3,557**	**1,710**

The accompanying notes, set out on pages 68 to 166, are an integral part of these consolidated financial statements.

The Board of Directors approved these consolidated financial statements on 8 April 2020.

Signed on behalf of the Board:

Štěpán Ašer, MBA
Member of the Board of Directors

Igor Kováč
Member of the Board of Directors

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

in millions of CZK	Share capital	Capital funds
Balance as at 1 January 2019	**10,638**	**46**
Total comprehensive income for the period		
Profit for the period	–	–
Other comprehensive income - items that are or may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	–	–
Revaluation reserve - financial assets at fair value through other comprehensive income – debt instruments		
Remeasurement to fair value	–	–
Expected credit loss	–	–
Related tax	–	–
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods:		
Revaluation reserve - financial assets at fair value through other comprehensive income – equity instruments		
Net change in fair value	–	–
Reclassified to retained earnings	–	–
Related tax	–	–
Total comprehensive income for the period	**–**	**–**
Transactions recognised directly in equity		
Dividends	–	–
Issue of investment certificates and payment of earnings	–	–
Establishment of special-purpose fund for payment of revenue from ind. certificates	–	–
Transfer of statutory reserve fund	–	7
Effect of changes in ownership interests and new companies within the Group	–	–
Balance as at 31 December 2019	**10,638**	**53**

Further information about equity instruments is disclosed in note 25.

Translation and revaluation reserve	Retained earnings	Perpetuity fund	Other capital instruments	Total	Noncontrolling interest	Total equity
(1,671)	**6,887**	**161**	**2,597**	**18,658**	**572**	**19,230**
–	3,173	–	–	3,173	(17)	3,156
325	–	–	–	325	–	325
55	–	–	–	55	–	55
25	–	–	–	25	–	25
(8)	–	–	–	(8)	–	(8)
5	–	–	–	5	–	5
–	–	–	–	–	–	–
(1)	–	–	–	(1)	–	(1)
401	**3,173**	**–**	**–**	**3,574**	**(17)**	**3,557**
–	(1,292)	–	–	(1,292)	–	(1,292)
–	–	(239)	–	(239)	–	(239)
–	(242)	242	–	–	–	–
–	(7)	–	–	–	–	–
–	7	–	–	7	251	258
(1,270)	**8,526**	**164**	**2,597**	**20,708**	**806**	**21,514**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

in millions of CZK	Share capital	Capital fundsy
Balance as at 1 January 2018	**10,638**	**43**
Total comprehensive income for the period		
Profit for the period	–	–
Other comprehensive income - items that are or may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	–	–
Revaluation reserve - financial assets at fair value through other comprehensive income – debt instruments		
Remeasurement to fair value	–	–
Expected credit loss	–	–
Related tax	–	–
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods:		
Revaluation reserve - financial assets at fair value through other comprehensive income – equity instruments		
Remeasurement to fair value	–	–
Reclassified to retained earnings	–	–
Total comprehensive income for the period	**–**	**–**
Transactions recognised directly in equity		
Dividends	–	–
Issue of investment certificates and payment of earnings	–	–
Establishment of special-purpose fund for payment of revenue from ind. certificates	–	–
Transfer of statutory reserve fund	–	3
Effect of changes in ownership interests	–	–
Balance as at 31 December 2018	**10,638**	**46**

The accompanying notes, set out on pages 68 to 166, are an integral part of these consolidated financial statements.

Translation and revaluation reserve	Retained earnings	Perpetuity fund	Other capital instruments	Total	Noncontrolling interest	Total equity
(1,306)	**6,298**	**181**	**2,597**	**18,451**	**591**	**19,042**
—	2,086	—	—	2,086	(10)	2,076
(353)	—	—	—	(353)	—	(353)
24	—	—	—	24	(1)	23
(55)	—	—	—	(55)	—	(55)
(3)	—	—	—	(3)	—	(3)
21	—	—	—	21	—	21
1	—	—	—	1	—	1
(365)	**2,086**	**—**	**—**	**1,721**	**(11)**	**1,710**
—	(1,254)	—	—	(1,254)	—	(1,254)
—	—	(262)	—	(262)	—	(262)
—	(242)	242	—	—	—	—
—	(3)	—	—	—	—	—
—	2	—	—	2	(8)	(6)
(1,671)	**6,887**	**161**	**2,597**	**18,658**	**572**	**19,230**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

in millions of CZK	Note	2019	2018
Cash flows from operating activities			
Profit before tax from continuing operations		3,978	2,538
Adjustments for:			
Depreciation and amortisation	14, 15	177	94
Gain on a bargain purchase	50	(136)	–
Allowances for impairment of loans	11	(619)	680
Loss from loans and other receivables		52	–
Foreign exchange differences from losses resulting from impairment of loans	11	1	(14)
Provision for financial assets		(81)	1
Amortised cost of sold intangible assets and property, plant and equipment		(2)	16
Change in other provisions		251	292
Profit/(loss) from equity accounted investees		(1)	–
Unrealised foreign exchange gains/ (loss), net		(79)	(402)
Impairment of financial assets at fair value through other comprehensive income		29	(55)
Change in revaluation of financial assets at fair value through profit or loss		(593)	32
(Increase) / decrease in operating assets:			
Due from banks and financial institutions		1,230	(470)
Loans and other advances to customers		4,322	(3,329)
Financial assets at amortised cost and FVTPL		1,669	(991)
Prepayments, accrued income and other assets		219	(41)
Disposal groups held for sale		121	164
Increase / (decrease) in operating liabilities:			
Deposits and loans from banks		2,556	(19,673)
Deposits from customers		(6,848)	27,295
Other liabilities		775	(180)
Financial liabilities at fair value through profit or loss		(54)	50
Net increase / (decrease) in fair values of derivatives			
Fair value of derivative instruments		(262)	234
Tax effect			
Income tax expenses paid		(757)	(488)
Net cash flows from operating activities		**5,948**	**5,753**
Cash flows from investing activities			
Acquisition of and proceeds from sale of property plant and equipment and intangible assets, net		(85)	(67)
Acquisition of subsidiaries (incl. cash acquired)	50	1,482	–
Acquisition of investments in joint ventures		(410)	–
Financial assets FVOCI		(1,227)	
Net cash flows used in investing activities		**(240)**	**(67)**

in millions of CZK	Note	2019	2018
Cash flows from financing activities			
Distribution from equity instruments		(238)	(262)
Dividends paid		(1,292)	(1,254)
Proceeds from the issue of subordinated debt		–	8
Repayment of subordinated debt		(266)	(640)
Lease liabilities paid		(88)	–
Foreign currency difference from subordinated debt		1	2
Net cash flows from financing activities		**(1,883)**	**(2,146)**
Increase in cash and cash equivalents		**3,825**	**3,540**
Cash and cash equivalents at beginning of period	5, 37	56,104	52,666
Effects of exchange rate fluctuations on cash held		(95)	(102)
Cash and cash equivalents at end of period	5, 37	59,834	56,104
Cash flows from operating activities include:			
Interest received		5,262	4,885
Interest paid		1,036	889
Interest paid / lease liabilities		3	–

The Group does not hold any cash and cash equivalent that are not available for use by the Group. For the cash flows from operating, investing and financing activities related to discontinued operation for the year ended 31 December, refer to Note 18.

The accompanying notes, set out on pages 68 to 166, are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

J & T BANKA, a.s. ("the Bank") is a joint stock company incorporated on 13 October 1992 in the Czech Republic.

The Bank received a licence to act as securities trader on 25 April 2003 and on 22 December 2003, the Bank's licence was extended to include that activity.

The Bank's activities are focused on private, investment, corporate and retail banking.

The Bank is subject to the regulatory requirements of the Czech National Bank ("CNB"). These requirements include limits and other restrictions concerning capital adequacy, the classification of loans and off-balance sheet liabilities, large exposure, liquidity and the Bank's foreign currency position etc.

The registered office of the Bank is at Pobřežní 14, Prague 8, Czech Republic. The Bank, its subsidiaries, mentioned in the table below ("the Group") had on average 813 employees in 2019 (2018: 719). The Group operates in the Czech Republic, Slovakia, Croatia and Russia.

A Slovak branch of the Bank was established on 23 November 2005, and was registered in the Commercial Register of the District Court Bratislava I, section Po, file 1320/B as the organizational unit "J & T BANKA, a.s., pobočka zahraniční banky", Dvořákovo nábrežie 8, 811 02 Bratislava, and with the identification number 35964693.

The Bank's ultimate parent is J&T FINANCE GROUP SE, a joint-stock company owned by Jozef Tkáč (45.05%), Ivan Jakabovič (45.05%) and Rainbow Wisdom Investments Limited (9.90%).

Ownership interests
In connection with the shareholder's intention to centralise financial services under J & T BANKA, a.s., the following companies have become subsidiaries.

The companies included in the consolidated group as at 31 December 2019 are as follows (in millions of CZK):

Company	Country of incorporation	Share capital	Shareholding	Consolidation method	Business activity
J & T BANKA, a.s.	CR	10,638		Parent company	Banking activities
ALTERNATIVE UPRAVLJANJE d.o.o.	Croatia	0,07	100%	Full	Investment activities
– J&T banka d.d.	Croatia	1,048	11.86%	Full	Banking activities
ATLANTIK finanční trhy, a.s.	CR	81	100%	Full	Investment activities
J&T Bank, a.o.	Russia	2,323	99.95%	Full	Banking activities
– Interznanie OAO	Russia	73	50%	Full	Real estate
– Moskovskij Neftechnimiceskij Bank	Russia	76	100%	Full	Banking activities
J&T banka d.d.	Croatia	1,048	84.1 %	Full	Banking activities
J&T IB and Capital Markets, a.s.	CR	2	100%	Full	Advisory activities
– XT-card a.s.	CR	10	32%	Equity	IT/Programming activities
– Colorizo Investment, a.s.	CR	3,8	100%	Full	Real estate
– OSTRAVA AIRPORT MULTIMODAL PARK s.r.o.	CR	–	50%	Equity	Real estate development
J&T INVESTIČNÍ SPOLEČNOST, a.s.	CR	20	100%	Full	Investment activities
J&T Leasingová společnost, a.s.	CR	32	100%	Full	Financing activities
J&T REALITY o.p.f.	CR	–	53.08%	Full	Investment activities
J&T ADVANCED SOLUTION SICAV	Malta	–	99.97%	Full	Investment activities
TERCES MANAGEMENT LIMITED	Cyprus	0,06	99.00%	Full	Investment activities
– Interznanie OAO	Russia	73	50%	Full	Real estate

The Group provides customers with comprehensive banking services, asset management, financial and capital market transactions for the retail segment, as well as support to start-up and restructuring projects. The Group's operating segments are described in note 39.

On 18 April 2019, the Group acquired a 100% share in Colorizo Investment, a.s., which purchased a 50% share in OSTRAVA AIRPORT MULTIMODAL PARK s.r.o. on 23 April 2019. The payment of part of the acquisition cost is conditional on the fulfilment of pre-determined conditions.

On 26 September 2019, the Group increased its share in J&T Leasingová společnost, a.s. through a contribution with a total nominal value of CZK 40 million in excess of contributions made by the shareholders in the registered capital.

On 2 October 2019, the Group acquired a 100% share in Moskovskij Neftechnimiceskij Bank.

On 14 October 2019, the Group purchased a 100% share in ALTERNATIVE UPRAVLJANJE d.o.o. This subsidiary holds only a minority share in J&T banka d.d. This resulted in an increase in the ownership interest in J&T banka d.d. to 96.03%.

During 2019, no restrictions applied to the ownership rights held over subsidiaries.

The companies included in the consolidated group as at 31 December 2018 are as follows (in millions of CZK):

Company	Country of incorporation	Share capital	Shareholding	Consolidation method	Business activity
J & T BANKA, a.s.	CR	10,638		Parent company	Banking activities
J&T INVESTIČNÍ SPOLEČNOST, a.s.	CR	20	100%	Full	Investment activities
ATLANTIK finanční trhy, a.s.	CR	81	100%	Full	Investment activities
J&T IB and Capital Markets, a.s.	CR	2	100%	Full	Advisory activities
– XT-card a.s.	CR	10	32%	Equity	IT/Programming activities
J&T Bank, a.o.	Russia	2,094	99.95%	Full	Banking activities
– Interznanie OAO	Russia	65	50%	Full	Real estate
TERCES MANAGEMENT LIMITED	Cyprus	0,06	99%	Full	Investment activities
– Interznanie OAO	Russia	65	50%	Full	Real estate
J&T REALITY, o.p.f.	CR	–	53.08%	Full	Investment activities
J&T ADVANCED SOLUTION SICAV	Malta	–	99.97%	Full	Investment activities
J&T banka d.d.	Croatia	1,058	84.17%	Full	Banking activities
J&T Leasingová společnost, a.s.	CR	32	100%	Full	Financing activities

The Group provides customers with comprehensive banking services, asset management, financial and capital market transactions for the retail segment, as well as support to start-up and restructuring projects. The Group's operating segments are described in note 39.

On 30 April 2018, the Group increased its share in J&T banka d.d. to 84.17% through a purchase of J&T banka d.d.'s own shares.

On 13 December 2018, the Group increased its share in J&T Leasingová společnost, a.s. through a contribution with a total nominal value of CZK 110 million in excess of contributions made by the shareholders in the registered capital.

Effective from 31 December 2018, J&T REALITY, o.p.f. changed its reference currency from EUR to CZK. Consequently, the nominal value of allotment certificates changed using a EUR/CZK conversion rate of EUR 1/CZK 26 and the ownership interest was translated from EUR to Czech crowns.

During 2018, no restrictions applied to the ownership rights held over subsidiaries.

The acquisition of subsidiaries, associates and joint ventures in 2019 and 2018 are described in note 50.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements comprise the accounts of the members of the Group and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union for the reporting period of 1 January 2019 to 31 December 2019 ("reporting period").

(b) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention except for investment property, financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivatives, which are measured at fair value.

The members of the Group maintain their accounting books and prepare their statements for regulatory purposes in accordance with local statutory accounting principles. The accompanying financial statements are based on the statutory accounting records together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS.

In particular, information about significant areas of uncertainty estimation and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements are described in note 4.

Issued but not yet effective International Financial Reporting Standards

A number of new standards, amendments to standards and interpretations are not yet effective or not yet adopted by the EU for the year ended 31 December 2019, and have not been applied in preparing these financial statements:

Amendment to IFRS 9 Financial Instruments, IAS 39 Financial Instruments and IFRS 7 Financial Instruments: Disclosures

Effective for annual periods beginning on or after 01 January 2020.

This amendment is mandatory and applies to all hedging relationships directly affected by uncertainty associated with the IBOR reform. It provides temporary relief upon the application of certain specific requirements on hedges and hedge accounting. The amendment clarifies that the IBOR reform should not generally result in the termination of hedge accounting. Relief shall be applied to the following areas:
- requirement for "high probability"
- risk components
- prospective assessment
- retrospective effectiveness test (in the case of IAS 39)
- recycling of a valuation difference from cash flow hedging

The amendment also requires that corporations provide investors with sufficient information about hedge relationships directly affected by this uncertainty.

The Group expects that, on initial application, this amendment will require that additional information about hedge relationships affected by uncertainty caused by the IBOR reform be disclosed.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Effective for annual periods beginning on or after 1 January 2020.

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Group expects that the Standard, when initially applied, will not have a significant effect on the financial statements of the Bank.

Standards and Interpretations Issued but not yet Endorsed by the EU

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture

The European Commission decided to defer the endorsement indefinitely.

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:
– a full gain or loss is recognized when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
– a partial gain or loss is recognized when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group expects that the Standard, when initially applied, will not have a significant effect on the financial statements of the Bank.

Amendments to IFRS 3 Business Combinations

Effective for annual periods beginning on or after 1 January 2020.

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Group expects that the Standard, when initially applied, will not have a significant effect on the financial statements of the Bank.

Other new International Financial Reporting Standards and Interpretations not yet effective

The Group has not early adopted any IFRS standards where adoption is not mandatory at the statement of financial position date. Where transition provisions in adopted IFRS give an entity the choice of whether to apply new standards prospectively or retrospectively, the Group elects to apply the standards prospectively from the date of transition. The management of the Group does not expect that further new standards will have any significant impact on the financial statements of the Group.

(c) Functional and presentation currency

The accompanying consolidated financial statements are presented in the national currency of the Czech Republic, the Czech crown ("CZK"), rounded to the nearest million.

Functional currency is the currency of the primary economic environment in which the entity operates. Individual companies forming the Group determined their functional currencies in accordance with IAS 21.

In determining functional currency, each individual company forming the Group considered mainly factors such as the currency:
– in which sales prices for its services are denominated and settled; and
– of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

3. ACCOUNTING POLICIES

3.1 Changes in accounting policies

As at 1 January 2019, the Group initially applied IFRS 16, which replaces IAS 17 Leases and associated interpretations.

IFRS 16 has brought major changes in the accounting of lessees. The contract is identified as a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Right-of-use of the asset and corresponding liability shall be recognised in the lessee's statement of financial position. Right-of-use shall be depreciated for the shorter of the economic useful life of the underlying asset or the lease term. Interest expense arising from lease liability shall be recognised separately from the depreciation charge in the statement of comprehensive income.

To assess the transition impact the Group applied the following recognition exceptions as permitted by IFRS 16:
- exemption for short-term leases (with a remaining lease term of 12 months or less) by class of underlying assets, and
- exemption for low-value assets on a lease-by-lease basis (EUR 5 000/CZK 130 000).

As a lessee, the Group mainly leases head office premises, branches, and cars, which should be recognised in Property, plant and equipment under IFRS 16 from 1 January 2019.

In applying IFRS 16, the Group used the modified retrospective approach. For this reason, it reports neither any adjustments to the initial state of retained earnings as at 1 January 2019 nor any adjustments of comparable periods. The Group applied the practical expedient of grandfathering the definition of a lease on transition, i.e. it applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17.

For leases classified as operating leases as at 31 December 2018 the Group has measured, on a lease-by-lease basis, the right-of-use asset at an amount equal to the lease liability plus/minus prepaid/accrued payments. The Group applied a single discount rate to a portfolio of leases according to the currency in which the lease is paid. Other lease contract characteristics are similar.

The following table shows the impact of the IFRS 16 adoption on a specific line of assets and liabilities in the statement of financial position:

in millions of CZK	01.01.2019
Right-of-use asset - "Property, plant and equipment"	307
Lease liability - "Other liabilities"	297
Prepaid payments - "Prepayments, accrued income and other assets"	10

in millions of CZK	Total
Operating lease liabilities as at 31 December 2018	483
Weighted average incremental interest rate as at 1 January 2019	2.16%
Discounted liabilities from operating leases as at 1 January 2019	**455**
Leases of low-value assets to which a recognition exemption was applied	(4)
Short-term leases to which a recognition exemption was applied	(154)
Lease liabilities recognised as at 1 January 2019	**297**

From the lessor's perspective, IFRS 16 does not change the approach to the accounting recognition of leases applied under original IAS 17. The lessor shall still classify a lease as either an operating lease or a finance lease.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. For more information on the accounting treatment, refer to note 3f.

3.2 Accounting policies

The particular accounting policies adopted in preparation of the accompanying consolidated financial statements are described below.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(ii) Associates

Associates are enterprises in which the Group has significant influence but not control over financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses and other comprehensive income of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of or has made payments on behalf of the associate.

(iii) Joint ventures

Joint-ventures are enterprises in which the Group has a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. The consolidated financial statements include the Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains (losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(v) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Unification of accounting policies

The accounting policies and procedures applied by the consolidated companies in their financial statements were unified in the consolidation, and comply with the accounting policies applied by the Parent Company.

(b) Financial assets and liabilities

Classification and measurement of financial assets and liabilities

Financial assets under IFRS 9

The Group assesses the classification and measurement of a financial asset based on:
- the Group's business model for managing the asset such as:
  - the stated policies and objectives for the portfolio and the operation of those policies in practise;
  - how the performance of the portfolio is evaluated and reported to the Group's management;
  - the risks that affect the performance of the business model;
  - the frequency, volume and timing of sales in prior periods, including the reasons for such sales and expectations about future sales activity;
- the contractual cash flow characteristics of the asset ("SPPI - solely payments of principal and interest on the principal outstanding").

The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group defines business models and its classification as follows:
- "Hold and collect" – financial assets at amortised costs (AC);
- "Hold, collect and sell" – financial assets at fair value through other comprehensive income (FVOCI);
- "Trading" – financial assets at fair value through profit and loss (FVTPL);
- "Fair value option" – financial assets at fair value through profit and loss;
- "Mandatorily at fair value" – financial assets at fair value through profit and loss.

For an asset to be classified and measured at amortised cost or at FVOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI). For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

The Group takes into consideration the following criteria when performing an SPPI test:
- non-standard currency characteristics;
- non-standard interest rate;
- financial leverage;
- early repayment options;
- longer repayment options;
- non-recourse arrangement;
- contract-linked instruments;
- hybrid instruments;
- instruments purchased with a significant discount/premium.

Financial assets at amortised cost

The "Hold and collect" strategy is aimed at holding financial assets in order to collect contractual cash flows of both principal and interest payments. Examples of such financial assets are loans, securities held to maturity, and trade receivables. Breach of the "Hold and collect" model does not occur even if there is a significant increase in counterparty credit risk during the course of the holding of the financial asset and the Group decided to proceed with the sale of that asset.

Financial assets in the model "Hold and collect" are measured at amortised cost. Amortised cost is the amount at which the financial asset 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 and adjusted for any loss allowance – expected credit loss. Expected credit loss is recognised in profit or loss together with foreign currency differences and interest income using the effective interest rate.

Financial assets at fair value through other comprehensive income

Strategy "Hold, collect and sell" is aimed at both collecting contractual cash flows from the principal and interest and selling financial assets; the model represents so called "mixed" business model. This model distinguishes two different types of accounting treatment for equity instruments and for debt instruments.

The "Hold, collect and sell" strategy aims to collect contractual cash flows from principal and interest as well as the sale of financial assets. The model represents a „mixed" business model. This model distinguishes two different types of accounting treatment for equity instruments and debt instruments.

Debt instruments that meet the criteria of SPPI test in the business model "hold, collect and sell" are measured at fair value through other comprehensive income. When the financial asset is derecognized, gain or loss from remeasurement is reclassified to profit or loss. Expected credit losses are recognized in profit or loss together with foreign exchange differences arising from the amortised cost. Interest income is calculated using the effective interest rate and is presented in Interest income.

Equity instruments, those held within the strategy "Hold, collect and sell" and not held for trading are measured as financial assets at FVOCI. When this financial asset is derecognized, gain or loss from remeasurement is not recognized in profit or loss. Where dividends do not decrease the investment value, they are recognized in profit or loss. These assets are not subject to ECL calculation.

Financial assets at fair value through profit or loss

Strategy "Trading" is aimed at actively trading with financial asset. Typical assets in this category are derivatives and financial assets for trading. FX differences are presented in profit or loss. These assets are not subject to ECL calculation.

Strategy "Fair value option" is used for assets that are at initial recognition irrevocably designated as measured at FVTPL in order to eliminate or significantly reduce a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing gains and losses using different bases.

Debt instruments are measured at fair value through profit or loss even if they meet the amortised cost or FVOCI criteria.

Strategy "Mandatorily at FV" is used for financial assets that are held for the purpose of holding and collecting or holding and collecting and selling but which have not passed through the SPPI test and cannot be measured at AC or FVOCI.

Reclassification
If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets.

Initial recognition
On initial recognition at the date of transaction, the Group recognizes financial assets and financial liabilities at fair value adjusted for transaction costs directly attributable to the acquisition/issue or disposal of a financial asset/liability. Trade receivables without a significant financial component are recognized at the transaction price.

Financial assets at FVTPL are recognized on the date the Group commits to purchase the assets. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in the statement of comprehensive income.

Financial assets classified at FVOCI are recognized on the date it commits to purchase the assets. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in equity as differences from revaluation of assets.

Financial assets at amortised costs are accounted for at transaction date.

Measurement
Transaction costs related to the acquisition of financial assets at fair value through profit or loss are recognized directly in the statement of comprehensive income.

Subsequent to initial recognition, all assets designated at FVTPL and all at FVOCI are measured at fair value according to Note 4 (Determining fair values). Any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles
The fair value of financial assets is based on their quoted market price at the reporting date, without any deduction for transaction costs. If a quoted market price is not available, the fair value of the asset is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the statement of financial position date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the statement of financial position date.

Gains and losses on subsequent measurement
Gains and losses arising from changes in the fair value of financial assets at FVTPL are recognised in profit or loss while gains and losses arising from changes in the fair value of FVOCI assets are recognized directly in equity as differences arising from revaluation of assets and liabilities.

When a debt asset measured at FVOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity instrument designated as measured at FVOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but is transferred to equity.

Interest on debt instruments measured at FVOCI is recorded in the statement of comprehensive income.

Derecognition
A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. Upon derecognition, the difference between the asset's carrying amount, and the sum of the consideration received and any cumulative gain or loss previously recorded in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when the related obligation specified in the contract has been discharged, cancelled, or expired.

Financial assets measured at FVOCI and FVTPL that are sold are derecognised on the date the Bank commits to sell the assets.

Financial assets held to maturity and provided loans and receivables are derecognised on the date the Group sold them.

Financial liabilities under IFRS 9
Financial liabilities are classified and measured at amortized cost with the exception of::
- financial liabilities held for trading including derivatives – these are measured at FVTPL;
- financial liabilities that use the option to be measured at FVTPL - FV Option;
- financial liabilities arising from the transfer of financial assets that do not qualify for derecognition – short sales measured at FVTPL;
- contingent liabilities (if IFRS 9 recognition criteria are met) – measured at FVTPL;
- hybrid financial liabilities when the fair value measurement results in:
    - the elimination or significant limitation of the mismatch between the financial liability that would normally be measured at amortized cost and the related derivative measured at fair value;
    - the measurement of a hybrid contract as a whole, even if it contains an embedded derivative that would otherwise have to be separated.

The change in the fair value of financial liabilities associated with the change in credit risk is presented in other comprehensive income. The other part of the change in FV is presented in profit or loss. It is therefore a distinction between credit risk and asset-specific performance risk - the risk that an individual asset or group of assets will not be performing or whose performance will be weak. An example can be a commitment to investors whose performance is determined by performance specific assets (e. g. investment certificates). Determining own credit risk is the responsibility of the local Credit risk department.

In provisions within liabilities, the Bank also reports ECL for off-balance sheet items in form of granted commitments and guarantees.

Impairment

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The impairment model in IFRS 9 shall apply to financial assets measured at amortised cost, debt instruments measured at FVOCI, and loan commitments and financial guarantees measured at amortised cost.

For the purposes of ECL model calculation, the portfolio of financial assets is split into segments. Financial assets within each segment are included in three stages (Stage 1, 2, 3) or in the group of financial assets that are impaired at the date of the initial recognition - Purchased or originated credit-impaired assets ("POCI"). At the date of the initial recognition, the financial asset is included in Stage 1 or classified as POCI and recorded in Stage 3. Subsequent reclassification to other stages is carried out depending on the rate of increase in credit risk (Stage 2), i.e. the impairment of a particular asset from the moment of initial recognition (Stage 3).

Stage 1

- initial recognition of a financial asset - the creation of a credit loss for 12-months ECL;
- 12-month ECLs - all discounted cash flows that are not expected to be received until maturity of the financial asset that result from possible default events within the 12 months after the reporting date;
- an estimate based on the initial expectation of credit losses reflected in the measurement of the financial asset;
- interest income is calculated using the asset's gross carrying amount ("GCA").

Stage 2

- if the credit risk increases significantly from the initial recognition of the financial asset, the financial asset is reclassified to Stage 2;
- lifetime ECLs are used to calculate impairment;
- interest income is calculated using the asset's gross carrying amount ("GCA").

Stage 3

- the credit quality of the financial asset has significantly deteriorated and resulted into a credit loss or impairment of the asset;
- lifetime ECLs are used to calculate impairment;
- interest income should be calculated using the amortised cost;
- lifetime ECLs that result from all possible default events over the expected life of a financial instrument, i.e. all discounted cash flows that are not expected to be received until maturity of the financial asset as a result of a default;

Financial assets with low credit risk

The credit risk of a financial instrument is considered to be low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily reduce the ability of the borrower to fulfil its contractual cash flow obligations. However, collateral does not influence whether a financial instrument has a low credit risk.

Expected credit losses over the remaining life of a financial instrument are not recorded solely due to the fact that it was considered to be a low-risk financial instrument in the previous financial year but due to this assessment at the end of reporting period. In this case, the Group determines whether there has been a significant increase in credit risk.

At the end of the reporting period the Group assesses individual items with low credit risk classified in Stage 1, i.e. evaluating whether they meet this classification.

Purchased or originated credit-impaired financial assets (POCI)

In addition to purchased defaulted loans, POCI may arise as a result of the restructuring of borrowers in financial difficulties that lead to significant changes in terms of the loan and result to derecognition. Apart from recognition of losses arising from significant asset modification, no losses are initially recorded, no distinction between 12- months or lifetime ECL exists. Initial ECL over the lifetime shall be taken into account in the EIR which takes into account credit risk of counterparty that is subsequently used to record interest revenue. Subsequent changes in the ECL are recorded against impairment losses/gains. These assets are categorized separately as POCI and recognised in Stage 3 and remain so for the entire period of the holding.

Significant increase in credit risk

A significant increase in credit risk (SICR) represents a significant increase in the risk of default in respect of a financial asset as at the reporting date compared with the risk as at the date of initial recognition.

When determining SICR, the Group adheres to the requirements of IFRS 9. These requirements are based on an assumption that the credit risk usually increases significantly before a financial asset becomes past due or other lagging factors (e.g. restructuring) are observed. At each reporting date of a financial asset, the Group will assess whether the credit risk of a financial assets has increased significantly since its initial recognition or not.

At each reporting date of a financial asset, the Group will assess whether the credit risk of a financial assets has increased significantly since its initial recognition or not. The Bank may assume that the credit risk associated with the financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date.

When determining SICR on a financial asset since its initial recognition, the Group uses reasonable and supportable information that is relevant and available without undue cost or effort.

Quantitative factors to be considered in the assessment of credit receivables:
- the receivable or its significant portion is overdue for more than 30 days;
- credit risk deterioration will be considered on the basis of a change in rating since initial recognition. The current rating is compared with the rating assigned at the time of initial recognition;
- the Group uses internal rating system with 12 rating grades and the transition matrix which defines movements (rating deterioration) considered as significant, the 13th grade is referred as default: The Group uses the transition matrix which defines movements (rating deterioration) considered as significant:
  - ratings 1-3 fall under investment grade are considered to be low credit risk, migrations within these ratings are not considered to be SICRs;
  - for other grades, the PD formula is used, after which the exposure will be assigned to Stage 2;
  - in line with the regulatory recommendation, the Group uses a maximum of three times the PD increase for Stage 2 transition to ensure that the PD threshold for Stage 2 is not greater than three times the rating PD's average PD for any rating class a specific exposure can happen, but only if the corresponding PD is lower than its PD of the highest rating when it is created;
  - at the same time, the value of the thresholds increases with higher ratings, so that for high ratings with a high PD mean less than a threefold increase in PD, all significant changes in PD are captured.

Qualitative factors to be considered in the assessment of credit receivables:
- the Group was forced to pay for the debtor's guarantee;
- the expectation that the exposure will be sold with significant economic loss associated with credit quality;

- the nature of the project has changed with a negative impact on the debtor's ability to generate cash flow;
- the debtor does not meet non-financial contractual obligations for more than 6 months etc.

For other products such as debits and repurchase agreements (reverse repurchase agreements) with clients), the Group does not determine ratings, scoring, and PD, and consequently may not compare their development for SICRs purposes over the time as in the case of other credit receivables. In such cases, credit risk deterioration is assessed based on other credit quality factors of an entity from which the Bank reports receivables, e.g. specific phases occurring during the debt collection process, exceeding the period for the reporting of receivables from the entity, etc.

Credit impaired financial assets

A financial asset is 'credit-impaired' when one or more events defined as the "default of the borrower" that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets.

To determine whether a financial asset is in default, the Group assesses the common signs of default that are listed below:
- the situation when the Group filed a petition for declaring the bankruptcy of the debtor;
- the situation when the debtor has applied for bankruptcy announcement;
- the situation when the bankruptcy was announced;
- the debtor has entered or intends to enter into liquidation;
- the court has ruled that the debtor (legal person) was not founded (does not exist) or the debtor (natural person) has died;
- the final judgement of the court or administrative authority was ordered to enforce the decision by selling the debtor's assets or executing the debtor's assets;
- the situation when debtor`s liability (or its significant portion) is overdue for more than 90 days;
- the situation when the receivable in the category of default is forced to be restructured;
- it is proven that more than 20% of the funds provided to the debtor by the Group are used by the debtor for other purpose than as stated in the contract etc.

If an impairment of a debt asset measured at FVOCI is identified, the accumulated gains or losses recorded earlier in other comprehensive income are reclassified and recorded in profit or loss in the given period.

In case of an impairment of an equity instrument at FVOCI as a result of a decrease in the registered capital, the resulting gain is recognised in equity.

Determination of expected credit losses (ECL)

The term ECL refers to the multiplication of probability of default (PD), expected loss given default (LGD) and exposure at default (EAD).

Determination of loss given default (LGD)

LGD, which is necessary for the calculation of ECL, is an estimate of the loss arising when default occurs at a given time (expressed as percentage). It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including cash flow from the realization of any collateral. For calculation of LGD the Group uses discounting of expected future cash flows.

LGD is be determined individually for materially significant credit exposures - in the form of a scenario analysis. For other exposures the LGD is set by portfolio. Portfolio LGD values are determined with respect to the available data and knowledge. For exposures above a given threshold LGD is calculated on an individual basis, for exposures below a given threshold, LGDs can be calculated on a portfolio basis unless the Group entity already has individualized LGD calculation, e.g. from credit analysis or previous credit ratings.

Individual LGD is determined as weighted average of relevant cash flows according to the scenario analysis. The Group commonly uses scenarios such as: breach of covenants resulting in full repayment request, significant decrease in financial performance, realization of collateral or severe drop in performance parameters. In determining the LGD value, the entity takes into account collateral of the receivable, when the entity has legal right that in the event of default of the borrower, the collateral can be realized within reasonable time. For collateralized receivables, the calculation of the present value of the expected future cash flows also takes into account expenses associated with the realization of collateral.

For the purposes of LGD calculation, the Group takes into account only collateral up to the amount that is not used as security for other assets or assets of third parties if they are entitled to satisfaction before the Group (i.e. value of such collateral is reduced by the amount owed to more senior debtors). Furthermore, collateral is used only up to the carrying amount of the collateralized assets recognized in the balance sheet.

For homogeneous segments below the materiality threshold, such as credit cards, overdrafts and loans, or in case of lack of data, LGDs may be determined from historical observations, from parameters set in the regulatory framework or from the average of historical LGDs published by a local national bank (e. g. Czech national bank) in the Financial Stability Report. Nonetheless, regular calibration of these parameters is performed at least once a year on the basis of current data.

Determination of probability of default (PD)

Probability of default is assigned as follows:
- if the exposure is included in Stage 1, one-year PD is determined;
- if the exposure is included in Stage 2, the corresponding life-time PD is assigned to the exposure;
- if the exposure is included in Stage 3, PD is 100%.

The calculation of PD applied by the Group is divided into two steps:
- calculation of one-year PDs as the average of PDs for the previous years;
- calculation of multi-annual (cumulative) PDs.

The probability of default over the selected number of years is calculated based on annualized migration matrix. The calculation is based on the Markov matrix (a square migration matrix is multiplied for the selected number of years). The result is a multi-year (based on the choice of horizon) probability of defaults for a given rating.

The main assumption used by Group for the PD calculation of its major exposures was the use of external rating data:
- the Group has a defined mapping between external rating grades and its ratings;
- the portfolio of exposures shows the same behaviour as the one from the external rating agency.

The choice of each rating scale is subject to several arbitrary decisions that aim to assign rating to each client (or transaction) so that the breakdown into the individual rating classes corresponds (at least approximately) to the normal distribution. This means to be as symmetric as possible, to have a modus of distribution in the middle rating class and to reduce the frequency of observations with a distance from this middle class. It is also necessary to avoid undesirable concentrations in one or few rating classes. All of these properties cannot be fully met for all possible portfolios and therefore each reporting entity determines its own rating range with respect to the characteristics of its portfolios and hence the range for different client segments may be different.

Each internal rating grade was assigned with external rating, so that the corresponding external PD fits into the PD interval for the relevant internal rating grade (under the condition that such external PD exists). If no such external PD exists, the rating closest to the middle of the internal rating interval was used. The Through-The-Cycle probabilities of default are subsequently adjusted to macroeconomic development to reflect the appropriate phase of the economic cycle.

Local Risk management departments are responsible for calculating and updating the relevant PDs. The entities in the Group primarily determine scoring for non-derivative financial assets with fixed or determinable payments that are not quoted on active market. Furthermore, the entities determine scoring for its commitments provided, financial guarantees and undrawn limits. Scoring cards are used to assign the internal PDs to the relevant exposures.

Scoring models also use external data ("benchmark" models). These were mainly used for portfolios where the variables used are the same or very similar for a large number of banks in the market (e.g. operational financing or personal loans).

Another type of scoring cards was created only based on formulated criteria and questions by expert. These are used due to the very specific segments of the portfolio and the lack of data for the development of a scoring model based on a statistical approach.

Determination of Exposure at default (EAD)

EAD refers to the level of exposure at default of the client which is then multiplied by PD and LGD in order to calculate the expected credit loss (ECL). Thus, EAD is a discounted estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest.

For off-balance sheet exposures, the EAD represents the approved undrawn commitment adjusted by the conversion factor. Not enough data is usually available to compile a statistical model for determining CCF for credit products, so the CCF may be determined on the basis of the historical experience or regulatory parameters.

Forward looking indicators

The expected loss model also considers information about future events. This information includes outlooks for industries in which individual counterparties operate, analysis from economic experts, financial analysts reports, data from government institutions, think tanks and other, including also consideration of internal and external sources of information relating to the current and the future state of the general economic issues. The Group assigns counterparties relevant internal assessment of credit risk depending on their creditworthiness.

When calculating expected credit losses as at 31 December 2019, the Group followed economic scenarios, which included key indicators for the years ended 31 December 2020, 2021 and 2022:

		2020			2021			2022		
	Scenario	CZ	SK	HR	CZ	SK	HR	CZ	SK	HR
GDP growth	Basic scenario	2.6%	2.7%	3.0%	2.6%	2.7%	2.7%	2.5%	2.7%	2.5%

J&T Bank, a.o. calculates expected credit loss based on last year GDP. It apply calculated expected credit loss into basic scenario with 1.03 %, into optimistic scenario with 2.03 % and into pessimistic scenario with 0.03%.

ECL presentation in the statement of financial position

– for financial assets measured at amortised cost as a deduction from the GCA of the assets;

- for loan commitments and financial guarantee contracts generally as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- for debt instruments measured at FVOCI, the ECL is not deducted from the carrying amount of the financial asset because the carrying amount is already measured at fair value. However, the loss allowance is recognized as reduction of the revaluation reserve in OCI, instead.

Modification of financial assets
If there is a change in the cash flows of a financial asset due to a change in the contractual terms between the Group and the counterparty (modification not only due to financial difficulties) while the change in the terms of the contract is classified as significant, the financial asset is derecognised and a new financial asset is recognised at fair value, including transaction costs. The present value of cash flows is discounted using a new effective interest rate that is also used for the calculation of interest income.

If the change in the terms of the contract is not classified as significant (i.e. the difference between the net present value of the modified cash flows discounted using the original effective interest rate and the present value of the original cash flows is close to 10%) and the financial asset was not derecognized, the Group recalculates the present value of the modified cash flows from the financial asset, and the difference between the gross carrying amount before the change in the terms and conditions (not considering existing impairment) is recorded as the effect of the modification of assets to the profit or loss. The present value of the modified cash flows is discounted using the original EIR that is also used for the calculation of interest income. Costs, fees adjusting the carrying amount of a modified financial asset are amortized over the remaining term of modified financial asset.

Write-off
The gross carrying amount of a financial asset should be reduced directly when there are no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event. This involves situations in which the Group determines that the debtor does not have necessary assets or resources of income to repay the debt. The assessment is performed on an item-by-item basis. In the case of write-off, the Group directly decreases the gross carrying amount of a financial asset. Write-offs do not affect profit or loss, as the written-off amounts are included in loss allowances. A write-off constitutes a derecognition event. However, derecognised financial assets may still be recovered by the Group in accordance with its debt recovery policies.

Forbearance
The Group monitors quality of loan receivables to customers according to categories performing and non-performing exposures forborne and non-forborne. The Group treats forbearance in accordance with the Technical Standard on non-performing exposures and forbearance measures published by the European Banking Authority (EBA) and in accordance with the Public Statement of the European Securities and Markets Authority (ESMA) on the treatment of forbearance practices in the financial statements of the financial institutions prepared in accordance with International Financial Reporting Standards further.

Forbearance is an exposure where the Group decides, due to debtor's financial problems, to grant a concession which in other circumstances would not be granted. The concession may consist in the modification of the terms and conditions of the contract or in debt refinancing. The modification of terms and conditions may include, but is not limited to, a decrease in interest rate, reduction of the interest or principal, change in the repayment schedule (e.g. postponement of interest payment due date, temporary payment holiday, prolongation of the final due date of the loan, fee or accessories for the debtor, modification or non-monitoring of covenants, interest or instalment capitalisation, partial debt write-off). Any modification of terms and conditions or refinancing which is not result of debtor's financial problems cannot be interpreted as forbearance. Concessions may result in better interest risk management and mitigation of potential future loan losses.

Performing and non-performing exposures may also be recognised as exposures without concession provided no modification of terms and conditions or refinancing was made in respect to the given receivable.

Performing exposures comprise primarily exposures classified in Stage 1 and 2. Non-performing exposures comprise receivables with debtor's failure classified in Stage 3 Under special conditions defined by EBA, exposures in Stage 2 might also be categorised as non-performing exposures. If more than 20% of total debtor's exposure is overdue more than 30 days, the Group shall include all of the debtor's balance sheet and off balance sheet exposures as non-performing. The Group also evaluates the classification of debtors from the same group of related parties to verify the condition for being classified as non-performing exposure.

Treasury bills

Treasury bills, comprising bills issued by Czech government agencies, are stated at cost including the amortised discount arising on purchase. The discount is amortised over the term to maturity with the amortisation being included in interest income.

Derivatives

Derivatives including currency forwards, cross currency swaps, interest rate swaps and options are stated at fair value in the statement of financial position. Fair values are obtained from quoted market prices and discounted cash flow models. The positive fair value of derivatives is recognised as an asset while the negative fair value of derivatives is recognized as a liability.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

Changes in the fair value of derivatives are included in Net trading income.

Hedge accounting – Fair Value Hedge

The Group decided to continue the original recognition under IAS 39 as part of its choice to apply IFRS 9 when recognising hedging derivatives. Hedging derivatives are derivatives that serve the Group to hedge the currency risk and meet all conditions of the classification of hedging derivatives under International Accounting Standards.

At the inception of a hedging transaction, the relationship between the hedging instrument and the hedged item is documented. Hedge effectiveness is tested during the inception and duration of the hedging relationship by mutually offsetting changes in fair value or cash flows of the hedging instrument and the hedged item with the result in the range from 80 to 125%.

Changes in the fair value of derivatives for fair value hedges are recognised in the income statement together with changes in the fair value of hedged assets and liabilities, to which a hedging risk can be assigned. Hedge accounting is discontinued when the hedging relationship is terminated by the Group, the hedging instrument expires, is sold, terminated, or the respective contract is exercised, or the hedging relationship ceases to meet the criteria of hedge accounting.

The positive fair value of hedging derivatives is recognised in Asset as Positive fair value of derivatives in the statement of financial position. The negative fair value of hedging derivatives is recognised in Liabilities as Negative fair value of derivatives in the statement of financial position. A change in the fair value of hedging derivatives and of the hedged item is recognised as Net trading income from trading in the statement of comprehensive income.

(c) Sale and repurchase agreements

Where securities are sold under a commitment to repurchase at a predetermined price ("repurchase agreements"), they remain on the statement of financial position and a liability is recorded equal to the consideration received. Conversely, securities purchased under a commitment to resell ("reverse repurchase agreements") are not recorded in the statement of financial position and the consideration paid is recorded as a loan granted. The difference between the acquisition cost and the selling price is treated as interest and is accrued evenly over the life of the transaction. Repurchase and reverse repurchase transactions are recognised on a settlement date basis.

(d) Intangible assets

Goodwill and intangible assets acquired in a business combination

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition.

Goodwill on acquisition of subsidiaries is included under intangible assets. Goodwill on acquisition of associates and joint ventures is included in the carrying amount of investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Intangible assets acquired in a business combination are recorded at fair value on the acquisition date if the intangible asset is separable or arises from contractual or other legal rights. Intangible assets with an indefinite useful life are not subject to amortisation and are recorded at cost less impairment. Intangible assets with a definite useful life are amortised over their useful lives and are recorded at cost less accumulated amortisation and impairment.

Intangible assets

Intangible assets are stated at historical cost less accumulated amortization and impairment losses. Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets other than goodwill, from the date the asset is available for use. The average amortization rates per year are as follows:

Software	20%
Other intangible assets	11% - 50%
Customer relationships	5% - 33%

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Depreciation is provided on a straight-line basis over the estimated useful economic life of the asset. Assets under construction are not depreciated.

The average depreciation rates used are as follows:

Buildings	2,5%
Office equipment	12,5% – 33%
Fixtures and fittings	12,5% – 33%

Land is not depreciated.

Subsequent expenditure
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset.

(f) Leases

Group as the lessor
When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Group as the lessee

Accounting policies from 1 January 2019
The Group applies IFRS 16 to all leases. At the commencement date of a contract, the Group assesses whether the contract has the character of a lease or contains a lease. A contract has the character of a lease or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assesses whether the contract contains a lease for each potential individual lease component. For short-term leases, the Group considers wider contract terms and conditions.

If a contract contains a lease, the Group as the lessee recognises the right-of-use asset and the lease liability as at the start of the contract. The classification of the right-of-use into tangible/intangible assets class is based on the leased asset, i.e. on the underlying asset. The Group has lease contracts where the leased assets are buildings (the bank's office premises, branches) and cars.

The Group uses the exception for lease classification under IFRS 16 for:
- short-term leases
  - leases with a lease term of 12 months or less as at the commencement date of the lease
  - leases concluded for an indefinite lease term with a notice period of less than 12 months
- leases whose underlying asset has a low value
  - underlying low-value assets can include for instance tablets and personal computers, small items of office furniture and phones ((EUR 5 000/CZK 130 000).

The Group as the lessee recognises lease payments relating to lease contracts in the recognition exemption regime as expenses over the term of the lease.

As at the commencement date, the Group shall measure the right-of-use asset at acquisition cost. Acquisition cost of a right-of-use asset includes the amount of lease liability initial recognition, all lease payments made at or before the commencement date net of all lease incentives received, all initial direct costs incurred by the

Group, an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Group shall measure the right-of-use asset using the model of measuring at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability.

As at the commencement date, the Group shall measure the lease liability as the present value of lease payments that have not been paid at that date. Lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Group's incremental borrowing rate, if not.

On initial recognition, the Group subsequently measures the lease liability by recognising interest on the lease liability, decreasing the carrying amount of the liability to reflect lease payments, remeasuring the carrying amount to reflect any lease revaluation or modifications.

After commencement date, the Group as the lessee recognises interest on lease liability and variable lease payments not included in lease liability measurement in profit and loss.

The Group shall reassess whether the contract has the character of a lease or contains a lease only if the terms and conditions of the contract are changed.

While right-of-use assets are presented under Property, plant and equipment in the statement of financial position, lease liabilities are presented under Other liabilities and provisions. The Group recognises lease liability interest expense in the income statement separately from right-of-use asset depreciation. Lease liability interest expense represents a component of finance expense.

Accounting policies until 31 December 2018
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of total costs over the term of the lease.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

(g) Investment property
Investment property is represented by assets that are held to generate rental income or to realise a long-term increase in value, and are not used in production or for administrative purposes or sold as part of the ordinary business activities of the Group.

Investment property is measured at fair value, as determined by an independent certified appraiser or by management. Fair value is assessed based on current prices in an active market for similar properties in the same location and condition, or if not available, by applying generally applicable valuation methodologies, such as expert opinions and yield methods. Any gain or loss arising from a change in fair value is recognised in the statement of comprehensive income.

(h) Foreign currency translation
Transactions denominated in foreign currencies are translated into CZK at the official Czech National Bank exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the statement of financial position date. All resulting

gains and losses are recorded in the statement of comprehensive income in Net trading income, in the period in which they arise.

(i) Income and expense recognition

Interest income and interest expense are recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability. The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses). For purchased or originated credit-impaired financial assets (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest income from trading financial assets, debt instruments at FVOCI, bonds at FVTPL is recognised as interest income.

Penalty interest is recorded as off balance sheet items and recognised as interest income at the moment the payment from the debtor is received.

Negative income from financial assets is recognized as interest expense, positive income from financial liability as interest income.

The recognised average interest rate is determined as the annual weighted average from open contracts as at the date of the balance sheet date.

Fees and commissions are recognized based on the nature of the fee and the type of service provided as follows:

- fees and commissions that are an integral part of the effective interest rate of a financial instrument and reported in the Net interest income;
- fees and commissions for services provided that are recognized as the services are provided and reported in the Net fee and commission income;
- fees and commissions for the execution of the transaction are recognized when the transaction is provided and also reported in the Net fee and commission income.

Other fees and commissions, including fees for loan commitments, are accounted for in accordance with the accruals principle and on a straight-line basis.

(j) Income tax

Tax paid is calculated in accordance with the provisions of the relevant legislation based on the profit recognized in the statement of comprehensive income prepared pursuant to local statutory accounting standards, after adjustments for tax purposes.

Deferred tax is calculated using the statement of financial position liability method, providing for temporary differences between the accounting and taxation basis of assets and liabilities. Deferred tax liabilities are recognized for taxable temporary differences. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Currently enacted tax rates are used to determine deferred income taxes.

(k) Social security and pension schemes

Contributions are made to the government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year based on gross salary payments. The cost of social security payments is charged to the statement of comprehensive income in the same period as the related salary cost. The Group has no further pension or post retirement commitments.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks (excluding statutory minimum provisions) and other banks and short-term highly liquid assets with original maturities of three months or less.

(m) Provisions

A provision is recognized in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognized amounts and the transactions are intended to be settled on a net basis.

(o) Segment reporting

Segment analysis is based on type of clients and provided services. The management of the entity is provided with the information that allows evaluating the performance of individual segments.

The Group's reportable segments according to IFRS 8 are as follows:

- Financial markets;
- Corporate banking;
- Private banking;
- Retail banking;
- ALCO.

Accounting policies applied to operating segments comply with those described in note 3. The profits of the segments represent profits before tax achieved by each segment excluding overhead costs and salaries of management. This segment analysis is basis for review and strategic and operational decision making of the management.

For operating segment analysis, all assets and liabilities are allocated to the individual reportable segments. IFRS 8 requires that operating segments are identified based on internal reporting about the business units of the Group which are regularly reviewed by the Board of Directors and allow proper allocation of resources and evaluation of the performance.

(p) Business combinations and purchase price allocations

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised and measured at their fair values at the acquisition date. For financial statement reporting purposes, allocation of the total purchase price among the net assets acquired is performed with the support of professional advisors. The valuation analysis is based on historical and prospective information available as of the date of the business combination. Any prospective information that may impact the fair value of the acquired assets is based on management's expectations of the competitive and economic environments that will prevail in the future. The results of the valuation analysis are also used to determine the amortisation and depreciation periods for the values allocated to specific intangible and tangible fixed assets.

(q) Disposal groups held for sale

Disposal groups classified as held for sale are measured at the lower of their cost of acquisition and fair value less costs to sell. Disposal groups are classified as held for sale if their carrying amounts are primarily recovered through a sale transaction rather than through continuing use. This condition is regarded as met only if the sale is highly probable and the disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to be completed within one year from the date of classification.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resell.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

In the consolidated statement of comprehensive income for the reporting period, and for the comparable period of the previous reporting period, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

(r) Dividends

Dividend expense is recognised in the statement of changes in equity and recorded as liabilities in the period in which they are declared.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The presentation of dividend income depends on the classification of financial assets and measurement of ownership interests, i.e.:

- for equity instruments which are held for trading, dividend income is presented in Net trading income in profit or loss;
- for equity instruments designated at FVOCI, dividend income is presented in net trading income except for those resulting from a decrease in share capital of the invested entity, which is recorded in other comprehensive income.

(s) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Amounts due to employees, such as amounts relating to accrued vacation pay or performance bonuses, are recognized as other liabilities.

(t) Other equity instruments

Other equity instruments are issued, subordinated, unsecured and yield certificates with a fixed interest income dependent on the fulfilment of particular conditions (hereinafter "Certificates"). These Certificates have no maturity date.

The Certificates have the character of hybrid financial instruments combining the economic features of equity and debt securities.

The Group classified Certificates in accordance with IAS 32 and assessed all the conditions for the definition as equity instrument. Certificates meet both of the required conditions:

- the Certificates include no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or liabilities with another entity under conditions that are potentially unfavourable to the issuer;
- if the Certificates are or may be settled in the entity's own equity instruments, the Certificates are non-derivative instruments, which include no contractual obligation for the issuer to deliver a variable number of its own equity instruments.

The Group may redeem the Certificates with approval of the Czech National Bank. Holders of Certificates have no right to ask for redemption, except in the event of the Group's liquidation.

The Group commits to paying interest income generated from Certificates to the holders, but may also decide not to pay the interests accrued by the Certificates without compensating this in future periods. The Group will pay interest if there are funds available and approved to be used by the General Meeting of the Group. When there are not sufficient funds available, the payment is reduced proportionately. Revenue can be distributed from:

- the Group's net profit;
- retained earnings;
- other equity components that the Group is authorised to distribute to its shareholders.

As the Group has no obligation to deliver cash to the holders of Certificates or to settle the contractual obligation by providing other financial assets, (i.e. Certificate holders do not have right to redemption of the principal amount or the interest income and as the Certificates have no maturity date), they are included in additional Tier 1 capital (AT1). This inclusion is subject to approval by the Czech National Bank.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

These principles supplement the commentary on financial risk management.

Key sources of estimation uncertainty

Expected credit losses
Expected credit losses are determined for those assets classified at amortised cost, debt instruments at fair value through other comprehensive income, guarantees and commitments. Basis used for its calculation and principles considered are described in accounting policy 3(b).

Calculation of expected credit losses and identified future liabilities considers uncertainties about the results of related risks and requires significant Group's management assessments when estimating the amount of loss, including future economic conditions and credit behaviour.

Amounts reported as provisions for off-balance sheet items are based on management's judgement and represent the best estimate of expenditures required to settle the liability with uncertain timing or the uncertain amount of the obligation.

Determining fair values
The determination of fair value for financial assets and liabilities for which there is no observable quoted market price requires the use of valuation techniques as described in accounting policy 3(b). For financial instruments that are traded infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of the market factors, pricing assumptions and other risks affecting the specific amounts.

The Group determines the fair value hierarchy according to IFRS 13 and establishes fair value using the following hierarchical system that reflects the significance of the inputs used in the valuation:
- Level 1 - entries are (unadjusted) quoted prices in active markets for identical assets or liabilities to which the Group has access at value date;
- Level 2 - inputs are inputs other than quoted prices included in level 1 that are directly or indirectly observable for an asset or liability:
  - quoted prices of similar assets or liabilities in active markets,
  - quoted prices of identical assets on markets that are not active,
  - input quantities other than quoted prices that are observable,
  - market-supported inputs;
- Level 3 - inputs are unobservable inputs for an asset or liability.

An active market is the market where transactions for assets or liabilities are carried out frequently and in sufficient volume to ensure regular price information:
a) the items traded on the market are homogeneous;
b) it is possible to find willing buyers and sellers at any time and
c) prices are publicly available.

If there is no active market for the financial asset, the fair value is estimated using valuation techniques. When using valuation techniques, management uses estimates and assumptions based on available information about the estimates and assumptions that market participants would use to determine the price of the financial instrument.

In the vast majority of cases, the fair value of Level 3 investments, debt instruments, provided loans, was estimated using discounted cash flow ("DCF") models, with inputs coming from the specific investment's business plan or cash flow projections. The individual business plans and cash flow projections were critically reviewed by management before inclusion in the models. The discount rates were based on the specifics of the industries and countries in which the investments operate. The key assumptions used in the valuations were the expected cash flows and discount rates. Further information about the Level 3 financial instruments is disclosed in note 8.

Valuation of investment property
Investment property is carried at fair value and classified as Level 3 according to the fair value hierarchy.

Fair values of investment property are determined either by independent registered appraisers or by management, in both cases based on discounted cash flow ("DCF") models with inputs coming from rental income projections or based on combination of DCF model and independent registered appraiser´s real estate valuation. These projections are critically assessed by management before inclusion in the models. The discount rates were based on the specificities of the countries in which the investment property is located.

Valuations reflect, where appropriate, the type of tenants in occupation or responsible for meeting lease commitments, or likely to be in occupation after letting vacant property, the general market's perception of tenants' creditworthiness and the remaining economic life of the properties.

Further information about investment property is disclosed in note 13.

Goodwill and impairment testing
The Group conducts impairment testing of goodwill arisen in a business combination during the current period and impairment testing of goodwill already recognised in prior years annually (see also note 50 Acquisitions and disposals of subsidiaries, associates and joint ventures and note 15 Intangible assets).

The Group also conducts impairment testing of other intangible assets with indefinite useful lives, and of cash generating units (CGUs) where a trigger for impairment testing is identified. As at the acquisition date goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which goodwill relates, on the basis of a value in use that reflects estimated future discounted cash flows or on the basis of fair value less costs to sell.

Fair value measurements for impairment testing purposes were categorized as a Level 3 measurement based on the inputs used in the valuation technique. In the majority of cases the Group estimated the recoverable amounts of goodwill and the cash generating units based on value in use. Value in use was derived from management forecasts of future cash flows updated since the date of acquisition. The discount rates applied to the cash flow projections are calculated as the weighted average cost of capital (WACC) of each CGU.

a) ATLANTIK finanční trhy a.s.
In 2015, goodwill allocated to the ATLANTIK finanční trhy, a.s. as cash generating unit was written off in full based on the results of the performed impairment testing.

b) J&T INVESTIČNÍ SPOLEČNOST, a.s.

The recoverable amount of the cash-generating unit J&T Investiční společnost, a.s. was calculated based on discounted cash flows. The key assumption was a forecast profit after tax over a specific five-year forecast period. The average growth rate used for this period was 6.18 % (2018: 9.87%). Expected cash flows were discounted using a weighted average cost of capital 10.6% (2018: 10.08%). There was no impairment loss identified as a result of this impairment test in 2019 and 2018.

5. CASH AND CASH EQUIVALENTS

in millions of CZK	2019	2018
Cash in hand	320	275
Current accounts with central banks	904	1,488
Term deposits with central banks up to 3 months	880	855
Current accounts with banks	1,427	804
Loans to central banks – reverse repurchase agreements	56,232	52,437
Current accounts with banks or payable within 3 months	77	251
Expected credit losses (note 11)	(6)	(6)
Total	**59,834**	**56,104**

6. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

in millions of CZK	2019	2018
Obligatory minimum reserves at central banks	1,166	1,845
Term restricted deposits and loans over 3 months	52	92
Subordinated loans to banks	204	206
Other receivables due from banks	35	327
Expected credit losses (note 11)	(2)	(3)
Total	**1,455**	**2,467**

The parent company's obligatory minimum reserves bear interest and are stated as 2% of primary deposits with maturity of less than two years.

The obligatory minimum reserves of J&T Bank, a.o. are determined as 4.75% of non-residential corporate deposits denominated in RUB, 8% of non-residential corporate deposits in foreign currency, 4.75% of deposits of individuals -residents denominated in RUB, 8% of deposits of individuals - residents in foreign currency, 4.75% of other liabilities in RUB, and 8% of other liabilities in foreign currency reduced by the average balances of deposits and accrued interest multiplied by a coefficient of 0.8.

The obligatory minimum reserves of J&T banka d.d. are determined as 12% of the average daily balances of deposits and loans, issued debt securities, subordinated instruments and financial liabilities, excepting balances with selected banks.

The obligatory minimum reserves of the Central Bank of the Russian Federation and the Central Bank of Croatia do not bear interest.

The Group has a prudent liquidity policy and holds a significant part of its liquidity surplus in highly liquid assets. Highly liquid assets include balances with the central banks, short term deposits in financial institutions and highly liquid corporate and government bonds. The Group decides on placements based on the credibility of the counterparty and the offered conditions.

There were no overdue receivables from banks as at 31 December 2019 and 31 December 2018.

The contractual weighted average interest rate on deposits with other banks and loans provided to banks and other financial institutions was 2.02% (2018: 1.70%).

All exposures classified as cash and cash equivalents, and balances with central banks and due from financial institutions are measured at amortised cost, categorised in Stage 1.

7. DERIVATIVES

(a) Derivatives held for trading:

in millions of CZK	2019 Notional amount buy	2019 Notional amount sell	2019 Positive fair value	2019 Negative fair value
Currency derivatives	82,411	(81,992)	839	(525)
Cross currency derivatives	8,696	(8,696)	103	(51)
Interest rate derivatives	399	(399)	2	–
Commodity derivatives	–	–	3	(6)
Equity derivatives	–	(816)	18	–
Total as at 31 December 2019	**91,506**	**(91,903)**	**965**	**(582)**

in millions of CZK	2019 Notional amount buy	2019 Notional amount sell	2019 Positive fair value	2019 Negative fair value
Currency derivatives	81,733	(81,358)	295	(203)
Cross currency derivatives	6,744	(6,744)	78	(32)
Equity derivatives	–	(709)	–	(5)
Total as at 31 December 2018	**88,477**	**(88,811)**	**373**	**(240)**

All derivatives held for trading are classified as Level 2 according to the fair value hierarchy.

Currency contracts, generally forward currency contracts, are commitments to either purchase or to sell a designated currency at a specified date for a specified price. Forward currency contracts result in a credit exposure at a specified future date for a specified price. Forward currency contracts also result in exposure to market risk based on changes in quoted market prices relative to the contracted amounts.

Although all these derivatives represent an economic hedge, they are presented as held for trading purposes.

The foreign currency structure of these transactions was as follows:

Long position	CZK	EUR	USD	RUB	Other
31 December 2019	53%	39%	3%	1%	4%
31 December 2018	51%	41%	1%	1%	6%

The foreign currency structure of the second leg of these transactions was as follows:

Short position	CZK	EUR	USD	RUB	Ostatní
31 December 2019	41%	45%	3%	2%	9%
31 December 2018	39%	44%	9%	1%	7%

(b) Hedging derivatives:

in millions of CZK	Notional amount Long position	Notional amount Short position	Fair value Positive	Fair value Negative
Currency swaps - hedging for equity instruments at FVOCI			**13**	**–**
– Payable in more than 1 year	570	(534)		
Total as at 31 December 2019	**570**	**(534)**	**13**	**–**

To hedge equity instruments at FVOCI, a CZK/EUR derivative (buy/sell) was used.

in millions of CZK	Notional amount Long position	Notional amount Short position	Fair value Positive	Fair value Negative
Currency swaps - hedging for equity instruments at FVOCI			**1**	**–**
– Payable in less than 3 months	130	(129)		
– Payable between 3 months and 1 year	13	(13)		
Total as at 31 December 2018	**143**	**(142)**	**1**	**–**

To hedge equity instruments at FVOCI, a CZK/EUR derivative (buy/sell) was used.

All derivatives held for risk management are classified as level 2 according to the fair value hierarchy that reflects the significance of the inputs used in the valuation.

The carrying amount of equity instruments at fair value through other comprehensive income as at 31 December 2019 was CZK 164 million (2018: CZK 143 million).

The objective of this hedge is to cover the foreign currency exposure to changes in the fair value of foreign currency financial assets at FVOCI. The Bank uses currency contracts to achieve hedge effectiveness. The set hedges are in all cases effective.

8. FINANCIAL SECURITIES

(a) Financial assets for trading:

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– domestic	275	311
– foreign	39	303
Bonds		
– domestic	1,080	2,476
– foreign	1,656	2,025
Allotment certificates		
– domestic	1	3
– foreign	4	4
Total	**3,055**	**5,122**

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– listed	314	614
Bonds		
– listed	2,736	4,501
Allotment certificates		
– listed	5	7
Total	**3,055**	**5,122**

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– corporate	243	432
– financial institutions	71	182
Bonds		
– government	612	2,345
– financial institutions	538	555
– corporate	1,586	1,601
Allotment certificates		
– financial institutions	5	7
Total	**3,055**	**5,122**

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– Level 1	285	611
– Level 2	26	–
– Level 3	3	3
Bonds		
– Level 1	1,092	3,278
– Level 2	1,586	1,183
– Level 3	58	40
Allotment certificates		
– Level 2	5	7
Total	**3,055**	**5,122**

As at 31 December 2019, foreign bonds included mainly non-government bonds of CZK 1 504 million (2018: CZK 1 873 million) issued by companies from the following states and in the following amounts: Slovakia of CZK 771 million (2018: CZK 849 million), Russia of CZK 485 million (2018: CZK 233 million), Luxembourg of CZK 80 million (2018: CZK 527 million), the Netherlands of CZK 68 million (2018: CZK 63 million), Malta of CZK 52 million (2018: CZK 17 million) and Columbia of CZK 23 million (2018: CZK 0 million).

Foreign government bonds totalling CZK 152 million (2018: CZK 152 million) represent Polish government bonds of CZK 65 million (2018: CZK 64 million), Romanian bonds of CZK 58 million (2018: CZK 61 million), and Turkish bonds of CZK 29 million (2018: CZK 27 million).

The contractual weighted average interest rate on bonds was 4.62% (2018: 3.5%).

(b) Financial assets mandatorily at fair value through profit or loss:

in millions of CZK	2019 Fair value	2018 Fair value
Allotment certificates		
– domestic	2,528	2,598
– foreign	5,208	3,513
Total	**7,736**	**6,111**

in millions of CZK	2019 Fair value	2018 Fair value
Allotment certificates		
– not listed	7,736	6,111
Total	**7,736**	**6,111**

in millions of CZK	2019 Fair value	2018 Fair value
Allotment certificates		
– financial institutions	7,736	6,111
Total	**7,736**	**6,111**

in millions of CZK	2019 Fair value	2018 Fair value
Allotment certificates		
– Level 2	5,404	4,036
– Level 3	2,332	2,075
Total	**7,736**	**6,111**

Foreign allotment certificates included the Malta allotment certificates of CZK 5 004 million (2018: CZK 3 477 million), Croatian allotment certificates of CZK 119 million Kč (2018: CZK 0 million), Slovakian allotment certificates of CZK 52 million (2018: CZK 0 million) and Swiss allotment certificates of CZK 30 million (2018: CZK 0 million).

(c) Financial assets at fair value through profit or loss:

in millions of CZK	2019 Fair value	2018 Fair value
Bonds		
– domestic/listed/corporate	–	52
Total	**–**	**52**

All bonds recorded in this business model are revalued using prices derived from quoted prices.

(d) Financial assets at fair value through other comprehensive income

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– domestic	167	177
– foreign	325	280
Bonds		
– domestic	450	690
– foreign	6,149	4,745
Total	**7,091**	**5,892**

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– quoted	364	358
– not quoted	128	99
Bonds		
– listed	6,270	5,106
– not listed	329	329
Total	**7,091**	**5,892**

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– financial institutions	127	95
– corporate	365	362
Bonds		
– government	1,672	916
– financial institutions	1,520	1,216
– corporate	3,407	3,303
Total	**7,091**	**5,892**

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– Level 1	199	177
– Level 2	291	276
– Level 3	2	4
Bonds		
– Level 1	3,815	2,499
– Level 2	760	608
– Level 3	2,024	2,328
Total	**7,091**	**5,892**

Foreign shares in the portfolio as at 31 December 2019 included mainly the shares of Slovak companies of CZK 166 million (2018: CZK 142 million), Russian companies of CZK 126 million (2018: CZK 95 million) and Swiss companies of CZK 32 million (2018: CZK 38 million).

Foreign bonds in the portfolio as at 31 December 2019 mainly included the bonds of Russian companies of CZK 2 660 million (2018: CZK 1 149 million), Slovak companies of CZK 2 429 million (2018: CZK 2 402 million), Croatian companies of CZK 711 million (2018: CZK 516 million), the Netherlands companies of CZK 178 million (2018: CZK 151 million), Belgian companies of CZK 68 million (2018: CZK 0 million), Kazakhstan companies of CZK 23 million (2018: CZK 292 million) and US companies of CZK 23 million (2018: CZK 77 million).

The contractual weighted average interest rate on bonds was 5.20% p.a. (2018: 3.16% p.a.).

For more information about bonds as at 31 December 2019 and their classification into individual stages, expected losses and gross carrying amounts, refer to notes 11 and 12.

The Group classifies bonds measured at FVOCI into internal rating groups, taking into account a number of factors. The following table summarises these bonds by internal rating.

Risk category

in millions of CZK	Very low risk	Low risk	Medium risk	Total
Stage 1	4,096	449	195	4,740
Stage 2	164	0	1,695	1,859
Total 2019	**4,260**	**449**	**1,890**	**6,599**
Stage 1	2,849	1,755	831	5,435
Total 2018	**2,849**	**1,755**	**831**	**5,435**

(e) Financial assets at amortised cost:

in millions of CZK	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	POCI	Net carrying amount
Bonds						
– foreign/listed/						
financial institutions	292	–	(5)	–	–	287
Total 2019	**292**	**–**	**(5)**	**–**	**–**	**287**
Bonds						
– foreign/listed/						
financial institutions	31	(1)	–	–	–	30
Total 2018	**31**	**(1)**	**–**	**–**	**–**	**30**

Foreign bonds primarily include Russian zero-coupon bonds of CZK 215 million (2018: CZK 30 million). All bonds in this category carry a very low risk rating.

Financial assets valued at level 3

The Group regularly monitors the classification of securities into the fair value hierarchy. The Group always assesses the individual ISIN codes of securities according to the frequency and volume of trades. Thus, a situation may arise that securities of one issuer may be classified under Level 1, whereas securities of another issuer may be classified under Level 2 or 3, based on the criteria shown in an internal decision-making tree.

The following table shows a reconciliation of the opening and closing balances for Level 3 financial assets that are recorded at fair value:

in millions of CZK	01.01.2019	Revaluation to OCI	Revaluation to profit or loss	Transfer from Level 2	Additions	Disposals	FX movement	Interest income	31.12.2019
Financial assets for trading									
shares	3	–	–	–	–	–	–	–	3
bonds	40	–	–	12	6	–	–	–	58
Financial instruments mandatorily at fair value through profit or loss									
podílové listy	2,075	–	19	–	128	–	110	–	2,332
Financial assets at fair value through other comprehensive income									
shares	4	–	–	–	1	(3)	–	–	2
bonds	2,328	1	–	–	–	(264)	(41)	–	2,024
Total	**4,450**	**1**	**19**	**12**	**135**	**(267)**	**69**	**–**	**4,419**

The following table sets out information about significant unobservable inputs used as at 31 December 2019 in measuring financial assets categorised as Level 3 in the fair value hierarchy:

Type of financial assets	Valuation technique	Significant unobservable input	FV as at 31/12/2019	Range of estimates	FV sensitivity to unobservable inputs
bonds	discounted cash flow	Credit Spread		0.5% – 4%	A significant increase may result in lower fair value.
		Risk-free rate	2,082	-0.5% – 2.5%	
shares	discounted cash flow	Discount rates		7.7% – 14.6%	
		EBITDA growth coefficient	5	2%	
allotment certificates	Net asset valuation	Expected cash flow from fund	2,332	Investment value	

If fair values were by 10% higher or lower than the Group management's estimates, the determined carrying amount of financial assets at Level 3 would be by CZK 442 million higher or lower than the carrying amount recognised as at 31 December 2019 (2018: CZK 445 million).

The effect of the remeasurement of fair values of the Level 3 financial assets as a result of an increase or decrease of some of the inputs by 1% used on the calculation of fair values is shown below:

in millions of CZK	Effect on profit or loss Increase	Effect on profit or loss Decrease	Effect on OCI Increase	Effect on OCI Decrease
Bonds 2019				
change in risk-free rates by 1%	(2)	2	–	–
change in credit spread by 1%	(4)	4	–	–
Shares 2019				
change in discount rates by 1%	(1)	1	–	–
change in EBITDA by 5%	–	–	–	–
Bonds 2018				
change in risk-free rates by 1%	–	–	(18)	18
change in credit spread by 1%	–	–	(18)	18
Shares 2018				
change in discount rates by 1%	(1)	1	–	–
change in EBITDA by 5%	–	–	–	–

9. REPURCHASE AND RESALE AGREEMENTS

(a) Resale agreements (reverse repurchase agreements)

The Group purchases financial assets under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Ownership title to the securities is transferred to the Group, or the entity which is a loan provider. Reverse repurchases are entered into as a facility to provide funds to customers. As at 31 December 2019 and 31 December 2018, assets purchased pursuant to the agreements to resell them were as follows:

in millions of CZK	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase date	Repurchase price
Loans to central banks (note 5)	55,533	56,232	up to 1 month	56,252
Loans and other advances to customers (note 10)	1,473	832	up to 1 month	834
Loans and other advances to customers (note 10)	2,031	1,185	up to 3 months	1,191
Total as at 31 December 2019	**59,037**	**58,249**		**58,277**
Loans to banks (note 5)	51,903	52,437	up to 1 month	52,456
Loans and other advances to customers (note 10)	1,100	758	up to 1 month	760
Loans and other advances to customers (note 10)	2,684	1,787	up to 3 months	1,795
Total as at 31 December 2018	**55,687**	**54,982**		**55,011**

(b) Repurchase agreements

Transactions where securities are sold under a repurchase agreement (repurchase transaction) at a predetermined price are accounted for as loans collateralised by the securities. Ownership title to the securities is transferred to the Group, or the entity which is a loan provider. However, the securities transferred under a repurchase transaction are still recognised in the Group's statement of financial position. The price of the sold securities is recognised as a liability and presented under "Deposits and loans from banks" or "Deposits from customers".

in millions of CZK	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase date	Repurchase price
Loans from banks (note 19)	4,660	4,429	up to 1 month	4,030
Loans from customers (note 20)	3	2	up to 1 month	3
Loans from customers (note 20)	11	10	up to 3 months	9
Total as at 31 December 2019	**4,674**	**4,441**		**4,042**
Loans from customers (note 20)	12	12	up to 1 month	12
Loans from customers (note 20)	2	3	up to 3 months	3
Total as at 31 December 2018	**14**	**15**		**15**

As at 31 December 2019, the Group recognises financial assets sold under repurchase agreements of CZK 4 429 million (repurchase agreements, 2018: CZK 0 million) in the statement of financial position. Other financial assets sold as at 31 December 2019 under repurchase agreements of CZK 12 million (2018: CZK 15 million) were purchased under reverse repurchase agreements.

10. LOANS AND OTHER ADVANCES TO CUSTOMERS AT AMORTISED COST

in millions of CZK	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	ECL Stageň 3 - POCI	Net carrying amount
Loans and advances to customers and overdraft	58,809	(227)	(116)	(2 369)	(100)	55,997
Loans and advances to customers – reverse repurchase agreements	2,017	–	–	–	–	2,017
Margin lending (debits)	9,966	–	–	–	–	9,966
Receivables from provided finance leases	335	(1)	(1)	(1)	–	332
Other receivables	13	(1)	–	(2)	(2)	8
Total as at 31 December 2019	**71,140**	**(229)**	**(117)**	**(2 372)**	**(102)**	**68,320**

in millions of CZK	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	ECL Stageň 3 - POCI	Net carrying amount
Loans and advances to customers and overdraft	64,188	(207)	(51)	(3,576)	(30)	60,324
Loans and advances to customers – reverse repurchase agreements	2,545	–	–	–	–	2,545
Margin lending (debits)	8,638	–	–	–	–	8,638
Other receivables	26	(1)	–	(3)	(1)	21
Total as at 31 December 2018	**75,397**	**(208)**	**(51)**	**(3,579)**	**(31)**	**71,528**

Loans and advances to customers at FVTPL

in millions of CZK	2019	2018
Loans and advances to customers at FVTPL	–	64

Loans and advances to customers held by the investment banking business have been designated as at FVTPL because the Group manages these loans and advances on a fair value basis in accordance with its documented investment strategy. Internal reporting and performance measurement of these loans and advance are on a fair value basis.

The amount of non-interest bearing loans as at 31 December 2019 totalled CZK 199 million (2018: CZK 103 million). Thereof, loans acquired from former Podnikatelská banka of CZK 37 million remain subject to bankruptcy proceedings (2018: CZK 58 million) or loans that are overdue, do not bear interest and are subject to recovery. 100% allowances are established for these receivables.

The contractual weighted average interest rate on loans to customers was 5.60% (2018: 5.78%).

For further information about loans and advances to customers, refer to note 42.

11. EXPECTED CREDIT LOSSES

a) Cash, cash equivalents and due from banks and other financial institutions

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**9**	**–**	**–**	**–**	**9**
New financial assets originated or purchased	2	–	–	–	2
Financial assets derecognised during the period	(3)	–	–	–	(3)
Total as at 31 December 2019	**8**	**–**	**–**	**–**	**8**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**–**	**–**	**–**	**–**	**–**
Effect of IFRS 9 implementation	8	–	–	–	8
Total as at 1 January 2018	8	–	–	–	8
New financial assets originated or purchased	9	–	–	–	9
Financial assets derecognised during the period	(8)	–	–	–	(8)
Total as at 31 December 2018	**9**	**–**	**–**	**–**	**9**

b) Loans and advances to customers at amortised cost

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**208**	**51**	**3,579**	**31**	**3,869**
Transfers:					
– transfers to Stage 2	(14)	14	–	–	–
– transfers to Stage 3	–	(5)	5	–	–
Net change in credit risk	12	80	299	49	440
Changes due to modification without derecognition	(6)	(9)	63	–	48
New financial assets originated or purchased	57	–	–	20	77
Unwind of discount	–	–	28	3	31
Financial assets derecognised during the period	(36)	(11)	(1,053)	(1)	(1,101)
Write-offs / Use of loss allowances	(11)	(3)	(543)	(3)	(560)
Acquisitions through business combinations	16	–	–	–	16
Foreign exchange rate movements	3	–	(6)	3	–
Total as at 31 December 2019	**229**	**117**	**2,372**	**102**	**2,820**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**30**	**10**	**2,917**	**66**	**3,023**
Effect of IFRS 9 implementation	156	46	194	1	397
Total as at 1 January 2018	**186**	**56**	**3,111**	**67**	**3,420**
Transfers:					
– transfers to Stage 1	9	(9)	–	–	–
– transfers to Stage 2	(2)	2	–	–	–
– transfers to Stage 3	–	(5)	5	–	–
Net change in credit risk	(51)	10	1,224	(18)	1,165
Changes due to modification without derecognition	–	1	(57)	–	(56)
New financial assets originated or purchased	114	2	107	–	223
Unwind of discount	–	–	67	3	70
Financial assets derecognised during the period	(43)	(6)	(604)	(1)	(654)
Write-offs / Use of loss allowances	(10)	(7)	(287)	(22)	(326)
Other	6	4	25	5	40
Foreign exchange rate movements	(1)	3	(12)	(3)	(13)
Total as at 31 December 2018	**208**	**51**	**3,579**	**31**	**3,869**

The write-off and use of loss allowances for the year ended 31 December 2019 totaling CZK 560 million mainly include the use of loan loss allowances of CZK 554 million (2018: CZK 326 million) related to loans for which loan loss allowances of CZK 1,119 million was created at the time of sale. The remaining part of the related decrease in the allowance amount was the release of the allowance recognized in the line Financial assets derecognized during the period.

c) Financial assets at fair value through other comprehensive income

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**24**	**–**	**–**	**–**	**24**
Transfers:					
– transfers to Stage 2	(3)	3	–	–	–
Net change in credit risk	(8)	38	4	–	34
New financial assets originated or purchased	8	–	–	–	8
Financial assets derecognised during the period	(11)	–	(2)	–	(13)
Write-offs / Use of loss allowances	(1)	–	(2)	–	(3)
Foreign exchange rate movements	1	(1)	–	–	–
Total as at 31 December 2019	**10**	**40**	**–**	**–**	**50**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**–**	**–**	**–**	**–**	**–**
Effect of IFRS 9 implementation	79	–	–	–	79
Total as at 1 January 2018	**79**	**–**	**–**	**–**	**79**
Net change in credit risk	(65)	–	–	–	(65)
New financial assets originated or purchased	20	–	–	–	20
Unwind of discount	(11)	–	–	–	(11)
Foreign exchange rate movements	1	–	–	–	1
Total as at 31 December 2018	**24**	**–**	**–**	**–**	**24**

d) Financial assets at amortised cost

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**1**	**–**	**–**	**–**	**1**
Financial assets derecognised during the period	(1)	–	–	–	(1)
Acquisitions through business combinations	–	4	–	–	4
Foreign exchange rate movements	–	1	–	–	1
Total as at 31 December 2019	**–**	**5**	**–**	**–**	**5**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**–**	**–**	**–**	**–**	**–**
Effect of IFRS 9 implementation	–	–	–	–	–
Total as at 1 January 2018	**–**	**–**	**–**	**–**	**–**
New financial assets originated or purchased	1	–	–	–	1
Total as at 31 December 2018	**1**	**–**	**–**	**–**	**1**

e) Financial commitments and guarantees

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**23**	**2**	**96**	**–**	**121**
Transfers:					
– transfers to Stage 2	(1)	1	–	–	–
Net change in credit risk	(21)	1	(4)	–	(24)
Changes due to modification without derecognition	5	–	–	–	5
New financial assets originated or purchased	19	2	–	–	21
Financial assets derecognised during the period	(9)	–	(85)	–	(94)
Write-offs / Use of loss allowances	3	–	–		3
Foreign exchange rate movements	–	–	(1)	–	(1)
Total as at 31 December 2019	**19**	**6**	**6**	**–**	**31**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**14**	**–**	**5**	**–**	**19**
Effect of IFRS 9 implementation	11	1	89	–	101
Total as at 1 January 2018	**25**	**1**	**94**	**–**	**120**
Net change in credit risk	(14)	(1)	38	–	23
Changes due to modification without derecognition	(1)	2	–	–	1
New financial assets originated or purchased	46	3	2	–	51
Financial assets derecognised during the period	(32)	(3)	(38)	–	(73)
Foreign exchange rate movements	(1)	–	–	–	(1)
Total as at 31 December 2018	**23**	**2**	**96**	**–**	**121**

f) Other assets

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**–**	**13**	**6**	**–**	**19**
Transfers:					
– transfers to Stage 2	–	1	(1)	–	–
New financial assets originated or purchased	–	8	–	–	8
Unwind of discount	–	–	(3)	–	(3)
Financial assets derecognised during the period	–	–	(2)	–	(2)
Acquisitions through business combinations	–	–	1	–	1
Foreign exchange rate movements	–	1	–	–	1
Total as at 31 December 2019	**–**	**23**	**1**	**–**	**24**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**–**	**2**	**8**	**–**	**10**
Effect of IFRS 9 implementation	–	–	–	–	–
Total as at 1 January 2018	**–**	**2**	**8**	**–**	**10**
New financial assets originated or purchased	–	12	4	–	16
Financial assets derecognised during the period	–	–	(5)	–	(5)
Write-offs / Use of loss allowances	–	(1)	(1)	–	(2)
Total as at 31 December 2018	**–**	**13**	**6**	**–**	**19**

12. GROSS CARRYING AMOUNT OF FINANCIAL ASSETS

Gross carrying amount of loans

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**63,879**	**2,987**	**8,471**	**63**	**75,400**
Transfers:					
– transfers to Stage 1	54	(54)	–	–	–
– transfers to Stage 2	(3,228)	3,228	–	–	–
– transfers to Stage 3	(586)	(458)	1,044	–	–
Partial repayment of the principal / drawing of loan during the reporting period (/ +)	(1,737)	564	23	(29)	(1,180)
Movement in interest – accrued less paid (except for full repayment)	(121)	(47)	71	21	(76)
Increase due to origination and acquisition – gross	26,417	–	–	716	27,133
Financial assets derecognised during the period	(23,919)	(1,912)	(3,929)	(292)	(30,052)
Depreciation	(11)	(3)	(548)	(3)	(565)
Changes due to modification without derecognition (net)	(1)	(25)	4	–	(22)
Acquisitions through business combinations	501	–	36	27	564
Foreign exchange rate movements	(61)	(3)	1	1	(62)
Total as at 31 December 2019	**61,187**	**4,276**	**5,173**	**504**	**71,140**

In the item „Increase due to origination and acquisition – gross" for Level 3 – POCI the amount CZK 715 million represents loans with significant modifications already carried at fair value. The impact of the modification was initially CZK 150 million (recognized in the income statement), subsequently released at CZK 103 million due to the derecognition of part of the modified assets.

Gross carrying amount of debt securities at FVOCI

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**5,436**	**–**	**–**	**–**	**5,436**
Transfers:					
– transfers to Stage 2	(1,735)	1,735	–	–	–
Fair value adjustment to OCI – relevant only for FA at FVOCI	79	1	–	–	80
Partial repayment of the principal / drawing of loan during the reporting period (/ +)	–	(19)	–	–	(19)
Movement in interest – accrued less paid (except for full repayment)	(36)	–	–	–	(36)
Increase due to origination and acquisition – gross	4,245	–	–	–	4,245
Financial assets derecognised during the period	(3 198)	–	–	–	(3,198)
Foreign exchange rate movements	113	(22)	–	–	91
Total as at 31 December 2019	**4,904**	**1,695**	**–**	**–**	**6,599**

Gross carrying amount of securities at amortised cost

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 1 January 2019	**31**	**–**	**–**	**–**	**31**
Increase due to origination and acquisition – gross	209	–	–	–	209
Movement in interest – accrued less paid (except for full repayment)	2	1	–	–	3
Financial assets derecognised during the period	(270)	(3)	–	–	(273)
Acquisitions through business combinations	214	70	–	–	284
Foreign exchange rate movements	29	9	–	–	38
Total as at 31 December 2019	**215**	**77**	**–**	**–**	**292**

Gross carrying amount of loans

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**57,951**	**3,506**	**10,505**	**170**	**72,132**
Reclassification	(206)	–	–	–	(206)
Impact of IFRS 9 implementation	–	–	(19)	–	(19)
Total as at 1 January 2018	**57,745**	**3,506**	**10,486**	**170**	**71,907**
Transfers:					
– transfers to Stage 1	224	(223)	(1)	–	–
– transfers to Stage 2	(881)	881		–	–
– transfers to Stage 3	(1)	–	1	–	–
Partial repayment of the principal / drawing of loan during the reporting period (/ +)	(1,489)	(538)	137	–	(1,890)
Movement in interest – accrued less paid (except for full repayment)	445	37	177	–	659
Increase due to origination and acquisition – gross	31,842	35	240	7	32,124
Financial assets derecognized during the period	(23,979)	(723)	(2,608)	(111)	(27,421)
Depreciation and use of allowance	–	–	(13)	–	(13)
Other	11	4	23	5	43
Foreign exchange rate movements	(38)	8	29	(8)	9
Total as at 31 December 2018	**63,879**	**2,987**	**8,471**	**63**	**75,400**

Gross carrying amount of debt securities at FVOCI

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**6,664**	**–**	**–**	**–**	**6,664**
Impact of IFRS 9 implementation	–	–	–	–	–
Total as at 1 January 2018	**6,664**	**–**	**–**	**–**	**6,664**
Fair value adjustment to OCI – relevant only for FA at FVOCI	6	–	–	–	6
Movement in interest – accrued less paid (except for full repayment)	(26)	–	–	–	(26)
Increase due to origination and acquisition – gross	4,921	–	–	–	4,921
Financial assets derecognized during the period	(6,284)	–	–	–	(6,284)
Foreign exchange rate movements	155	–	–	–	155
Total as at 31 December 2018	**5,436**	**–**	**–**	**–**	**5,436**

13. INVESTMENT PROPERTY

Investment property as at 31 December 2019 primarily include a building of Interznanie OAO totalling CZK 369 million (2018: CZK 356 million) and a building of J&T Bank a.o. totalling CZK 58 million (2018: CZK 0 million). Investment property is classified as Level 3 according to fair value hierarchy. Investment fair value is determined based on the independent expert opinion, assuming expected income and valuation of similar properties that have been analysed using the relevant market parameters available at valuation date (see section 3 (f) – Investment property).

Investment property was fully insured as at 31 December 2019 and as at 31 December 2018.

The following table sets out information about significant unobservable inputs used as at 31 December 2019 in measuring assets categorised as Level 3 in the fair value hierarchy:

Type of asset	Valuation technique	Significant unobservable input	Fair value as at 31/12/2019	Range of estimates	Fair value measurement sensitivity to unobservable inputs
Investment property	Sales comparison approach	Price per sq. m	429	75 035 - 95 643 CZK/m2	A significant movement may result in a higher/ lower fair value of an instrument

in millions of CZK	2019	2018
1 January	**356**	**407**
Changes due to business combinations	51	(2)
Transfer to PPE	(27)	–
Effects of movements in foreign exchange	49	(49)
Total as at 31 December	**429**	**356**

In 2019 there was a change in the share of a leased building in the consolidation scope of the Group which affected the amount of investment property.

Rental income from investment property of CZK 19 million (2018: CZK 14 million) was reported in Other operating income. Operating expenses directly attributable to investment property of CZK 8 million (2018: CZK 4 million) were reported in Other operating expenses.

14. PROPERTY, PLANT AND EQUIPMENT

			Right-of-use assets		
in millions of CZK	Land and buildings	Fixtures, fittings and equipment	Land and buildings	Equipment - cars	Total
Acquisition cost					
01 January 2018	**191**	**122**	**–**	**–**	**313**
Additions	–	3	–	–	3
Disposals	–	(8)	–	–	(8)
Effects of movements in foreign exchange	(13)	(4)	–	–	(17)
31 December 2018	**178**	**113**	**–**	**–**	**291**
Accumulated depreciation					
01 January 2018	**36**	**73**	**–**	**–**	**109**
Depreciation	12	7	–	–	19
Disposals	–	(8)	–	–	(8)
Effects of movements in foreign exchange	(2)	(2)	–	–	(4)
31 December 2018	**46**	**70**	**–**	**–**	**116**
Acquisition cost					
1 January 2019 (+ Application of IFRS 16)	**178**	**112**	**287**	**20**	**597**
Additions	3	10	5	2	20
Additions from acquisitions	83	–	–	–	83
Disposals	–	(8)	(21)	–	(29)
Transfer from investment property	27	–	–	–	27
Effects of movements in foreign exchange	22	4	(1)	–	25
31 December 2019	**313**	**118**	**270**	**22**	**723**
Accumulated depreciation					
1 January 2019 (+ Application of IFRS 16)	**47**	**69**	**–**	**–**	**116**
Depreciation charge	13	7	85	8	113
Disposals	–	(7)	–	–	(7)
Effects of movements in foreign exchange	2	1	–	–	3
31 December 2019	**62**	**70**	**85**	**8**	**225**
Net book value					
31 December 2018	**132**	**43**	**–**	**–**	**175**
31 December 2019	**251**	**48**	**185**	**14**	**498**

Property is insured against theft and natural disaster.

15. INTANGIBLE ASSETS AND GOODWILL

in millions of CZK	Software	Other intangible assets	Goodwill	Total
Acquisition cost				
1 January 2018	**545**	**135**	**430**	**1,110**
Additions	56	8	–	64
Disposals	(3)	–	–	(3)
Effects of movements in foreign exchange	(1)	–	(29)	(30)
31 December 2018	**597**	**143**	**401**	**1,141**
Amortisation and impairment losses				
01 January 2018	**420**	**131**	**397**	**948**
Amortisation charge for the year	74	1	–	75
Effects of movements in foreign exchange	–	–	(29)	(29)
31 December 2018	**494**	**132**	**368**	**994**
Acquisition cost				
01 January 2019	**597**	**143**	**401**	**1,141**
Additions	57	8	–	65
Disposals	(4)	(2)	–	(6)
Effects of movements in foreign exchange	(1)	–	26	25
31 December 2019	**649**	**149**	**427**	**1,225**
Amortisation and impairment losses				
01 January 2019	**494**	**132**	**368**	**994**
Amortisation charge for the year	63	–	–	63
Disposals	–	(2)	–	(2)
Effects of movements in foreign exchange	(12)	–	26	14
31 December 2019	**545**	**130**	**394**	**1,069**
Carrying amount				
31 December 2018	**104**	**11**	**33**	**148**
31 December 2019	**104**	**19**	**33**	**156**

There was no increase in goodwill in 2019 and 2018 (see note 50).

Based on impairment testing, no impairment losses on goodwill were accounted for in 2019 and 2018 (see note 4).

16. LEASES

(a) Leases entered into as lessee

The Group accounts for leases pursuant to IFRS 16. Consequently, it does not distinguish between operating and finance leases; this classification was only used in 2018 when the IAS 17 criteria were in effect.

The Group had non-cancellable operating lease payables as follows:

in millions of CZK	2018
Up to one year	136
1 year to 5 years	303
Over 5 years	44
Total	**483**

(b) Leases entered into as lessor

The Group leases out its headquarters to other companies under operating leases. The Group has non-cancellable lease payables as follows:

in millions of CZK	2019	2018
Up to one year	1	3
1 year to 5 years	1	9
Total	**2**	**12**

The Group provides its clients with finance leases for various assets (e.g. cars, machinery, equipment, etc.). The expected lease payments are shown in the following table.

in millions of CZK	2019
Gross amount of a finance lease receivable	
Up to one year	109
1 year to 2 years	101
2 years to 3 years	81
3 years to 4 years	41
4 years to 5 years	17
Over 5 years	19
Total	**368**
Expected future lease payments	(36)
Present value of future lease payments	**332**
Expected credit losses	(3)

At the end of 2018, the finance lease was reported in loans and receivables totalling CZK 120 million.

in millions of CZK	2018
Up to one year	36
1 year to 5 years	84
Total	**120**

17. PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS

in millions of CZK	2019	2018
Other trade receivables	361	409
Receivables from customers from securities trading	281	340
Other receivables	121	202
Prepayments and accrued income	82	96
Receivables from fees for portfolio management	58	45
Advance payments – other	31	27
Other tax receivables	10	8
Allowances for impairment of other assets	(24)	(19)
Total	**920**	**1 108**

As at 31 December 2019, other trade receivables include fees for the issue of bonds and promissory notes of CZK 67 million (2018: CZK 167 million) and a large number of low-value items that are separately immaterial.

All other assets are measured at amortised cost, the gross carrying amount of CZK 944 million is included in Stage 2, excepting CZK 12 million (2018: CZK 8 million) assigned to Stage 1 and CZK 1 million (2018: CZK 6 million) assigned to Stage 3. Changes in allowances for other assets are disclosed in note 11.

18. DISPOSAL GROUPS HELD FOR SALE

in millions of CZK	2019	2018
J&T Ostravice Active Life UPF	64	64
Property, plant and equipment	69	188
Total	**133**	**252**

Property, plant and equipment represent collateralised assets provided to secure credit receivables. It is expected that these assets will be sold within one year to satisfy receivables from unpaid loans.

The Group holds allotment certificates in J&T Ostravice Active Life UPF intended for sale. The sale of an allotment certificate in this investment fund was delayed due to the approval process of the zoning plan, which is beyond the Group's control. In 2018, roads and engineering networks were partly completed as planned, allowing the first land plots to be offered for sale, and the sale of land plots was thus launched.

Because of a sufficient level of cash in the fund's accounts, a partial redemption of all clients' allotment certificates took place automatically in 2018, under the fund's statutes. For each client, 40% of allotment certificates held by the client were obligatorily redeemed. The decisive date was the date of determining the current value of the fund as at the end of the accounting period, i.e. 31 December 2018. The redemption amount was paid after determining the current value of the fund based on the fund's audited financial statements. For the Group, this meant realising a 40% share of its investment held.

The networking of other parts of land is in progress. The networking will enable the sale of other plots of land in the following years.

19. DEPOSITS AND LOANS FROM BANKS

in millions of CZK	2019	2018
Liabilities to banks	409	2,250
Loans from banks - repurchase agreements (note 9)	4,429	–
Total	**4,838**	**2,250**

The contractual weighted average interest rate on liabilities to banks was 0.42% (as at 31 December 2019 (2018: 0.15%).

20. DEPOSITS FROM CUSTOMERS

in millions of CZK	2019	2018
Current accounts	33,200	34,820
Term deposits and escrow accounts	81,214	84,108
Loans from customers - repurchase agreements (note 9)	12	15
Other liabilities	125	56
Total	**114,551**	**118,999**

The contractual weighted average interest rate on liabilities to customers was 0.88% (2018: 1.15%).

21. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

in millions of CZK	2019 Fair value	2018 Fair value
Bonds issued	–	50
Total	**–**	**50**

On 23 April 2018, the Group issued depreciable certificates Credit Linked Notes - certificates that transfer the credit risk of the underlying asset to the certificate holder. All payments from certificates were subject to the repayment of the nominal value and interest income of the underlying asset. Certificates were issued in CZK, interest is paid quarterly. The issue of certificates was kept in the records of the Central Securities Depository. The issue was cancelled and the nominal value redeemed by the Group on 1 October 2019.

At initial recognition, the Group recorded these bonds in financial liabilities at fair value through profit or loss, and the bonds that are the underlying asset of the certificates at fair value through profit or loss to eliminate or significantly reduce the measurement and accounting mismatch that might arise in measuring the asset and liability on a different basis.

Changes in fair value due to credit risk during 2019 resulted in gains of CZK 0.02 million (2018: CZK 1 million).

22. SUBORDINATED DEBT

in millions of CZK	2019	2018
Subordinated debt – term deposits	809	937
Total	**809**	**937**

in millions of CZK	2019	2018
Interest expense from subordinated debt:	43	43
– paid interest	5	5

The subordinated debt – term deposits from customers with a maturity up to 2025 bear an interest rate between 5% and 8% p.a.

The national regulator approved the subordinated debt as a part of the capital for regulatory purposes.

23. OTHER LIABILITIES

in millions of CZK	2019	2018
Payables to clients from securities trading	6,545	6,292
Estimated payables, accruals and deferred income	211	174
Trade payables	140	157
Payables to employees	38	35
Social security liabilities	18	16
Lease liabilities	195	–
– Up to 1 year	78	–
– Over one year	117	–
Other tax liabilities	46	49
Deferred part of the purchase price from the acquisition of the joint venture	120	–
Liability from the acquisition of subsidiaries	159	–
Other liabilities	251	282
Total	**7,723**	**7,005**

Other liabilities primarily include payables from clearing of CZK 21 million (2018: CZK 23 million), incoming and outgoing payments from nostro accounts of CZK 1 million (2018: CZK 8 million) and other individually insignificant items.

24. PROVISIONS

in millions of CZK	2019	2018
Provision for employee bonuses	1,289	956
Other provisions	29	18
Provision for loyalty programmes - customers	28	28
Provision for off-balance sheet items (loan commitments and guarantees)	31	121
Stage 1	19	23
Stage 2	6	2
Stage 3	6	96
Provision for loyalty programmes - employees	2	3
Total	**1,379**	**1,126**

A provision for employee bonuses is established in relation to the approval of Group employees' annual bonuses. The annual bonus is defined as variable benefit component of employee remuneration which the company may grant and pay to an employee in proportion to his/her job performance in the evaluated period, most commonly a year. It also comprises bonuses with deferred due payment. The Group's remuneration policy is in accordance with the policies of risk management and remuneration in accordance with Decree 163/2014 Coll., on the performance of the activities of banks, credit unions and investment firms.

Other provisions are short-term and it is expected that these provisions will be utilised in less than 12 months after the reporting date.

in millions of CZK	1.1.2019	Additions/ Creation	Use/ Release	Foreign exchange differences	31.12.2019
Employee bonuses	956	654	(321)	–	1,289
Other provisions	18	22	(12)	1	29
Loyalty programmes – customers	28	–	–	–	28
Off-balance sheet items	121	30	(119)	(1)	31
Loyalty programmes – employees	3	–	(1)	–	2
Total	**1,126**	**706**	**(453)**	**–**	**1,379**

25. SHARE CAPITAL, RETAINED EARNINGS, CAPITAL FUNDS AND OTHER RESERVES

Share capital is fully paid and consists of:

in millions of CZK	2019
10 637 126 ordinary shares with a nominal value of CZK 1 000 per share	10,637
700 000 ordinary shares with a nominal value of CZK 1.43 per share	1
Total share capital	**10,638**

The Group does not provide any employee incentive scheme involving the option to buy own shares, or remuneration in the form of equity options.

The allocation of the profit will be approved at the General Meeting. The Group's Management assumes that a relevant part of the profit will be paid to the special-purpose capital fund for the payment of revenue from certificates, which are part of the equity, and the rest of the profit will be used in accordance with final decision of the General Meeting.

Retained earnings

Retained earnings are distributable to the Group's shareholders and are subject to the approval of the shareholders' general meeting. As at 31 December 2019, retained earnings amounted to CZK 8 526 million (2018: CZK 6 887 million). For details related to retained earnings refer to the Consolidated statement of changes in equity.

Capital funds

Capital funds consist of a special-purpose fund for income distribution from subordinated income certificates and other non-distributable capital funds.

For details related to the special-purpose fund refer to the last paragraph in Other equity instruments.

As at 31 December 2019, other provisions amounted to CZK 53 million (2018: CZK 46 million).

Translation and revaluation reserve

Translation and revaluation reserve comprises items arisen from the following:

- changes in the fair value of financial assets available for sale;
- all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Group.

The sum of translation and revaluation reserve was negative as at 31 December 2019 amounting to CZK 1 270 million (2018: negative in the amount of CZK 1 671 million).

Other capital instruments

On 19 June 2014, the Czech National Bank approved the issue prospectus for revenue certificates with an expected total nominal amount of CZK 1 000 million and interest revenue of 10% p.a.

On 12 September 2015, the Czech National Bank approved the prospectus for the second issue of revenue certificates with an expected total nominal amount of CZK 1 000 million and interest revenue of 9% p.a.

On 11 December 2015, the Czech National Bank approved the prospectus for the third issue of revenue certificates with an expected total nominal amount of EUR 50 million and interest revenue of 9% p.a.

As at 31 December 2019, the volume of issued certificates reached CZK 2 597 million (2018: CZK 2 597 million).

On 30 June 2014, the Group's Board of Directors also approved the establishment of a special-purpose capital fund for the payment of revenue from certificates of CZK 100 million. This fund was created from retained earnings. In 2019, the Group transferred another CZK 242 million (2018: CZK 242 million) within the distribution of profit for 2018. The payment of revenue from certificates is governed by the conditions defined in the prospectus. In 2019, revenue of CZK 239 million (2018: CZK 262 million) was distributed from this fund. As at 31 December 2019, the special-purpose capital fund for the payment of revenue from certificates amounted to CZK 164 million (2018: CZK 161 million).

26. NON-CONTROLLING INTEREST

in millions of CZK	2019	2018
J&T Bank, a.o.	2	1
Interznanie, OAO	(3)	(3)
TERCES MANAGEMENT LIMITED	6	5
J&T REALITY, o.p.f.	514	528
J&T banka d.d.	(8)	41
Colorizo Investment, a.s.	295	–
Total	**806**	**572**

In September 2019, Colorizo Investment, a.s. issued a new class of preference shares (Class B) amounting to CZK 300 million. These shares are associated with special rights and classified as non-controlling interests. Holders of these shares are not entitled to a liquidation share.

The following table provides information on companies from the consolidation Group that have a significant non-controlling interest.

31.12.2019

in millions of CZK	J&T REALITY, o.p.f.	J&T banka d.d.	Colorizo Investment a.s.
Non-controlling interest	46.92 %	3.97 %	100 %
Assets	1,112	3,604	721
Liabilities	15	3,158	424
Net assets	**1,097**	**446**	**297**
Carrying amount of non-controlling interest	514	(8)	295
Income	76	169	2
Profit for the period	(29)	7	(5)
Total profit/loss for the period	**(29)**	**7**	**(5)**
Profit/loss for the period attributable to non-controlling interest	(14)	1	(5)
Cash flows from operating activities	(25)	22	532
Cash flows from financing activities	–	3	–
Cash flows from investing activities	–	–	(530)
Increase in cash and cash equivalents	(25)	25	2

31.12.2018

in millions of CZK	J&T REALITY, o.p.f.	J&T banka d.d.
Non-controlling interest	46.92%	15.83%
Assets	1,128	3,750
Liabilities	2	3,303
Net assets	**1,126**	**447**
Carrying amount of non-controlling interest	528	41
Income	80	202
Profit for the period	(19)	3
Total profit/loss for the period	**(19)**	**3**
Profit/loss for the period attributable to non-controlling interest	(9)	(1)
Cash flows from operating activities	(25)	(52)
Cash flows from financing activities	–	21
Cash flows from investing activities	(54)	–
Increase in cash and cash equivalents	(79)	(31)

27. INCOME TAX

Income tax for 2019 was calculated in accordance with Czech tax regulations at the rate of 19% (2018: 19%). The corporate income tax rate for 2020 will be 19%.

The Slovak branch pays tax in accordance with Slovak tax regulations. The tax paid by the branch in Slovakia is offset against the income tax for the Group as a whole paid in the Czech Republic. The income tax rate in Slovakia is 21% (2018: 21%). In 2020 the income tax rate in Slovakia will be 21%.

The Czech Republic currently has a number of laws regulating various taxes and charges imposed by the state. These include namely value-added tax, corporate income tax, employment tax, social security and health insurance charges etc. Tax returns, together with other legal compliance areas (such as customs and currency control matters) are subject to inspection by a number of authorities, who are authorised by law to impose fines, penalties and interest charges. This results in tax risks in the Czech Republic being substantially higher than the ones typically found in countries with more developed tax systems.

Effects of different tax rates applicable to the individual subsidiaries are taken into account when calculating the total income tax and are presented in line "Effect of tax rates in foreign jurisdictions". The corporate income tax rate in Russia for 2019 is 20% (2018: 20%). The corporate income tax rate in Croatia for 2019 is 18% (2018: 18%).

The management believes that it has adequately provided for the tax liabilities in the accompanying consolidated financial statements.

Reconciliation of the expected income tax expense is as follows:

in millions of CZK	2019	2018
Profit before tax	3,978	2,538
Income tax using applicable tax rate (19%)	756	482
Reconciliation:		
Effect of tax rates in foreign jurisdictions	8	8
Non-taxable income	(143)	(170)
Non-deductible expenses	194	133
Other	6	8
Total income tax	**822**	**462**
Effective tax rate	20.7%	18.2%
of which:		
Deferred tax	(46)	140
Current tax	(776)	(602)

The main adjustments when calculating the taxable profit from the accounting profit relate to tax exempt income to be deducted from, and tax non-deductible expenses to be added to the tax base. The main non-deductible expenses are tax non-deductible allowances for receivables, provisions, gifts and entertainment expenses.

28. DEFERRED TAX ASSETS AND LIABILITIES

The following deferred tax assets and liabilities have been recognised:

in millions of CZK	2019	2018
Deferred tax asset/(liability)		
Difference between the carrying and tax value of property, plant and equipment and intangible assets	(1)	4
Financial assets at FVOCI	–	14
Financial assets at FVTPL	(9)	(8)
Investment property	(60)	(61)
Allowances for credit receivables	(58)	56
Tax losses	30	25
Provision for bonuses and untaken holidays	230	167
Other temporary differences	27	26
Net deferred tax asset	**159**	**223**

The deferred tax asset or liability is calculated using the 2019 corporate income tax rate, i.e. 19%, for J&T Bank, a.o. 20%, for J&T banka d.d. 18% and 21% for the Bank's Slovak branch (2018: 19%, 20%, 18% and 21%).

The following table shows the reconciliation between the deferred tax charge and the change in deferred tax assets in 2019.

in millions of CZK	2019	2018
Deferred tax liability, net as at 31 December	223	(8)
IFRS 9 transition impact	–	94
Adjusted deferred tax liability as at 1 January	223	86
Deferred tax expense in the period (see note 27)	(46)	140
Deferred tax recognised in equity	(9)	(3)
Foreign exchange differences	(9)	–
Deferred tax asset	**159**	**223**

Deferred tax assets were not recognised for:

in millions of CZK	2019	2018
Tax losses carried forward	123	77

Expected expiration of unrecognised tax losses is as follows:

in millions of CZK	2022	After 2022
Tax loss for 2018	66	11
Tax loss for 2019	99	24

Deferred tax asset for tax losses carried forward is only recognised to the extent that it is probable that taxable profit will be available in the future.

29. INTEREST INCOME

in millions of CZK	2019	2018
Interest income from:		
Due from financial institutions	68	77
Loans and advances to customers	3,651	3,865
Reverse repurchase transactions	1,398	740
Bonds and other fixed income securities	445	465
Total	**5,562**	**5,147**

Interest income from “Loans and advances to customers” includes fees associated with the provision of loans of CZK 118 million (2018: CZK 109 million) that are part of effective interest rate.

Interest income by asset classes:

in millions of CZK	2019	2018
Interest income from:		
Financial assets at fair value through profit or loss:		
– those held for trading	126	153
– those mandatorily at fair value	3	7
– those designated at initial recognition	1	1
Receivables from finance lease	26	5
Other interest income:	**156**	**166**
Financial assets at fair value through other comprehensive income	309	302
Financial assets held to maturity	6	2
Loans and receivables at amortised cost	5,091	4,677
– of which: unpaid interest on impaired loans	265	322
– of which: forbearance	83	31
Interest income calculated using effective interest rate	**5,406**	**4,981**
Total	**5,562**	**5,147**

30. INTEREST EXPENSE

in millions of CZK	2019	2018
Interest expense on:		
– Deposits and loans from banks	(32)	(25)
– Deposits from customers	(1,525)	(1,273)
– Lease liabilities	(5)	–
– Repurchase transactions	(39)	(19)
– Subordinated bonds	(1)	(25)
Total	**(1,602)**	**(1,342)**

Interest expense by liability classes:

in millions of CZK	2019	2018
Interest expense on:		
– Financial liabilities at amortised cost	(1,601)	(1,341)
– Financial liabilities at fair value through profit or loss	(1)	(1)
Total	**(1,602)**	**(1,342)**

31. FEE AND COMMISSION INCOME

in millions of CZK	2019	2018
Fee and commission income from:		
– issue of securities	624	774
– obtaining financial instruments	318	290
– administration, management, custody and safekeeping of valuables	433	392
– administrative services for collective investment	103	106
– loan activities	60	68
– mediation of payment transactions	77	133
– other	29	31
Total	**1,644**	**1,794**

32. FEE AND COMMISSION EXPENSE

in millions of CZK	2019	2018
Fee and commission expense on:		
– transactions in financial instruments	(156)	(107)
– administration, custody and safekeeping of valuables	(47)	(42)
– mediation of payment transactions	(30)	(31)
– other	(14)	(24)
Total	**(247)**	**(204)**

33. NET TRADING INCOME

in millions of CZK	2019	2018
Realised/unrealised profit on securities	708	120
Net profit/(loss) on derivative operations	17	(358)
Net profit/(loss) from foreign currency translation	(126)	393
Dividend income	58	36
Total	**657**	**191**

in millions of CZK	2019	2018
Financial assets and liabilities at fair value through profit or loss:		
– those held for trading	237	(283)
– FV option	–	1
– those mandatorily at fair value	481	69
Financial assets at FVOCI	65	11
Foreign exchange differences	(126)	393
Total	**657**	**191**

34. OTHER OPERATING INCOME

in millions of CZK	2019	2018
Revenues from services and consulting	115	171
Rental income from investment property	19	14
Income from rendered operating leases	16	16
Rental income	8	7
Other income	40	21
Total	**198**	**229**

Other income of CZK 40 million as at 31 December 2019 (2018: CZK 21 million) comprises a high number of low-value items that are separately immaterial.

35. PERSONNEL EXPENSES

in millions of CZK	2019	2018
Wages and salaries	(1,127)	(1,010)
Remuneration of persons holding executive powers	(107)	(114)
Compulsory social security contributions	(240)	(206)
Other social expenses	(84)	(53)
Total	**(1,558)**	**(1,383)**
Average number of employees during the reporting period	813	719

There were 5 members of the Bank's Board of Directors at 31 December 2019 (2018: 5).

36. OTHER OPERATING EXPENSES

in millions of CZK	2019	2018
Rental expense	(72)	(138)
of which recognition exemption applied under IFRS 16		
– lease of low-value items	(22)	–
– short-term leases	(13)	–
– variable lease payments	(20)	–
Loss on asset disposal	(8)	(7)
Contributions to Deposit Insurance Fund	(66)	(51)
Contributions to Crisis Resolution Fund	(85)	(56)
Taxes and charges	(83)	(80)
Operating costs:		
Outsourcing	(285)	(234)
Advertising expenses and promotion	(211)	(193)
Repairs and maintenance - IS, IT	(42)	(30)
Audit, legal and tax consulting	(56)	(55)
– statutory audit of the annual accounts	(17)	(16)
– other assurance services	(7)	(9)
– tax advisory	(3)	(3)
– other services	(29)	(26)
Rental expense	(27)	(50)
Consulting expenses	(43)	(23)
Sponsorship and gifts	(25)	(24)
Communication expenses	(20)	(22)
Materials	(16)	(16)
Transport and accommodation, travel expenses	(14)	(14)
Expenses related to investment property	(5)	(4)
Other operating expenses	(195)	(177)
Total	**(1 ,253)**	**(1,174)**

Other operating expenses of CZK 195 million as at 31 December 2019 (2018: CZK 177 million) include many sundry items that are not significant on an individual basis.

While monetary payments of the principal of a lease liability amounted to CZK 88 million, monetary payments of the interest part of the lease liability amounted to CZK 5 million.

The Crisis Resolution Fund is a source for the use of crisis resolution tools at an institution, the use of which may be proposed by the Czech National Bank in situations when it is feasible, credible and in the public interest. This fund does not serve for direct payouts of deposit compensation.

Taxes and charges include a special bank levy to the Slovak Tax Authority for the Slovak branch of the Bank. This levy does not fall within the scope of IAS 12 Income Taxes. The Group considers the levy to be operational in nature and has accrued the respective cost within “Other operating expenses”.

37. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS FOR PURPOSES OF STATEMENT OF CASH FLOWS

in millions of CZK	Cash and balances with central banks	Term deposits in central banks – up to 3 months	Loans to central banks – repurchase agreements	Loans to banks – repurchase agreements	Current bank accounts or up to 3 months	Total
31 December 2017	**1,433**	**3,753**	**45,006**	**933**	**1,543**	**52,668**
Change in 2018	324	(2,898)	7,431	(933)	(488)	3,436
31 December 2018	**1,757**	**855**	**52,437**	**–**	**1,055**	**56,104**
Change in 2019	(539)	25	3,795	–	449	3,730
31 December 2019	**1,218**	**880**	**56,232**	**–**	**1,504**	**59,834**

"Obligatory minimum reserves with central banks" is not included in "Cash and cash equivalents" for Statement of Financial Position purposes.

38. FINANCIAL COMMITMENTS AND CONTINGENCIES

Financial commitments and contingencies comprise:

in millions of CZK	Stage 1	Stage 2	Stage 3	Total 2019
Unused credit lines	7,829	210	330	**8,369**
Granted guarantees	1,906	21	79	**2,006**

in millions of CZK	Stage 1	Stage 2	Stage 3	Total 2018
Unused credit lines	9,006	76	498	**9,580**
Granted guarantees	2,386	46	1	**2,433**

Values taken into custody, administration and deposit is not subject to impairment. As at 31 December 2019, the total amount of these off-balance sheet items is CZK 91 133 million (2018: CZK 81 312).

39. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

(a) Business segments

The Group comprises the following main business segments:

- Financial markets
  - Include the trading and corporate finance activities, mainly activities within financial markets department regardless of level of service and client business segment;
- Corporate Banking
  - Includes loans, deposits and other transactions and balances with corporate customers (including business segment: corporations, non-profit organisations, financial institutions);
- Private Banking
  - Includes loans, deposits and other transactions and balances with private banking and premium banking customers (the customer's aggregate sum of deposits with the Bank is at least CZK 3 million);

- Retail banking
  - Includes loans, deposits and other transactions and balances with retail customers (the customer's aggregate sum of deposits with the Bank is at least CZK 0.5 million);
- ALCO
  - Includes balance sheet items of strategic importance that are managed by the Asset and Liability Committee.

The Group also has a central Shared Services operation that manages the Group's premises and certain corporate costs. Cost-sharing agreements are used to allocate central costs to business segments on a reasonable basis.

ALCO includes balance sheet items of strategic importance that are managed by the Asset and Liability Committee The most important items are:
- Cash and cash equivalents
- Due from banks and financial institutions;
- Financial assets available for sale and held to maturity
- Deposits and loans from banks.

Personnel costs, operating expenses and depreciation charges that are not allocated to business segments are included in the segment "Unallocated".

Consolidated statement of financial position as at 31 December 2019:

in millions of CZK	Financial markets	Corporate Banking	Private Banking	Retail banking	ALCO	Total reporting segments	Unallocated	Total
Cash, cash equivalents, due from banks and other financial institutions	–	–	–	–	61,289	61,289	–	61,289
Securities and the positive fair value of derivatives	11,756	–	–	–	7,392	19,148	–	19,148
Ownership interests	–	–	–	–	536	536	–	536
Investment property	–	–	–	–	–	–	429	429
Loans and other advances to customers	13,262	50,154	4,541	363	–	68,320	–	68,320
Current tax receivable	–	–	–	–	–	–	27	27
Deferred tax asset	–	–	–	–	–	–	267	267
Property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	–	–	–	–	–	–	1,573	1,573
Disposal groups held for sale	–	–	–	–	133	133	–	133
Total assets	**25,018**	**50,154**	**4,541**	**363**	**69,350**	**149,426**	**2,296**	**151,722**
Negative fair value of derivatives	582	–	–	–	–	582	–	582
Deposits and loans from banks	–	–	–	–	4,838	4,838	–	4,838
Deposits from customers	194	40,945	21,094	52,318	–	114,551	–	114,551
Subordinated debt	–	296	208	305	–	809	–	809
Current tax liability	–	–	–	–	–	–	218	218
Deferred tax liability	–	–	–	–	–	–	108	108
Other liabilities and provisions	–	–	–	–	–	–	9,102	9,102
Total liabilities	**776**	**41,241**	**21,302**	**52,623**	**4,838**	**120,780**	**9,428**	**130,208**

Consolidated statement of financial position as at 31 December 2018:

in millions of CZK	Financial markets	Corporate Banking	Private Banking	Retail banking	ALCO	Total reporting segments	Unallocated	Total
Cash and balances with central banks	–	–	–	–	4,456	4,456	–	4,456
Due from banks and other financial institutions	–	–	–	–	54,115	54,115	–	54,115
Securities and the positive fair value of derivatives	11,658	–	–	–	5,923	17,581	–	17,581
Ownership interests	–	–	–	–	7	7		7
Investment property	–	–	–	–	–	–	356	356
Loans and other advances to customers	12,037	53,873	5,255	427	–	71,592	–	71,592
Current tax receivable	–	–	–	–	–	–	2	2
Deferred tax asset	–	–	–	–	–	–	312	312
Property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	–	–	–	–	–	–	1,431	1,431
Disposal groups held for sale	–	–	–	–	252	252	–	252
Total assets	**23,695**	**53,873**	**5,255**	**427**	**64,753**	**148,003**	**2,101**	**150,104**
Negative fair value of derivatives	240	–	–	–	–	240	–	240
Deposits and loans from banks	–	–	–	–	2,250	2,250	–	2,250
Deposits from customers	3	42,042	21,879	55,075	–	118,999	–	118,999
Financial liabilities at fair value through profit or loss	–	–	–	–	50	50	–	50
Subordinated debt	–	294	251	392	–	937	–	937
Current tax liability	–	–	–	–	–	–	176	176
Deferred tax liability	–	–	–	–	–	–	89	89
Other liabilities and provisions	–	–	–	–	–	–	8,133	8,133
Total liabilities	**243**	**42,336**	**22,130**	**55,467**	**2,300**	**122,476**	**8,398**	**130,874**

Consolidated statement of comprehensive income for the year ended 31 December 2019:

in millions of CZK	Financial markets	Corporate Banking	Private Banking	Retail banking	ALCO	Total reporting segments	Unallocated	Total
Net interest income	267	1,730	400	645	820	3,862	98	3,960
Net fee and commission income	1,308	75	12	9	(7)	1,397	–	1,397
Net trading income	624	4	–	–	–	628	–	628
Gain on a bargain purchase	–	–	–	–	136	136	–	136
Other operating income	116	40	–	–	–	156	42	198
Operating income	**2,315**	**1,849**	**412**	**654**	**949**	**6,179**	**140**	**6,319**
Personnel expenses	(153)	(92)	(162)	(45)	–	(452)	(1,106)	(1,558)
Other operating expenses	(94)	(52)	(91)	(65)	–	(302)	(951)	(1,253)
Depreciation and amortisation	(3)	(5)	(3)	(7)	–	(18)	(159)	(177)
Profit before allowances, provisions and income tax	**2,065**	**1,700**	**156**	**537**	**949**	**5,407**	**(2 0,76)**	**3,331**
Net change in allowances for loan commitments and guarantees	–	76	1	–	4	81	–	81
Net change in allowances for financial assets at amortized cost, Net change in allowances for loans, Loss on loans and receivables	(54)	564	63	(4)	(2)	567	–	567
Profit before tax, excluding profit from equity accounted investees	**2,011**	**2,340**	**220**	**533**	**951**	**6,055**	**(2,076)**	**3,979**
Loss from equity accounted investees, net of tax	(1)	–	–	–	–	(1)	–	(1)
Profit before tax	**2,010**	**2,340**	**220**	**533**	**951**	**6,054**	**(2,076)**	**3,978**
Income tax	(415)	(392)	(77)	(132)	(59)	(1,075)	253	(822)
Profit for the period	**1,595**	**1,948**	**143**	**401**	**892**	**4,979**	**(1,823)**	**3,156**

The values disclosed are net of inter-segment transactions and are submitted to the executive manager as such. When assessing the performance of the segment and issuing the decision about the funds which should be allocated to the segment, the executive manager decided that unallocated operating expenses need not be re-allocated to individual segments. When making decisions, the manager takes into account net interest income.

Consolidated statement of comprehensive income for the year ended 31 December 2018:

in millions of CZK	Financial markets	Corporate Banking	Private Banking	Retail banking	ALCO	Total reporting segments	Unallocated	Total
Net interest income	389	1,690	340	573	733	3,725	80	3,805
Net fee and commission income	1,470	102	8	5	5	1,590	–	1,590
Net trading income	171	–	–	–	75	246	–	246
Other operating income	169	33	–	–	–	202	27	229
Operating income	**2,199**	**1,825**	**348**	**578**	**813**	**5,763**	**107**	**5,870**
Personnel expenses	(178)	(80)	(161)	(42)	–	(461)	(922)	(1 383)
Other operating expenses	(108)	(42)	(69)	(69)	–	(288)	(886)	(1 174)
Depreciation and amortisation	(1)	(4)	(1)	(5)	–	(11)	(83)	(94)
Profit before allowances, provisions and income tax	**1,912**	**1,699**	**117**	**462**	**813**	**5,003**	**(1,784)**	**3,219**
Net change in allowances for loan commitments and guarantees	–	(7)	–	–	6	(1)	–	(1)
Net change in allowances for financial assets at amortized cost	–	(604)	(79)	–	3	(680)	–	(680)
Profit before tax, excluding profit from equity accounted investees	**1,912**	**1,088**	**38**	**462**	**822**	**4,322**	**(1,784)**	**2,538**
Profit before tax	**1,912**	**1,088**	**38**	**462**	**822**	**4,322**	**(1,784)**	**2,538**
Income tax	(328)	(186)	(19)	(96)	(135)	(764)	302	(462)
Profit for the period	**1,584**	**902**	**19**	**366**	**687**	**3,558**	**(1,482)**	**2,076**

Basic ratios of entities within the Group are as follows:

31.12.2019

in millions of CZK	Average no. of employees	Total assets	Turnover	Profit / (loss) before tax	Tax
J & T BANKA, a.s. (branch)	131	22,394	1,176	114	(44)
J&T INVESTIČNÍ SPOLEČNOST, a.s.	18	320	6,210	169	(32)
ATLANTIK finanční trhy, a.s.	2	929	150	5	(1)
J&T IB and Capital Markets, a.s.	9	283	138	81	(20)
J&T Bank, a.o.	157	8,571	817	251	(22)
Interznanie, OAO	20	527	75	24	(6)
J&T banka d.d.	67	3,604	154	7	1
J&T Leasingová společnost, a.s.	11	892	29	(23)	–
J&T REALITY o.p.f.	–	1,112	76	(29)	–
TERCES MANAGEMENT LIMITED	–	541	7	7	–
Colorizo Investment, a.s.	–	721	3	(4)	(1)
ALTERNATIVE UPRAVLJANJE d.o.o.	–	31	–	–	–

* Figures for OSTRAVA AIRPORT MULTIMODAL PARK s.r.o. and Moskovskij Neftechnimiceskij Bank, which are also members of the Group, are part of figures reported by companies exercising direct control over these companies.

31.12.2018

in millions of CZK	Average no. of employees	Total assets	Turnover	Profit / (loss) before tax	Tax
J & T BANKA, a.s. (branch)	129	24,067	1,161	215	(43)
J&T INVESTIČNÍ SPOLEČNOST, a.s.	14	277	303	158	(30)
ATLANTIK finanční trhy, a.s.	2	908	161	14	(2)
J&T IB and Capital Markets, a.s.	8	262	171	15	(24)
J&T Bank, a.o.	115	6,244	1,529	147	(18)
Interznanie, OAO	19	465	64	22	(4)
J&T banka d.d.	70	3,750	218	3	–
J&T Leasingová společnost, a.s.	6	255	6	(14)	2
J&T REALITY o.p.f.	–	1,128	79	(19)	–
TERCES MANAGEMENT LIMITED	–	531	4	3	–

None of the entities within the Group was granted any public aid.

Stated accounting balances are before consolidation adjustments.

(b) Geographical segments

In presenting information on the basis of geographical areas, revenue is based on the customer's/counterparty's country of domicile and assets/liabilities are based on the geographical location of the assets/liabilities. More details about splitting the credit risk for loans according to the actual loan purpose and location are comprised in note 42d.

Statement of financial position as at 31 December 2019:

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Cash, cash equivalents and due from banks and other financial institutions	57,912	1,030	1,493	854	61,289
Securities and the positive fair value of derivatives	4,861	3,458	7,036	3,792	19,147
Investment in associates and joint ventures	536	–	–	–	536
Loans and other advances to customers	23,087	6,985	30,803	7,445	68,320
Current tax receivable	3	–	–	24	27
Deferred tax asset	170	95	2	–	267
Investment property	–	–	2	427	429
Property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	687	212	285	390	1,574
Disposal groups held for sale	64	–	63	6	133
Total assets	**87,320**	**11,780**	**39,684**	**12,938**	**151,722**
Deposits and loans from banks	50	5	4,350	433	4,838
Deposits from customers	67,655	21,170	19,953	5,773	114,551
Negative fair value of derivatives	177	2	389	14	582
Subordinated debt	740	1	68	–	809
Current tax liability	208	10	–	–	218
Other liabilities and equity	25,369	879	3,968	508	30,724
Total liabilities and equity	**94,199**	**22,067**	**28,728**	**6,728**	**151,722**

Consolidated statement of financial position as at 31 December 2018:

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Cash, cash equivalents and due from banks and other financial institutions	55,042	1,318	1,605	606	58,571
Securities and the positive fair value of derivatives	6,245	3,454	5,688	2,258	17,645
Investments in associates	7	–	–	–	7
Loans and other advances to customers	20,309	12,057	32,208	6,954	71,528
Current tax receivable	–	–	–	2	2
Deferred tax asset	239	68	5	–	312
Investment property	–	–	353	3	356
Property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	677	62	389	303	1,431
Disposal groups held for sale	65	–	61	126	252
Total assets	**82,584**	**16,959**	**40,309**	**10,252**	**150,104**
Negative fair value of derivatives	45	5	181	9	240
Deposits and loans from banks	523	263	34	1,430	2,250
Deposits from customers	65,785	21,546	26,983	4,686	118,999
Financial liabilities at fair value through profit or loss	50	–	–	–	50
Subordinated debt	867	1	69	–	937
Current tax liability	157	18	–	–	176
Deferred tax liability	1	–	–	88	89
Other liabilities and equity	23,073	916	2,206	1,168	27,363
Total liabilities and equity	**90,501**	**22,749**	**29,473**	**7,381**	**150,104**

Consolidated statement of comprehensive income for the year ended 31 December 2019:

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Net interest income	1,710	369	1,376	505	3,960
Net fee and commission income	713	341	302	41	1,397
Net additions to loss allowances for financial assets at fair value through other comprehensive income	4	(35)	(3)	5	(29)
Net trading income	(49)	5	727	(26)	657
Gain on a bargain purchase	–	–	–	136	136
Other operating income	39	59	56	44	198
Operating income	**2,417**	**739**	**2,458**	**705**	**6,319**
Personnel expenses	(1,004)	(328)	(62)	(164)	(1,558)
Other operating expenses	(804)	(223)	(60)	(166)	(1,253)
Depreciation and amortisation	(117)	(26)	(23)	(11)	(177)
Profit before allowances, provisions and income tax	**492**	**162**	**2,313**	**364**	**3,331**
Net change in allowances for loan commitments and guarantees	(28)	99	6	4	81
Net change in allowances for financial assets at amortized cost	(193)	740	82	(10)	619
Loss on loans and receivables	–	(52)	–	–	(52)
Profit before tax, excluding profit from equity accounted investees	**271**	**949**	**2,401**	**358**	**3,979**
Loss from equity accounted investees, net of tax	–	–	(1)	–	(1)
Profit before tax	**271**	**949**	**2,400**	**358**	**3,978**
Income tax	(749)	(44)	(1)	(28)	(822)
Profit from continuing operations	**(478)**	**905**	**2,399**	**330**	**3,156**
Profit for the period	**(478)**	**905**	**2,399**	**330**	**3,156**

Consolidated statement of comprehensive income for the year ended 31 December 2018:

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Net interest income	1,378	574	1,362	491	3,805
Net fee and commission income	746	510	262	72	1,590
Net trading income	329	67	(271)	121	246
Other operating income	83	64	45	37	229
Operating income	**2,536**	**1,215**	**1,398**	**721**	**5,870**
Personnel expenses	(868)	(323)	(64)	(128)	(1,383)
Other operating expenses	(724)	(257)	(59)	(134)	(1,174)
Depreciation and amortisation	(69)	(2)	(16)	(7)	(94)
Profit before allowances, provisions and income tax	**875**	**633**	**1,259**	**452**	**3,219**
Net change in allowances for loan commitments and guarantees	(1)	(7)	1	6	(1)
Net change in allowances for financial assets at amortized cost	(75)	(837)	238	(6)	(680)
Profit before tax, excluding profit from equity accounted investees	**799**	**(211)**	**1,498**	**452**	**2,538**
Profit before tax	**799**	**(211)**	**1,498**	**452**	**2,538**
Income tax	(397)	(42)	–	(23)	(462)
Profit from continuing operations	**402**	**(253)**	**1,498**	**429**	**2,076**
Profit for the period	**402**	**(253)**	**1,498**	**429**	**2,076**

40. RELATED PARTIES – GENERAL

The outstanding balances and transactions with related parties of the Group are with presented in the following tables. All material transactions with related parties were carried out based on the arm's length principle.

The transactions with the related parties are divided into the following categories:

I. Parent company J&T FINANCE GROUP SE.
II. Majority owners of J&T FINANCE GROUP SE Jozef Tkáč and Ivan Jakabovič and companies they own. These companies do not prepare consolidated financial statements that would include the Group, with the exception of J&T FINANCE GROUP SE.
III. Subsidiaries. This category includes subsidiaries of J&T FINANCE GROUP SE excluded the Group, that are included in its consolidated financial statement.
IV. Associates and joint-ventures. This category includes associates and joint ventures of J&T FINANCE GROUP SE and the Group.
V. Key management personnel of the Group or its parent and companies controlled or jointly controlled by this key management personnel. This category includes related parties which are connected to the Group through key management personnel of the Group or its parent.

On-balance and off-balance sheet items as at 31 December 2019

in millions of CZK	I.	II.	III.	IV.	V.	Total
Receivables	1	–	1,985	906	740	3,632
Liabilities	2,226	349	792	61	905	4,333
Granted guarantees	–	–	9	–	5	14
Received guarantees	–	–	28	–	–	28
Provided loan commitments	508	–	216	–	36	760
Received collateral	–	–	318	906	461	1,685
Profit / (loss) items for period ended 31 December 2019						
Expenses	(398)	–	(1 342)	–	(25)	(1,765)
Income	372	–	1,337	164	219	2,092

On-balance and off-balance sheet items as at 31/12/2018

in millions of CZK	I.	II.	III.	IV.	V.	Total
Receivables	1	–	926	1,823	802	3,552
Liabilities	1,679	96	2,360	96	533	4,764
Granted guarantees	–	–	7	–	5	12
Received guarantees	857	–	89	–	–	946
Provided loan commitments	515	–	473	–	30	1,018
Received collateral	–	–	302	768	530	1,600
Profit / (loss) items for period ended 31/12/2018						
Expenses	(298)	–	(997)	–	(25)	(1,320)
Income	299	–	912	13	389	1,613

Receivables from related parties consist primarily of loans and overdrafts.

Payables to related parties especially include term deposits, deposits payable on demand, savings and tied deposits.

Revenues and costs consist mainly of gains / losses on currency derivatives, interest income, income from commissions and brokering fees.

Receivables/payables from/to key management personnel

in millions of CZK	2019	2018
Provided loans	6	5
Received loans	162	30

The members of the Board of Directors, Supervisory Board, Executive Board and Investment Instrument Committee represent the Group's key management personnel.

The Group's key management personnel received no other remuneration in the form of short-term benefits, post-employment benefits, other long-term employee benefits, early termination benefits, or share-based payments.

Loans to the Group's employees as at 31 December 2019 amounted to CZK 89 million (2018: CZK 109 million). The loans provided to key management personnel and employees were provided under arm's length basis.

41. RISK MANAGEMENT POLICIES AND DISCLOSURES

The strategy, main goals and processes
The fundamental goal of risk management is profit maximization with respect to the risk taken, while considering the Group´s risk appetite.

In doing so, it must be ensured that the outcome of Group activities is predictable and in compliance with both business goals and risk appetite of the Group.

In order to meet this goal, the risks faced by the Group are managed in a quality and prudential manner within the framework of the Group:
- In terms of the above, risks are monitored, assessed and eventually limited, at least as strictly as required by the Czech National Bank. The internal limits are regularly reviewed (especially in the case of significant changes of market conditions) to ensure their compliance with both the Group's overall strategy and market and credit conditions. The adherence to the limits is monitored and reported daily (on an individual basis). In case of their potential breach, the Group immediately adopts appropriate remedial measures.
- The Group establishes goals for capital adequacy that it wants to attain over a specified time horizon (i.e. the level to which risks should be covered by capital) and threshold limits below which capital adequacy cannot decrease.
- The Group establishes targets for selected indicators of liquidity that it wants to achieve in a specified time horizon, and certain limits, below which the system of liquidity indicators cannot decrease.
- The Group establishes goals for other selected risk indicators (the risk of excessive leverage, the credit risk, the concentration risk, operational risk etc.) and threshold limits below which the system of indicators cannot decrease.

All internal limits have been approved independently of business units of the Group. The key indicators (capital adequacy ratio, liquidity and other risk categories) and their limits are part of the Group's Risk Appetite Statement.

42. CREDIT RISK

The Group's primary exposure to credit risk arises through its loans and advances and financial assets. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the statement of financial position. In addition, the Group is exposed to off-balance sheet credit risk through commitments and guarantees to extend credit.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

(a) Forbearance

as at 31.12.2019

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Performing exposures	65,463	(346)	65,117
– of which performing exposures forborne	465	(4)	461
Non-performing exposures	5,677	(2,474)	3,203
– of which non-performing exposures forborne	4,668	(2,032)	2,636
Total	**71,140**	**(2,820)**	**68,320**

as at 31.12.2018

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Performing exposures	66,862	(260)	66,602
– of which performing exposures forborne	620	(8)	612
Non-performing exposures	8,535	(3,609)	4,926
– of which non-performing exposures forborne	5,440	(2,050)	3,390
Total	**75,397**	**(3,869)**	**71,528**

in %	2019	2018
Share of exposures forborne in the total loans provided to customers	4.53%	5.60%
Share of non-performing exposures in total loans to customers	4.69%	6.89%

(b) Concentration of loans to customers by economic sector

as at 31.12.2019

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Not forborne			
Non-financial institutions	51,753	(612)	51,141
Financial institutions	12,212	(74)	12,138
Households	1,951	(63)	1,888
Other	91	(35)	56
Total	**66,007**	**(784)**	**65,223**
Forborne			
Non-financial institutions	4,942	(1,951)	2,991
Households	191	(85)	106
Total	**5,133**	**(2,036)**	**3,097**

as at 31.12.2018

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Not forborne			
Non-financial institutions	50,407	(1,663)	48,744
Financial institutions	16,494	(55)	16,439
Households	2,392	(49)	2,343
Other	44	(44)	–
Total	**69,337**	**(1,811)**	**67,526**
Forborne			
Non-financial institutions	5,796	(1,950)	3,846
Financial institutions	117	(15)	102
Households	147	(93)	54
Total	**6,060**	**(2,058)**	**4,002**

(c) Concentration of loans to customers by industry

in millions of CZK	2019	2018
Real estate activities	15,240	18,626
Wholesale and retail	8,943	6,650
ICT	7,811	5,718
Cultural, sports, entertainment and recreation activities	6,879	5,502
Manufacturing	6,581	6,731
Financial activities	5,319	8,762
Construction	5,100	4,890
Accommodation and food service activities	3,492	3,042
Production and distribution of electricity, gas and heat	2,829	4,039
Professional, scientific and technological activities	1,239	1,325
Private households and employed persons	1,239	737
Mining, quarrying and agriculture	883	638
Water supply, services relating to water, waste management and redevelopment	705	724
Healthcare and social work	409	603
Transportation and storage	233	1,141
Agriculture, forestry and fishing	22	398
Education	83	–
Administrative and support service activities	33	–
Other	1,280	2,002
Total	**68,320**	**71,528**

(d) Concentration of loans to customers by location

in millions of CZK	2019	2018
Czech Republic	23,087	20,309
Cyprus	14,655	17,269
Luxembourg	8,749	4,765
Slovakia	6,985	12,057
Switzerland	3,164	2,622
Croatia	3,093	3,121
Russia	2,313	1,610
Germany	1,070	1,049
France	965	773
Poland	904	955
British Virgin Islands	667	1,300
Cayman Islands	520	545
Malta	470	796
Monaco	329	286
Maldives	309	360
The Netherlands	294	2,343
Great Britain	262	–
Ireland	220	1,134
Other	264	234
Total	**68,320**	**71,528**

(e) Concentration of loans to customers by location of project implementation and collateral

in millions of CZK	2019	2018
Czech Republic	33,901	31,746
Slovakia	7,162	9,700
Croatia	3,800	3,346
Germany	3,643	2,233
France	3,589	521
China	2,688	2,275
Russia	2,363	1,610
Poland	2,204	5,354
Ukraine	1,921	3,719
Slovenia	1,753	1,529
Spain	1,394	2,121
Great Britain	1,108	1,308
Cyprus	530	523
Hungary	520	545
USA	480	2,731
Monaco	329	286
Maldives	309	360
Luxembourg	251	128
The Netherlands	111	2
Greece	47	251
Austria	40	867
Other	177	373
Total	**68,320**	**71,528**

The concentration of credit risk arising from repurchase agreements and loans to clients of brokers reflects the counterparty risk associated with securities and cash received as collateral.

(f) Credit risk associated with provided loans and repurchase agreements

as at 31 December 2019

in millions of CZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers	Debits and repurchase agreements – customers
Stage 1 and 2 - individually				
Gross amount	4,745	56,232	53,318	11,983
Expected credit losses	(8)	–	(345)	–
Stage 1 and 2 - collectively				
Gross amount	–	–	162	–
Expected credit losses	–	–	(1)	–
Stage 3 and POCI - individually				
Gross amount	–	–	5,677	–
Expected credit losses	–	–	(2,474)	–
Total	**4,737**	**56,232**	**56,337**	**11,983**
Stage 1 and 2 - by maturity				
– to maturity date	4,737	56,232	53,119	11,983
– up to 1 month past due	–	–	11	–
– 1- 3 months past due	–	–	4	–
Stage 3 and POCI - by maturity				
– to maturity date	–	–	3,006	–
– up to 1 month past due	–	–	14	–
– 1-6 months past due	–	–	51	–
– 6-12 months past due	–	–	8	–
– more than 12 months past due	–	–	124	–
Total	**4,737**	**56,232**	**56,337**	**11,983**

as at 31 December 2018

in millions of CZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers	Debits and repurchase agreements – customers
Stage 1 and 2 - individually				
Gross amount	5,868	52,437	55,573	11,183
Expected credit losses	(9)	–	(259)	–
Stage 1 and 2 - collectively				
Gross amount	–	–	106	–
Expected credit losses	–	–	–	–
Stage 3 and POCI - individually				
Gross amount	–	–	8,535	–
Expected credit losses	–	–	(3,610)	–
Total	**5,859**	**52,437**	**60,345**	**11,183**
Stage 1 and 2 - by maturity				
– to maturity date	5,859	52,437	55,412	11,183
– up to 1 month past due	–	–	4	–
– 1- 3 months past due	–	–	4	–
Stage 3 and POCI - by maturity				
– to maturity date	–	–	4,740	–
– up to 1 month past due	–	–	5	–
– 1-6 months past due	–	–	10	–
– 6-12 months past due	–	–	21	–
– more than 12 months past due	–	–	149	–
Total	**5,859**	**52,437**	**60,345**	**11,183**

Assets classified as “Neither past due nor impaired with a sign of impairment” and “Past due not impaired” represent those loans with a sign of impairment whose net present value of expected cash flows exceeds their carrying value, and therefore no allowance has been created.

The part of the receivables that is not past due is presented in the line “To maturity date” and the Group does not assume any problems with the counterparty’s payment behaviour. Past due receivables are presented in the appropriate columns according to the period past due.

The Group classifies provided loans into internal rating groups while considering a number of factors. The following table summarises receivables by internal rating.

Risk category

in millions of CZK	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	1,378	5	–	–	1,383
Low risk	3,582	149	–	–	3,731
Medium risk	43,308	4,124	–	–	47,432
High risk	934	–	81	–	1,015
Failed	–	–	5,092	504	5,596
Debits and reverse repurchase agreements - without rating	11,983	–	–	–	11,983
ECL	(229)	(117)	(2,372)	(102)	(2,820)
Total as at 31 December 2019	**60,956**	**4,161**	**2,801**	**402**	**68,320**

Risk category

in millions of CZK	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	1,594	–	–	–	1,594
Low risk	6,132	487	–	–	6,619
Medium risk	40,905	2,420	–	–	43,325
High risk	4,061	80	182	–	4,323
Failed	–	–	8,290	63	8,353
Debits and reverse repurchase agreements - without rating	11,183	–	–	–	11,183
ECL	(208)	(51)	(3,579)	(31)	(3,869)
Total as at 31 December 2018	**63,667**	**2,936**	**4,893**	**32**	**71,528**

The sensitivity of expected credit losses is affected by the probability of default (PD) and impairment losses. The table below shows the comparison of reported expected credit losses from impaired loans. The optimistic and pessimistic scenario reflects the amount of expected credit losses on a change of impairment losses by 10% and probability of default (PD) by 10%:

in millions of CZK	Optimistic	Elementary	Pessimistic
Change in LGD			
ECL 2019	(2,616)	(2,820)	(3,013)
ECL 2018	(3,602)	(3,869)	(4,158)
Change in PD			
ECL 2019	(2,788)	(2,820)	(2,852)
ECL 2018	(3,845)	(3,869)	(3,894)

(g) Collateral and credit enhancements for provided loans and repurchase agreements

31.12.2019

in millions of CZK	Carrying amount Stage 1 and 2	Accepted collateral value Stage 1 and 2	Carrying amount Stage 3	Accepted collateral value Stage 3
To maturity date:	**99,543**	**110,931**	**3,302**	**3,545**
– Guarantees	1,490	4,977	–	–
– Acceptance of promissory notes	909	3,363	–	–
– Real estate	13,805	15,637	1,796	2,043
– Cash deposits	3,070	3,070	–	–
– Securities	11,822	12,600	–	–
– Other	9,410	12,247	1,506	1,502
– Securities received under reverse repurchase agreements	59,037	59,037	–	–
Past due:	**95**	**161**	**1,842**	**2,263**
– Real estate	92	158	138	313
– Other	3	3	1,704	1,950

31.12.2018

in millions of CZK	Carrying amount Stage 1 and 2	Accepted collateral value Stage 1 and 2	Carrying amount Stage 3	Accepted collateral value Stage 3
To maturity date:	**89,236**	**100,543**	**3,602**	**5,508**
– Guarantees	2,515	2,515	–	–
– Acceptance of promissory notes	2,061	5,178	–	–
– Real estate	10,447	13,935	2,431	3,364
– Cash deposits	3,300	3,306	–	–
– Securities	9,762	9,929	–	–
– Other	5,460	9,989	1,171	2,144
– Securities received under reverse repurchase agreements	55,691	55,691	–	–
Past due:	**64**	**186**	**112**	**273**
– Real estate	64	186	104	265
– Other	–	–	8	8

The carrying value represents the collateral value adjusted by the collateral stress coefficient. The carrying value is limited by the carrying value of receivable. The accepted collateral value is adjusted by stress coefficient and it is not limited by the carrying value of receivable.

Collateral value is monitored and revised on regular basis.

The carrying value of securities received under reverse repurchase agreements is represented in the quoted market price of the securities.

(i) Credit risk processes

Evaluating the risk of failure of a counterparty is based on a credit analysis, processed by the Credit Risk Management department. These analyses provide conclusions for prompt measures when the counterparty's credit situation worsens or if the counterparty fails to comply with contractual conditions.

The results from the credit development analyses are reported to the Board of Directors or respective committee, which decides on adjustments of limits or relations with the counterparty (e.g. in the form of closing or limiting positions or adjustment of limits).

(j) Credit risk monitoring

Credit risk of trading book is monitored on daily basis, while credit risk of banking book is monitored on regular basis, at least once a month.

The extent of the risk is evaluated by the Risk Management department. When actual or possible breach of the adopted internal credit limits is identified (trading book exposures, derivatives transactions, margin trading), the Financial Markets department is informed, in order to ensure the compliance of the risk exposure with the set limits. In pre-determined cases, the information is passed to the Board of Directors or members of the investment committee.

Assessment of the credit risk in respect of counterparty or an issued debt is based on an internal rating of the Group. The rating is determined using the credit scale of either S&P or Moody's. If the counterparties or their debt are not externally rated, an internal rating is assigned based on the Group scoring system.

The Group scoring system has thirteen rating levels based on a standardized point evaluation of relevant criteria, which describe the financial position of the contractual party and its ability and willingness to fulfil its credit obligations – in both cases including the expected development, as well as proposed conditions for effecting the transaction.

The Group also evaluates financial and non-financial indicators that may not be monitored within the scoring system.

(k) Credit risk measurement

The Group regularly analyses and monitors credit risk of the trading book. At portfolio level, credit risk of the trading book is managed primarily based on the IRB (Internal Rating Based - BASEL II) methodology.

In order to assess the impact of extremely unfavourable credit conditions, the Group performs credit development analyses. This enables identification of sudden potential changes in the values of open positions of the Group that might arise as a result of events that are improbable, but possible.

For the trading portfolio, an impact of a sudden drop of credit rating by one level on open positions in bonds is evaluated.

The decrease in fair value at the end of the corresponding reporting period:

in millions of CZK	2019	2018
Decrease of the trading portfolio value due to a rating migration by one credit class	159	122

(in the Standard & Poor's scale)

(l) Risk management of customer trades

The Group prevents the possibility of a credit exposure arising from customer trades, i.e. trades which are transacted on the customer's account and where the Group has the role of a commissioner (customer trades such as spot buy, spot sell, sell / buy or buy / sell) as follows:

1. The amount of the customer collateral is continuously held higher than the amount of the customer loan at least by a pre-specified minimum required haircut. The level of this haircut is assigned to every instrument.
2. Should the current collateralization of the customer portfolio fall below the 30 per cent of the minimum required haircut, the Group closes all of the customer's positions immediately.
3. The Group accepts only instruments of specified minimal creditworthiness as collateral for customer trades.

In addition, the Group also restricts the total volume of individual instruments used as collateral.

43. LIQUIDITY RISK

Liquidity risk represents a risk that the Group is not able to meet its commitments as they are becoming mature. The Group is required to report a system of indicators to the Czech National Bank, which is done on a regular basis. The Group's effort in terms of liquidity risk is to diversify its sources of funding so as to decrease the degree of risk emerging from specific source cut-off and hence forego problems.

The Group performs everyday monitoring of their liquidity position to indicate potential liquidity problems. The analysis takes into account all sources of funding that the Group is using as well as obligations the bank has to pay. For the purpose of sufficient liquidity reserve the Group holds sufficient amount of highly liquid instruments (such as government bonds and similar securities), maintains balances with central banks on a reasonable level and collects short-term receivables.

The Group assorts all cash flows into timeframes according to maturities of the instruments to which the cash flows relate, and subsequently observes the resulting cumulative liquidity profile which is crucial for sound liquidity risk management. Such an analysis is also done for cash flows denominated in currencies different from CZK.

These scenarios are used in terms of liquidity risk management of the Group:

A) Expected scenario
B) Risk scenarios
C) Stress scenarios

Alternative Scenarios are based on stress imposed on components that might be negatively affected when liquidity problems crisis starts to approach.

For the purposes of measuring liquidity risk on the basis of the scenarios, liquidity indicators are evaluated and their compliance with adopted internal / external limits is monitored on a daily basis. When an actual or possible breach of the adopted internal / external liquidity limits is identified, Asset and Liability Management Committee (ALCO) is informed to ensure compliance with the set limits. In pre-determined cases, the information is passed to the Board of Directors.

The Group has an emergency plan for liquidity management that establishes the procedures applied in the case of possible liquidity crisis. The decision-making power is given by internal rules to the Board of Directors.

a) Liquidity risk of liquidity relevant instruments as at 31 December 2019:

The table shows the liquidity risk based on remaining contractual maturity dates.

in millions of CZK	Carrying amount	Contractual cash flows	up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined maturity
Assets							
Cash, cash equivalents and due from banks and other financial institutions	61,289	61,397	60,359	60	49	228	701
Securities (excl. derivatives)	18,169	20,015	512	1,097	6,479	3,265	8,662
Loans and advances to customers	68,320	78,916	16,674	11,490	40,012	10,731	9
Total	**147,778**	**160,328**	**77,545**	**12,647**	**46,540**	**14,224**	**9,372**
Off balance							
Bank commitments	8,369	8,369	646	4,605	2,896	207	15
Bank guarantees	2,375	2,375	2,375	–	–	–	–
Liabilities							
Deposits and loans from banks	4,838	4,843	4,809	4	19	8	3
Deposits from customers	114,551	115,773	66,676	26,161	21,990	457	489
Subordinated debt	809	986	109	332	250	295	–
Lease liabilities	195	196	16	62	104	14	–
Total	**120,393**	**121,798**	**71,610**	**26,559**	**22,363**	**774**	**492**
Net liquidity position	27,385	38,530	5,935	(13,912)	24,177	13,450	8,880
Cumulative liquidity position	–	–	5,935	(7,977)	16,200	29,650	38,530

Expected maturity

In general, contractual cash flows represent expected contractual future cash flows of financial instruments. Occasionally, the expected maturity differs from contractual one as historical experience shows that short-term loans and deposits are prolonged. In addition, as outstanding balances on current accounts or short-term deposits are usually not withdrawn on a daily basis and accounts are not cancelled at maturity date, the banks within the Group regularly monitor the period and percentage of deposits that remain available and those that are prolonged. These ratios are used for managing the liquidity risk.

For loans, in the worst-case scenario, the latest possible repayment date is assumed, which is based on latest expected completion date of each particular project. A project's latest expected completion date may not be the same as the contractual maturity date.

Loans whose refinancing is already being negotiated are recognised based on the expected refinancing date.

The expected maturity of other financial assets and liabilities is similar to their contractual maturity.

Expected maturity

in millions of CZK	Carrying amount	Contractual cash flows	up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined maturity
Assets							
Loans and other advances to customers	68,320	78,851	18,375	11,582	38,654	10,179	61
Liabilities							
Deposits from customers	114,551	116,377	36,156	24,048	29,409	26,275	489
Subordinated debt	809	1,195	113	346	682	54	–

Liquidity risk as at 31 December 2018:

The table shows the liquidity risk based on remaining contractual maturity dates.

in millions of CZK	Carrying amount	Contractual cash flows	up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined maturity
Assets							
Cash, cash equivalents and due from banks and other financial institutions	58,571	58,682	57,867	100	49	243	423
Securities (excl. derivatives)	17,271	17,917	332	1,187	5,936	4,113	6,349
Loans and advances to customers	71,528	84,395	15,646	16,793	35,632	16,311	13
Total	**147,370**	**160,994**	**73,845**	**18,080**	**41,617**	**20,667**	**6,785**
Off balance							
Bank commitments	9,581	9,581	9,581	–	–	–	–
Bank guarantees	2,434	2,434	2,434	–	–	–	–
Liabilities							
Deposits and loans from banks	2,250	2,335	1,703	17	588	27	–
Deposits from customers	118,999	120,414	70,235	21,580	27,778	427	394
Financial liabilities carried at fair value	50	55	–	–	55	–	–
Subordinated debt	937	1,187	13	187	704	283	–
Total	**122,236**	**123,991**	**71,951**	**21,784**	**29,125**	**737**	**394**
Net liquidity position	25,134	37,003	1,894	(3 704)	12,492	19,930	6,391
Cumulative liquidity position	–	–	1,894	(1 810)	10,682	30,612	37,003

Expected maturity

in millions of CZK	Carrying amount	Contractual cash flows	up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined maturity
Assets							
Loans and other advances to customers	71,528	84,395	16,060	17,249	32,833	18,166	87
Liabilities							
Deposits from customers	118,999	120,746	38,165	17,807	38,323	26,451	–
Subordinated debt	937	1,020	9	168	763	80	–

b) Liquidity risk of derivatives as at 31 December 2019:

in millions of CZK	Carrying amount	Contractual cash flows	up to 3 months	3 months to 1 year	1 year to 5 years
Derivative financial assets					
Currency derivatives					
– inflow	839	2,180	1,646	372	162
– outflow	–	(1,343)	(1,343)	–	–
Cross currency derivatives					
– inflow	116	4,586	–	–	4,586
– outflow	–	(4,620)	–	–	(4,620)
Commodity derivatives					
– inflow	3	3	3	–	–
Equity derivatives					
– inflow	18	18	–	18	–
Interest rate derivatives					
– inflow	2	2	–	–	2
Total	**978**	**826**	**306**	**390**	**130**
Derivative financial liabilities					
Currency derivatives					
– inflow	–	523	523	–	–
– outflow	(525)	(1,049)	(788)	(188)	(73)
Cross currency derivatives					
– inflow	–	4,124	–	–	4,124
– outflow	(51)	(4,076)	–	–	(4,076)
Commodity derivatives					
– outflow	(6)	(6)	(6)	–	–
Total	**(582)**	**(484)**	**(271)**	**(188)**	**(25)**

Liquidity risk of derivatives as at 31 December 2018:

in millions of CZK	Carrying amount	Contractual cash flows	up to 3 months	3 months to 1 year	1 year to 5 years
Derivative financial assets					
Currency derivatives					
– inflow	296	1,159	939	182	38
– outflow	–	(863)	(863)	–	–
Cross currency derivatives					
– inflow	78	3,370	–	–	3,370
– outflow	–	(3,374)	–	–	(3,374)
Total	**374**	**292**	**76**	**182**	**34**
Derivative financial liabilities					
Currency derivatives					
– outflow	(203)	(203)	(54)	(110)	(39)
Cross currency derivatives					
– inflow	–	3,374	–	–	3,374
– outflow	(32)	(3,370)	–	–	(3,370)
Equity derivatives					
– outflow	(5)	(5)	–	–	(5)
Total	**(240)**	**(204)**	**(54)**	**(110)**	**(40)**

44. MARKET RISK

Market risk is the risk of loss to the Group arising from market movements in quoted market prices of investment instruments, exchange rates and interest rates. Market risk consists of the trading portfolio market risk and investment portfolio market risk.

Market risk of the trading portfolio includes:
- Interest rate risk;
- Foreign exchange risk;
- Other market risk (equity risk, commodity risk).

Further information on interest rate risk and foreign exchange risk is provided in note 45 and 46, respectively.

The Group uses the Value at Risk (“VaR”) methodology to evaluate market risk of its trading portfolio, the foreign currency (“FX”) and commodity position using a confidence level of 99% and a horizon of 10 business days. The risks are evaluated (on an individual basis) and compared to limits set by the Risk Management Dept. on a daily basis. If the limits are breached, the Financial Markets Dept. is informed, in order to ensure the compliance of the risk exposure with the limits. In pre-determined cases, the information is passed to the Board of Directors. The decision-making power is given by internal rules to the Board of Directors and Investment Committee.

The Group performs back testing on a daily basis for market risk by applying a method of hypothetical back testing.

The VaR statistics as of 31 December 2019 and 31 December 2018 are as follows:

in millions of CZK	2019	2018
VaR market risk overall	107	128
VaR interest rate risk	47	111
VaR FX risk	146	139
VaR equity risk	10	38
VaR commodity risk	2	1

In order to assess the impact of extremely unfavourable market conditions, the Group performs stress testing. This enables identification of sudden potential changes in the values of open positions of the Group that might arise as a result of events that are improbable, but possible. As part of the stress testing, a short-term, medium-term and long-term historic shock scenario is applied to the trading portfolio, and the foreign currency and commodity positions of the Group as a whole. These scenarios evaluate the deepest drop of the current portfolio value which would have happened in the previous one (short-term scenario), two (medium-term scenario) or fifteen years (long-term scenario). The potential change in the fair value of the portfolio is monitored and assessed.

Change in the fair value of the trading portfolio due to historic shock scenario:

in millions of CZK	2019	2018
short-term scenario	105	95
medium-term scenario	257	106
long-term scenario	501	348

The Group performs stress testing of the investment portfolio using a standardised interest rate shock, i.e. an immediate decrease / increase in interest rates by 200 basis points ('bp') along the entire yield curve.

The decrease in the present value of the investment portfolio in percentage points of equity would be as follows:

(% Tier 1 + Tier 2)	2019	2018
Decrease in the present value of the investment portfolio due to a sudden change in interest rates by 200 bp	5.46*	1.35

*a significant increase compared to the prior period due to a change in the methodology pursuant to new guideline to IRRBB from mid-2019

45. INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed for a financial instrument indicates to what extent it is exposed to an interest rate risk. The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are zero-interest-bearing are grouped together in the "maturity undefined" category.

Interest rate risk exposure as at 31 December 2019 is as follows:

in millions of CZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets					
Cash, cash equivalents and due from banks and other financial institutions	60,212	–	–	1,077	61,289
Securities and the positive fair value of derivatives	1,871	5,509	3,334	8,433	19,147
Investment in associates and joint ventures	–	–	–	536	536
Loans and other advances to customers	57,618	8,263	912	1,527	68,320
Current tax receivable	–	–	–	27	27
Deferred tax asset	–	–	–	267	267
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	31	–	–	1,972	2,003
Disposal groups held for sale	–	–	–	133	133
Total assets	**119,732**	**13,772**	**4,246**	**13,972**	**151,722**

in millions of CZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities and equity					
Deposits and loans from banks	4,433	18	5	382	4,838
Deposits from customers	68,742	26,435	429	18,945	114,551
Negative fair value of derivatives	459	123	–	–	582
Subordinated debt	467	342	–	–	809
Current tax liability	–	–	–	218	218
Deferred tax liability	–	–	–	108	108
Other liabilities and equity	245	133	2	30,236	30,616
Total liabilities and equity	**74,346**	**27,051**	**436**	**49,889**	**151,722**
Net interest rate risk	**45,386**	**(13,279)**	**3,810**	**(35,917)**	**–**
Cumulative interest rate risk	**45,386**	**32,107**	**35,917**	**–**	**–**

Interest rate risk exposure as at 31 December 2018 is as follows:

in millions of CZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets					
Cash, cash equivalents and due from banks and other financial institutions	56,087	–	206	2,278	58,571
Securities and the positive fair value of derivatives	3,196	5,086	2,207	7,156	17,645
Investments in associates	–	–	–	7	7
Loans and other advances to customers	59,081	7,481	1,742	3,224	71,528
Current tax receivable	–	–	–	2	2
Deferred tax asset	–	–	–	312	312
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	45	–	4	1,738	1,787
Disposal groups held for sale	–	–	–	252	252
Total assets	**118,409**	**12,567**	**4,159**	**14,969**	**150,104**

in millions of CZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities and equity					
Deposits and loans from banks	775	10	24	1,441	2,250
Deposits from customers	65,569	32,627	383	20,420	118,999
Negative fair value of derivatives	164	71	–	5	240
Financial liabilities at fair value through profit or loss	–	50	–	–	50
Subordinated debt	184	561	192	–	937
Current tax liability	–	–	–	176	176
Deferred tax liability	–	–	–	89	89
Other liabilities and equity	47	–	–	27 316	27,363
Total liabilities and equity	**66,739**	**33,319**	**599**	**49,447**	**150,104**
Net interest rate risk	**51,670**	**(20,752)**	**3,560**	**(34,478)**	**–**
Cumulative interest rate risk	**51,670**	**30,918**	**34,478**	**–**	**–**

46. FOREIGN EXCHANGE RISK

Assets and liabilities denominated in foreign currencies, including off-balance sheet exposures, represent the Group's exposure to currency risk. Both realized and unrealized foreign exchange gains and losses are reported directly in the statement of comprehensive income. The main tool used for managing foreign currency risk is the VaR methodology which is applied using a 99% confidence level and a ten-day holding period.

Foreign exchange risk exposure as at 31 December 2019 is as follows:

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Assets						
Cash, cash equivalents and due from banks and other financial institutions	57,748	350	1,995	554	642	61,289
Securities and the positive fair value of derivatives	6,637	681	7,784	3,099	946	19,147
Investment in associates and joint ventures	536	–	–	–	–	536
Loans and other advances to customers	17,025	3,771	43,485	2,043	1,996	68,320
Current tax receivable	3	–	–	24	–	27
Deferred tax asset	170	–	95	–	2	267
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	744	111	346	709	93	2,003
Disposal groups held for sale	64	–	–	6	63	133
Total assets	**82,391**	**4,913**	**53,705**	**6,435**	**4,278**	**151,722**

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Liabilities and equity						
Deposits and loans from banks	2,047	8	2,353	398	32	4,838
Deposits from customers	63,513	2,693	43,795	3,323	1,227	114,551
Negative fair value of derivatives	580	–	–	2	–	582
Subordinated debt	563	174	72	–	–	809
Current tax liability	208	–	10	–	–	218
Deferred tax liability	4	–	–	104	–	108
Other liabilities and equity	27,217	338	4,177	(705)	(411)	30,616
Total liabilities and equity	**94,132**	**3,213**	**50,407**	**3,122**	**848**	**151,722**
Long position of off-balance sheet instruments:						
– items from derivative transactions	48,201	2,706	35,940	469	4,361	91,677
– items from spot transactions with share instruments	16	77	–	–	–	93
Short position of off-balance sheet instruments:						
– items from derivative transactions	37,249	4,995	41,141	1,699	6,137	91,221
– items from spot transactions with share instruments	15	77	–	–	1	93
Open position asset/(liability)	**(788)**	**(589)**	**(1 903)**	**2,083**	**1,653**	**456**

Foreign exchange risk exposure as at 31 December 2018 is as follows:

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Assets						
Cash, cash equivalents and due from banks and other financial institutions	54,894	412	2,265	319	681	58,571
Securities and the positive fair value of derivatives	8,247	1,310	6,095	1,077	916	17,645
Investments in associates	7	–	–	–	–	7
Loans and other advances to customers	17,518	7,670	42,643	1,317	2,380	71,528
Current tax receivable	–	–	–	2	–	2
Deferred tax asset	239	–	68	–	5	312
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	480	264	449	514	80	1,787
Disposal groups held for sale	65	–	–	126	61	252
Total assets	**81,450**	**9,656**	**51,520**	**3,355**	**4,123**	**150,104**

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Liabilities and equity						
Deposits and loans from banks	17	7	2,189	–	37	2,250
Deposits from customers	63,442	2,907	48,903	2,534	1,213	118,999
Negative fair value of derivatives	240	–	–	–	–	240
Financial liabilities at fair value through profit or loss	50	–	–	–	–	50
Subordinated debt	691	173	73	–	–	937
Current tax liability	157	–	19	–	–	176
Deferred tax liability	2	–	–	87	–	89
Other liabilities and equity	26,347	495	2,005	(1,356)	(128)	27,363
Total liabilities and equity	**90,946**	**3,582**	**53,189**	**1,265**	**1,122**	**150,104**
Long position of off-balance sheet instruments:						
– items from derivative transactions	45,565	1,154	36,695	1,039	4,872	89,325
– items from spot transactions with share instruments	23	177	–	–	–	200
Short position of off-balance sheet instruments:						
– items from derivative transactions	35,032	7,581	39,640	473	6,226	88,952
– items from spot transactions with share instruments	22	177	–	–	1	200
Open position asset/(liability)	**1,038**	**(353)**	**(4,614)**	**2,656**	**1,646**	**373**

47. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. It arises from all the Group's activities and is a risk faced by all business organisations. Operational risk includes legal and compliance risk.

The Group's objective of managing the operational risk is to minimize the risk and securing the Group's activities at the required level.

The primary responsibility for the implementation of controls to address operational risk is assigned to the management of the Group or the established Operational Risk and Damage Committee. This responsibility is supported by the development of overall standards within the Group for the management of operational risk which is done by the Risk Management Dept. and which cover the following areas (reflecting the proportionality principle):

- Identification of operational risk within the framework of each subsidiary's control system and development of conditions for decreasing and limiting operational risk (while the required level of activities is secured), as well as its impacts and consequences; recommendations for appropriate solutions in this area.
- Reporting of operational risk events by entering the corresponding information into the Group's database of operational risk events.
- This overview of the Group's operational risk events allows the Group to specify the direction of the steps and processes to take in order to limit these risks, as well as to make decisions with regard to:
  - accepting the individual risks that are faced;
  - initiating processes leading to limitation of possible impacts; or
  - decreasing the scope of the relevant activity or discontinuing it entirely.

48. CAPITAL MANAGEMENT

The Group strategy is to hold strong capital base in order to maintain the confidence of creditors and the market, while ensuring the future development of the business.

Starting 1 January 2014 the consolidated capital adequacy ratios are calculated in accordance with Regulation (EU) no. 575/2013 of the European Parliament and Council Regulation (the "CRR") of 26 June 2013.

Own funds (regulatory capital) of the Group are analysed in two parts:
- Tier 1 capital, which consist of:
  - Common Equity Tier 1 capital (CET1), which includes paid-up ordinary share capital, share premium, retained earnings (profit for the period is not included), accumulated other comprehensive income, other temporary adjustments CET1, net of goodwill, intangible assets and additional value adjustments;
  - Additional Tier 1 capital (AT1), which includes instruments (subordinated income certificates) issued in accordance with CRR (23 Other equity instruments).
- Tier 2 capital, which consists of eligible subordinated debt approved by Czech National Bank of CZK 137 million (31 December 2018: CZK 270 million).

From 1 January 2014 the capital adequacy ratios are calculated for CET1, Tier 1 capital and total regulatory capital. The value represents the ratio of capital to risk weighted assets (RWA). CNB also requires every institution to hold additional capital conservation buffer of 2.5% and countercyclical buffer on all the levels of regulatory capital.

From 1 January 2018 and in connection with the adoption of IFRS 9, the Group decided to apply Article 473a of Regulation (EU) 2017/2395 and include in the Tier 1 capital (CET1) over a transitory period of five years the amount equalling the difference between loss allowances and provisions under IAS 39 as at 31 December 2017 and expected credit losses under IFRS 9 as at 1 January 2018. This difference is subsequently recalculated using a pre-set coefficient. Simultaneously, the Group appropriately amended the calculation of specific credit risk adjustments.

The specific countercyclical capital buffer rate is calculated in accordance with Section 63 ČNB decree No. 163/2014 Coll. and is calculated as a weighted average of the countercyclical buffer rates in effect in the jurisdictions to which the Group has relevant risk exposures. It started to be relevant in 2017 when the Czech Republic and the Slovak Republic firstly set their countercyclical buffer rates. It is now being gradually implemented in other relevant countries.

Minimum requirements for capital ratios for 31 December 2019 and 31.12.2018 are as follows:

in millions of CZK	Minimum requirement	Capital conservation buffer	Countercyclical buffer	Total requirement
Common Equity Tier 1 capital (CET1)	4.5%	2.5%	0.84%	7.84%
Tier 1 capital	6%	2.5%	0.84%	9.34%
Total regulatory capital 2019	**8%**	**2.5%**	**0.84%**	**11.34%**
Common Equity Tier 1 capital (CET1)	4.5%	2.5%	0.61%	7.61%
Tier 1 capital	6%	2.5%	0.61%	9.11%
Total regulatory capital 2018	**8%**	**2.5%**	**0.61%**	**11.11%**

Regulatory capital

Regulatory capital and equity reconciliation

The tables below summarize the composition of own funds (regulatory capital) and equity and capital ratios for 31 December 2019 and 31 December 2018, providing a complete reconciliation of individual items of regulatory capital to equity items.

As at 31 December 2019

in millions of CZK	Regulatory capital	Share capital, retained earnings, capital funds and other reserves
Paid-up share capital registered in the Commercial Register	10,638	10,638
Retained earnings	5,125	5,370
Profit for the period	–	3,156
Accumulated other comprehensive income	(1,296)	(1,270)
Reserve funds	51	217
Non-controlling interest	–	806
(-) Additional value adjustments (AVA)	(19)	–
(-) Intangible assets other than goodwill	(123)	–
(-) Deferred tax assets dependent on future profit not arising from temporary differences less related tax liabilities	(2)	–
Deferred tax liabilities associated with intangible assets other than goodwill	3	–
(-) Goodwill	(33)	–
Transitional adjustments to CET1 instruments	375	–
Paid-in AT1 instruments, share premium	2,597	2,597
Total Tier 1 capital	**17,316**	**n/a**
Total Tier 2 capital	137	–
Total regulatory capital/equity	**17,453**	**21,514**

As at 31 December 2018

in millions of CZK	Regulatory capital	Share capital, retained earnings, capital funds and other reserves
Paid-up share capital registered in the Commercial Register	10,638	10,638
Retained earnings	4,568	4,801
Profit for the period	–	2,086
Accumulated other comprehensive income	(1,658)	(1,671)
Reserve funds	45	207
Non-controlling interest	21	572
(-) Additional value adjustments (AVA)	(18)	–
(-) Intangible assets other than goodwill	(115)	–
Deferred tax liabilities associated with intangible assets other than goodwill	4	–
(-) Goodwill	(33)	–
Transitional adjustments to CET1 instruments	419	–
Paid-in AT1 instruments, share premium	2,597	2,597
Total Tier 1 capital	**16,467**	**n/a**
Total Tier 2 capital	270	–
Total regulatory capital/equity	**16,737**	**19,230**

Risk weighted assets (RWA) and capital ratios

in millions of CZK	31 December 2019	31 December 2018
Central governments or central banks	485	319
Regional governments or local authorities	–	–
Institutions	1,003	1,158
Corporates	48,281	54,153
Retail	75	121
Secured by mortgages on immovable property	10,195	6,408
Exposures in default	2,754	5,275
Items associated with particular high risk	17,874	17,015
Covered bonds	51	52
Collective investments undertakings (CIU)	4,543	4,818
Shares	1,262	705
Other items	1,839	1,400
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	**88,362**	**91,425**
Traded debt instruments	2,935	4,000
Shares	648	1,231
Position risk in collective investment undertakings (CIUs)	20	16
Currency derivatives	3,891	3,467
Total risk exposure amount for position, foreign exchange and commodity risks	**7,494**	**8,715**
Operational risk	9,778	8,741
Total risk exposure amount for credit valuation adjustment	260	477
Total risk exposure amount	**105,894**	**109,357**

Capital adequacy ratios

in %	31 December 2019	31 December 2018
Common Equity Tier 1 capital (CET 1)	13.90%	12.69%
Tier 1 capital	16.35%	15.06%
Total regulatory capital	**16.48%**	**15.31%**

Based on the opinion of the Czech National Bank, retained earnings were reduced by the amount of the anticipated payment from subordinated income certificates (AT1 instruments) in the next four quarters not covered by a special-purpose fund for the payment of the income from those certificates before their inclusion in regulatory capital.

The key goal of capital management of the Group is to ensure that the risks faced do not threaten the solvency of the Group and capital adequacy regulatory limit compliance.

The purpose for setting the minimum value for capital adequacy requirements is to establish a trigger mechanism, which provides a guarantee that the capital adequacy will not decrease to the regulatory minimum.

The compliance of the Group capital with established limits and goals for the capital adequacy is evaluated regularly by the ALCO committee and the Group's management.

The decision-making power with regard to eventual measures that should be implemented to decrease the level of exposed risk (e.g., decreasing the size of risks, acquiring additional capital, etc.) is given to the Board of Directors.

49. FAIR VALUE INFORMATION

Estimation of fair values
The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Loans and advances to customers and Due from financial institutions: Fair value is calculated based on discounted expected future cash flows of principal and interest using the appropriate yield curve and risk spread. Expected future cash flows are estimated considering the credit risk and any indication of impairment. The estimated fair values of loans reflect changes in credit status since the loans were provided and changes in interest rates were made in the case of fixed rate loans.

Financial instruments held to maturity: Fair value is based on quoted market prices traded in active markets at the statement of financial position date.

Deposits and loans from banks and customers and Subordinated debt: For demand deposits and deposits with no defined maturity, fair value is taken to be the amount payable on demand at the statement of financial position date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using appropriate yield curve.

The fair value of the issued subordinated bonds does not contain direct transaction costs, which were expensed on issue.

Estimates of the fair value of financial assets measured at amortized cost, analysed according to the hierarchy that reflects the significance of the inputs used in the valuation were as follows:

31 December 2019

in millions of CZK	Level 1	Level 2	Level 3	Total estimated fair value	Carrying amount
Financial assets					
Cash, cash equivalents and due from banks and other financial institutions	–	61,343	–	61,343	61,289
Loans and other advances to customers	–	–	70,835	70,835	68,320
Financial liabilities					
Deposits and loans from banks	–	4,827	–	4,827	4,838
Deposits from customers	–	113,580	–	113,580	114,551
Subordinated debt	–	802	–	802	809

31 December 2018

in millions of CZK	Level 1	Level 2	Level 3	Total estimated fair value	Carrying amount
Financial assets					
Cash, cash equivalents and due from banks and other financial institutions	–	58,573	–	58,573	58,571
Loans and other advances to customers	–	–	72,911	72,911	71,528
Financial liabilities					
Deposits and loans from banks	–	2,248	–	2,248	2,250
Deposits from customers	–	118,440	–	118,440	118,999
Subordinated debt	–	954	–	954	937

50. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

a) Acquisitions of subsidiaries, associates and joint ventures, contributions to subsidiaries' capital

Acquisitions of subsidiaries and Contributions to subsidiaries' capital in 2019

in millions of CZK	Date of acquisition	Acquisition cost	Contribution to capital	Total cash outflow
J&T Leasingová společnost, a.s.	26.9.2019	–	40	–
Moskovskij Neftechnimiceskij Bank	2.10.2019	197	–	197
ALTERNATIVE UPRAVLJANJE d.o.o.	14.10.2019	50	–	50
Total		**247**	**40**	**247**

The Group increased the capital of subsidiaries in 2019 (see note 1).

New associates in 2019

in millions of CZK	Date of acquisition	Acquisition cost	Contribution to capital	Total cash outflow
OSTRAVA AIRPORT MULTIMODAL PARK s.r.o.	23.4.2019	530	–	410
Total		**530**	**–**	**410**

The capital increase in subsidiaries was as follows:

Contributions to subsidiaries' capital in 2018

in millions of CZK	Date of acquisition	Acquisition cost	Contribution to capital	Total cash outflow
J&T Leasingová společnost, a.s.	13.12.2018	–	110	–
Total		**–**	**110**	**–**

The Group increased the capital in subsidiaries in 2018 (see note 1).

Contribution to capital of subsidiaries does not represent cash outflow from the Group.

b) Formation/establishment of subsidiaries and joint venturesů

New subsidiaries in 2019

in millions of CZK	Date of acquisition	Acquisition cost	Contribution to capital	Total cash outflow
Colorizo Investment, a.s.	18.4.2019	2	–	2
Total		**2**	**–**	**2**

The Group did not form/establish any new subsidiaries and joint ventures in 2018.

The Group did not increase the capital of joint ventures in 2019.

Contribution to capital of subsidiaries does not represent cash outflow from the Group. Contribution to capital of joint ventures represents cash outflow from the Group as they are not consolidated using full method.

c) Effect of acquisitions of subsidiaries

The acquisitions of new subsidiaries (only consolidated "full method") had the following effect on the Group´s assets and liabilities:

1.1.-31.12.2019:

in millions of CZK	2019
Cash and cash equivalents	1,679
Financial assets for trading	496
Due from banks and other financial institutions	21
Loans and other advances to customers	548
Financial assets at amortised cost	279
Property, plant and equipment	83
Investment property	51
Current tax receivable	4
Deferred tax asset	10
Prepayments, accrued income and other assets	31
Disposal groups held for sale	2
Total assets	**3,204**
Deposits and loans from banks	32
Deposits from customers	2,400
Financial liabilities at fair value through profit or loss	4
Subordinated debt	137
Other liabilities	31
Total liabilitties	**2,604**
Net identifiable assets and liabilities	**600**
Non-controlling interest	0
Income from bargain purchase	**136**
Consideration transferred, paid in cash	(197)
Cash acquired	**1,482**
Profit or loss before the date of acquisition	(50)
Income before the date of acquisition	232
Profit or loss of acquired companies since the date of acquisition	5
Income after the date of acquisition	40

In 2018 the Group did not buy any associate.

d) Disposals of subsidiaries

The Group did not dispose of any subsidiary in 2019 and 2018.

e) Disposals of associates and joint ventures

The Group did not dispose of any associates and joint ventures in 2019 and 2018.

f) Effect of disposals of subsidiaries

The Group did not dispose of any subsidiary in 2019 and 2018.

51. INVESTMENT IN EQUITY ACCOUNTED INVESTEES

The following table shows a break-down of individual investments in equity accounted investees. All financial information presented in this note represents the audited figures.

31 December 2019

in millions of CZK	XT-card a.s. Associate	OSTRAVA AIRPORT MULTIMODAL PARK s.r.o. Joint venture
Group's share in the consolidated fair value of equity at the date of acquisition	6	530
Group's share in the post-acquisition profit / (loss) 2015-2018	1	–
Group's share in the post-acquisition profit / (loss) 2019	(1)	–
Total	**6**	**530**

31 December 2018

in millions of CZK	XT-card a.s.
Group's share in the consolidated fair value of equity at the date of acquisition	6
Group's share in the post-acquisition profit / (loss) 2015-2017	1
Group's share in the post-acquisition profit / (loss) 2018	–
Total	**7**

The Group did not invest in joint ventures in 2018.

Summary financial information for equity accounted investees as at 31 December 2019:

in millions of CZK	XT-Card a.s. Associate	OSTRAVA AIRPORT MULTIMODAL PARK s.r.o. Joint venture	Total
Assets	24	451	475
Liabilities	(9)	(451)	(460)
Net assets	**15**	**–**	**15**
Income	43	2	45
Expenses	(44)	(2)	(46)
Profit (loss)	**(1)**	**–**	**(1)**
Group's share	32%	50%	–
Group's share in profit / (loss) ofequity accounted investees	**(1)**	**–**	**(1)**

Summary financial information for equity accounted investees as at 31 December 2018:

in millions of CZK	XT-Card a.s. Associate	Total
Assets	36	36
Liabilities	(2)	(2)
Net assets	**34**	**34**
Income	61	61
Expenses	(60)	(60)
Profit (loss)	**1**	**1**
Group's share	32%	32%
Group's share in profit / (loss) of equity accounted investees	**–**	**–**

52. MATERIAL SUBSEQUENT EVENTS

COVID-19 pandemics

The first quarter of 2020 was significantly influenced by the sudden spread of COVID-19, which the World Health Organization (WHO) described as a global pandemic on 11 March 2020.

In response to the health risks and the rapid spread of the virus, local governments have introduced a series of restrictive measures. The free movement of people was reduced to strictly necessary acts. Most business establishments (with exceptions such as grocery stores or pharmacies) were forced to close. Likewise, accommodation and restaurant facilities had to interrupt operations in order to prevent the gathering of larger groups of citizens. Teaching at schools was interrupted.

The measures introduced have had a negative impact on the majority of markets without sector or geographical differentiation. As at 21 March 2020, the US stock market (as measured by the S&P 500 index) fell by more than 30% compared to its peak at the end of February of the same year. Other world markets, including the Prague Stock Exchange, lost over 35% to the highs of the year 2020, by the same date.

Despite extensive fiscal and monetary incentives presented by local governments and monetary authorities, the outlook for the next months and the overall impact of the COVID-19 pandemic remains unclear and uncertainty remains a determining factor in market developments. The key parameters for the further development of the economic situation will be the length of time for which the restrictive and security measures set by the government authorities will be valid and what their form will be.

Measures implemented by the Group

The Group closely monitored the development of the virus, as well as government regulations and recommendations, and kept its employees regularly informed. The Group has introduced several measures to protect employees' health while maintaining the Group's operations:

- Employees whose work was not necessarily tied to a workplace in the Group's premises were ordered to work from home. The Group provided these employees with the necessary equipment to perform their work.
- Employees who were not allowed to work from home were divided into two groups, one of which was transferred to a backup workplace.
- Transport and protective equipment were provided for employees working on the Group's premises.

At the end of March, the Group partially restricted the opening hours at its branches in Brno, Ostrava and Bratislava. Otherwise, the headquarters in Prague operates without restrictions. The Group also has no restrictions on the availability of services or products, among other things, through increased support for digital and telecommunications channels that allow it to stay in touch with its clients.

Expected impact on the Group's operations

The Group regularly communicated the situation with its clients and informed about developments on the financial markets through news published on the Group's website.

With respect to COVID-19, the Group analyzed its loan portfolio and identified clients from the most vulnerable segments. The Group selected approximately 40 clients from the “SME” corporate segment, operating primarily in the travel, entertainment, automotive and retail industries. The Group approached selected clients with a request to describe and analyze the current state of the business, the steps they had to take in response to COVID-19 pandemic and the estimated impact on their economic results for the year 2020. From the responses obtained so far, the Group did not assess the classification of the analyzed exposures as inefficient as an adequate reassessment. At the same time, no concession was granted related to COVID-19 pandemic. The

Group has received number of requests from clients for a shift in the repayment of the loans granted they are currently assessing. The Group will take into account the approaches of other banking market participants and the opinions and recommendations of the regulator, such as options of deferment of installments by 3 months, release of repayment schedules, cancellation of some types or part of interest or fee, etc. In connection with the economic consequences of the COVID-19 pandemic, the financial situation of the Group's clients may be adversely affected, which may jeopardize their ability to meet their obligations under existing contractual terms. The Group will monitor and evaluate the quality of its loan portfolio in accordance with the accounting policies described in Note 3 of the Notes to the financial statements.

Next, the Group quantified the impact of a theoretical increase / decrease of LGD and PD parameter by 10 percent to the amount of expected credit losses (ECL) in Note 42(f). In Note 42(k) of the Notes to the financial statements, the Group presents a decrease in the fair value of the loan portfolio that would occur in the event of a sudden decrease in the credit rating by one degree. As the situation evolves, expectations used to determine PD will be revised in the coming periods, which may result in some credit exposures moving from Stage 1 to Stage 2 due to a significant increase in credit risk (SICR). For more on credit risk, see Note 42.

The Group also simulated the impact of the revaluation of the fair value of Level 3 financial assets due to an increase/decrease in selected inputs used in the calculation of the fair value of financial assets by 1 or 5 percent, see Note 8.

Initial analysis also identified items of the statement of comprehensive income which are expected to have an impact in 2020 and possibly in subsequent years as a result of this situation. First item is Net creation of allowances, which is mentioned above as a separate comment. Net income from fees and commissions is another item where we expect unfavorable development, when the Group's major business is arranging debt securities issued for clients and where we assume shifts in time of some debt issues, or even their non-realization, which will probably lead to a decrease in fee revenues. On the other hand, the Group is not oriented to a large number of clients and therefore will not be exposed to the negative impact of the expected lower economic activity of the population. Net interest income may be affected by a reduction in reference and, consequently, market interest rates, but due to the sensitivity of assets and liabilities due to changes in interest rates (see Note 45), the Group does not expect any significant impact. Given the lack of information and future uncertainty, the Group is unable to estimate the specific impact levels in the items of financial statements mentioned above.

The Group has a prudent liquidity policy and holds a significant part of its liquidity surplus in highly liquid assets. The Group's strategic objective is to maintain a value of indicator stable and to meet regulatory and internal requirements for a sufficient liquidity buffer in the long-term period. Highly liquid assets include deposits with the central bank, short-term deposits with financial institutions and highly liquid government and corporate bonds, more information in Note 5 and 6. The Group endeavors to diversify its sources of funding to reduce the risk of failure of a particular source and avoid problems. The description, strategies and procedures for liquidity management are described in Note 43. Not only because of the current situation, the Group monitors its liquidity position and client behavior on a daily basis, including the outlook for the year 2020, in order to identify potential liquidity problems. The analysis takes into account all sources of financing used by the Group as well as the liabilities the Group is required to pay.

The Group has been adequately capitalized for long period of time, the capital adequacy ratio reached 16.4% as at 31 December 2019, for more information see Note 48. The Group complies with all limits set by the Czech National Bank as well as internal limits and has an adequate and sufficient capital buffer.

According to the information available to the Group's management at the date of issue of the financial statements, the situation mentioned above does not affect the presumption of an unlimited duration of the entity on the basis of which these financial statements have been prepared.

The Group’s management cannot exclude that the restrictive measures will be prolonged or further restricted or the negative effect of such measures will affect the economic environment in which the Group operates or that all this will have an adverse effect on the Group, its financial performance and operating results, both in the medium and long-term. The Group’s management is closely monitoring the situation and is ready to respond appropriately to mitigate any adverse effects.

On 27 March 2020, Moskovskij Neftechnimiceskij Bank (the subsidiary) merged with J&T Bank, a.o. and ceased to exist as a legal entity from this date.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF J & T BANKA, A.S.

Report on the Audit of the Financial Statements

Opinion
We have audited the accompanying consolidated financial statements of J & T BANKA, a.s. ("the Company") and its subsidiaries ("the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Group is set out in Note 1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – subsequent event
We draw attention to Note 52 of the consolidated financial statements, where the Group's management, at the date of preparation of these consolidated financial statements, assessed the most recent information regarding the possible impact of SARS-CoV-2 and its COVID-19 disease on the Group's consolidated financial statements. Our opinion is not modified in respect of this matter.

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

Expected credit losses for loans and advances to customers at amortised cost
Expected credit losses for loans and advances amounted to CZK 2 820 million as at 31 December 2019 (31 December 2018: CZK 3 869 million).

Refer to Note 3 (Accounting policies), Note 10 (Loans and advances to customers at amortised cost) and Note 11 (Expected credit losses) in the notes to the consolidated financial statements.

Key audit matter

The Group's management makes material and complex assumptions when estimating expected credit losses ("the Expected Credit Losses", "ECLs") in respect of loans and advances to customers (together "loans") provided to customers. We consider the area to be associated with a significant risk of material misstatement, which requires our increased attention in the audit. As such, we determined it to be a key audit matter.

In the process, the loans are allocated into one of the three stages prescribed by IFRS 9 Financial instruments in order to estimate the loss allowances. Stage 1 and Stage 2 loans are performing loans, with Stage 2 loans being those for which significant increase in credit risk since origination has been observed. Stage 3 loans are non-performing, credit-impaired loans.

Key assumptions and judgements in the calculation of the Expected Credit Losses include the following:

- definition of default and significant increase in credit risk (SICR);
- estimates of probability of default (PD), exposure at default (EAD) and loss given default (LGD);
- estimate of credit conversion factor (CCF) for off balance exposures;
- forward-looking information (FLI) based on scenarios of expected development of selected macroeconomic indicators.

PD parameters have been determined based on annualized migration matrix resulting from the Group's historical data. LGD is determined by estimating the probability-weighted discounted future cash flows for each exposure. The key judgments and assumptions are estimating future cash repayment scenarios and assigning probabilities to these scenarios taking into account the estimated value and timing of cash flows including estimating the recoverable value of underlying collateral.

How the audit matter was addressed

Assisted by our information technology specialists, we performed, among other things, the procedures outlined below:

Applying our knowledge, experience and market standards, we assessed the Group's credit and accounting policies, and the processes related to estimating ECLs. As part of the procedure, we assessed the process of identifying indicators of default, significantly increased credit risk, and allocating of loans to Stages. In addition, we tested IT control environment for data security and access.

We tested the design, implementation and operating effectiveness of selected key controls, including those over the matching of incoming payments and calculation of effective interest rate. We performed the testing by inquiry in combination with the observation, inspection of underlying documentation, and selected recalculations.

For a sample of loans, by reference to the underlying documentation (loan files) and through inquiries of the Group's credit officers, we evaluated whether examined loans were allocated to appropriate stages of IFRS 9, and whether appropriate EAD, PD, CCF and LGD parameters were applied to on-balance and off-balance exposures in determining the related ECLs. As part of the procedure, we specifically focused on the robustness of the Group's financial analysis of the borrower, the repayment pattern for the loan and the collateral provided (including the appropriateness of any haircuts applied).

Assisted by our own real estate valuation specialist, we challenged the valuation methods applied by the Group in respect of collateral valuation a sample of Stage 3 loans. As part of the procedure, among other things, we challenged the assumptions in the valuations used by the Group by comparing them to our specialist's expectations.

We assessed the accuracy and completeness of the Group's disclosures on the loss allowances and the related credit risk management in the notes to the separate financial statements.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the separate and the consolidated financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and the consolidated financial statements or our knowledge 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 laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those 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 matters that are also presented in the separate and the consolidated financial statements is, in all material respects, consistent with the separate and the consolidated financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

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

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Consolidated Financial Statements

The statutory body is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the statutory body determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the statutory body is responsible for assessing the Group'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 statutory body either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board, in collaboration with the Audit Committee, is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 control.
- Obtain an understanding of internal control 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's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's 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'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 consolidated 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 may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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 Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor´s report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholder on 29 June 2017 and our uninterrupted engagement has lasted for 19 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 3 April 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit, we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the financial statements or annual report.

Statutory Auditor Responsible for the Engagement

Jindřich Vašina is the statutory auditor responsible for the audit of the consolidated financial statements of J & T BANKA, a.s. as at 31 December 2019, based on which this independent auditor's report has been prepared.

Prague, 8 April 2020

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Evidenční číslo 71

Ing. Jindřich Vašina
Partner
Evidenční číslo 2059

CZK 21.51 billion

BANK'S EQUITY GREW
12% YEAR-ON-YEAR

STATEMENT OF FINANCIAL POSITION, FOR THE YEAR ENDED 31 DECEMBER 2019

in millions of CZK	Note	31.12.2019	31.12.2018
Assets			
Cash and cash equivalents	5	57,949	54,737
Due from banks and other financial institutions	6	1,442	2,364
Positive fair value of derivatives	7	955	400
Loans and advances to customers at amortised cost	10	62,959	66,966
Financial assets for trading	8a	2,324	4,389
Financial assets mandatorily at fair value through profit or loss	8b	7,578	6,066
Financial assets at fair value through profit or loss	8c	–	52
Financial assets at fair value through other comprehensive income	8d	3,116	3,241
Disposal groups held for sale	1	64	64
Ownership interests	1	4,116	4,142
Deferred tax asset	25	259	303
Property, plant and equipment	13	218	35
Intangible assets	14	92	90
Prepayments, accrued income and other assets	16	817	917
Total assets		**141,889**	**143,766**
Liabilities			
Deposits and loans from banks	17	4,492	3,048
Deposits from customers	18	107,549	112,936
Negative fair value of derivatives	7	622	238
Financial liabilities at fair value through profit or loss	19	–	50
Current tax liability	24	209	157
Subordinated debt	20	620	749
Provisions	22	1,290	1,040
Other liabilities	21	7,116	6,942
Total liabilities		**121,898**	**125,160**
Share capital	23	10,638	10,638
Retained earnings and other reserves	23	6,756	5,371
Other equity instruments	23	2,597	2,597
Total equity		**19,991**	**18,606**
Total equity and liabilities		**141,889**	**143,766**

The accompanying notes set out on pages 182 to 261 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

in millions of CZK	Note	2019	2018
Interest income calculated using effective interest rate	26	4,881	4,351
Other interest income	26	111	145
Interest expense	27	(1,382)	(1,134)
Net interest income		**3,610**	**3,362**
Fee and commission income	28	1,340	1,531
Fee and commission expense	29	(209)	(181)
Net fee and commission income		**1,131**	**1,350**
Dividends from ownership interests		232	270
Net change in loss allowances for financial assets at fair value through other comprehensive income	13	(34)	53
Net trading gain/(loss)	30	587	(99)
Other operating income	31	41	18
Operating income		**5,567**	**4,954**
Personnel expenses	32	(1,244)	(1,077)
Other operating expenses	33	(1,004)	(944)
Depreciation and amortisation	14,15	(140)	(70)
Operating expenses		**(2,388)**	**(2,091)**
Profit before allowances, provisions and income tax		**3,179**	**2,863**
Net change in loss allowances for loan commitments, provided guarantees and other financial activities	13	73	(11)
Net change in loss allowances for loans	13	756	(565)
Losses from loans and other receivables	13	(52)	–
Allowances for ownership interests	1	(337)	(368)
Profit before tax		**3,619**	**1,919**
Income tax	24	(740)	(385)
Profit for the period		**2,879**	**1,534**
Attributable to:			
Shareholders of the Bank		2,879	1,534
Profit for the period		**2,879**	**1,534**

in millions of CZK	2019	2018
Other comprehensive income - items that are or may be reclassified subsequently to profit or loss:		
Revaluation reserve - financial assets at fair value through other comprehensive income – debt instruments		
Remeasurement to fair value	(3)	42
Expected credit losses	34	(53)
Related tax	1	(8)
Revaluation differences	(1)	5
Other comprehensive income - items that will not be reclassified to profit or loss in subsequent periods:		
Revaluation reserve - financial assets at fair value through other comprehensive income – equity instruments		
Remeasurement to fair value	7	10
Related tax	(1)	(2)
Other comprehensive income for the period, net of tax	**37**	**(6)**
Total comprehensive income for the period	**2 916**	**1 528**

The accompanying notes set out on pages 182 to 261 are an integral part of these financial statements.

The Board of Directors approved these financial statements on 8 April 2020.

Signed on behalf of the Board:

Štěpán Ašer, MBA
Member of the Board of Directors

Igor Kováč
Member of the Board of Directors

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

in millions of CZK	Share capital
Balance as at 1 January 2018	**10,638**
Total comprehensive income for the period	
Profit for the period	–
Dividends	–
Payment of earnings from investment certificates	–
Establishment of special-purpose fund for payment of revenue from inv. certificates	–
Other comprehensive income - items that will be reclassified to profit or loss in subsequent periods:	
Foreign currency differences	–
Revaluation reserve - financial assets at fair value through other comprehensive income – debt instruments	
Remeasurement to fair value	–
Expected credit losses	–
Related tax	–
Other comprehensive income - items that will be reclassified to profit or loss in subsequent periods:	
Revaluation reserve - financial assets at fair value through other comprehensive income – equity instruments	
Remeasurement to fair value	–
Related tax	–
Balance as at 31 December 2018	**10,638**
Balance as at 1 January 2019	**10,638**
Total comprehensive income for the period	
Profit for the period	–
Dividends	–
Payment of earnings from investment certificates	–
Contribution to Perpetuity fund	–
Other comprehensive income - items that will be reclassified to profit or loss in subsequent periods:	
Foreign exchange differences	–
Revaluation reserve - financial assets at fair value through other comprehensive income – debt instruments	
Remeasurement to fair value	–
Expected credit losses	–
Related tax	–
Other comprehensive income - items that will be reclassified to profit or loss in subsequent periods:	
Revaluation reserve - financial assets at fair value through other comprehensive income – equity instruments	
Remeasurement to fair value	–
Related tax	–
Balance as at 31 December 2019	**10,638**

Further information about equity instruments is disclosed in note 23.

The accompanying notes set out on pages 182 to 261 are an integral part of these financial statements.

	Retained earnings	Perpetuity fund	Other equity instruments	Revaluation reserve	Total
	5,252	**181**	**2,597**	**(74)**	**18,594**
	1,534	–	–	–	1,534
	(1,254)	–	–	–	(1,254)
	–	(262)	–	–	(262)
	(242)	242	–	–	–
	–	–	–	5	5
	–	–	–	42	42
	–	–	–	(53)	(53)
	–	–	–	(8)	(8)
	–	–	–	10	10
	–	–	–	(2)	(2)
	5,290	**161**	**2,597**	**(80)**	**18,606**
	5,290	**161**	**2,597**	**(80)**	**18,606**
	2,879	–	–	–	2,879
	(1,292)	–	–	–	(1,292)
	–	(239)	–	–	(239)
	(242)	242	–	–	–
	–	–	–	(1)	(1)
	–	–	–	(3)	(3)
	–	–	–	34	34
	–	–	–	1	1
	–	–	–	7	7
	–	–	–	(1)	(1)
	6,635	**164**	**2,597**	**(43)**	**19,991**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

in millions of CZK	Note	2019	2018
Cash flows from operating activities			
Profit before tax		3,,619	1,919
Adjustments for:			
Depreciation and amortisation	13, 14	140	70
Net change in loss allowances for loans and provisions for off-balance sheet exposures	13	(756)	565
Net change in loss allowances for provisions for off-balance sheet items		(73)	11
Losses from loans and other receivables		52	–
Foreign exchange differences from losses resulting from impairment of loans	11	(20)	6
Amortised cost of sold intangible assets and property, plant and equipment		24	4
Change in other provisions		339	268
Change in revaluation of financial assets at fair value through profit or loss		(19)	83
Ownership interests – remeasurement of hedged item / FV hedge		(222)	222
Creation of allowances for ownership interests	1	337	368
Securities measured at FVOCI – remeasurement of hedged item / FV hedge		2	(1)
Impairment of financial assets measured at FVOCI	8d	34	(53)
Net unrealised foreign exchange gains /(losses)		41	(65)
(Increase) / decrease in operating assets:			
Obligatory minimum reserves in central banks		689	(175)
Due from banks and other financial institutions		233	162
Loans and other advances to customers		4,783	(4,090)
Financial assets for trading at fair value through profit or loss		322	(1,965)
Disposal groups held for sale		–	43
Prepayments, accrued income and other assets		100	68
Increase / (decrease) in operating liabilities:			
Deposits and loans from banks		1,444	(18,961)
Deposits from customers		(5,387)	28,452
Deferred income, accrued expenses and other liabilities (without provisions)		197	(157)
Income tax paid		(645)	(423)
Credit Linked Notes issued			50
Credit Linked Notes paid		(52)	–
Net increase / (decrease) in fair values of derivatives			
Fair value of derivative instruments		(171)	190
Net cash flows from operating activities		**5,010**	**6,591**

in millions of CZK	Note	2019	2018
Cash flows from financing activities			
Dividends paid		(1,292)	(1,254)
Distribution of income from other equity instruments		(239)	(262)
Repayment of subordinated debt		(130)	(641)
Repayment of lease liability		(73)	—
Foreign exchange differences from subordinated debt		1	2
Net cash flows from financing activities		**(1,733)**	**(2,155)**
Cash flows from investing activities			
Acquisition of property plant and equipment and intangible assets		(63)	(58)
Ownership interests - contribution to capital		(90)	(110)
Financial assets at fair value through other comprehensive income		89	222
Net cash flows used in investing activities		**(64)**	**54**
Increase in cash and cash equivalents		**3,214**	**4,490**
Cash and cash equivalents at beginning of period	5, 34	54,737	50,234
Effects of exchange rate fluctuations on cash held		(2)	13
Cash and cash equivalents at end of period	5, 34	57,949	54,737
Cash flows from operating activities include:			
Interest received		4,803	4,336
Interest paid		818	665
Interest paid / lease liabilities		2	—
Dividends received		263	292

The accompanying notes set out on pages 182 to 261 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

J & T BANKA, a.s. (“the Bank”) is a joint stock company incorporated on 13 October 1992 in the Czech Republic.

The Bank received a licence to act as securities trader on 25 April 2003 and on 22 December 2003, the Bank’s licence was extended to include that activity.

The Bank’s activities are focused on private, investment, corporate and retail banking.

The Bank is subject to the regulatory requirements of the Czech National Bank (“CNB”). These requirements include limits and other restrictions concerning capital adequacy, the classification of loans and off-balance sheet liabilities, large exposure, liquidity and the Bank’s foreign currency position etc.

The registered office of the Bank is at Pobřežní 14, Prague 8, Czech Republic. The Bank (including its branch in the Slovak Republic) had the average of 529 employees in 2018 (2018: 485) The Bank operates in the Czech Republic and Slovakia.

A Slovak branch of the Bank was established on 23 November 2005, and was registered in the Commercial Register of the District Court Bratislava I, section Po, file 1320/B as the organizational unit “J & T BANKA, a.s., pobočka zahraniční banky”, Dvořákovo nábrežie 8, 811 02 Bratislava, and with the identification number 35 964 693.

The Bank’s ultimate parent is J&T FINANCE GROUP SE, a joint-stock company owned by Jozef Tkáč (45.05%), Ivan Jakabovič (45.05%), and Rainbow Wisdom Investments Limited (9.90%).

Ownership interests

In connection with the shareholder’s intention to centralise financial services under the Bank, the following companies have become subsidiaries of the Bank. The Bank provides customers with comprehensive banking services, asset management, financial and capital market transactions for the retail segment, as well as support to start-up and restructuring projects. It is expected that all acquisitions will significantly contribute to the Bank’s growth of profitability.

Balance at 31/12/2019 in millions of CZK

Company	Net balance	Impairment	Share capital	Share-holding %	Principal activities	Country of incorporation
ALTERNATIVE UPRAVLJANJE d.o.o.	39	(10)	0,07	100	Investment act.	Croatia
ATLANTIK finanční trhy, a.s.	82,	(192)	81	100	Investment act.	CR
J&T Bank, a.o.	2,481	(197)	2,323	99.95	Banking activities	Russia
J&T banka d.d.	285	(587)	1,048	84.17	Banking activities	Croatia
J&T IB and Capital Markets, a.s.	2	–	2	100	Advisory	CR
J&T INVESTIČNÍ SPOLEČNOST, a.s.	149	–,	20	100	Investment act.	CR
J&T Leasingová společnost, a.s.	180	–	32	100	Financing activities	CR
J&T REALITY, o.p.f.	582	(67)	–	53.08	Investment act.	CR
J&T ADVANCED SOLUTION SICAV	–	–	–	99.97	Investment act.	Malta
TERCES MANAGEMENT LIMITED	316	(207)	0,06	99.00	Investment act.	Cyprus
Total	**4,116**	**(1,260)**				

On 26 September 2019, the Bank increased its share in J&T Leasingová společnost, a.s. through a contribution with a total nominal value of CZK 40 million in excess of contributions made by the shareholders in the registered capital.

On 14 October 2019, the Bank purchased a 100% share in ALTERNATIVE UPRAVLJANJE d.o.o. This company owns 11.86% share in company J&T banka d.d, which increased the total share of the Bank on J&T banka d.d. to 96.03 %.

In 2019, the Bank created allowances for ownership interests of CZK 337 million. A year-on-year change in total allowances for ownership interests of CZK 331 million was affected by additions to allowances in 2019 and by a positive foreign exchange difference of CZK 6 million from the translation of allowances for ownership interests in currencies other than Czech crowns.

During 2019, there were no restrictions on the ownership rights held over subsidiaries.

During 2019, no restrictions applied to the ownership rights held over subsidiaries.

Balance at 31/12/2018 in millions of CZK

Company	Net balance	Impairment	Share capital	Share-holding %	Principal activities	Country of incorporation
J&T Bank, a.o.	2,451	–	2,064	99.95	Banking activities	Russia
ATLANTIK finanční trhy, a.s.	82	192	81	100	Investment act.	CR
J&T INVESTIČNÍ SPOLEČNOST, a.s.	149	–	20	100	Investment act.	CR
J&T IB and Capital Markets, a.s.	2	–	2	100	Advisory activities	CR
TERCES MANAGEMENT LIMITED	322	197	0,06	99	Investment act.	Cyprus
J&T REALITY, o.p.f.	599	50	–	53.08	Investment act.	CR
J&T ADVANCED SOLUTION SICAV	–	–	–	99.97	Investment act.	Malta
J&T banka d.d.	397	490	1,066	84.17	Banking activities	Croatia
J&T Leasingová společnost, a.s.	140	–	32	100	Financing activities	CR
Total	**4,142**	**929**				

On 30 April 2018, the Bank increased its share in J&T banka d.d. to 84.17% through a purchase of J&T banka d.d.'s own shares.

On 13 December 2018, the Bank increased its share in J&T Leasingová společnost, a.s. through a contribution with a total nominal value of CZK 110 million in excess of contributions made by the shareholders in the registered capital.

Effective from 31 December 2018, J&T REALITY, o.p.f. changed its reference currency from EUR to CZK. Consequently, the nominal value of allotment certificates changed using a EUR/CZK conversion rate of EUR 1/CZK 26 and the ownership interest was translated from EUR to Czech crowns.

In 2018, the Bank created allowances for ownership interests of CZK 368 million. A year-on-year change in total allowances for ownership interests of CZK 379 million was affected by additions to allowances in 2018 and by a negative foreign exchange difference of CZK 11 million from the translation of allowances for ownership interests in currencies other than Czech crowns.

During 2018, no restrictions applied to the ownership rights held over subsidiaries.

Disposal groups held for sale

Balance at 31/12/2019 in millions of CZK

Company	Balance	Shareholding	Principal activities	Country of incorporation
J&T Ostravice Active Life UPF	64	46.74	Investments in companies owning real estate	ČR
Total	**64**			

The networking of other parts of land continues. The networking will enable the sale of other plots of land in the following years. After further sale of land, there will be more redemptions, and the Bank's shareholding will decrease.

Balance at 31/12/2018 in millions of CZK

Company	Balance	Shareholding	Principal activities	Country of incorporation
J&T Ostravice Active Life UPF	64	46.74	Investments in companies owning real estate	ČR
Total	**64**			

The sale of a share in the investment fund J&T Ostravice Active Life UPF was delayed due to the approval process of the zoning plan, which is beyond the Bank's control. In 2018, roads and engineering networks were completed as planned, allowing the first land plots to be offered for sale, and the sale of land plots was thus launched. Because of a sufficient level of cash in the fund's accounts, a partial redemption of all clients' allotment certificates took place automatically, under the fund's statutes.

For each client, 40% of allotment certificates held by the client were obligatorily redeemed. The decisive date was the date of determining the current value of the fund as at the end of the accounting period, i.e. 31 December 2018. The amount for the redemption will be paid after the current value is determined, based on the fund's audited financial statements, however, no later than 5 months from the decisive date. For the Bank, this meant realising a 40% share of its investment held.

2. BASIS OF PREPARATION

(a) Statement of compliance

The unconsolidated financial statements comprise the accounts of the members of the Bank and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union for the reporting period of 1 January 2019 to 31 December 2019 ("reporting period").

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention except for financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivatives, which are measured at fair value.

The Bank maintains its accounting books and prepare their statements for regulatory purposes in accordance with local statutory accounting principles. The accompanying financial statements are based on the statutory accounting records together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS.

The below-stated accounting methods have been applied consistently in all periods presented in these financial statements.

In particular, information about significant areas of uncertainty estimation and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements are described in note 4.

Issued but not yet effective International Financial Reporting Standards

A number of new standards, amendments to standards and interpretations are not yet effective or not yet adopted by the EU for the year ended 31 December 2019, and have not been applied in preparing these financial statements:

Amendment to IFRS 9 Financial Instruments, IAS 39 Financial Instruments and IFRS 7 Financial Instruments: Disclosures

Effective for annual periods beginning on or after 01 January 2020.

This amendment is mandatory and applies to all hedge relationships directly affected by uncertainty associated with the IBOR reform. It provides temporary relief upon the application of certain specific requirements on hedges and hedge accounting. The amendment clarifies that the IBOR reform should not generally result in the termination of hedge accounting. Relief shall be applied to the following areas:
- requirement for "high probability",
- risk components,
- prospective assessment,
- retrospective effectiveness test (in the case of IAS 39),
- recycling of a valuation difference from cash flow hedging.

The amendment also requires that corporations provide investors with sufficient information about hedge relationships directly affected by this uncertainty.

The Bank expects that, on initial application, this amendment will require that additional information about hedge relationships affected by uncertainty caused by the IBOR reform be disclosed.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Effective for annual periods beginning on or after 1 January 2020.

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Bank expects that the Standard, when initially applied, will not have a significant effect on the financial statements of the Bank.

Standards and Interpretations Issued but not yet Endorsed by the EU

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The European Commission decided to defer the endorsement indefinitely.

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:
- a full gain or loss is recognized when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognized when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Bank expects that the Standard, when initially applied, will not have a significant effect on the financial statements of the Bank.

Amendments to IFRS 3 Business Combinations

Effective for annual periods beginning on or after 1 January 2020.

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Bank expects that the Standard, when initially applied, will not have a significant effect on the financial statements of the Bank.

Other new International Financial Reporting Standards and Interpretations not yet effective

The Bank has not early adopted any IFRS standards where adoption is not mandatory at the statement of financial position date. Where transition provisions in adopted IFRS give an entity the choice of whether to apply new standards prospectively or retrospectively, the Bank elects to apply the standards prospectively from the date of transition. The management of the Bank does not expect that further new standards will have any significant impact on the financial statements of the Bank.

(c) Functional and presentation currency

The accompanying financial statements are presented in the national currency of the Czech Republic, the Czech crown ("CZK"), rounded to the nearest million. Functional currency of the Slovak branch is the Euro ("EUR").

3. ACCOUNTING POLICIES

3.1 Changes in accounting policies

As at 1 January 2019, the Bank initially applied IFRS 16, which replaces IAS 17 Leases and associated interpretations.

IFRS 16 has brought major changes in the accounting of lessees. The contract is identified as a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Right-of-use of the asset and corresponding liability shall be recognised in the lessee's statement of financial position. Right-of-use shall be depreciated for the shorter of the economic useful life of the underlying asset or the lease term. Interest expense arising from lease liability shall be recognised separately from the depreciation charge in the statement of comprehensive income.

To assess the transition impact, the Bank applied the following recognition exceptions as permitted by IFRS 16:
- exemption for short-term leases (with a remaining lease term of 12 months or less) by class of underlying assets, and
- exemption for low-value assets (EUR 5 000/CZK 130 000) on a lease-by-lease basis.

As a lessee, the Bank mainly leases head office premises, branches, and cars, which are recognised in Property, plant and equipment under IFRS 16 from 1 January 2019.

In applying IFRS 16, the Bank used the modified retrospective approach. For this reason, it does not report any adjustments of comparable periods. The Bank applied the practical expedient of grandfathering the definition of a lease on transition, i.e. it applied IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17.

For leases classified as operating leases as at 31 December 2018, the Bank has measured, on a lease-by-lease basis, the right-of-use asset at an amount equal to the lease liability plus/minus prepaid/accrued payments. The Bank applied a single discount rate to individual leases denominated in EUR and CZK. Other lease contract characteristics are similar.

The following table shows the impact of the IFRS 16 adoption on a specific line of assets and liabilities in the statement of financial position:

in millions of CZK	01.01.2019
Right-of-use asset - "Property, plant and equipment"	278
Lease liability - "Other liabilities"	268
Prepaid payments - "Prepayments, accrued income and other assets"	10

in millions of CZK	Total
Operating lease liabilities as at 31 December 2018	452
Weighted average incremental interest rate as at 1 January 2019	1.88%
Discounted liabilities from operating leases as at 1 January 2019	**426**
Leases of low-value assets to which a recognition exemption was applied	(4)
Short-term leases to which a recognition exemption was applied	(154)
Lease liabilities recognised as at 1 January 2019	**268**

From the lessor's perspective, IFRS 16 does not change the approach to the accounting recognition of leases applied under original IAS 17. The lessor shall still classify a lease as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. For closer information about accounting policies refer to 3f.

3.2 Accounting policies

The particular accounting policies adopted in preparation of the accompanying financial statements are described below.

(a) Financial assets and liabilities

Classification and measurement of financial assets and liabilities

Financial assets under IFRS 9

The Bank assesses the classification and measurement of a financial asset based on:
- the Bank 's business model for managing the asset such as:
  - the stated policies and objectives for the portfolio and the operation of those policies in practise;
  - how the performance of the portfolio is evaluated and reported;
  - the risks that affect the performance of assets, including the strategy of their management;
  - the frequency, volume and timing of sales in prior periods, including the reasons for such sales and expectations about future sales activity;
- the contractual cash flow characteristics of the asset ("SPPI - solely payments of principal and interest on the principal outstanding").

The Bank defines business models and its classification as follows:
- "Hold and collect" – financial assets at amortised costs (AC);
- "Hold, collect and sell" – financial assets at fair value through other comprehensive income (FVOCI);
- "Trading" – financial assets at fair value through profit and loss (FVTPL);
- "Fair value option" – financial assets at fair value through profit and loss;
- "Mandatorily at fair value" – financial assets at fair value through profit and loss.

For an asset to be classified and measured at amortised cost or at FVOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI). For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI.

The Bank takes into consideration the following criteria when performing an SPPI test:
- non-standard currency characteristics;
- non-standard interest rate;
- financial leverage;
- early repayment options;
- longer repayment options;
- non-recourse arrangement;
- contract-linked instruments;
- hybrid instruments;
- instruments purchased with a significant discount/premium.

Financial assets at amortised cost

The "Hold and collect" strategy is aimed at holding financial assets in order to collect contractual cash flows of both principal and interest payments. Examples of such financial assets are loans, securities held to maturity, and trade receivables. Breach of the "Hold and collect" model does not occur even if there is a significant increase in counterparty credit risk during the course of the holding of the financial asset and the Bank decided to proceed with the sale of that asset.

Financial assets in the model "Hold and collect" are measured at amortised cost. Amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments plus or minus the cumulative amortised cost using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance – expected credit loss. Expected credit loss is recognised in a profit and loss statement together with foreign currency differences and interest income using the effective interest rate.

Financial assets at fair value through other comprehensive income

Strategy "Hold, collect and sell" is aimed at both collecting contractual cash flows from the principal and interest and selling financial assets; the model represents so called "mixed" business model. This model distinguishes two different types of accounting treatment for equity instruments and for debt instruments.

Debt instruments that meet the criteria of SPPI test in the business model 'hold, collect and sell' are measured at fair value through other comprehensive income. When the financial asset is derecognized, gain or loss from remeasurement is reclassified to profit or loss. Expected credit losses are recognized in profit or loss together with foreign exchange differences arising from the amortised cost. Interest income is calculated using the effective interest rate and is presented in Net interest income. If impairment of a debt instrument is identified, accumulated gains or losses recorded in prior periods in other comprehensive income are reclassified to profit and loss as at the reporting date.

Equity instruments that are held within the strategy "Hold, collect and sell" and not held for trading are measured as financial assets at FVOCI including FX differences from remeasurement. When this financial asset is derecognized, gain or loss from remeasurement is not recognized in profit or loss. Where dividends do not decrease the investment value, they are recognized in profit or loss. These assets are not subject to ECL calculation.

Financial assets at fair value through profit or loss

Strategy "Trading" is aimed at actively trading with financial asset. The collection of cash flows is only random in relation to the business model objective. Typical assets in this category are trading derivatives and trading financial assets. Changes in fair values of these assets including FX differences are recognised in profit or loss. These assets are not subject to ECL calculation.

Strategy "Fair value option" is used for assets that are at initial recognition irrevocably designated as measured at FVTPL in order to eliminate or significantly reduce a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing gains and losses using different bases.

Strategy "Mandatorily at FV" is used for financial assets that are held for the purpose of holding and collecting, or holding and collecting and selling, but which have not passed through the SPPI test and cannot be measured at AC or FVOCI.

Reclassification

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets.

Initial recognition
The bank recognizes financial assets and financial liabilities at fair value at initial recognition – adjusted for transaction costs directly attributable to the acquisition/issue or disposal of a financial asset/liability. Trade receivables without a significant financial component are recognized at the transaction price. Transaction costs related to the acquisition of financial assets measured at fair value through profit or loss are directly charged to the statement of comprehensive income.

Financial assets at FVTPL are recognized on the date the Bank commits to purchase the assets. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in the statement of comprehensive income.

Financial assets classified at FVOCI are recognized on the date it commits to purchase the assets. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in equity as differences from revaluation of assets.

Measurement
Subsequent to initial recognition, all assets designated at FVTPL and all at FVOCI are measured at fair value according to Note 4 (Determining fair values). Any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles
The fair value of financial assets is based on their quoted market price at the reporting date, without any deduction for transaction costs. If a quoted market price is not available, the fair value of the asset is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the statement of financial position date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the statement of financial position date.

Gains and losses on subsequent measurement
Gains and losses arising from changes in the fair value of financial assets at FVTPL are recognised in profit or loss while gains and losses arising from changes in the fair value of FVOCI assets are recognized directly in equity as differences arising from revaluation of assets and liabilities. When a debt asset measured at FVOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity instrument designated as measured at FVOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but is transferred to equity.

Interest on debt instruments measured at FVOCI is recorded in the statement of comprehensive income.

Derecognition
A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. Upon derecognition, the difference be-

tween the asset's carrying amount, and the sum of the consideration received and any cumulative gain or loss previously recorded in other comprehensive income is recognised in profit or loss.

The Bank derecognises financial liabilities when the related obligation specified in the contract has been discharged, cancelled, or expired.

Financial assets measured at FVOCI and FVTPL that are sold are derecognised on the date the Bank commits to sell the assets.

Financial assets held to maturity and provided loans and receivables are derecognised on the date the Bank sold them.

Financial liabilities under IFRS 9

Financial liabilities are classified and measured at amortized cost with the exception of:
- financial liabilities held for trading including derivatives – these are measured at FVTPL;
- financial liabilities that use the option to be measured at FVTPL - FV Option;
- financial liabilities arising from the transfer of financial assets that do not qualify for derecognition – short sales measured at FVTPL;
- contingent liabilities (if IFRS 9 recognition criteria are met) – measured at FVTPL;
- hybrid financial liabilities when the fair value measurement results in:
  - the elimination or significant limitation of the mismatch between the financial liability that would normally be measured at amortized cost and the related derivative measured at fair value;
  - the measurement of a hybrid contract as a whole, even if it contains an embedded derivative that would otherwise have to be separated.

The change in the fair value of financial liabilities associated with the change in credit risk is presented in other comprehensive income. The other part of the change in FV is presented in profit or loss.
In provisions within liabilities, the Bank also reports ECL for off-balance sheet items in form of granted commitments and guarantees.

Impairment
The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The impairment model in IFRS 9 shall apply to financial assets measured at amortised cost, debt instruments measured at FVOCI, and loan commitments and financial guarantees measured at amortised cost.

For the purposes of ECL model calculation, the portfolio of financial assets is split into three segments (Stage 1,2,3) or in the group of financial assets that are impaired at the date of the initial recognition - Purchased or originated credit-impaired assets ("POCI"). At the date of the initial recognition, the financial asset is included in Stage 1 or classified as POCI and recorded in Stage 3. Subsequent reclassification to other stages is carried out depending on the rate of increase in credit risk (Stage 2), i.e. the impairment of a particular asset from the moment of initial recognition (Stage 3).

Stage 1
- initial recognition of a financial asset;
- 12-month ECLs - all discounted cash flows that are not expected to be received until maturity of the financial asset that result from possible default events within the 12 months after the reporting date;
- interest income is calculated using the asset's gross carrying amount ("GCA").

Stage 2

- if the credit risk increases significantly from the initial recognition of the financial asset, the financial asset is reclassified to Stage 2;
- lifetime ECLs that result from all possible default events over the expected life of a financial instrument, i.e. all discounted cash flows that are not expected to be received until maturity of the financial asset as a result of a default;
- interest income is calculated using the asset's gross carrying amount ("GCA").

Stage 3

- the credit quality of the financial asset has significantly deteriorated and resulted in a credit loss or impairment of the asset;
- lifetime ECLs are used to calculate impairment;
- interest income should be calculated from net amortised costs, i.e. from the gross carrying amounts ("GCA") decreased by ECLs.

Financial assets with low credit risk

At the end of the reporting period the Bank assesses individual items classified in Stage 1 with low credit risk and if they do not meet this characteristic, they are reclassified to the relevant stage.

The credit risk of a financial instrument is considered to be low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily reduce the ability of the borrower to fulfil its contractual cash flow obligations.

However, financial assets are not deemed financial assets with low credit risk where collateral influences whether a financial instrument has a low credit risk. In addition, financial assets are not deemed financial assets with low credit risk solely due to the fact that they have a lower risk of default than other financial assets.

Financial assets with low credit risk are classified in Stage 1.

Purchased or originated credit-impaired financial assets (POCI)

In addition to purchased defaulted loans, POCI may arise as a result of the restructuring of borrowers in financial difficulties that lead to significant changes in terms of the loan and result to derecognition. Apart from the recognition of losses arising from significant changes to assets, no losses are initially recorded, without distinguishing between 12-month and lifetime ECLs. Initial ECL over the lifetime shall be taken into account in the EIR which takes into account credit risk of counterparty that is subsequently used to record interest revenue. Subsequent changes in the ECL are recorded against the impairment loss/gain and loss allowance. These assets are categorized separately (in nature they are similar to Stage 3) and remain so for the entire period of the holding.

Significant increase in credit risk

A significant increase in credit risk (SICR) represents a significant increase in the risk of default in respect of a financial asset as at the reporting date compared with the risk as at the date of initial recognition.

When determining SICR, the Bank adheres to the requirements of IFRS 9. These requirements are based on an assumption that the credit risk usually increases significantly before a financial asset becomes past due or other lagging factors (e.g. restructuring) are observed. At each reporting date of a financial asset, the Bank will assess whether the credit risk of a financial assets has increased significantly since its initial recognition or not.

The Bank may assume that the credit risk associated with the financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date.

When determining SICR on a financial asset since its initial recognition, the Bank uses reasonable and supportable information that is relevant and available without undue cost or effort.

Quantitative factors to be considered in assessment of loan receivables:
- the receivable or its significant portion is overdue for more than 30 days;
- credit risk deterioration will be considered on the basis of a change in rating since initial recognition. The current rating is compared with the rating assigned at the time of initial recognition;
- the Bank uses internal rating system with 12 rating grades and the transition matrix which defines movements (rating deterioration) considered as significant, the 13th grade is referred as default: The Bank uses the transition matrix which defines movements (rating deterioration) considered as significant:
  - ratings 1-3 falling under investment grade are considered to be low credit risk, migrations within these ratings are not considered to be SICRs;
  - for other grades, the PD formula is used, after which the exposure will be assigned to Stage 2;
  - in line with the regulatory recommendation, the Bank uses a maximum of three times the PD increase for Stage 2 transition to ensure that the PD threshold for Stage 2 is not greater than three times the rating PD's average PD for any rating class a specific exposure can happen, but only if the corresponding PD is lower than its PD of the highest rating when it is created;
  - at the same time, the value of the thresholds increases with higher ratings, so that for high ratings with a high PD mean less than a threefold increase in PD, all significant changes in PD are captured.

Qualitative factors to be considered in assessment of loan receivables:
- the Bank was forced to pay for the debtor's guarantee;
- the expectation that the exposure will be sold with significant economic loss associated with credit quality;
- the nature of the project has changed with a negative impact on the debtor's ability to generate cash flow;
- the debtor does not meet non-financial contractual obligations for more than 6 months etc.

For other products such as debits and repurchase agreements (reverse repurchase agreements) with clients), the Bank does not determine ratings, scoring, and PD, and consequently may not compare their development for SICRs purposes over the time as in the case of other credit receivables. In such cases, credit risk deterioration is assessed based on other credit quality factors of an entity from which the Bank reports receivables, e.g. specific phases occurring during the debt collection process, exceeding the period for the reporting of receivables from the entity, etc.

Credit impaired financial assets

A financial asset is 'credit-impaired' when one or more events defined as the "default of the borrower" that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

To determine whether a financial asset is in default, the Bank assesses the common signs of default that are listed below:
- the situation when the Bank filed a petition for declaring the bankruptcy of the debtor;
- the situation when the debtor has applied for bankruptcy announcement;
- the situation when the bankruptcy was announced;
- the debtor has entered or intends to enter into liquidation;
- the court has ruled that the debtor (legal person) was not founded (does not exist) or the debtor (natural person) has died;
- the final judgement of the court or administrative authority was ordered to enforce the decision by selling

the debtor's assets or executing the debtor's assets;
- the situation when the debtor's liability to the Bank (or its significant portion) is overdue for more than 90 days;
- the situation when the receivable in the category of default must be restructured;
- delay in expected funding from another financial institution for more than 12 months;
- the situation when payments in the aggregate amount of at least 50% (in the sense of monitoring the repayment from the point of granting the loan) have been reduced, etc.

Financial assets where the debtor's default is proved are classified in Stage 3 or designated as POCI, if the relevant conditions have been met as at the date of the financial asset's initial recognition.

Determination of expected credit losses (ECL)
The term ECL refers to the multiplication of probability of default (PD), expected loss given default (LGD) and exposure at default (EAD).

The Bank updates ECLs as at the reporting date, i.e. at the end of each month. ECL are measured on an individual basis, for loans with similar economic risk characteristics.

The measurement is based on the present value of expected future cash flows from the asset, using the original EIR for assets with fixed interest rate, and the current EIR for assets with variable interest rate.

Determination of probability of default (PD)
The probability of default comprises a calculation of the likelihood that a default event will occur for the exposure. The Bank takes as a basis a scoring, for non-derivative financial assets with fixed or determinable payments not listed on active market, and for loan commitments and guarantees issued and credit lines not drawn.

Probability of default is not determined for assets, loan commitments, guarantees and credit lines not drawn that the Bank intends to sell immediately or in near future, if they are classified as held for trading, or if designated upon initial recognition as instruments at fair value through profit or loss or as equity instruments through other comprehensive income.

The calculation of PD applied by the Bank is divided into 2 steps: calculation of one-year PDs as the long-term average of observed failure rates; and calculation of multi-annual (cumulative) PDs. Probability of default is assigned as follows:
- if the exposure is included in Stage 3, PD is 100 %;
- if the exposure is included in Stage 2, the corresponding life-time PD is assigned to the exposure;
- if the exposure is included in Stage 1, one-year PD is determined;

Determination of loss given default (LGD)
LGD, which is necessary for the calculation of ECL, is an estimate of the loss arising when default occurs at a given time (expressed as percentage).

LGD is determined individually in the form of a scenario analysis, credit analysis or previous ratings. Individual LGD is determined as weighted average of relevant cash flows according to the scenario analysis. The Bank commonly uses scenarios such as: breach of covenants resulting in full repayment request, significant decrease in financial performance (i.e. significantly below the thresholds for immediately full repayment of the contract), realization of collateral or severe drop in performance parameters. In determining the LGD value, the Bank takes into account collateral of the receivable, when the Bank has legal right that in the event of default of the borrower, the collateral can be realized within reasonable time. For collateralized receivables, the calculation of the present value of the expected future cash flows also takes into account expenses associated with the realization of collateral. For the purposes of LGD calculation, the Bank takes into account only collateral up to the amount that is not used as security for other assets or assets of third parties if they are entitled to satisfaction before the Bank (i.e. value of such collateral is reduced by the amount owed to more senior debtors). Furthermore, collateral is used only up to the carrying amount of the collateralized assets recognized in the balance sheet.

For homogeneous segments below the materiality threshold, such as credit cards, overdrafts and loans, or in case of lack of data, LGDs may be determined from historical observations, from parameters set in the regulatory framework or from the average of historical LGDs published by a local national bank (e. g. Czech national bank) in the Financial Stability Report. Nonetheless, regular calibration of these parameters is performed at least once a year on the basis of current data.

Determination of Exposure at default (EAD)

EAD refers to the level of exposure at default of the client which is then multiplied by PD and LGD in order to calculate the expected credit loss (ECL). Thus, EAD is a discounted estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest.

For off-balance sheet exposures, the EAD represents the approved undrawn commitment adjusted by the conversion factor. Not enough data is usually available to compile a statistical model for determining CCF for credit products, so the CCF may be determined on the basis of the historical experience or regulatory parameters.

Forward looking indicators

The expected loss model also considers information about future events. This information includes outlooks for industries in which individual counterparties operate, analysis from economic experts, financial analysts reports, data from government institutions, think tanks and other, including also consideration of internal and external sources of information relating to the current and future state of the general economic issues. The Bank assigns counterparties relevant internal assessment of credit risk depending on their creditworthiness.

When calculating expected credit losses as at 31 December 2019, the Bank followed economic scenarios, which included key indicators for the Czech and Slovak Republic for the years ended 31 December 2020, 2021 and 2022:

	Scenario	CZ 2020	SK 2020	CZ 2021	SK 2021	CZ 2022	SK 2022
GDP growth	Basic scenario	2.6%	2.7%	2.6%	2.7%	2.5%	2.7%

ECL presentation in the statement of financial position:

– for financial assets measured at amortised cost as a deduction from the GCA of the assets;
– for loan commitments and financial guarantee contracts generally as a provision;

Modification of financial assets

If there is a change in the cash flows of a financial asset due to a change in the contractual terms between the Bank and the counterparty (modification not only due to financial difficulties) while the change in the terms of the contract is classified as significant, the financial asset is derecognised and a new financial asset is recognised at fair value, including transaction costs. The present value of cash flows is discounted using a new effective interest rate, which is also used for a calculation of interest revenues.

If the change in the terms of the contract is not classified as significant (i.e. the difference between the net present value of the modified cash flows discounted using the original effective interest rate and the present value of the original cash flows is close to 10%) and the financial asset was not derecognized, the Bank recalculates the present value of the modified cash flows from the financial asset, and the difference between the gross carrying amount before the change in the terms and conditions (not considering existing impairment) is recorded as the effect of the modification of assets to the profit or loss. The present value of the modified cash flows is discounted using the original EIR, which is also used for a calculation of interest revenues. Costs, fees adjusting the carrying amount of a modified financial asset are amortized over the remaining term of modified financial asset.

Write-off

The gross carrying amount of a financial asset should be reduced directly when there are no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This involves situations in which the Bank determines that the debtor does not have necessary assets or resources of income to repay the debt. The assessment is performed on an item-by-item basis. In the case of write-off, the Bank directly decreases the gross carrying amount of a financial asset. Write-offs do not affect profit or loss, as the written-off amounts are included in loss allowances. A write-off constitutes a derecognition event. However, derecognised financial assets may still be recovered by the Bank in accordance with its debt recovery policies.

Forbearance

The Bank monitors quality of loan receivables to customers according to categories performing and non-performing exposures forborne and non-forborne. The Bank treats forbearance in accordance with the Technical Standard on non-performing exposures and forbearance measures published by the European Banking Authority (EBA) and in accordance with the Public Statement of the European Securities and Markets Authority (ESMA) on the treatment of forbearance practices in the financial statements of the financial institutions prepared in accordance with International Financial Reporting Standards.

Forbearance is an exposure where the Bank decides, due to the debtor's financial problems, to grant a concession which in other circumstances would not be granted. The concession may consist in the modification of the terms and conditions of the contract or in debt refinancing. The modification of terms and conditions may include, but is not limited to, a decrease in interest rate, reduction of the interest or principal, change in the repayment schedule (e.g. postponement of interest payment due date, temporary payment holiday, prolongation of the final due date of the loan, fee or accessories for the debtor, modification or non-monitoring of covenants, interest or instalment capitalisation, partial debt write-off). Any modification of terms and conditions or refinancing which is not result of debtor's financial problems cannot be interpreted as forbearance. Concessions may result in better interest risk management and mitigation of potential future loan losses. Performing and non-performing exposures may also be recognised as exposures without concession provided no modification of terms and conditions or refinancing was made in respect to the given receivable.

Performing exposures comprise primarily exposures classified in Stage 1 and 2. Non-performing exposures comprise receivables with debtor's failure classified in Stage 3 Under special conditions defined by EBA, exposures in Stage 2 might also be categorised as non-performing exposures. If more than 20 % of total debtor's exposure is overdue more than 30 days, the Bank shall include all of the debtor's balance sheet and off-balance sheet exposures as non-performing. The Bank also evaluates the classification of debtors from the same group of related parties to verify the condition for being classified as non-performing exposure.

The structure and quality of the credit portfolio is described in more detail in note 39.

Treasury bills
Treasury bills, comprising bills issued by Czech government agencies, are stated at cost including the amortised discount arising on purchase. The discount is amortised over the term to maturity with the amortisation being included in interest income.

Derivatives
Derivatives including currency forwards, cross currency swaps, interest rate swaps and options are initially recognised in the statement of financial position at fair value. Fair values are obtained from quoted market prices and discounted cash flow models. The positive fair value of derivatives is recognised as an asset while the negative fair value of derivatives is recognized as a liability.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

Changes in the fair value of derivatives are included in Net trading income.

Hedge accounting – Fair Value Hedge
The Bank decided to continue the original recognition under IAS 39 as part of its choice to apply IFRS 9 when recognising hedging derivatives. Hedging derivatives are derivatives that serve the Bank to hedge the currency risk and meet all conditions of the classification of hedging derivatives under International Accounting Standards.

At the inception of a hedging transaction, the relationship between the hedging instrument and the hedged item is documented. Hedge effectiveness is tested during the inception and duration of the hedging relationship by mutually offsetting changes in fair value or cash flows of the hedging instrument and the hedged item with the result in the range from 80 to 125%.

Changes in the fair value of derivatives to hedge against changes in fair value are recognised in the comprehensive income statement together with changes in the fair value of hedged assets and liabilities to which a hedging risk can be assigned. Hedge accounting is discontinued when the hedging relationship is terminated by the Bank, the hedging instrument expires, is sold, terminated, or the respective contract is exercised, or the hedging relationship ceases to meet the criteria of hedge accounting. The positive fair value of hedging derivatives is recognised as Positive fair value of derivatives in the statement of financial position as an asset. The negative fair value of hedging derivatives is recognised as Negative fair value of derivatives in the statement of financial position as a liability. A change in the fair value of hedging derivatives and of the hedged item is recognised as Net gain/(loss) from trading in the comprehensive income statement.

(b) Sale and repurchase agreements
Where securities are sold under a commitment to repurchase at a predetermined price ("repurchase agreements"), they remain on the statement of financial position and a liability is recorded equal to the consideration received. Conversely, securities purchased under a commitment to resell ("reverse repurchase agreements") are not recorded in the statement of financial position and the consideration paid is recorded as a loan granted. The difference between the sale price and repurchase price is treated as interest and accrued evenly over the life of the transaction. Repurchase and reverse repurchase transactions are recognised on a settlement date basis.

(c) Intangible assets
Intangible assets are stated at historical cost less accumulated amortization and impairment losses. Depreciation is provided on a straight-line basis over the estimated useful economic lives of 5 years.

(d) Property, plant and equipment

Intangible assets are stated at historical cost less depreciation and impairment losses. Depreciation is provided on a straight-line basis over the estimated useful economic life of the asset. Assets under construction are not depreciated.

The average depreciation rates used are as follows:

Buildings	2.5%
Office equipment	12.5% – 33%
Fixtures and fittings	12.5% – 33%

Land is not depreciated.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset.

(e) Leases

Bank as the lessor

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

Payments made under operating leases are recognised in the comprehensive income statement on a straight-line basis over the term of the lease.

Bank as the lessee

Accounting policies from 1 January 2019

The Bank applies IFRS 16 to all leases. At the commencement date of a contract, the Bank assesses whether the contract has the character of a lease or contains a lease. A contract has the character of a lease or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank assesses whether the contract contains a lease for each potential individual lease component. The broader economics of the contract are taken into account in respect of short-term leases. If a contract contains a lease, the Bank as the lessee recognises the right-of-use asset and the lease liability as at the start of the contract. The classification of the right-of-use into tangible/intangible assets class is based on the leased asset, i.e. on the underlying asset. The Bank has lease contracts where the leased assets are buildings (the bank's office premises, branches) and cars.

The Bank uses the exception for lease classification under IFRS 16 for:

- short-term leases
  - leases with a lease term of 12 months or less as at the commencement date of the lease
  - leases concluded for an indefinite lease term with a notice period of less than 12 months
- leases whose underlying asset has a low value (EUR 5 000/CZK 130 000)
  - o underlying low-value assets can include for instance tablets and personal computers, small items of office furniture and phones.

The Bank as the lessee recognises lease payments relating to lease contracts in the recognition exemption regime as expenses over the term of the lease.

As at the commencement date, the Bank shall measure the right-of-use asset at acquisition cost. Acquisition cost of a right-of-use asset includes the amount of lease liability initial recognition, all lease payments made at or before the commencement date net of all lease incentives received, all initial direct costs incurred by the Bank, an estimate of costs to be incurred by the Bank in dismantling and removing the underlying asset, and restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the Bank shall measure the right-of-use asset using the model of measuring at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability.

As at the commencement date, the Bank shall measure the lease liability as the present value of lease payments that have not been paid at that date. Lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the Bank's incremental borrowing rate, if not.

On initial recognition, the Bank subsequently measures the lease liability by recognising interest on the lease liability, decreasing the carrying amount of the liability to reflect lease payments, remeasuring the carrying amount to reflect any lease revaluation or modifications.

After commencement date, the Bank as the lessee recognises the interest in the comprehensive income statement on a lease liability and a variable lease payment not included in the measurement of a lease liability.

The Bank shall reassess whether the contract has the character of a lease or contains a lease only if the terms and conditions of the contract are changed.

While right-of-use assets are presented under Property, plant and equipment in the statement of financial position, lease liabilities are presented under Other liabilities. The Bank recognises interest expense on a lease liability separately from the right-of-use asset depreciation in the comprehensive income statement. Lease liability interest expense represents a component of finance expense.

Accounting policies until 31 December 2018

Payments made under operating leases are recognised in comprehensive income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of total costs over the term of the lease.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

(f) Foreign currency translation

Transactions denominated in foreign currencies are translated into CZK at the official Czech National Bank exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the statement of financial position date. All resulting gains and losses are recorded in the statement of comprehensive income in Net trading income, in the period in which they arise.

(g) Income and expense recognition

Interest income and interest expense are recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability. The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses).

For purchased or originated credit-impaired financial assets (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest income from debt instruments in FVOCI and FVTPL is recognised as interest income.
Penalty interests are recorded as off-balance sheet items and recognised as interest income at the moment the payment from the debtor is received.

Negative income from financial assets is recognized as interest expense, positive income from financial liability as interest income.

The recognised average interest rate is determined as the annual weighted average from open contracts as at the date of the balance sheet date.

Fees and commissions are recognized based on the nature of the fee and the type of service provided divided into the following groups:

- fees and commissions that are an integral part of the effective interest rate of a financial instrument and reported in the Net interest income;
- fees and commissions for services provided that are recognized as the services are provided and reported in the Net fee and commission income;
- fees and commissions for the execution of the transaction are recognized when the transaction is provided and also reported in the Net fee and commission income.

Other fees and commissions, including fees for loan commitments, are accounted for in accordance with the accruals principle and on a straight-line basis.

(h) Income tax

Tax paid is calculated in accordance with the provisions of the relevant legislation based on the profit recognized in the statement of comprehensive income prepared pursuant to local statutory accounting standards, after adjustments for tax purposes.

Deferred tax is calculated using the statement of financial position liability method, providing for temporary differences between the accounting and taxation basis of assets and liabilities. Deferred tax liabilities are recognized for taxable temporary differences. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Currently enacted tax rates are used to determine deferred income taxes.

(i) Social security and pension schemes

Contributions are made to the government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year based on gross salary payments. The cost of social security payments is charged to the statement of comprehensive income in the same period as the related salary cost. The Bank has no further pension or post retirement commitments.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks (excluding statutory minimum provisions) and other banks and short-term highly liquid assets with original maturities of three months or less.

(k) Provisions

A provision is recognized in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(l) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to offset the recognized amounts and the transactions are intended to be settled on a net basis.

(m) Ownership interests

The subsidiary consists of participation with controlling influence in an entity where the Bank identified control/supervision. Control arises when the Bank receives or is entitled to receive variable returns from its participation in the company and has the ability to affect those returns through its power over the company, regardless of the ownership share.

In the case of control/supervision all following conditions must be met:

- power over the company in which it has been invested;
- the right or authority to acquire rights to obtain variable returns based on the investment in the company;
- the ability to use the power over the company, in order to influence the amount of the Bank's returns from this investment.

An associate enterprise consists of participation with significant influence is an entity where the Bank has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in decisions on the financial and operating policy of the invested subject, but it does not involve control or joint control over those policies.

A joint venture is a joint arrangement where parties that together control the arrangement have rights to the net assets of this arrangement. Joint control is the contractually agreed sharing of control over the arrangement which exists when decisions about the relevant activities require the unanimous consent of the parties that share control.

Ownership interests are appraised at cost. The Bank creates allowances to this appraised ownership interests on the date of the annual financial statements in the amount of the difference between the value of appraised ownership interests recorded in the accounting and the recoverable amount.

The Bank applies fair value hedge accounting for ownership interests held in foreign currency that applies only to foreign currency risk.

(n) Disposal groups held for sale

Disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. These assets are available for immediate sale in their present condition; they are offered for sale at a price which is appropriate compared to their fair value and a plan of sale leading to finding a buyer has been started, i.e. the sale is highly probable. If the situation in the market allows, the sale is expected to be completed within one year from the date of classification to "Disposal groups held for sale".

Disposal groups held for sale are measured at the lower of:

- Net book value of the asset at the date of classification to "Disposal groups held for sale";
- The fair value less estimated costs to sell.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

(o) Segment reporting

Segment analysis is based on type of clients and provided services. The management of the entity is provided with the information that allows evaluating the performance of individual segments.

The Bank's reportable segments according to IFRS 8 are as follows:

- Financial markets;
- Corporate banking;
- Private banking;
- Retail banking;
- ALCO.

Accounting policies applied to operating segments comply with those described in note 3. The profits of the segments represent profits before tax achieved by each segment excluding overhead costs and salaries of management. This segment analysis is basis for review and strategic and operational decision making of the management.

For operating segment analysis, all assets and liabilities are allocated to the individual reportable segments.

IFRS 8 requires that operating segments are identified based on internal reporting about the business units of the Bank which are regularly reviewed by the Board of Directors and allow proper allocation of resources and evaluation of the performance.

(p) Dividends

Dividend expense is recognised in the statement of changes in equity and recorded as liabilities in the period in which they are declared.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The presentation of dividend income in the statement of profit or loss depends on the classification and measurement of the ownership interests, i.e.:

- for equity instruments which are held for trading, dividend income is presented in net trading income;
- for equity instruments designated at FVOCI, dividend income is presented in net trading income except for those resulting from a decrease in share capital of the invested entity, which is recorded in other comprehensive income.
- for equity instruments that are not designated at FVOCI and are not held for trading, dividend income is presented in dividends from ownership interests.

(q) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Amounts due to employees, such as amounts relating to accrued vacation pay or performance bonuses, are recognized as other liabilities.

(r) Other equity instruments

Other equity instruments are issued, subordinated, unsecured and yield certificates with a fixed interest income dependent on the fulfilment of particular conditions (hereinafter "Certificates"). These Certificates have no maturity date.

The Certificates have the character of hybrid financial instruments combining the economic features of equity and debt securities.

The Bank classified Certificates in accordance with IAS 32 and assessed all the conditions for the definition as equity instrument. Certificates meet both of the required conditions:

- the Certificates include no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or liabilities with another entity under conditions that are potentially unfavourable to the issuer;
- if the Certificates are or may be settled in the entity's own equity instruments, the Certificates are non-derivative instruments, which include no contractual obligation for the issuer to deliver a variable number of its own equity instruments.

The Bank may redeem the Certificates with the approval of the Czech National Bank. Holders of Certificates have no right to ask for redemption, except in the event of the Bank's liquidation.

The Bank commits to paying interest income generated from Certificates to the holders, but may also decide not to pay the interests accrued by the Certificates without compensating this in future periods. The Bank will pay interests if there are funds available and approved to be used by the General Meeting of the Bank. When there are not sufficient funds available, the payment is reduced proportionately. Payment of earnings can be drawn from:

- the Bank's net income after allocation to mandatory (reserve) funds ascertained in the Bank's unconsolidated financial statements for the given reporting period;
- retained earnings;
- other equity components that the Bank is authorised to distribute to its shareholders by its decision.

As the Bank has no obligation to deliver cash to the holders of Certificates or to settle the contractual obligation by providing other financial assets, (i.e. Certificate holders do not have right to redemption of the principal amount or the interest income and as the Certificates have no maturity date), they are included in additional Tier 1 capital (AT1). This inclusion is subjected to approval by the Czech National Bank.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

These principles supplement the commentary on financial risk management.

Key sources of estimation uncertainty

Expected credit losses

Expected credit losses are determined for those assets classified at amortised cost, debt instruments at fair value through other comprehensive income, guarantees and commitments. Basis used for its calculation and principles considered are described in accounting policy 3(a).

Calculation of expected credit losses and identified future liabilities considers uncertainties about the results of related risks and requires significant Bank's management assessments when estimating the amount of loss, including future economic conditions and credit behaviour.

Amounts reported as provisions for off-balance sheet items are based on management's judgement and represent the best estimate of expenditures required to settle the liability with uncertain timing or the uncertain amount of the obligation.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable quoted market price requires the use of valuation techniques as described in accounting policy 3(a). For financial instruments that are traded infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of the market factors, pricing assumptions and other risks affecting the specific amounts.

The Bank determines the fair value hierarchy according to IFRS 13 and establishes fair value using the following hierarchical system that reflects the significance of the inputs used in the valuation:

- Level 1 - entries are (unadjusted) quoted prices in active markets for identical assets or liabilities to which the Bank has access at value date;
- Level 2 - inputs are inputs other than quoted prices included in level 1 that are directly or indirectly observable for an asset or liability:
  - quoted prices of similar assets or liabilities in active markets,
  - quoted prices of identical assets on markets that are not active,
  - input quantities other than quoted prices that are observable,
  - market-supported inputs;
- Level 3 - inputs are unobservable inputs for an asset or liability.

An active market is the market where transactions for assets or liabilities are carried out frequently and in sufficient volume to ensure regular price information:

a) the items traded on the market are homogeneous;
b) it is possible to find willing buyers and sellers at any time and

c) prices are publicly available.

If there is no active market for the financial asset, the fair value is estimated using valuation techniques. When using valuation techniques, management uses estimates and assumptions based on available information about the estimates and assumptions that market participants would use to determine the price of the financial instrument.

In the vast majority of cases, the fair value of Level 3 investments, debt instruments, provided loans, was estimated using discounted cash flow ("DCF") models, with inputs coming from the specific investment's business plan or cash flow projections. The individual business plans and cash flow projections were critically reviewed by management before inclusion in the models. The discount rates were based on the specifics of the industries and countries in which the investments operate.

The key assumptions used in the valuations were the expected cash flows and discount rates.

The structure of selected assets and liabilities following the hierarchical system is described in note 46. Detailed information on securities classified in Level 3 are disclosed in note 8.

5. CASH AND CASH EQUIVALENTS

in millions of CZK	2019	2018
Cash on hand and current accounts with central banks	374	926
Term deposits in central banks up to 3 months	880	855
Loans to central banks – reverse repurchase transactions	56,232	52,437
Current accounts with banks or payable within 3 months	463	519
Total	**57,949**	**54,737**

6. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

in millions of CZK	2019	2018
Obligatory minimum reserves at central banks	897	1,586
Subordinated loans to banks	459	451
Other receivables due from banks	86	327
Total	**1,442**	**2,364**

Obligatory minimum reserves are maintained under the Czech National Bank and National Bank of Slovakia. The obligatory minimum reserve is stated as 2% of primary deposits with maturity of less than two years and is interest bearing. The Bank must maintain the obligatory minimum reserves in accounts with the respective central banks. Compliance with this requirement is measured using the average daily closing balance over the whole month.

The Bank has a prudent liquidity policy and holds a significant part of its liquidity surplus in highly liquid assets. Highly liquid assets include balances with the central bank, short term deposits in financial institutions and highly liquid corporate and government bonds. The Bank decides on placements based on the credibility of the counterparty and the offered conditions.

Subordinated loans to banks are provided to related banks.

Other receivables due from banks include primarily cash collateral of derivative transactions amounting to CZK 83 million (2018: CZK 325 million).

There were no overdue receivables from banks as at 31 December 2019 and 31 December 2018.

The contractual weighted average interest rate on deposits and loans with other banks was 2.04%(p.a. (2018: 1.77%).

All exposures classified as cash, cash equivalents and receivables due from banks and other financial institutions are classified at amortised cost, categorised in Stage 1: financial assets with low credit risk. These balances have immaterial ECL as at both 31 December 2019 and 2018.

7. DERIVATIVES

(a) Derivatives held for trading:

in millions of CZK	2019 Notional amount buy	2019 Notional amount sell	2019 Positive fair value	2019 Negative fair value
Currency derivatives	76 887	(76,577)	767	(511)
Cross currency derivatives	8 696	(8,696)	103	(51)
Interest rate derivatives	438	(438)	2	(2)
Commodity derivatives	–	–	3	(6)
Total as at 31 Dec 2019	**86 021**	**(85,711)**	**875**	**(570)**

in millions of CZK	2019 Notional amount buy	2019 Notional amount sell	2019 Positive fair value	2019 Negative fair value
Currency derivatives	79,799	(79,422)	293	(205)
Cross currency derivatives	6,744	(6,744)	78	(32)
Commodity derivatives	–	–	–	(1)
Total as at 31 Dec 2018	**86,543**	**(86,166)**	**371**	**(238)**

All derivatives held for trading are classified as level 2 according to the fair value hierarchy that reflects the significance of the inputs used in the valuation.

Currency contracts, generally forward currency contracts, are commitments to either purchase or to sell a designated currency at a specified date for a specified price. Forward currency contracts result in a credit exposure at a specified future date for a specified price. Forward currency contracts also result in exposure to market risk based on changes in quoted market prices relative to the contracted amounts.

Although all these derivatives represent an economic hedge, they are presented as trading, because the Bank did not classified them as derivatives held for risk management.

The foreign currency structure of these transactions was as follows:

Long position	CZK	EUR	USD	Other
31 December 2019	53%	40%	3%	4%
31 December 2018	50%	42%	2%	6%

The foreign currency structure of the second leg of these transactions was as follows:

Short position	CZK	EUR	USD	Other
31 December 2019	41%	45%	5%	9%
31 December 2018	38%	44%	8%	10%

(b) Derivatives held for risk management:

in millions of CZK	Notional amount Long position	Notional amount Short position	Fair value Positive	Fair value Negative
Currency derivatives - hedging for equity instruments at FVOCI			**13**	**–**
– Payable in more than 1 year	570	(534)		
Currency derivatives - hedging for ownership interests			**67**	**(52)**
– Payable in less than 3 months	2,477	(2,525)	–	–
– Payable between 3 months and 1 year	1,738	(1,704)	–	–
– Payable in more than 1 year	1,505	(1,436)	–	–
Total as at 31.12.2019	**6,290**	**(6,199)**	**80**	**(52)**

To hedge capital instruments at FVOCI, the Bank used a CZK/EUR derivative (buy/sell), and to hedge ownership interests, it used CZK/EUR, CZK/USD, EUR/HRK, EUR/RUB and USD/RUB derivatives.

in millions of CZK	Notional amount Long position	Notional amount Short position	Fair value Positive	Fair value Negative
Currency swaps - hedging for equity instruments at FVOCI			**1**	**–**
– Payable in less than 3 months	130	(129)	–	–
– Payable between 3 months and 1 year	13	(13)	–	–
Currency swaps - hedging for ownership interests			**29**	**–**
– Payable in less than 3 months	2,641	(2,625)	–	–
– Payable between 3 months and 1 year	445	(450)	–	–
Total as at 31.12.2018	**3,229**	**(3,217)**	**29**	**–**

To hedge capital instruments at FVOCI, the Bank used a CZK/EUR derivative (buy/sell), and to hedge ownership interests, it used CZK/EUR, EUR/HRK, EUR/RUB, EUR/USD and USD/RUB derivatives.

All hedging derivatives are classified as level 2 according to the fair value hierarchy that reflects the significance of the inputs used in the valuation.

The carrying amount of equity instruments at FVOCI at 31 December 2019 was CZK 164 million (2018: CZK 143 million) and foreign currency ownership interests of CZK 2 793 million (2018: CZK 3 484 million).

As at 31 December 2019, the cumulated value of hedged items in RUB was CZK -713 million (2018: CZK -940 million), CZK 96 million (2018: CZK 94 million) in USD, CZK 0 million (2018: CZK -11 million) in EUR, and CZK -36 million (2018: CZK -29 million) in HRK.

The objective of this hedge is to cover the foreign currency exposure to changes in the fair value of foreign currency financial assets at FVOCI and foreign currency ownership interests. The Bank uses currency forwards and foreign currency fixed-term deposits to achieve hedge effectiveness. The set hedges are in all cases effective.

8. FINANCIAL SECURITIES

a) Financial assets for trading:

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– domestic	275	311
– foreign	39	120
Bonds		
– domestic	927	2,440
– foreign	1,078	1,512
Allotment certificates		
– domestic	1	3
– foreign	4	3
Total	**2,324**	**4,389**

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– listed	314	431
Bonds		
– listed	2,005	3,952
Allotment certificates		
– not listed	5	6
Total	**2,324**	**4,389**

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– financial institutions	71	192
– corporate	243	239
Bonds		
– government	612	2,117
– financial institutions	301	415
– corporate	1,092	1,420
Allotment certificates		
– financial institutions	5	6
Total	**2,324**	**4,389**

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– Level 1	285	429
– Level 2	26	–
– Level 3	3	2
Bonds		
– Level 1	432	2,640
– Level 2	1,515	1,272
– Level 3	58	40
Allotment certificates		
– Level 2	5	6
Total	**2,324**	**4,389**

As at 31 December 2019, foreign bonds included mainly non-government bonds of CZK 926 million (2018: CZK 1 360 million) issued by companies from the following states and in the following amounts: Slovakia of CZK 719 million (2018: CZK 653 million), Luxembourg of CZK 80 million (2018: CZK 618 million), the Netherlands of CZK 68 million (2018: CZK 63 million), Malta of CZK 35 million (2018: CZK 0) and USA of CZK 19 million (2018: CZK 4 million).

Foreign government bonds totalling CZK 152 million (2018: CZK 152 million) represent Polish government bonds of CZK 65 million (2018: CZK 64 million), Romanian bonds of CZK 58 million (2018: CZK 61 million), and Turkish bonds of CZK 29 million (2018: CZK 27 million).

The contractual weighted average interest rate on bonds was 3.74% (2018: 3.81%).

(b) Financial assets mandatorily at fair value through profit or loss:

in millions of CZK	2019 Fair value	2018 Fair value
Allotment certificates		
– domestic	2,522	2,592
– foreign	5,056	3,474
Total	**7,578**	**6,066**

in millions of CZK	2019 Fair value	2018 Fair value
Allotment certificates		
– not listed	7,578	6,066
Total	**7,578**	**6,066**

in millions of CZK	2019 Fair value	2018 Fair value
Allotment certificates		
– financial institutions	7,578	6,066
Total	**7,578**	**6,066**

in millions of CZK	2019 Fair value	2018 Fair value
Allotment certificates		
– Level 2	5,253	3,998
– Level 3	2,325	2,068
Total	**7,578**	**6,066**

Foreign allotment certificates comprised Malta certificates of CZK 5 004 million (2018: CZK 3 474 million).

(c) Financial assets at fair value through profit or loss:

in millions of CZK	2019 Fair value	2018 Fair value
Bonds		
– domestic/listed/corporate	–	52
Total	**–**	**52**

Bonds recorded in this category were remeasured using prices derived from quoted prices – level 2.

(d) Financial assets at fair value through other comprehensive income

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– domestic	167	177
– foreign	197	181
Bonds		
– domestic	509	593
– foreign	2,243	2,290
Total	**3,116**	**3,241**

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– quoted	364	358
Bonds		
– listed	2,423	2,554
– not listed	329	329
Total	**3,116**	**3,241**

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– corporate	364	358
Bonds		
– financial institutions	691	519
– corporate	2,061	2,364
Total	**3,116**	**3,241**

in millions of CZK	2019 Fair value	2018 Fair value
Shares		
– Level 1	200	177
– Level 2	164	181
Bonds		
– Level 1	–	37
– Level 2	728	518
– Level 3	2,024	2,328
Total	**3,116**	**3,241**

Foreign shares comprise Slovak shares of CZK 165 million (2018: CZK 143 million) and Swiss shares of CZK 32 million (2018: CZK 38 million).

Foreign bonds only comprise Slovak bonds (2018: CZK 2 290 million).

No shares were sold in 2019; dividends paid on shares held totalled CZK 9 million (2018: CZK 11 million).

The Bank classifies bonds measured at FVOCI into internal rating groups, taking into account a number of factors. The following table summarises these bonds by internal rating.

in millions of CZK	Very low risk	Low risk	Medium risk	Total
Risk category				
Stage 1	512	366	179	1,057
Stage 2	–	–	1,695	1,695
Total 2019	**512**	**366**	**1,874**	**2,752**
Stage 1	518	1,736	629	2,883
Total 2018	**518**	**1,736**	**629**	**2,883**

Financial assets valued at level 3

The Bank regularly monitors the classification of securities into the fair value hierarchy. The Bank always assesses the individual ISIN codes of securities according to the frequency and volume of trades. Thus, a situation may arise that securities of one issuer may be classified under Level 1, whereas securities of another issuer may be classified under Level 2 or 3, based on the criteria shown in an internal decision-making tree.

The following table shows a reconciliation of the opening and closing balances for Level 3 financial assets that are recorded at fair value:

in millions of CZK	01.01.2019	Revaluation to OCI	Revaluation to profit or loss	Transfer from Level 2	Additions	Disposals	FX movement	Interest income	31.12.2019
Financial assets for trading									
– shares	2	–	–	–	–	–	1	–	3
– bonds	40	–	–	12	6	–	–	–	58
Financial instruments mandatorily at fair value through profit or loss									
– allotment certificates	2,068	–	19	–	128	–	110	–	2,325
Financial assets at fair value through other comprehensive income									
– bonds	2,328	1	–	–	–	(264)	(41)	–	2,024
Total	**4,438**	**1**	**19**	**12**	**134**	**(264)**	**70**	**–**	**4,410**

The following table sets out information about significant unobservable inputs used as at 31 December 2019 in measuring financial assets categorised as Level 3 in the fair value hierarchy:

Type of financial assets	Valuation technique	Significant unobservable input	Fair value as 31.12.2019	Range of estimates	FV sensitivity to unobservable inputs
bonds	discounted cash flow	Credit Spread		0.5% - 4%	A significant increase may result in lower fair value
		Risk-free rate	2,082	-0.5% - 2.5%	
shares	discounted cash flow	Discount rates		7.7% - 14.6%	
		EBITDA growth coefficient	3	2%	
allotment certificates	net asset value	Expected cash flow from fund	2,325	Investment value	

If fair values were 10% higher or lower than the Bank management's estimates, the determined carrying amount of financial assets at Level 3 would be CZK 441 million higher or lower than the carrying amount recognised as at 31 December 2019 (2018: CZK 444).

The effect of the remeasurement of fair values of the Level 3 financial assets as a result of an increase or decrease of some of the inputs by 1% used on the calculation of fair values is shown below:

in millions of CZK	Effect on profit or loss Increase	Effect on profit or loss Decrease	Effect on OCI Increase	Effect on OCI Decrease
Bonds 2019				
change in risk-free rates by 1%	(2)	2	–	–
change in credit spread by 1%	(4)	4	–	–
Shares 2019				
change in discount rates by 1%	(1)	1	–	–
change in EBITDA by 5%	–	–	–	–
Bonds 2018				
change in risk-free rates by 1%	–	–	(18)	18
change in credit spread by 1%	–	–	(18)	18
Shares 2018				
change in discount rates by 1%	(1)	1	–	–
change in EBITDA by 5%	–	–	–	–

9. REPURCHASE AND RESALE AGREEMENTS

(a) Resale agreements (reverse repurchase agreements)

The Bank purchases financial assets under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Ownership title to the securities is transferred to the Bank, or the entity which is a loan provider. Reverse repurchases are entered into as a facility to provide funds to customers. As at 31 December 2019 and 31 December 2018, assets purchased pursuant to the agreements to resell them were as follows:

in millions of CZK	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase date	Repurchase price
Loans to central banks (note 5)	55,533	56,232	up to 1 month	56,252
Loans and other advances to customers (note 10)	1,473	832	up to 1 month	834
Loans and other advances to customers (note 10)	2,031	1,185	up to 3 months	1,191
Total as at 31 December 2019	**59,037**	**58,249**		**58,277**

in millions of CZK	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase date	Repurchase price
Loans to central banks (note 5)	51,903	52,437	up to 1 month	52,456
Loans and other advances to customers (note 10)	1,100	758	up to 1 month	760
Loans and other advances to customers (note 10)	2,684	1,787	up to 3 months	1,795
Total as at 31 December 2018	**55,687**	**54,982**		**55,011**

(b) Repurchase agreements

Transactions where securities are sold under a repurchase agreement (repurchase transaction) at a predetermined price are accounted for as loans collateralised by the securities. Ownership title to securities is transferred to the Bank, or the entity which is a loan provider. However, the securities transferred under a repo transaction are still recognised in the Bank's statement of financial position. The price of the sold securities is recognised as a liability and presented under "Deposits and loans from banks" or "Deposits from customers".

in millions of CZK	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase date	Repurchase price
Loans from banks (note 17)	4,627	4,030	up to 1 month	4,029
Loans from customers (note 18)	3	2	up to 1 month	3
Total as at 31 December 2019	**4,630**	**4,032**		**4,032**
Loans from customers (note 18)	2	3	up to 1 month	3
Total as at 31 December 2018	**2**	**3**		**3**

Other financial assets sold as at 31 December 2019 of CZK 2 million (2018: CZK 3 million) under repurchase agreements were purchased under resale arrangements (reverse repurchase agreements).

10. LOANS AND OTHER ADVANCES TO CUSTOMERS AT AMORTISED COST

in millions of CZK	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	ECL Stage 3 - POCI	Net carrying amount
Loans to customers	53,201	(194)	(104)	(1,611)	(51)	51,241
Receivables from reverse repurchase agreements with customers	2,017	–	–	–	–	2,017
Margin lending (debits)	9,701	–	–	–	–	9,701
Other receivables from customers	3	–	–	(1)	(2)	–
Total as at 31 December 2019	**64,922**	**(194)**	**(104)**	**(1,612)**	**(53)**	**62,959**

in millions of CZK	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	ECL Stage 3 - POCI	Net carrying amount
Loans to customers	59,118	(175)	(43)	(2,906)	–	55,994
Receivables from reverse repurchase agreements with customers	2,545	–	–	–	–	2,545
Margin lending (debits)	8,427	–	–	–	–	8,427
Other receivables from customers	3	–	–	(1)	(2)	–
Total as at 31 December 2018	**70,093**	**(175)**	**(43)**	**(2,907)**	**(2)**	**66,966**

The amount of non-interest bearing loans as at 31 December 2019 totalled CZK 199 million (2018: CZK 103 million), of which loans acquired from the former Podnikatelská banka of CZK 37 million are still subject to bankruptcy proceedings (2018: CZK 58 million). In addition, these involve loans that are past due, do no longer bear interest and are subject to recovery procedures. 100% allowances are established for these receivables.

The contractual weighted average interest rate on loans to customers was 5.28 % (2018: 5.4%).

Details of changes in gross book value of loans, including movement in ECLs, for 2019 are disclosed in note 11-12.

For further information about loans and advances to customers, refer to note 39.

11. GROSS CARRYING AMOUNT OF FINANCIAL ASSETS

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Gross carrying amount of loans					
Total as at 1 January 2019	**60,879**	**2,851**	**6,361**	**2**	**70,093**
Transfers:					
– transfers to Stage 1	54	(54)	–	–	–
– transfers to Stage 2	(3,169)	3,169	–	–	–
– transfers to Stage 3	(512)	(454)	966	–	–
Increase due to origination and acquisition – gross	25,865	604	45	715	27,229
Movement in interest – accrued less paid (except for full repayment)	(121)	(47)	(5)	21	(152)
Partial repayment of the principal / drawing of loan during the reporting period	(1,692)	(114)	(24)	(16)	(1,846)
Financial assets derecognised during the period	(23,548)	(1,915)	(3,834)	(286)	(29,583)
Write-off and sale of receivables	–	–	(506)	–	(506)
Changes due to modification without derecognition (net)	(1)	(25)	4	–	(22)
Foreign exchange rate movements	(265)	(2)	(17)	(7)	(291)
Total as at 31 December 2019	**57,490**	**4,013**	**2,990**	**429**	**64,922**

"Increase due to origination and acquisition – gross" comprises an increase CZK 11 756 million in receivables from reverse repurchase agreements with clients and debits; "Financial assets derecognized during the period" of CZK 10 958 million comprise a decrease in receivables from reverse repurchase agreements with clients and debits. The remaining movements represent the newly provided loans or repayment of previously provided loans. In "Increase due to origination and acquisition – gross" relating to Stage 3 – POCI, the entire amount of CZK 715 million relates to incorporated loans with significant modifications recognised at fair value. The impact of modifications originally amounted to CZK 150 million and was reported in profit or loss. CZK 103 million was subsequently released as a result of the derecognition of part of modified assets.

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Gross carrying amount of loans					
Total as at 31 December 2017	**54,620**	**3,348**	**8,034**	**2**	**66,004**
Effect of IFRS 9 implementation	–	–	(20)		(20)
Total as at 1 January 2018	**54,620**	**3,348**	**8,014**	**2**	**65,984**
Transfers:					
– transfers to Stage 1	224	(223)	(1)	–	–
– transfers to Stage 2	(881)	881	–	–	–
– transfers to Stage 3	(1)	–	1	–	–
Increase due to origination and acquisition – gross	31,038	35	164	–	31,237
Movement in interest – accrued less paid (except for full repayment)	445	37	101	–	583
Partial repayment of the principal / drawing of loan during the reporting period	(1,471)	(535)	129	–	(1,877)
Financial assets derecognised during the period	(23,281)	(701)	(1,983)	–	(25,965)
Foreign exchange rate movements	186	9	39	–	234
Write-off and sale of receivables	–	–	(103)	–	(103)
Total as at 31 December 2018	**60,879**	**2,851**	**6,361**	**2**	**70,093**

“Increase due to origination and acquisition - brutto” comprises an increase CZK 10 958 million in receivables from reverse repurchase agreements and debits; “Financial assets derecognized during the period” of CZK 7 964 million comprise a decrease in receivables from reverse repurchase agreements and debits. The remaining movements represent the newly provided loans or repayment of previously provided loans.

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Gross carrying amount of debt securities at FVOCI					
Total as at 1 January 2019	**2,883**	**–**	**–**	**–**	**2,883**
Transfers					
– transfers to Stage 2					
Movement in interest – accrued less paid (except for full repayment)	(1,735)	1,735	–	–	–
Partial repayment of the principal / drawing of loan during the reporting period	(8)	–	–	–	(8)
Increase due to origination and acquisition – gross	–	(19)	–	–	(19)
Financial assets derecognised during the period	180	–	–	–	180
Fair value revaluation to OCI	(264)	–	–	–	(264)
Foreign exchange rate movements	1	1	–	–	2
Total as at 31 December 2019	–	(22)	–	–	(22)
Total as at 31 December 2019	**1,057**	**1,695**	**–**	**–**	**2,752**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Gross carrying amount of debt securities at FVOCI					
Total as at 31 December 2017	**3,074**	**–**	**–**	**–**	**3,074**
Effect of IFRS 9 implementation	–	–	–	–	–
Total as at 1 January 2018	**3,074**	**–**	**–**	**–**	**3,074**
Movement in interest – accrued less paid (except for full repayment)	(8)	–	–	–	(8)
Financial assets derecognised during the period	(229)	–	–	–	(229)
Fair value revaluation to OCI	22	–	–	–	22
Foreign exchange rate movements	24	–	–	–	24
Total as at 31 December 2018	**2,883**	**–**	**–**	**–**	**2,883**

12. EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS, INCLUDING GUARANTEES AND COMMITMENTS

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
ECL on Loans and advances to customers at amortised cost					
Total as at 1 January 2019	**175**	**43**	**2,907**	**2**	**3,127**
Transfers:					
– transfers to Stage 2	(12)	12	–	–	–
– transfers to Stage 3	–	(4)	4	–	–
Net change in credit risk	15	72	140	49	276
Changes due to modification without derecognition	(6)	(9)	64	–	49
New financial assets originated or purchased	36	–	–	–	36
Unwind of discount	–	–	29	2	31
Financial assets derecognised during the period	(15)	(9)	(1,010)	–	(1,034)
Write-offs / Use of loss allowances	–	–	(502)	–	(502)
Foreign exchange rate movements	–	–	(20)	–	(20)
Total as at 31 December 2019	**193**	**105**	**1,612**	**53**	**1,963**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
ECL on Loans and advances to customers at amortised cost					
Total as at 31 December 2017	**–**	**–**	**2,217**	**2**	**2,219**
Effect of IFRS 9 implementation	147	45	185	–	377
Total as at 1 January 2018	**147**	**45**	**2,402**	**2**	**2,596**
Transfers:					
– transfers to Stage 1	9	(9)	–	–	–
– transfers to Stage 2	(2)	2	–	–	–
– transfers to Stage 3	(1)	(5)	6	–	–
– net change in credit risk	(38)	11	1,133	–	1,106
– net change in contractual cash flows of financial assets without derecognition	–	1	(36)	–	(35)
New financial assets originated or purchased	93	–	–	–	93
Unwind of discount	–	–	57	–	57
Foreign exchange rate movements	–	–	5	–	5
Financial assets derecognised during the period	(33)	(2)	(564)	–	(599)
Write-offs / Use of loss allowances	–	–	(96)	–	(96)
Total as at 31 December 2018	**175**	**43**	**2,907**	**2**	**3,127**

The write-off and use of loss allowances for the year ended 31 December 2019 totalling CZK 502 million mainly include the use of loan loss allowances of CZK 499 million (2018: CZK 96 million) related to loans for which loan loss allowances of CZK 1 064 million was created at the time of sale. The remaining part of a decrease in loss allowances represents the release of loss allowances reported in Disposals as a result of derecognition.

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
ECL on Financial guarantees and commitments					
Total as at 1 January 2019	**20**	**2**	**97**	**–**	**119**
Transfers					
– transfers to Stage 2	(1)	1	–	–	–
– net change in credit risk	(21)	1	(4)	–	(24)
New financial assets originated or purchased	16	2	–	–	18
Financial assets derecognised during the period	(1)	–	(86)	–	(87)
Changes due to modification without derecognition (net)	5	–	–	–	5
Foreign exchange rate movements	–	–	(1)	–	(1)
Total as at 31 December 2019	**18**	**6**	**6**	**–**	**30**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
ECL on Financial guarantees and commitments					
Total as at 31 December 2017	**1**	**–**	**7**	**–**	**8**
Effect of IFRS 9 implementation	10	2	89	–	101
Total as at 1 January 2018	**11**	**2**	**96**	**–**	**109**
– net change in credit risk	(14)	(2)	38	–	22
– net change in contractual cash flows of financial assets without derecognition	(1)	2	2	–	3
New financial assets originated or purchased	32	–	–	–	32
Financial assets derecognised during the period	(8)	–	(38)	–	(46)
Foreign exchange rate movements	–	–	(1)		(1)
Total as at 31 December 2018	**20**	**2**	**97**	**–**	**119**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
ECL on debt securities at FVOCI					
Total as at 1 January 2019	**10**	**–**	**–**	**–**	**10**
Transfers					
– transfers to Stage 2	(3)	3	–	–	–
– net change in credit risk	(8)	38	–	–	30
New financial assets originated or purchased	4	–	–	–	4
Foreign exchange rate movements	–	(1)	–	–	(1)
Total as at 31 December 2019	**3**	**40**	**–**	**–**	**43**

in millions of CZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
ECL on debt securities at FVOCI					
Total as at 31 December 2017	**–**	**–**	**–**	**–**	**–**
Effect of IFRS 9 implementation	62	–	–	–	62
Total as at 1 January 2018	**62**	**–**	**–**	**–**	**62**
– net change in credit risk	(64)	–	–	–	(64)
New financial assets originated or purchased	11	–	–	–	11
Foreign exchange rate movements	1	–	–	–	1
Total as at 31 December 2018	**10**	**–**	**–**	**–**	**10**

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Fixtures, fittings and equipment	Right-of-use assets Land and buildings	Right-of-use assets Equipment - cars	Total
Acquisition cost					
1 January 2018	21	68	–	–	89
Additions	–	1	–	–	1
Disposals	–	(2)	–	–	(2)
31 December 2018	**21**	**67**	**–**	**–**	**88**
Accumulated depreciation					
01 January 2018	11	40	–	–	51
Depreciation	2	2	–	–	4
Disposals	–	(2)	–	–	(2)
31 December 2018	**13**	**40**	**–**	**–**	**53**
Acquisition cost					
1 January 2019 (+ Application of IFRS 16)	21	67	260	18	366
Additions	–	2	5	2	9
Disposals	–	–	(21)	–	(21)
31 December 2019	**21**	**69**	**244**	**20**	**354**
Accumulated depreciation					
1 January 2019 (+ Application of IFRS 16)	13	40	–	–	53
Depreciation	3	1	72	8	84
Disposals	–	(1)	–	–	(1)
31 December 2019	**16**	**40**	**72**	**8**	**136**
Net book value					
31 December 2018	**8**	**27**	**–**	**–**	**35**
31 December 2019	**5**	**29**	**172**	**12**	**218**

The Bank did not record any property, plant and equipment under construction as at the end of 2019 and 2018.

Property is insured against theft and natural disaster.

14. INTANGIBLE ASSETS

in millions of CZK	Software	Other	Total
Acquisition cost			
01 January 2018	482	–	482
Additions	47	10	57
Disposals	(2)	–	(2)
31 December 2018	**527**	**10**	**537**
Amortisation and impairment losses			
01 January 2018	381	–	381
Amortisation for the year	65	1	66
31 December 2018	**446**	**1**	**447**
Acquisition cost			
01 January 2019	527	10	537
Additions	53	8	61
Disposals	(3)	–	(3)
31 December 2019	**577**	**18**	**595**
Amortisation and impairment losses			
01 January 2019	446	1	447
Amortisation for the year	56	–	56
31 December 2019	**502**	**1**	**503**
Carrying amount			
31 December 2018	**81**	**9**	**90**
31 December 2019	**75**	**17**	**92**

The Bank did not record any intangible assets under construction as at the end of 2019 and 2018.

15. LEASES

(a) Leases entered into as lessee

The Bank as lessee accounts for lease contracts pursuant to IFRS 16.

The balance of liabilities from non-cancellable leases at the end of 2018 pursuant to IFRS 16, i.e. IAS 17, is as follows:

in millions of CZK	2018
Up to one year	122
1 year to 5 years	286
Over 5 years	44
Total	**452**

(b) Leases entered into as lessor

The Bank has non-cancellable operating lease payables as follows:

in millions of CZK	2019	2018
Up to one year	1	2
1 year to 5 years	2	2
Total	**3**	**4**

16. PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS

in millions of CZK	2019	2018
Prepayments and accrued income	44	55
Receivables from customers from securities trading	281	339
Other trade receivables	374	415
Receivables from fees for portfolio management	58	45
Other receivables	36	37
Advance payments – other	25	27
Expected credit losses on other assets	(1)	(1)
Total	**817**	**917**

Other trade receivables as at 31 December 2019 include various receivables such as receivables from the issue of bonds and promissory notes of CZK 67 million (2018: CZK 167 million) and other insignificant receivables.

All other assets are classified at amortised cost and categorised in Stage 2. Expected credit losses did not change year-on-year and their amount is CZK 1 million as at the end of 2019 (2018: CZK 1 million).

17. DEPOSITS AND LOANS FROM BANKS

in millions of CZK	2019	2018
Deposits from banks	462	3,048
Loans from other banks - repurchase agreements (note 9)	4,030	–
Total	**4,492**	**3,048**

Deposits from banks include current deposits, term deposits and other financial liabilities.

The contractual weighted average interest rate on liabilities to banks was -0.12% (2018: 0%).

18. DEPOSITS FROM CUSTOMERS

in millions of CZK	2019	2018
Current accounts	31,745	33,647
Term deposits and escrow accounts	75,802	79,286
Loans from customers - repurchase agreements (note 9)	2	3
Total	**107,549**	**112,936**

The contractual weighted average interest rate on liabilities to customers was 0.77% (2018: 1.09%).

19. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

in millions of CZK	2019 Fair value	2018 Fair value
Proceeds from bonds issued	–	50
Total	**–**	**50**

On 23 April 2018, the Bank issued depreciable certificates - Credit Linked Notes. These certificates transfer the credit risk of the underlying asset to the certificate holder. All payments from certificates were subject to the repayment of the nominal value and interest income of the underlying asset. Certificates were issued in CZK, interest is paid quarterly. The issue of certificates was kept in the records of the Central Securities Depository. The issue was cancelled and the nominal value redeemed by the Bank on 1 October 2019.

At initial recognition, the Bank recorded these bonds in financial liabilities at fair value through profit or loss, and the bonds that are the underlying asset of the certificates at fair value through profit or loss to eliminate or significantly reduce the measurement and accounting mismatch that might arise in measuring the asset and liability on a different basis.

Changes in fair value due to credit risk during 2019 resulted in gains of CZK 0.02 million (2018: CZK 1 million).

20. SUBORDINATED DEBT

in millions of CZK	2019	2018
Subordinated debt – term deposits	620	749
Total	**620**	**749**

in millions of CZK	2019	2018
Interest expense for subordinated debt:	39	39
– of which interest paid	1	1

The subordinated debt – term deposit from customers with a maturity up to 2025 bear an interest rate between 5.1% p.a. and 7.4% p.a. The Czech National Bank approved the subordinated debt as a part of the capital for regulatory purposes.

21. OTHER LIABILITIES

in millions of CZK	2019	2018
Payables to clients from securities trading	6,434	6,294
Trade payables	128	146
Accruals and deferred income	150	161
Other tax liabilities	38	43
Payables to employees	31	28
Social security liabilities	15	13
Lease liabilities	180	–
– Up to 1 year	74	–
– Over one year	106	–
Other liabilities	140	257
Total	**7,116**	**6,942**

Other liabilities primarily include payables from clearing of CZK 21 million (2018: CZK 23 million) and incoming and outgoing payments from nostro accounts of CZK 1 million (2018: CZK 8 million) and other individually minor items.

22. PROVISIONS

in millions of CZK	2019	2018
Provision for employee bonuses	1,188	863
Provision for off-balance sheet items	30	119
Stage 1	18	20
Stage 2	6	2
Stage 3	6	97
Provision for loyalty programmes - customers	28	28
Provision for untaken holiday	20	18
Provision for loyalty programmes - employees	1	2
Other provisions	23	10
Total	**1,290**	**1,040**

A provision for employee bonuses is established in relation to the approval of Bank employees' annual bonuses. The annual bonus is defined as variable benefit component of employee remuneration which the Bank may grant and pay to an employee in proportion to his/her job performance in the evaluated period, most commonly a year. It also comprises bonuses with deferred due payment. The Bank's remuneration policy is in accordance with the policies of risk management and remuneration in accordance with Decree 163/2014 Coll., on the performance of the activities of banks, credit unions and investment firms.

A provision for off-balance sheet items comprises in particular the provision for loan commitments and guarantees of CZK 30 million (2018: CZK 119 million).

Other provisions are short-term and it is expected that these provisions will be utilised in less than 12 months after the reporting date.

Provisions:

in millions of CZK	1.1.2019	Additions	Use/Release	31.12.2019
Provision for employee bonuses	863	599	(274)	1,188
Provision for off-balance sheet items – financing activities	119	23	(112)	30
Provision for loyalty programmes - customers	28	–	–	28
Provision for untaken holiday	18	16	(14)	20
Provision for loyalty programmes - employees	2	2	(3)	1
Other provisions	10	19	(6)	23
Total	**1,040**	**659**	**(409)**	**1,290**

23. EQUITY

in millions of CZK	2019
Share capital is fully paid and consists of:	
10 637 126 ordinary shares with a nominal value of CZK 1 000 per share	10,637
700 000 ordinary shares with a nominal value of CZK 1.43 per share	1
Total share capital	**10,638**

The owners of ordinary shares are entitled to the payment from approved dividends.

The allocation of the profit will be approved at the general meeting. The Bank's Management assumes that a relevant part of the profit will be paid to the special-purpose capital fund for the payment of revenue from certificates, which are part of the equity, and the rest of the profit will be paid according to a final decision and the approval of the general meeting. In 2019, dividends paid from retained profits for 2018 amounted to CZK 1 292 million, with a dividend per share of CZK 114.

The Bank does not provide any employee incentive scheme involving the option to buy own shares, or remuneration in the form of equity options.

Retained earnings
Retained earnings are distributable to the Bank's shareholders and are subject to the approval of the shareholders' general meeting. As at 31 December 2019, retained earnings amounted to CZK 6 635 million (2018: CZK 5 290 million). For details related to retained earnings, refer to the Statement of changes in equity.

Capital funds
Capital funds consist of a special-purpose fund for income distribution from subordinated income certificates. For details related to the special-purpose fund, refer to the last paragraph in Other equity instruments.

Revaluation reserves

a) Revaluation reserve from financial assets at fair value through other comprehensive income
Gains and losses on revaluation of financial assets at fair value through other comprehensive income are recognised in equity as revaluation of assets and liabilities. As at 31 December 2019, revaluation reserve for these financial assets was negative in the amount of CZK 43 million (2018: negative in the amount of CZK 80 million).

b) Other revaluation reserves
Other revaluation reserves represent FX differences from the translation of the Slovak branch's financial statements of negative CZK 1 million (2018: negative in the amount of CZK 1 million).

Assets and liabilities of the Bank's Slovak branch are translated to Czech crowns using a rate of exchange valid as at the reporting date. Income and expenses of the Bank's Slovak branch are translated to Czech crowns using the average rate of exchange for the relevant period.

Other equity instruments
On 19 June 2014, the Czech National Bank approved the issue prospectus for revenue certificates with an expected total nominal amount of CZK 1 000 million and interest revenue of 10% p.a.

On 12 September 2015, the Czech National Bank approved the prospectus for the second issue of revenue certificates with an expected total nominal amount of CZK 1 000 million and interest revenue of 9% p.a.

On 11 December 2015, the Czech National Bank approved the prospectus for the third issue of revenue certificates with an expected total nominal amount of EUR 50 million and interest revenue of 9% p.a.

As at 31 December 2019, the volume of issued certificates reached CZK 2 597 million (2018: CZK 2 597 million).

On 30 June 2014, the Bank's Board of Directors also approved the establishment of a special-purpose capital fund for the payment of revenue from certificates of CZK 100 million. This fund was created from retained earnings. In 2019, the Bank transferred another CZK 242 million (2018: CZK 242 million) within the distribution of profit for 2018. The payment of revenue from certificates is governed by the conditions defined in the prospectus. In 2019, revenue of CZK 239 million (2018: CZK 262 million) was distributed from this fund. As at 31 December 2019, the special-purpose capital fund for the payment of revenue from certificates amounted to CZK 164 million (2018: CZK 161 million).

24. INCOME TAX

Income tax for 2019 was calculated in accordance with Czech tax regulations at the rate of 19% (2018: 19%). The corporate income tax rate for 2020 will be 19%.

The Slovak branch pays tax in accordance with Slovak tax regulations. The income tax rate in Slovakia is 21% In 2020, the income tax rate in Slovakia will be 21%. The tax paid by the branch in Slovakia is offset against the income tax for the Bank as a whole paid in the Czech Republic.

The Czech Republic currently has a number of laws regulating various taxes and charges imposed by the state. These include namely value-added tax, corporate income tax, employment tax, social security and health insurance charges etc. Tax returns, together with other legal compliance areas (such as customs and currency control matters) are subject to inspection by a number of authorities, who are authorised by law to impose fines, penalties and interest charges. This results in tax risks in the Czech Republic being substantially higher than the ones typically found in countries with more developed tax systems.

The Bank management believes that it has adequately provided for the tax liabilities in the accompanying financial statements.

Expenses for income tax are expected to be as follows:

in millions of CZK	2019	2018
Profit before tax	3,619	1,919
Statutory income tax rate	19%	19%
Income tax	688	365
Non-taxable income	(56)	(58)
Non-deductible expenses	102	71
Tax impacts of foreign tax rates	6	8
Correction of tax expenses from previous periods and additional tax payments	–	(1)
Total income tax	**740**	**385**
Effective tax rate	20.4%	20.0%
of which:		
Deferred income tax	42	(136)
Current income tax	698	521

The main adjustments when calculating the taxable profit from the accounting profit relate to tax exempt income to be deducted from, and tax non-deductible expenses to be added to the tax base. The main non-deductible expenses are tax non-deductible provisions to receivables, creation of provisions and representation expenses. Main non-deductible expenses are dividend income from ownership interests, release/use of allowances for receivables and release/use of provisions.

Current income tax was calculated in accordance with the Czech Accounting Standards using profit adjusted pursuant to the Czech Income Tax Act, as amended.

25. DEFERRED TAX ASSETS AND LIABILITIES

The Bank has the following deferred tax assets and liabilities:

in millions of CZK	2019	2018
Deferred tax asset /(liability)		
Difference between the carrying and tax value of property, plant and equipment and intangible assets	–	(1)
Financial assets at fair value through other comprehensive income	20	21
Provision for off-balance sheet items	5	22
Allowances for credit receivables	–	94
Provision for bonuses and untaken holidays	230	167
Estimated payables/other provisions	4	–
Net deferred tax asset/(liability)	**259**	**303**

The deferred tax asset or liability is calculated using the 2019 corporate income tax rate, i.e. 19% (2018: 19%).

The following table shows the reconciliation between the deferred tax charge and the change in deferred tax assets in 2019.

in millions of CZK	2019	2018
Net deferred tax asset/(liability) as at 31 December	303	83
Impact of first-time adoption of IFRS 9 in equity	–	94
Adjusted balance as at 1 January	303	177
Deferred tax recognised in profit or loss (note 25)	(42)	136
Change in deferred tax due to FX translation differences recognised in equity	1	(10)
FX difference (Slovak branch)	(3)	–
Deferred tax asset / (liability) at the end of the period	**259**	**303**

26. INTEREST INCOME

in millions of CZK	2019	2018
Interest income from:		
Due from financial institutions	82	98
Loans and advances to customers	3,298	3,390
Reverse repurchase transactions	1,364	724
Bonds and other fixed income securities	248	284
Total	**4,992**	**4,496**

Interest income from “Loans and advances to customers” includes fees associated with the provision of loans of CZK 118 million (2018: CZK 109 million) that are part of effective interest rate.

Interest income by asset classes:

in millions of CZK	2019	2018
Interest income from:		
Financial assets at fair value through profit or loss:		
– financial assets held for trading	110	144
– financial assets at fair value option	–	1
– financial assets mandatorily at fair value	1	–
Other interest income	**111**	**145**
Financial assets at FVOCI	137	139
Loans and other advances at amortised cost	4,744	4,212
– of which:		
unpaid interest on impaired loans	188	245
forbearance	83	31
Interest income as per effective interest rate	**4,881**	**4,351**
Total	**4,992**	**4,496**

27. INTEREST EXPENSE

in millions of CZK	2019	2018
Interest expense on:		
Deposits and loans from banks	(32)	(24)
Deposits from customers	(1,308)	(1,066)
Lease liabilities	(4)	–
Repurchase transactions	(37)	(19)
Subordinated bonds	(1)	(25)
Total	**(1,382)**	**(1,134)**

Interest expense by liability classes:

in millions of CZK	2019	2018
Interest expense on:		
Financial liabilities at amortised cost	(1,381)	(1,133)
Financial liabilities at fair value through profit or loss	(1)	(1)
Total	**(1,382)**	**(1,134)**

28. FEE AND COMMISSION INCOME

in millions of CZK	2019	2018
Fee and commission income from:		
– issue of securities	611	773
– obtaining financial instruments	306	272
– administration, management, custody and safekeeping of valuables	112	111
– administrative services for collective investment	99	103
– loan activities	46	52
– mediation of payment transactions	53	115
– obtaining clients to funds	96	98
– other	17	7
Total	**1,340**	**1,531**

29. FEE AND COMMISSION EXPENSE

in millions of CZK	2019	2018
Fee and commission expense on:		
– transactions in financial instruments	(152)	(103)
– administration, custody and safekeeping of valuables	(24)	(36)
– mediation of payment transactions	(20)	(19)
– other	(13)	(22)
Total	**(209)**	**(181)**

30. NET TRADING GAINS/(LOSSES)

Net trading gains/(losses) comprises:

in millions of CZK	2019	2018
Realised/unrealised gains on securities	619	75
Net (losses) on derivative operations	(146)	(324)
Net gains on foreign currency translation	83	121
Net gains on hedging derivative operations	–	6
Dividend income – financial assets	31	23
Total	**587**	**(99)**

Net trading gains/(losses) comprises:

in millions of CZK	2019	2018
Financial assets and liabilities at fair value through profit or loss:		
– those held for trading	29	(302)
– financial assets at fair value option	–	1
– financial assets mandatorily at fair value	467	69
Financial assets at FVOCI	9	12
Foreign exchange differences	82	121
Total	**587**	**(99)**

31. OTHER OPERATING INCOME

in millions of CZK	2019	2018
Outsourcing income	11	12
Rental income	3	2
Other income	27	4
Total	**41**	**18**

Other income includes many sundry items that are not significant on an individual basis.

32. PERSONNEL EXPENSES

in millions of CZK	2019	2018
Wages and salaries	(879)	(757)
Remuneration paid to key management personnel	(107)	(114)
Compulsory social security contributions	(183)	(160)
Other social expenses	(75)	(46)
Total	**(1,244)**	**(1,077)**
Average number of employees during the reporting perio	**529**	**485**

There were 5 members of the Bank's Board of Directors as at 31 December 2019 (2018: 5).

33. OTHER OPERATING EXPENSES

in millions of CZK	2019	2018
Rental expense	(64)	(119)
of which recognition exemption applied under IFRS 16		
– lease of low-value items	(21)	–
– short-term leases	(12)	–
– variable lease payments	(20)	–
Contributions to Deposit Insurance Fund	(38)	(27)
Contributions to Crisis Resolution Fund	(85)	(56)
Taxes and charges	(47)	(46)
Operating costs:		
Outsourcing	(282)	(230)
Advertising expenses and promotion	(204)	(188)
Repairs and maintenance – IS, IT	(36)	(25)
Sponsorship and gifts	(25)	(24)
Rental expense	(10)	(34)
Audit, legal and tax consulting	(37)	(31)
– statutory audit of the annual accounts	(8)	(8)
– other assurance services	(7)	(9)
– tax advisory	(2)	(2)
– other services	(20)	(12)
Consulting expenses	(23)	(10)
Communication expenses	(13)	(17)
Transport and accommodation, travel expenses	(12)	(11)
Materials	(11)	(12)
Repairs and maintenance – other	(3)	(3)
Other operating expenses	(114)	(111)
Total	**(1,004)**	**(944)**

Other operating expenses of CZK 114 million as at 31 December 2019 (2018: CZK 111 million) include many sundry items that are not significant on an individual basis.

While monetary payments of the principal of a lease liability amounted to CZK 75 million, monetary payments of the interest part of the lease liability amounted to CZK 4 million.

The Crisis Resolution Fund is a source for the use of crisis resolution tools at an institution, the use of which may be proposed by the Czech National Bank in situations when it is feasible, credible and in the public interest. This fund does not serve for direct payouts of deposit compensation.

Taxes and charges include a special bank levy to the Slovak Tax Authority for the Slovak branch of the Bank. This levy does not fall within the scope of IAS 12 Income Taxes and, consequently, the Bank considers the levy to be operational in nature.

34. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS FOR PURPOSES OF STATEMENT OF CASH FLOWS

in millions of CZK	Cash in hand and balances with central banks	Term deposits in central banks – up to 3 months	Loans to central banks – repurchase agreements	Loans to banks – repurchase agreements	Current bank accounts or up to 3 months	Total
31 December 2017	**751**	**3,753**	**45,006**	**60**	**664**	**50,234**
Change in 2018	175	(2,898)	7,431	(60)	(145)	4,503
31 December 2018	**926**	**855**	**52,437**	**–**	**519**	**54,737**
Change in 2018	(552)	25	3,795	–	(56)	3,212
31 December 2019	**374**	**880**	**56,232**	**–**	**463**	**57,949**

35. FINANCIAL COMMITMENTS AND CONTINGENCIES

Financial commitments and contingencies comprise:

in millions of CZK	Stage 1	Stage 2	Stage 3	2019
Unused credit lines	8,598	210	33	**8,841**
Granted guarantees	1,898	21	63	**1,982**

in millions of CZK	Stage 1	Stage 2	Stage 3	2018
Unused credit lines	9,898	76	187	**10,161**
Granted guarantees	2,140	46	–	**2,186**

Customers' assets taken into custody, administration and deposit were as at 31 December 2019 in the amount of 65 080 million (2018: CZK 53 606).

36. SEGMENT INFORMATION

Segment information is presented in respect of the Bank's business and geographical segments. Business segments are divided according to the Bank's organisational structure.

(a) Business segments

The Bank comprises the following main business segments:

- Financial markets
  - Include the trading and corporate finance activities, mainly activities within financial markets department regardless of level of service and client business segment;
- Corporate Banking
  - Includes loans, deposits and other transactions and balances with corporate customers (including business segment: corporations, non-profit organisations, financial institutions);
- Private Banking
  - Includes loans, deposits and other transactions and balances with private banking and premium banking customers (the customer's aggregate sum of deposits with the Bank is at least CZK 3 million);
- Retail banking
  - Includes loans, deposits and other transactions and balances with retail customers (the customer's ag-

gregate sum of deposits with the Bank is at least CZK 0.5 million);
- ALCO
  - Includes balance sheet items of strategic importance that are managed by the Asset and Liability Committee.

ALCO segment mainly includes the following items:
- Cash and cash equivalents;
- Due from banks and financial institutions;
- Securities and positive fair value of derivatives
- Deposits and loans from banks.

Personnel expenses, operating expenses and depreciation charges that are not allocated to business segments are included in the segment "Unallocated".

The Bank also has a central Shared Services operation that manages the Bank's premises and certain corporate costs. Cost-sharing agreements are used to allocate central costs to business segments on a reasonable basis.

Statement of financial position as at 31 December 2019:

in millions of CZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Total reporting segments	Unallocated	Total
Cash, cash equivalents and due from banks and other financial institutions	–	–	–	–	59,391	59,391	–	59,391
Securities and positive fair value of derivatives	3,199	–	–	–	10,774	13,973	–	13,973
Ownership interests	–	–	–	–	4,116	4,116	–	4,116
Loans and other advances to customers	11,719	46,687	4,541	12	–	62,959	–	62,959
Deferred tax asset	–	–	–	–	–	–	259	259
Prepayments, accrued income and other assets	–	–	–	–	–	–	1,127	1,127
Disposal groups held for sale	–	–	–	–	64	64	–	64
Total assets	**14,918**	**46,687**	**4,541**	**12**	**74,345**	**140,503**	**1,386**	**141,889**
Negative fair value of derivatives	570	–	–	–	52	622	–	622
Deposits and loans from banks	–	–	–	–	4,492	4,492	–	4,492
Deposits from customers	–	39,431	19,111	49,007	–	107,549	–	107,549
Subordinated debt	–	121	208	291	–	620	–	620
Current tax liability	–	–	–	–	–	–	209	209
Other liabilities and provisions	–	–	–	–	–	–	8,406	8,406
Total liabilities	**570**	**39,552**	**19,319**	**49,298**	**4,544**	**113,283**	**8,615**	**121,898**

Statement of financial position as at 31 December 2018:

in millions of CZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Total reporting segments	Unallocated	Total
Cash, cash equivalents and due from banks and other financial institutions	–	–	–	–	57,101	57,101	–	57,101
Securities and positive fair value of derivatives	4,760	–	–	–	9,388	14,148	–	14,148
Ownership interests	–	–	–	–	4,142	4,142	–	4,142
Loans and other advances to customers	10,972	50,727	5,255	12	–	66,966	–	69,966
Deferred tax asset	–	–	–	–	–	–	303	303
Prepayments, accrued income and other assets	–	–	–	–	–	–	1,042	1,042
Disposal groups held for sale	–	–	–	–	64	64	–	64
Total assets	**15,732**	**50,727**	**5,255**	**12**	**70,695**	**142,421**	**1,345**	**143,766**
Negative fair value of derivatives	238	–	–	–	–	238	–	238
Deposits and loans from banks	–	–	–	–	3,048	3,048	–	3,048
Deposits from customers	–	41,086	20,097	51,753	–	112,936	–	112,936
Financial liabilities at fair value through profit or loss	–	–	–	–	50	50	–	50
Subordinated debt	–	121	251	377	–	749	–	749
Current tax liability	–	–	–	–	–	–	157	157
Other liabilities and provisions	–	–	–	–	–	–	7,982	7,982
Total liabilities	**238**	**41,207**	**20,348**	**52,130**	**3,098**	**117,021**	**8,139**	**125,160**

Statement of comprehensive income for the year ended 31 December 2019:

in millions of CZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Total reporting segments	Unallocated	Total
Net interest income	174	1,478	490	680	691	3,513	97	3,610
Net fee and commission income	1,080	38	9	4	–	1,131	–	1,131
Dividends from ownership interests	–	–	–	–	232	232	–	232
Net trading income, Net change in allowances from financial assets at FVOCI	581	–	–	–	(28)	553	–	553
Other operating income	–	–	–	–	–	–	41	41
Operating income	**1,835**	**1,516**	**499**	**684**	**895**	**5,429**	**138**	**5,567**
Personnel expenses	(101)	(56)	(162)	(36)	–	(355)	(889)	(1,244)
Other operating expenses	(61)	(5)	(91)	(50)	–	(207)	(797)	(1,004)
Depreciation and amortisation	(1)	(1)	(3)	(1)	–	(6)	(134)	(140)
Profit before allowances, provisions and income tax	**1,672**	**1,454**	**243**	**597**	**895**	**4,861**	**(1,682)**	**3,179**
Net change in allowances for loan commitments and guarantees	–	72	1	–	–	73	–	73
Net change in allowances for loans	–	640	64	–	–	704	–	704
Allowances for ownership interests	–	–	–	–	(337)	(337)	–	(337)
Profit before tax	**1,672**	**2,166**	**308**	**597**	**558**	**5,301**	**(1,682)**	**3,619**
Income tax	(342)	(443)	(63)	(122)	(114)	(1,084)	344	(740)
Profit for the period	**1,330**	**1,723**	**245**	**475**	**444**	**4,217**	**(1 338)**	**2,879**

The values disclosed are net of inter-segment transactions and are submitted to the executive manager as such.

When assessing the performance of the segment and issuing the decision about the funds which should be allocated to the segment, the executive manager decided that unallocated operating expenses need not be re-allocated to individual segments. When making decisions, the manager takes into account net interest income.

The activities of the Bank's branch are the same as the Bank's activities. In 2019, the Branch had 131 employees on average (2018: 129 employees). Total assets attributable to the Slovak branch amount to CZK 22 394 million (31 December 2018: CZK 24 067 million). In 2019, the Slovak branch recognised operating income of CZK 1 176 million (2018: CZK 1 037 million), profit before tax of CZK 114 million (31 December 2018: CZK 215 million) and corporate income tax of CZK 44 million (31 December 2018: CZK 43 million).

The branch was not granted any public aid. Stated accounting balances are before consolidation adjustments.

Statement of comprehensive income for the year ended 31 December 2018:

in millions of CZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Total reporting segments	Unallocated	Total
Net interest income	297	1,361	426	581	617	3,282	80	3,362
Net fee and commission income	1,273	70	5	2	–	1,350	–	1,350
Dividends from ownership interests	–	–	–	–	270	270	–	270
Net trading income, Net change in allowances from financial assets at FVOCI	(108)	–	–	–	62	(46)	–	(46)
Other operating income	–	–	–	–	–	–	18	18
Operating income	**1,462**	**1,431**	**431**	**583**	**949**	**4,856**	**98**	**4,954**
Personnel expenses	(99)	(51)	(161)	(35)	–	(346)	(731)	(1,077)
Other operating expenses	(65)	(8)	(69)	(54)	–	(196)	(748)	(944)
Depreciation and amortisation	–	–	(1)	–	–	(1)	(69)	(70)
Profit before allowances, provisions and income tax	**1,298**	**1,372**	**200**	**494**	**949**	**4,313**	**(1,450)**	**2,863**
Net change in allowances for loan commitments and guarantees	–	(11)	–	–	–	(11)	–	(11)
Net change in allowances for loans	–	(486)	(79)	–	–	(565)	–	(565)
Allowances for ownership interests	–	–	–	–	(368)	(368)	–	(368)
Profit before tax	**1,298**	**875**	**121**	**494**	**581**	**3,369**	**(1,450)**	**1,919**
Income tax	(260)	(175)	(24)	(99)	(117)	(675)	290	(385)
Profit for the period	**1,038**	**700**	**97**	**395**	**464**	**2,694**	**(1,160)**	**1,534**

(b) Geographical segments

In presenting information on the basis of geographical areas, revenue/expense is based on the customer's/counterparty's country of domicile and assets/liabilities are based on the geographical location of the assets/liabilities. More details about splitting the credit risk for loans according to the actual loan purpose and location are comprised in note 39d.

Statement of financial position as at 31 December 2019:

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Cash, cash equivalents and due from banks and other financial institutions	57,859	1,030	343	159	59,391
Securities and positive fair value of derivatives	4,743	3,220	5,920	90	13,973
Ownership interests	996	–	639	2,481	4,116
Loans and other advances to customers	21,750	6,901	28,943	5,365	62,959
Deferred tax asset	164	95	–	–	259
Prepayments, accrued income and other assets	673	197	155	102	1,127
Disposal groups held for sale	64	–	–	–	64
Total assets	**86,249**	**11,443**	**36,000**	**8,197**	**141,889**
Negative fair value of derivatives	178	2	389	53	622
Deposits and loans from banks	50	5	4,362	75	4,492
Deposits from customers	67,517	21,120	17,125	1,787	107,549
Subordinated debt	566	1	53	–	620
Other liabilities and provisions	3,633	878	3,820	75	8,406
Current tax liability	199	10	–	–	209
Equity	19,991	–	–	–	19,991
Total equity and liabilities	**92,134**	**22,016**	**25,749**	**1,990**	**141,889**

Statement of financial position as at 31 December 2018:

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Cash, cash equivalents and due from banks and other financial institutions	54,897	1,319	777	108	57,101
Securities and positive fair value of derivatives	6,202	3,145	4,673	128	14,148
Ownership interests	973	–	718	2,451	4,142
Loans and other advances to customers	19,089	12,043	30,178	5,656	66,966
Deferred tax asset	235	68	–	–	303
Prepayments, accrued income and other assets	662	56	162	162	1,042
Disposal groups held for sale	64	–	–	–	64
Total assets	**82,122**	**16,631**	**36,508**	**8,505**	**143,766**
Negative fair value of derivatives	41	5	181	11	238
Deposits and loans from banks	524	262	159	2,103	3,048
Deposits from customers	65,818	21,480	23,998	1,640	112,936
Financial liabilities at fair value through profit or loss	50	–	–	–	50
Subordinated debt	694	1	54	–	749
Other liabilities and provisions	3,735	931	2,183	1,133	7,982
Current tax liability	139	18	–	–	157
Equity	18,606	–	–	–	18,606
Total equity and liabilities	**89,607**	**22,697**	**26,575**	**4,887**	**143,766**

Statement of comprehensive income for the year ended 31 December 2019:

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Net interest income	1,644	360	1,251	355	3,610
Net fee and commission income	536	341	238	16	1,131
Dividends from ownership interests	133	–	–	99	232
Net trading income, net change in allowances from financial assets at FVOCI	74	(32)	683	(172)	553
Other operating income	24	8	9	–	41
Operating income	**2,411**	**677**	**2,181**	**298**	**5,567**
Personnel expenses	(934)	(310)	–	–	(1,244)
Other operating expenses	(768)	(216)	(6)	(14)	(1,004)
Depreciation and amortisation	(115)	(25)	–	–	(140)
Profit before allowances, provisions and income tax	**594**	**126**	**2,175**	**284**	**3,179**
Net change in allowances for loan commitments and guarantees	(28)	99	1	1	73
Net change in allowances for loans	(108)	744	127	(7)	756
Gains (losses) from loans and other advances	–	(52)	–	–	(52)
Allowances for ownership interests	(17)	–	(124)	(196)	(337)
Profit before tax	**441**	**917**	**2,179**	**82**	**3,619**
Income tax	(696)	(44)	–	–	(740)
Profit for the period	**(255)**	**873**	**2,179**	**82**	**2,879**

Statement of comprehensive income for the year ended 31 December 2018:

in millions of CZK	Czech Republic	Slovakia	Other EU countries	Other countries	Total
Net interest income	1,319	562	1,164	317	3,362
Net fee and commission income	564	510	217	59	1,350
Dividends from ownership interests	135	–	–	135	270
Net trading income, net change in allowances from financial assets at FVOCI	215	60	(264)	(58)	(46)
Other operating income	17	(1)	2	–	18
Operating income	**2,251**	**1,131**	**1,119**	**453**	**4,954**
Personnel expenses	(773)	(304)	–	–	(1,077)
Other operating expenses	(682)	(255)	(6)	(1)	(944)
Depreciation and amortisation	(68)	(2)	–	–	(70)
Profit before allowances, provisions and income tax	**728**	**570**	**1,113**	**452**	**2,863**
Net change in allowances for loan commitments and guarantees	(2)	(7)	(3)	–	(11)
Net change in allowances for loans	2	(837)	271	(1)	(565)
Allowances for ownership interests	(28)	–	(341)	–	(368)
Profit before tax	**701**	**(274)**	**1,041**	**451**	**1,919**
Income tax	(342)	(43)	–	–	(385)
Profit for the period	**359**	**(316)**	**1,041**	**451**	**1,534**

37. RELATED PARTIES - GENERAL

The outstanding balances and transactions with related parties of the Bank are presented in the following tables. All material transactions with related parties were carried out based on the arm's length principle.

The transactions with the related parties are divided into the following categories:

I. Parent company: J&T FINANCE GROUP SE.
II. Majority owners of J&T FINANCE GROUP SE, Jozef Tkáč and Ivan Jakabovič, and companies they own. These companies do not prepare consolidated financial statements that would include the Bank, with the exception of J&T FINANCE GROUP SE.
III. Subsidiaries. This category includes subsidiaries of J&T FINANCE GROUP SE that are included in its consolidated financial statement and the subsidiaries of the Bank.
IV. Associates and joint-ventures. This category includes associates and joint ventures of the Bank and J&T FINANCE GROUP SE.
V. Key management personnel of the Bank or its parent and companies controlled or jointly controlled by this key management personnel. This category includes related parties which are connected to the Bank through key management personnel of the Bank or its parent.

in millions of CZK	I.	II.	III.	IV.	V.	Total
Balance sheet and off–balance sheet items as at 31 December 2019						
Receivables	1	–	3,504	906	740	5,151
Liabilities	2,226	349	1,485	61	905	5,026
Granted guarantees	–	–	9	–	5	14
Received guarantees		–	28	–	–	28
Provided loan commitments	508	–	1,324	–	36	1,868
Received collateral	–	–	318	906	461	1,685
Profit/(loss) items for period ended 31 December 2019						
Expenses	(398)	–	(2,829)	–	(25)	(3,252)
Income	372	–	2,498	164	198	3,232

in millions of CZK	I.	II.	III.	IV.	V.	Total
Balance sheet and off–balance sheet items as at 31/12/2018						
Receivables	1	–	1,677	1,823	802	4,303
Liabilities	1,679	96	3,991	96	533	6,395
Granted guarantees	–	–	33	–	5	38
Received guarantees	857	–	89	–	–	946
Provided loan commitments	515	–	1,474	–	30	2,019
Received collateral	–	–	302	768	530	1,600
Profit / (loss) items for period ended 31/12/2018						
Expenses	(298)	–	(1,391)	–	(25)	(1,714)
Income	299	–	1,602	13	389	2,303

Receivables from related parties consist primarily of provided loans and overdrafts.

Payables to related parties especially include term deposits, deposits payable on demand, savings and tied deposits.

Revenues and expenses consist mainly of gains / losses on currency derivatives, interest income and income from commissions and brokering fees.

Receivables/liabilities from The Bank's key management personnel

in millions of CZK	31.12.2019	31.12.2018
Provided loans	6	5
Received loans	162	30

The members of the Board of Directors, Supervisory Board, Executive board and Investment Instrument Committee represent the Bank's key management personnel.

The Bank's key management personnel received no other remuneration in the form of short-term benefits, post-employment benefits, other long-term employee benefits, early termination benefits, or share-based payments.

Total loans to the Bank's employees as at 31 December 2019 amounted to CZK 58 million (2018: CZK 73 million).

The loans provided to Bank's key management personnel and employees were provided on the arm's length basis.

38. RISK MANAGEMENT POLICIES AND DISCLOSURES

The strategy, main goals and processes
The fundamental goal of risk management is profit maximization with respect to the risk taken, while considering the Bank's risk appetite.

In doing so, it must be ensured that the outcome of Bank activities is predictable and in compliance with both business goals and risk appetite of the Bank.

In order to meet this goal, the risks faced by the Bank are managed in a quality and prudential manner within the framework of the Bank:
- In terms of the above, risks are monitored, assessed and eventually limited, at least as strictly as required by the Czech National Bank. The internal limits are regularly reviewed (especially in the case of significant changes of market conditions) to ensure their compliance with both the Bank's overall strategy and market and credit conditions. The adherence to the limits is monitored and reported daily (on an individual basis). In case of their potential breach, the Bank immediately adopts appropriate remedial measures.
- The Bank establishes goals for capital adequacy that it wants to attain over a specified time horizon (i.e. the level to which risks should be covered by capital) and threshold limits below which capital adequacy cannot decrease.
- The Bank establishes targets for selected indicators of liquidity that it wants to achieve in a specified time horizon, and certain limits, below which the system of liquidity indicators cannot decrease.
- The Bank establishes goals for other selected risk indicators (the risk of excessive leverage, the credit risk, the concentration risk, operational risk etc.) and threshold limits below which the system of indicators cannot decrease.

All internal limits have been approved independently of business units of the Bank. The key indicators (capital adequacy ratio, liquidity and other risk categories) and their limits are part of the Bank's Risk Appetite Statement.

39. CREDIT RISK

The Bank's primary exposure to credit risk arises through its loans and advances and investment in securities. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the statement of financial position. In addition, the Bank is exposed to off-balance sheet credit risk through commitments and guarantees to extend credit.

Concentrations of credit risk (whether on or off-balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

(a) Forbearance

as at 31.12.2019

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Performing exposures	61,503	(298)	61,205
– of which performing exposures forborne	405	(1)	404
Non-performing exposures	3,419	(1,665)	1,754
– of which non-performing exposures forborne	3,076	(1,558)	1,518
Total	**64,922**	**(1,963)**	**62,959**

as at 31.12.2018

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Performing exposures	63,730	(218)	63,512
– of which performing exposures forborne	604	(8)	596
Non-performing exposures	6,363	(2,909)	3,454
– of which non-performing exposures forborne	3,851	(1,644)	2,207
Total	**70,093**	**(3,127)**	**66,966**

in millions of CZK	2019	2018
Share of exposures forborne in the total loans provided to customers	3.05%	4.19%
Share of non-performing exposures in total loans to customers	2.79%	5.16%

(b) Concentration of loans to customers by economic sector:

as at 31.12.2019

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Not forborne			
Non-financial institutions	48,011	(288)	47,723
Financial institutions	12,055	(75)	11,980
Households	1,284	(6)	1,278
Other	91	(35)	56
Total	**61,441**	**(404)**	**61,037**
Forborne			
Non-financial institutions	3,295	(1,476)	1,819
Households	186	(83)	103
Total	**3,481**	**(1,559)**	**1,922**

as at 31.12.2018

in millions of CZK	Gross carrying amount	ECL	Net carrying amount
Not forborne			
Non-financial institutions	47,874	(1,386)	46,488
Financial institutions	15,993	(52)	15,941
Households	1,736	(2)	1,734
Other	35	(35)	–
Total	**65,638**	**(1,475)**	**64,163**
Forborne			
Non-financial institutions	4,199	(1,546)	2,653
Financial institutions	117	(15)	102
Households	139	(91)	48
Total	**4,455**	**(1,652)**	**2,803**

(c) Concentration of loans to customers by industry:

in millions of CZK	2019	2018
Real estate activities	13,878	18,083
Wholesale and retail	8,664	6,286
ICT	6,875	5,484
Cultural, sport, entertainment and recreation activities	6,869	5,502
Manufacturing	6,289	6,624
Construction	5,034	4,063
Financial activities	4,703	7,962
Accommodation and food service activities	3,345	3,314
Production and distribution of electricity, gas and heat	2,829	4,039
Private households and employed persons	1,079	524
Professional, scientific and technological activities	943	1,098
Mining, quarrying and agriculture	877	637
Water supply, services relating to water, waste management and redevelopment	705	724
Healthcare and social work	406	565
Transportation and storage	224	1,135
Agriculture, forestry and fishing	–	385
Administrative and support service activities	28	124
Other	211	417
Total	**62,959**	**66,966**

(d) Concentration of loans to customers by location

in millions of CZK	2019	2018
Czech Republic	21,750	19,089
Cyprus	14,126	16,787
Luxembourg	8,498	4,634
Slovakia	6,901	12,043
Switzerland	3,164	2,622
Croatia	2,125	1,817
Germany	1,070	1,049
France	965	773
Poland	904	955
British Virgin Islands	667	1,300
Cayman Islands	520	545
Malta	470	796
Monaco	329	286
Maldives	309	360
Great Britain	262	–
Russia	253	312
Ireland	220	1,134
The Netherlands	183	2,229
Ukraine	121	116
Other	122	119
Total	**62,959**	**66,966**

(e) Concentration of loans to customers by location of project implementation and collateral:

in millions of CZK	2019	2018
Czech Republic	32,573	30,410
Slovakia	7,078	9,687
Germany	3,643	2,233
France	3,589	521
Croatia	2,833	2,040
China	2,688	2,275
Poland	2,203	5,355
Ukraine	1,921	3,719
Slovenia	1,753	1,529
Spain	1,394	2,121
Great Britain	1,108	1,308
Hungary	520	545
USA	460	2,731
Monaco	328	286
Maldives	309	360
Russia	304	312
Austria	40	867
Other	215	667
Total	**62,959**	**66,966**

The concentration of credit risk arising from repurchase agreements and loans to clients of brokers reflects the counterparty risk associated with securities and cash received as collateral.

(f) Credit risk associated with provided loans and repurchase agreements

as at 31 December 2019

in millions of CZK	Loans to banks	Repurchase agreements – financial institutions	Loans to customers	Debits and repurchase agreements – customers
Stage 1 and 2				
Gross amount	2,979	56,232	49,785	11,718
Expected credit losses	–	–	(298)	–
Stage 3				
Gross amount	–	–	3,419	–
Expected credit losses	–	–	(1,665)	–
Total	**2,979**	**56,232**	**51,241**	**11,718**
Stage 1 and 2 - by maturity				
– to maturity date	2,979	56,232	49,487	11,718
Stage 3 - by maturity				
– to maturity date	–	–	1,630	–
– 4 to 6 months past due	–	–	47	–
– more than 12 months past due	–	–	77	–
Total	**2,979**	**56,232**	**51,241**	**11,718**

As at 31 December 2018

in millions of CZK	Loans to banks	Repurchase agreements – financial institutions	Loans to customers	Debits and repurchase agreements – customers
Stage 1 and 2				
Gross amount	1,297	52,437	52,758	10,972
Expected credit losses	–	–	(218)	–
Stage 3				
Gross amount	–	–	6,363	–
Expected credit losses	–	–	(2,909)	–
Total	**1,297**	**52,437**	**55,994**	**10,972**
Stage 1 and 2 - by maturity				
– to maturity date	1,297	52,437	52,539	10,972
– up to 1 month past due	–	–	1	–
Stage 3 - by maturity				
– to maturity date	–	–	3,360	–
– up to 1 month past due	–	–	3	–
– 6 to 12 months past due	–	–	8	–
– more than 12 months past due	–	–	83	–
Total	**1,297**	**52,437**	**55,994**	**10,972**

Assets classified as “Neither past due nor impaired with a sign of impairment” represent those loans with a sign of impairment whose net present value of expected cash flows exceeds their carrying value, and therefore no allowance has been created. All loans to banks and repurchase agreements are held to maturity.

The relevant portion of loans to customers (past due not impaired not forborne and past due not impaired forborne) that is not past due, is presented in line “to maturity”. The portion of receivables that is past due is presented in the respective line, depending on the time past due.

The Bank classifies provided loans into internal rating groups while considering a number of factors. The following table summarises receivables by internal rating.

Risk category

in millions of CZK	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	1,366	75	–	–	1,441
Low risk	3	–	–	–	3
Medium risk	43,469	3,938	–	–	47,407
High risk	934	–	–	–	934
Failed	–	–	2,990	429	3,419
Debits and reverse repurchase agreements - without rating	11,718	–	–	–	11,718
ECL	(194)	(104)	(1,612)	(53)	(1,963)
Total as at 31 December 2019	**57,296**	**3,909**	**1,378**	**376**	**62,959**

Risk category

in millions of CZK	Stage 1	Stage 2	Stage 3	POCI	Total
Very low risk	3	–	–	–	3
Low risk	5,175	484	–	–	5,659
Medium risk	40,668	2,292	–	–	42,960
High risk	4,061	75	–	–	4,136
Failed	–	–	6,361	2	6,363
Debits and reverse repurchase agreements - without rating	10,972	–	–	–	10,972
ECL	(175)	(43)	(2,907)	(2)	(3,127)
Total as at 31 December 2018	**60,704**	**2,808**	**3,454**	**–**	**66,966**

The sensitivity of expected credit losses is affected by the probability of default (PD) and impairment losses. The table below shows the comparison of reported expected credit losses on impaired loans. The optimistic and pessimistic scenario reflects the amount of expected credit losses on a change of impairment losses by 10 % and probability of default by 10%:

in millions of CZK	Optimistic	Basic	Pessimistic
LGD change			
ECL 2019	(1,771)	(1,963)	(2,134)
ECL 2018	(2,869)	(3,127)	(3,386)
PD change			
ECL 2019	(1,933)	(1,963)	(1,993)
ECL 2018	(3,106)	(3,127)	(3,149)

(g) Collateral and credit enhancements for provided loans and repurchase agreements

The amounts in the table on the previous page represent the maximum accounting loss that would be recognized in the statement of financial position if counterparties completely failed to fulfil their obligations and if any potential collateral had no value. These amounts are therefore considerably higher than expected losses that are included in the allowance for the loan losses. The Bank's policy is to require collateral from certain customers before loans can be drawn.

31.12.2019

in millions of CZK	Carrying amount Stage 1 and 2	Accepted collateral value Stage 1 and 2	Carrying amount Stage 3	Accepted collateral value Stage 3
To maturity date:	**87,584**	**98,900**	**915**	**1,147**
– Guarantees	1,490	4,977	–	–
– Acceptance of promissory notes	909	3,363	–	–
– Real estate	12,117	13,440	670	902
– Cash deposits	2,760	2,760	–	–
– Securities	10,542	11,320	–	–
– Other	729	4,003	245	245
– Securities received under reverse repurchase agreements	59,037	59,037	–	–
Past due:	**87**	**151**	**260**	**705**
– Real estate	87	151	77	251
– Other	–	–	183	454

31.12.2018

in millions of CZK	Carrying amount Stage 1 and 2	Accepted collateral value Stage 1 and 2	Carrying amount Stage 3	Accepted collateral value Stage 3
To maturity date:	**85,984**	**97,545**	**2,535**	**4,441**
– Guarantees	2,450	2,704	–	–
– Acceptance of promissory notes	2,061	5,178	–	–
– Real estate	8,791	12,278	1,363	2,297
– Cash deposits	3,070	3,076	–	–
– Securities	9,731	9,899	1,172	2,144
– Other	4,192	8,721	–	–
– Securities received under reverse repurchase agreements	55,689	55,689	–	–
Past due:	**64**	**187**	**112**	**273**
– Real estate	63	186	104	265
– Cash deposits	–	–	8	8
– Other	1	1	–	–

Other collateral is mainly represented by movable assets and receivables.

For the purposes of reporting the collateral value of loans, the Bank only values promissory notes with a financial guarantee. The amount of collateral depends on the value of a guarantee provided by a promissory note holder.

The Bank did not receive any financial assets from indemnity claims based on loans in default.

The carrying value represents the collateral value adjusted by the collateral stress coefficient. The carrying value is limited by the carrying value of receivable. The fair value is adjusted by stress coefficient and it is not limited by the carrying value of a receivable.

Collateral value is monitored and revised on a regular basis.

The carrying value of securities received under reverse repurchase agreements is represented in the quoted market price of the securities.

(i) Credit risk processes

Evaluating the risk of failure of a counterparty is based on a credit analysis, processed by the Credit Risk Management department. These analyses provide conclusions for prompt measures when the counterparty's credit situation worsens or if the counterparty fails to comply with contractual conditions.

The results from the credit development analyses are reported to the Board of Directors or respective committee, which decides on adjustments of limits or relations with the counterparty (e.g. in the form of closing or limiting positions or adjustment of limits).

Credit risk of trading book is monitored on daily basis, while credit risk of banking book is monitored on regular basis, at least once a month by the Credit Risk Management department. The risk is calculated in accordance with ICAAP.

(j) Credit risk monitoring

Assessment of the credit risk in respect of counterparty or an issued debt is based on an internal rating of the Bank. The rating is determined using the credit scale of either S&P or Moody's. If the counterparties or their debt are not externally rated, an internal rating is assigned based on the Bank scoring system.

The Bank's scoring system has thirteen rating levels based on a standardized point evaluation of relevant criteria, which describe the financial position of the contractual party and its ability and willingness to fulfil its credit obligations – in both cases including the expected development, as well as proposed conditions for effecting the transaction. The Bank also evaluates financial and non-financial indicators that may not be monitored within the scoring system.

(k) Credit risk measurement

The Bank regularly analyses and monitors credit risk of the trading book. At portfolio level, credit risk of the trading book is managed primarily based on the IRB (Internal Rating Based - BASEL II) methodology. Credit risk of the investment book is quantified on the Standardized approach basis. Concentration risk is calculated for both of the books (for the level of Client, ECG, sector).

In order to assess the impact of extremely unfavourable credit conditions, the Bank performs credit development analyses. This enables identification of sudden potential changes in the values of open positions of the Bank that might arise as a result of events that are improbable, but possible.

For the trading portfolio, an impact of a sudden drop of credit rating by one level on open positions in bonds is evaluated.

The decrease in fair value at the end of the corresponding reporting period:

in millions of CZK	31.12.2019	31.12.2018
Decrease of the trading portfolio value due to a rating migration by one credit class	67	84

(dle škály agentury Standard & Poor's)

(l) Risk management of customer trades

The Bank prevents the possibility of a credit exposure arising from customer trades, i.e. trades which are transacted on the customer's account and where the Bank has the role of a commissioner (customer trades such as spot buy, spot sell, sell / buy or buy / sell) as follows:

1. The amount of the customer collateral is continuously held higher than the amount of the customer loan at least by a pre-specified minimum required haircut. The level of this haircut is assigned to every instrument.
2. Should the current collateralization of the customer portfolio fall below the 30 per cent of the minimum required haircut, the Bank closes all of the customer's positions immediately.
3. The Bank accepts only instruments of specified minimal creditworthiness as collateral for customer trades.

In addition, the Bank also restricts the total volume of individual instruments used as collateral.

40. LIQUIDITY RISK

Liquidity risk represents a risk that the Bank is not able to meet its commitments as they are becoming mature. The Bank is required to report a system of indicators to the Czech National Bank, which is done on a regular basis. The Bank's effort in terms of liquidity risk is to diversify its sources of funding so as to decrease the degree of risk emerging from specific source cut-off and hence forego problems.

The Bank performs everyday monitoring of their liquidity position to indicate potential liquidity problems. The analysis takes into account all sources of funding that the Bank is using as well as obligations the bank has to pay. For the purpose of sufficient liquidity reserve the Bank holds sufficient amount of highly liquid instruments (such as government bonds and similar securities), maintains balances with central banks on a reasonable level and collects short-term receivables.

The Bank assorts all cash flows into time frames according to maturities of the instruments to which the cash flows relate, and subsequently observes the resulting cumulative liquidity profile which is crucial for sound liquidity risk management. Such an analysis is also done for cash flows denominated in currencies different from CZK.

These scenarios are used in terms of liquidity risk management of the Bank:

A) Expected scenarios
B) Alternative scenarios
C) Stress scenarios

Alternative Scenarios are based on stress imposed on components that might be negatively affected when liquidity problems crisis starts to approach. The stress scenario helps identify periods when it is necessary to manage the cash flows of the Bank with caution.

For the purposes of measuring liquidity risk on the basis of the scenarios, liquidity indicators are evaluated and their compliance with adopted internal / external limits is monitored on a daily basis. When an actual or possible breach of the adopted internal / external liquidity limits is identified, Asset and Liability Management Committee (ALCO) is informed to ensure compliance with the set limits. In pre-determined cases, the information is passed to the Board of Directors.

The Bank has an emergency plan for liquidity management that establishes the procedures applied in the case of possible liquidity crisis. The decision-making power is given by internal rules to the Board of Directors or ALCO.

The table shows the liquidity risk based on remaining contractual maturity as at 31 December 2019.

in millions of CZK	Carrying amount	Contractual cash inflows/ outflows	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undefined maturity
Assets							
Cash, cash equivalents and due from banks and other financial institutions	59,391	59,575	58,478	25	360	228	484
Securities (excl. derivatives)	13,018	13,939	50	235	3,403	1,911	8,340
Loans and other receivables from customers	62,959	72,661	15,630	11,339	35,912	9,780	–
Total	**135,368**	**146,176**	**74,158**	**11,599**	**39,675**	**11,919**	**8,824**
Off balance sheet							
Bank commitments	8,841	8,841	449	5,111	2,589	183	508
Bank guarantees	1,982	1,982	1,982	–	–	–	–
Liabilities							
Deposits and loans from banks	4,492	4,492	4,492	–	–	–	–
Deposits from customers	107,549	108,678	63,634	23,299	21,395	350	–
Lease liabilities	180	180	79	17	70	14	–
Subordinated debt	620	661	107	328	172	54	–
Total	**112,841**	**114,011**	**68,312**	**23,644**	**21,637**	**418**	**–**

Expected maturity

In general, contractual cash flows represent expected contractual future cash flows of financial instruments. Occasionally, the expected maturity differs from contractual one as historical experience shows that selected loans and deposits are prolonged. In addition, as outstanding balances on current accounts or deposits nearing its maturity date are usually not withdrawn on a daily basis and accounts are not cancelled at maturity date, the Bank regularly monitors the period and percentage of deposits that remain available and those that are prolonged. These ratios are used for managing the liquidity risk.

For loans, in the worst-case scenario, the latest possible repayment date is assumed, which is based on latest expected completion date of each particular project.

Loans whose refinancing is already being negotiated are recognised based on the expected refinancing date. The expected maturity of other financial assets and liabilities is similar to their contractual maturity.

in millions of CZK	Carrying amount	Contractual cash inflows/ outflows	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undefined maturity
Assets							
Loans and other advances to customers	62,959	72,661	17,219	11,476	34,613	9,301	52
Liabilities							
Deposits from customers	107,549	108,530	32,348	21,205	28,672	26,306	–
Subordinated debt	620	661	107	328	172	54	–

Liquidity risk of derivatives as at 31 December 2019:

in millions of CZK	Carrying amount	Contractual cash inflows/ outflows	Up to 3 months	3 months to 1 year	1 to 5 years
Derivative financial assets					
Currency derivatives - inflow	847	847	300	372	175
Cross currency derivatives					
– inflow	103	4,572	–	–	4,572
– outflow	–	(4,620)	–	–	(4,620)
Other - inflow	5	5	3	–	2
Total	**955**	**804**	**303**	**372**	**129**
Derivative financial liabilities					
Currency derivatives - outflow	564	564	303	188	73
Cross currency derivatives					
– inflow	–	4,124	–	–	4,124
– outflow	50	(4,076)	–	–	(4,076)
Other - outflow	8	8	6	–	2
Total	**622**	**620**	**309**	**188**	**123**

31.12.2018

Remaining maturity

in millions of CZK	Carrying amount	Contractual cash inflows/ outflows	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undefined maturity
Assets							
Cash, cash equivalents and due from banks and other financial institutions	57,101	57,306	56,503	25	290	323	165
Securities (excl. derivatives)	13,748	14,977	21	558	3,372	3,694	7,332
Loans and advances to customers	66,966	79,041	15,027	15,836	32,541	15,637	–
Total	**137,815**	**151,324**	**71,551**	**16,419**	**36,203**	**19,654**	**7,497**
Off balance							
Bank commitments	10,161	10,161	10,161	–	–	–	
Bank guarantees	2,186	2,186	2,186	–	–	–	–
Liabilities							
Deposits and loans from banks	3,048	3,150	2,407	21	722	–	–
Deposits from customers	112,936	114,282	67,794	19,061	27,180	247	–
Financial liabilities at fair value through profit or loss	50	55	–	–	55	–	–
Subordinated debt	749	831	9	168	575	79	–
Total	**116,783**	**118,318**	**70,210**	**19,250**	**28,532**	**326**	**–**

Expected maturity

in millions of CZK	Carrying amount	Contractual cash inflows/ outflows	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undefined maturity
Assets							
Loans and other advances to customers	66,966	79,041	15,332	16,402	29,742	17,491	74
Liabilities							
Client deposits	112,936	114,635	35,583	16,016	36,723	26,313	–
Subordinated debts	749	831	9	168	575	79	–

Liquidity risk of derivatives as at 31 December 2018:

in millions of CZK	Carrying amount	Contractual cash inflows/ outflows	Up to 3 months	3 months to 1 year	1 to 5 years
Derivative financial assets					
Currency derivatives					
– inflow	322	322	102	182	38
Cross currency derivatives					
– inflow		3,370			3,370
– outflow	78	(3,374)	–	–	(3,374)
Total	**400**	**318**	**102**	**182**	**34**
Derivative financial liabilities					
Currency derrivatives					
– outflow	205	205	53	112	39
Cross currency derivatives					
– inflow		3,374			3,374
– outflow	32	(3,370)	–	–	(3,370)
Total	**237**	**209**	**53**	**112**	**43**

41. MARKET RISK

Market risk is the risk of loss to the Bank arising from market movements in quoted market prices of investment instruments, exchange rates and interest rates. Market risk consists of the trading portfolio market risk and investment portfolio market risk.

Market risk of the trading portfolio includes:
- Interest rate risk;
- Foreign exchange risk;
- Other market risk (equity risk, commodity risk).

Further information on interest rate risk and foreign exchange risk is provided in note 42 and 43, respectively.

The Bank uses the Value at Risk (“VaR”) methodology to evaluate market risk of its trading portfolio, the foreign currency (“FX”) and commodity position using a confidence level of 99% and a horizon of 10 business days.

The risks are evaluated (on an individual basis) and compared to limits set by the Risk Management Dept. on a daily basis. If the limits are breached, the Financial Markets Dept. is informed, in order to ensure the compliance of the risk exposure with the limits. In pre-determined cases, the information is passed to the Board of Directors.

The decision-making power is given by internal rules to the Board of Directors and Investment Committee.

The Bank performs back testing on a daily basis for market risk by applying a method of hypothetical back testing.

The VaR statistics as of 31 December 2019 and 31 December 2018 are as follows:

in millions of CZK	31.12.2019	31.12.2018
VaR market risk overall	68	90
VaR interest rate risk	42	101
VaR FX risk	43	73
VaR equity risk	10	15
VaR commodity risk	2	1

In order to assess the impact of extremely unfavourable market conditions, the Bank performs stress testing. This enables identification of sudden potential changes in the values of open positions of the Bank that might arise as a result of events that are improbable, but possible. As part of the stress testing, a medium-term and long-term historic shock scenario is applied to the trading portfolio, and the foreign currency and commodity positions of the Bank as a whole. These scenarios evaluate the deepest drop of the current portfolio value which would have happened in the previous two, five or fifteen years. The potential change in the fair value of the portfolio is monitored and assessed.

Change in the fair value of the trading portfolio due to historic shock scenario:

in millions of CZK	31.12.2019	31.12.2018
short-term scenario	90	46
medium-term scenario	241	51
long-term scenario	261	238

The difference in the scenarios' resulting values between 2018 and 2019 results from a change in the methodology. The horizon based on which the change in the portfolio's value is calculated has been increased from 1 to 10 days. In 2018, the short-term scenario covered the history of one year (two years in 2019) and the medium-term scenario the history of two years (five years in 2019).

The market risk of the investment portfolio consists mainly of interest rate risk.

The Bank performs stress testing of the investment portfolio using a standardised interest rate shock, i.e. an immediate decrease / increase in interest rates by 200 basis points ('bp') along the entire yield curve. The Bank distinguishes between internal and stress scenarios, within which various parallel and non-parallel movements are made.

The decrease in the present value of the investment portfolio in percentage points of equity would be as follows:

(% Tier 1 + Tier 2)	31.12.2019	31.12.2018
Decrease in the present value of the investment portfolio due to a sudden change in interest rates by 200 bp	5.23*	0.23

*The significant increase is caused by methodical change in a new guideline by IRRBB from a half of the year 2019.

42. INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed for a financial instrument indicates to what extent it is exposed to an interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are zero-interest-bearing are grouped together in the "maturity undefined" category.

Interest rate risk exposure as at 31 December 2019 is as follows:

in millions of CZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets					
Cash, cash equivalents and due from banks and other financial institutions	58,492	177	–	722	59,391
Securities and positive fair value of derivatives	884	3,027	1,801	8,261	13,973
Ownership interests	–	–	–	4,116	4,116
Loans and other advances to customers	57,135	4,305	2	1,517	62,959
Deferred tax asset	–	–	–	259	259
Investment property, property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	–	–	–	1,127	1,127
Disposal groups held for sale	–	–	–	64	64
Total assets	**116,511**	**7,509**	**1,803**	**16,066**	**141,889**
Equity and liabilities					
Deposits and loans from banks	4,031	–	–	461	4,492
Deposits from customers	62,639	25,857	334	18,719	107,549
Negative fair value of derivatives	499	123	–	–	622
Subordinated debt	467	153	–	–	620
Current tax liability	–	–	–	209	209
Other liabilities and equity	26	–	–	28,371	28,397
Total equity and liabilities	**67,662**	**26,133**	**334**	**47,760**	**141,889**
Net interest rate risk	48,849	(18,624)	1,469	(31,694)	–
Cumulative interest rate risk	48,849	30,225	31,694	–	–

Interest rate risk exposure as at 31 December 2018 is as follows:

in millions of CZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets					
Cash, cash equivalents and due from banks and other financial institutions	54,852	168	206	1,875	57,101
Securities and positive fair value of derivatives	2,478	3,100	1,709	6,861	14,148
Ownership interests	–	–	–	4,142	4,142
Loans and other advances to customers	57,725	4,783	1,247	3,211	66,966
Deferred tax asset	–	–	–	303	303
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	–	–	–	1,042	1,042
Disposal groups held for sale	–	–	–	64	64
Total assets	**115,055**	**8,051**	**3,162**	**17,498**	**143,766**
Equity and liabilities					
Deposits and loans from banks	928	–	–	2,120	3,048
Deposits from customers	60,428	32,052	212	20,244	112,936
Negative fair value of derivatives	166	72	–	–	238
Financial liabilities at fair value through profit or loss	–	50	–	–	50
Subordinated debt	184	544	21	–	749
Current tax liability	–	–	–	157	157
Other liabilities and equity	–	–	–	26,588	26,588
Total equity and liabilities	**61,706**	**32,718**	**233**	**49,109**	**143,766**
Net interest rate risk	53,349	(24,667)	2,929	(31,611)	–
Cumulative interest rate risk	53,349	28,682	31,611	–	–

43. FOREIGN EXCHANGE RISK

Assets and liabilities denominated in foreign currencies, including off-balance sheet exposures, represent the Bank's exposure to currency risk. Both realized and unrealized foreign exchange gains and losses are reported directly in the statement of comprehensive income. The main tool used for managing foreign currency risk is the VaR methodology which is applied using a 99% confidence level and a ten-day holding period.

Foreign exchange risk exposure as at 31 December 2019 was as follows:

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Assets						
Cash, cash equivalents and due from banks and other financial institutions	57,694	214	1,198	115	170	59,391
Securities and positive fair value	6,499	–	7,258	–	216	13,973
Ownership interests	996	316	–	2,481	323	4,116
Loans and other advances to customers	15,527	3,758	42,368	2	1,304	62,959
Deferred tax asset	164	–	95	–	–	259
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	718	109	298	–	2	1,127
Disposal groups held for sale	64	–	–	–	–	64
Total assets	**81,662**	**4,397**	**51,217**	**2,598**	**2,015**	**141,889**

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Equity and liabilities						
Deposits and loans from banks	2,058	10	2,388	–	36	4,492
Deposits from customers	63,658	1,715	41,597	343	236	107,549
Negative fair value of derivatives	622	–	–	–	–	622
Subordinated debt	564	–	56	–	–	620
Current tax liability	199	–	10	–	–	209
Other liabilities and equity	23,997	324	3,991	–	85	28,397
Total equity and liabilities	**91,098**	**2,049**	**48,042**	**343**	**357**	**141,889**
Long position of off-balance sheet instruments:						
– items from derivative transactions	48,202	2,385	36,561	285	4,441	91,874
– items from spot transactions with share instruments	16	77	–	–	–	93
Short position of off-balance sheet instruments:						
– items from derivative transactions	37,249	5,033	41,002	2,051	6,137	91,472
– items from spot transactions with share instruments	15	77	–	–	1	93
Open position asset/(liability)	**1,518**	**(300)**	**(1 266)**	**489**	**(39)**	**402**

Foreign exchange risk exposure as at 31 December 2018 was as follows:

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Assets						
Cash, cash equivalents and due from banks and other financial institutions	54,792	329	1,694	128	158	57,101
Securities and positive fair value of derivatives	8,193	190	5,539	–	226	14,148
Ownership interests	973	321	–	2,451	397	4,142
Loans and other advances to customers	16,214	7,669	41,683	35	1,365	66,966
Deferred tax asset	235	–	68	–	–	303
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	567	157	316	–	2	1,042
Disposal groups held for sale	64	–	–	–	–	64
Total assets	**81,038**	**8,666**	**49,300**	**2,614**	**2,148**	**143,766**

in millions of CZK	CZK	USD	EUR	RUB	Other	Total
Equity and liabilities						
Deposits and loans from banks	41	43	2,912	–	52	3,048
Deposits from customers	63,565	2,276	46,559	373	163	112,936
Negative fair value of derivatives	238	–	–	–	–	238
Financial liabilities at fair value through profit or loss	50	–	–	–	–	50
Subordinated debt	692	–	57	–	–	749
Current tax liability	139	–	18	–	–	157
Other liabilities and equity	23,733	515	2,000	1	339	26,588
Total equity and liabilities	**88,458**	**2,834**	**51,546**	**374**	**554**	**143,766**
Long position of off-balance sheet instruments:						
– items from derivative transactions	44,860	1,602	37,597	647	4,923	89,629
– items from spot transactions with share instruments	23	177	–	–	–	200
Short position of off-balance sheet instruments:						
– items from derivative transactions	34,323	7,530	39,646	1,808	5,935	89,242
– items from spot transactions with share instruments	22	177	–	–	1	200
Open position asset/(liability)	**3,118**	**(96)**	**(4 295)**	**1,079**	**581**	**387**

44. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, including information technology risk, legal and compliance risk.

The Bank's objective of managing the operational risk is to minimize the risk and securing the Bank's activities at the required level.

The primary responsibility for the implementation of controls to address operational risk is assigned to the management of the Bank or the established Operational Risk and Damage Committee. This responsibility is supported by the development of overall standards within the Bank for the management of operational risk which is done by the Risk Management Dept. and which cover the following areas (reflecting the proportionality principle):

- identification of operational risk for all processes within the Bank's control system;
- evaluation of identified risks;
- adoption of a decision to accept or reduce the identified risks (while the required level of activities is secured);

- reporting of operational risk events by entering the corresponding information into the Bank's database of operational risk events.
- this overview of the Bank's operational risk events allows the Bank to specify the direction of the steps and processes to take in order to limit these risks, as well as to make decisions with regard to:
  - accepting the individual risks that are faced;
  - initiating processes leading to limitation of possible impacts; or
  - decreasing the scope of the relevant activity or discontinuing it entirely;
  - setting and monitoring of KRI (Key Risk Indicators) for early indication of increasing operational risk.

45. CAPITAL MANAGEMENT

The Bank strategy is to hold strong capital base in order to maintain the confidence of creditors and the market, while ensuring the future development of the business.

As of 1 January 2014, the capital adequacy ratios are calculated in accordance with Regulation (EU) no. 575/2013 of the European Parliament and Council Regulation (the "CRR").

Own funds (regulatory capital) of the Bank are analysed in two parts:
- Tier 1 capital, which consist of:
  - Common Equity Tier 1 capital (CET1), which includes paid-up ordinary share capital, share premium, retained earnings (profit for the period is not included), accumulated other comprehensive income, other temporary adjustments CET1, net of goodwill, intangible assets and additional value adjustments;
  - Additional Tier 1 capital (AT1), which includes instruments (subordinated income certificates) issued in accordance with CRR.
- Tier 2 capital, which consists of eligible subordinated debt approved by Czech National Bank of CZK 137 million (31 December 2018: CZK 270 million).

From 1 January 2014 the capital adequacy ratios are calculated for CET1, Tier 1 capital and total regulatory capital. The value represents the ratio of capital to risk weighted assets (RWA). CNB also requires every institution to hold additional capital conservation buffer of 2.5% and countercyclical buffer on all the levels of regulatory capital.

From 1 January 2018, the Bank decided to apply upon the adoption of IFRS 9 Article 473a of Regulation (EU) 2017/2395 of the European Parliament and of the Council, and to include an amount equal to the difference between allowances and provisions under IAS 39 as at 31 December 2017 and expected credit losses under IFRS 9 as at 1 January 2018 in Common Equity Tier 1 (CET1) capital, for the transitional period of 5 years as well as expected credit losses under IFRS 9 as at 1 January 2018. The difference is further recalculated using a stipulated coefficient. At the same time, the Bank modified the method of calculating specific adjustments for credit risk, accordingly.

The specific countercyclical capital buffer rate is calculated in accordance with Section 63 ČNB decree No. 163/2014 Coll. and is calculated as a weighted average of the countercyclical buffer rates in effect in the jurisdictions to which the Bank has relevant risk exposures. It started to be relevant in 2017 when the Czech Republic and the Slovak Republic firstly set their countercyclical buffer rates and it is gradually being introduced in other relevant countries.

Minimum requirements for capital ratios for 31 December 2019 and 31 December 2018 are as follows:

in millions of CZK	Minimum requirement	Capital conservation buffer	Countercyclical buffer	Total requirement
Common Equity Tier 1 capital (CET1)	4.5%	2.5%	0.88%	7.88%
Tier 1 capital	6%	2.5%	0.88%	9.88%
Total regulatory capital 2019	**8%**	**2.5%**	**0.88%**	**11.38%**
Common Equity Tier 1 capital (CET1)	4.5%	2.5%	0.63%	7.63%
Tier 1 capital	6%	2.5%	0.63%	9.13%
Total regulatory capital 2018	**8%**	**2.5%**	**0.63%**	**11.13%**

Regulatory capital

Regulatory capital and equity reconciliation

The tables below summarize the composition of own funds (regulatory capital) and equity and capital ratios for 31 December 2019 and 31 December 2018, providing a complete reconciliation of individual items of regulatory capital to equity items.

As at 31 December 2019

in millions of CZK	Regulatory capital	Equity
Paid-up share capital registered in the Commercial Register	10,638	10,638
Retained earnings	3,678	3,756
Profit for the period	–	2,879
Accumulated other comprehensive income	(44)	(43)
Reserve funds	–	164
(-) Additional value adjustments (AVA)	(15)	–
(-) Intangible assets	(92)	–
Transitional adjustments to CET1 instruments	346	–
Paid-in AT1 instruments, share premium	2,597	2,597
Total Tier 1 capital	**17,110**	**n/a**
Total Tier 2 capital	137	–
Total regulatory capital/equity	**17,247**	**19,991**

As at 31 December 2018

in millions of CZK	Regulatory capital	Equity
Paid-up share capital registered in the Commercial Register	10,638	10,638
Retained earnings	3,674	3,756
Profit for the period	—	1,534
Accumulated other comprehensive income	(80)	(80)
Reserve funds	—	161
(-) Additional value adjustments (AVA)	(14)	—
(-) Intangible assets	(88)	—
Transitional adjustments to CET1 instruments	387	—
Paid-in AT1 instruments, share premium	2,597	2,597
Total Tier 1 capital	**17,115**	**n/a**
Total Tier 2 capital	270	—
Total regulatory capital/equity	**17,385**	**18,606**

Based on the opinion of the Czech National Bank, retained earnings are reduced by the amount of the anticipated payment from subordinated income certificates (AT1 instruments) in the next four quarters not covered by a special-purpose fund for the payment of the income from those certificates before their inclusion in regulatory capital.

Risk weighted assets (RWA) and capital ratios

in millions of CZK	31 December 2019	31 December 2018
Central governments or central banks	—	—
Institutions	926	1,119
Corporates	41,746	48,500
Retail	46	63
Secured by mortgages on immovable property	9,704	5,898
Exposures in default	2,214	4,301
Items associated with particular high risk	16,394	16,143
Covered bonds	51	52
Collective investments undertakings (CIU)	4,414	4,809
Shares	4,678	4,692
Other items	958	886
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	**81,131**	**86,464**
Traded debt instruments	1,933	3,654
Shares	648	860
Position risk in collective investment undertakings (CIUs)	20	16
Foreign Exchange	2,202	1,911
Total risk exposure amount for position, foreign exchange and commodity risks	**4,803**	**6,441**
Operational risk	8,172	7,436
Total risk exposure amount for credit valuation adjustment	250	401
Total risk exposure amount	**94,356**	**100,742**

Capital adequacy ratios

in %	31 December 2019	31 December 2018
Common Equity Tier 1 capital (CET 1)	15.38	14.41
Tier 1 capital	18.13	16.99
Total regulatory capital	**18.28**	**17.26**

The key goal of capital management of the Bank is to ensure that the risks faced do not threaten the solvency of the Bank and capital adequacy regulatory limit compliance. In addition, within the strategic framework of the Bank the Board stipulated the value above 15% for mid-term capital adequacy goal as a reflection of the risk appetite of the Bank.

The purpose for setting the minimum value for capital adequacy requirements is to establish a trigger mechanism, which provides a guarantee that the capital adequacy will not decrease to the regulatory minimum.

The compliance of the Bank capital with established limits and goals for the capital adequacy is evaluated regularly by the ALCO committee and the Bank 's management.

The decision-making power with regard to eventual measures that should be implemented to decrease the level of exposed risk (e.g., decreasing the size of risks, acquiring additional capital, etc.) is given to the Board of Directors.

46. FAIR VALUE INFORMATION

Estimation of fair values
The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Loans and advances to customers and Due from financial institutions: Fair value is calculated based on discounted expected future cash flows of principal and interest using the appropriate yield curve and risk spread. Expected future cash flows are estimated considering the credit risk and any indication of impairment. The estimated fair values of loans reflect changes in credit status since the loans were provided and changes in interest rates were made in the case of fixed rate loans.

Deposits and loans from banks and customers and Subordinated debt: For demand deposits and deposits with no defined maturity, fair value is taken to be the amount payable on demand at the statement of financial position date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using appropriate yield curve.

The fair value of the issued subordinated bonds does not contain direct transaction costs, which were expensed on issue.

Estimates of the fair value of financial assets measured at amortized cost, analysed according to the hierarchy that reflects the significance of the inputs used in the valuation were as follows:

31 December 2019

in millions of CZK	Level 1	Level 2	Level 3	Total estimated fair value	Carrying amount
Financial assets					
Cash, cash equivalents and due from banks and other financial institutions	–	59,498	–	59,498	59,391
Loans and other advances to customers	–	–	65,370	65,370	62,959
Financial liabilities					
Deposits and loans from banks	–	4,492	–	4,492	4,492
Deposits from customers	–	108,092	–	108,092	107,549
Subordinated debt	–	652	–	652	620

31 December 2018

in millions of CZK	Level 1	Level 2	Level 3	Total estimated fair value	Carrying amount
Financial assets					
Cash, cash equivalents and due from banks and other financial institutions	–	57,102	–	57,102	57,101
Loans and other advances to customers	–	–	67,995	67,995	66,966
Financial liabilities					
Deposits and loans from banks	–	3,056	–	3,056	3,048
Deposits from customers	–	112,377	–	112,377	112,936
Subordinated debt	–	765	–	765	749

47. MATERIAL SUBSEQUENT EVENTS

COVID-19 pandemics

The first quarter of 2020 was significantly influenced by the sudden spread of COVID-19, which the World Health Organization (WHO) described as a global pandemic on 11 March 2020.

In response to the health risks and the rapid spread of the virus, local governments have introduced a series of restrictive measures. The free movement of people was reduced to strictly necessary acts.

Most business establishments (with exceptions such as grocery stores or pharmacies) were forced to close. Likewise, accommodation and restaurant facilities had to interrupt operations in order to prevent the gathering of larger groups of citizens. Teaching at schools was interrupted.

The measures introduced have had a negative impact on the majority of markets without sector or geographical differentiation. As at 21 March 2020, the US stock market (as measured by the S&P 500 index) fell by more than 30% compared to its peak at the end of February of the same year. Other world markets, including the Prague Stock Exchange, lost over 35% to the highs of the year 2020, by the same date.

Despite extensive fiscal and monetary incentives presented by local governments and monetary authorities, the outlook for the next months and the overall impact of the COVID-19 pandemic remains unclear and uncertainty remains a determining factor in market developments. The key parameters for the further development of the economic situation will be the length of time for which the restrictive and security measures set by the government authorities will be valid and what their form will be.

Measures implemented by the Bank

The Bank closely monitored the development of the virus, as well as government regulations and recommendations, and kept its employees regularly informed. The Bank has introduced several measures to protect employees' health while maintaining the Bank's operations:

- Employees whose work was not necessarily tied to a workplace in the Bank's premises were ordered to work from home. The Bank provided these employees with the necessary equipment to perform their work.
- Employees who were not allowed to work from home were divided into two groups, one of which was transferred to a backup workplace.
- Transport and protective equipment were provided for employees working on the Bank's premises.

At the end of March, the Bank partially restricted the opening hours at its branches in Brno, Ostrava and Bratislava. Otherwise, the headquarters in Prague operates without restrictions. The Bank also has no restrictions on the availability of services or products, among other things, through increased support for digital and telecommunications channels that allow it to stay in touch with its clients.

Expected impact on the Bank's operations

The Bank regularly communicated the situation with its clients and informed about developments on the financial markets through news published on the Bank's website.

With respect to COVID-19, the Bank analyzed its loan portfolio and identified clients from the most vulnerable segments. The Bank selected approximately 40 clients from the "SME" corporate segment, operating primarily in the travel, entertainment, automotive and retail industries. The Bank approached selected clients with a request to describe and analyze the current state of the business, the steps they had to take in response to COVID-19 pandemic and the estimated impact on their economic results for the year 2020. From the responses obtained so far, the Bank did not assess the classification of the analyzed exposures as inefficient as an adequate reassessment. At the same time, no concession was granted related to COVID-19 pandemic. The Bank has received number of requests from clients for a shift in the repayment of the loans granted they are currently assessing. The Bank will take into account the approaches of other banking market participants and the opinions and recommendations of the regulator, such as options of deferment of installments by 3 months, release of repayment schedules, cancellation of some types or part of interest or fee, etc. In connection with the economic consequences of the COVID-19 pandemic, the financial situation of the Bank's clients may be adversely affected, which may jeopardize their ability to meet their obligations under existing contractual terms. The Bank will monitor and evaluate the quality of its loan portfolio in accordance with the accounting policies described in Note 3 of the Notes to the financial statements.

Next, the Bank quantified the impact of a theoretical increase / decrease of LGD and PD parameter by 10 percent to the amount of expected credit losses (ECL) in Note 39(f). In Note 39(k) of the Notes to the financial statements, the Bank presents a decrease in the fair value of the loan portfolio that would occur in the event of a sudden decrease in the credit rating by one degree. As the situation evolves, expectations used to determine PD will be revised in the coming periods, which may result in some credit exposures moving from Stage 1 to Stage 2 due to a significant increase in credit risk (SICR). For more on credit risk, see Note 39.

The Bank also simulated the impact of the revaluation of the fair value of Level 3 financial assets due to an increase/decrease in selected inputs used in the calculation of the fair value of financial assets by 1 or 5 percent, see Note 8.

Initial analysis also identified items of the statement of comprehensive income which are expected to have an impact in 2020 and possibly in subsequent years as a result of this situation. First item is Net creation of allowances, which is mentioned above as a separate comment. Net income from fees and commissions is another item where we expect unfavorable development, when the Bank's major business is arranging debt securities issued for clients and where we assume shifts in time of some debt issues, or even their non-realization, which will probably lead to a decrease in fee revenues. On the other hand, the Bank is not oriented to a large number of clients and therefore will not be exposed to the negative impact of the expected lower economic activity of the population. Net interest income may be affected by a reduction in reference and, consequently, market interest rates, but due to the sensitivity of assets and liabilities due to changes in interest rates (see Note 42), the Bank does not expect any significant impact. Given the lack of information and future uncertainty, the Bank is unable to estimate the specific impact levels in the items of financial statements mentioned above.

The Bank has a prudent liquidity policy and holds a significant part of its liquidity surplus in highly liquid assets. The Bank's strategic objective is to maintain a value of indicator stable and to meet regulatory and internal requirements for a sufficient liquidity buffer in the long-term period. Highly liquid assets include deposits with the central bank, short-term deposits with financial institutions and highly liquid government and corporate bonds, more information in Note 5 and 6. The Bank endeavors to diversify its sources of funding to reduce the risk of failure of a particular source and avoid problems. The description, strategies and procedures for liquidity management are described in Note 40. Not only because of the current situation, the Bank monitors its liquidity position and client behavior on a daily basis, including the outlook for the year 2020, in order to identify potential liquidity problems. The analysis takes into account all sources of financing used by the Bank as well as the liabilities the Bank is required to pay.

The Bank has been adequately capitalized for long period of time, the capital adequacy ratio reached 18.28% as at 31 December 2019, for more information see Note 45. The Bank complies with all limits set by the Czech National Bank as well as internal limits and has an adequate and sufficient capital buffer.

According to the information available to the Bank's management at the date of issue of the financial statements, the situation mentioned above does not affect going concern assumption on the basis of which these financial statements have been prepared.

The Bank’s management cannot exclude that the restrictive measures will be prolonged or further restricted or the negative effect of such measures will affect the economic environment in which the Bank operates or that all this will have an adverse effect on the Bank, its financial performance and operating results, both in the medium and long-term. The Bank’s management is closely monitoring the situation and is ready to respond appropriately to mitigate any adverse effects.

Except from the event stated above, from December 31, 2019, up to the date when these financial statements were approved by the Board of Directors, there were no further events identified that would require adjustments to these financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF J & T BANKA, A.S.

Report on the Audit of the Financial Statements

Opinion
We have audited the accompanying separate financial statements of J & T BANKA, a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the separate statement of financial position as at 31 December 2019, and the separate statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the separate financial statements.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2019, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – subsequent event
We draw attention to Note 47 of the separate financial statements, where the Company's management, at the date of preparation of these separate financial statements, assessed the most recent information regarding the possible impact of SARS-CoV-2 and its COVID-19 disease on the Company's separate financial statements. Our opinion is not modified in respect of this matter.

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 the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses for loans and advances to customers at amortised cost
Expected credit losses for loans and advances amounted to CZK 1 963 million as at 31 December 2019 (31 December 2018: CZK 3 127 million).

Refer to Note 3 (Accounting policies), Note 10 (Loans and advances to customers at amortised cost) and Note 12 (Expected credit losses) in the notes to the separate financial statements.

Key audit matter

The Company's management makes material and complex assumptions when estimating expected credit losses ("the Expected Credit Losses", "ECLs") in respect of loans and advances to customers (together "loans") provided to customers. We consider the area to be associated with a significant risk of material misstatement, which requires our increased attention in the audit. As such, we determined it to be a key audit matter.

In the process, the loans are allocated into one of the three stages prescribed by IFRS 9 Financial instruments in order to estimate the loss allowances. Stage 1 and Stage 2 loans are performing loans, with Stage 2 loans being those for which significant increase in credit risk since origination has been observed. Stage 3 loans are non-performing, credit-impaired loans.

Key assumptions and judgements in the calculation of the Expected Credit Losses include the following:
- definition of default and significant increase in credit risk (SICR);
- estimates of probability of default (PD), exposure at default (EAD) and loss given default (LGD);
- estimate of credit conversion factor (CCF) for off balance exposures;
- forward-looking information (FLI) based on scenarios of expected development of selected macroeconomic indicators.

PD parameters have been determined based on annualized migration matrix resulting from the Company's historical data. LGD is determined by estimating the probability-weighted discounted future cash flows for each exposure. The key judgments and assumptions are estimating future cash repayment scenarios and assigning probabilities to these scenarios taking into account the estimated value and timing of cash flows including estimating the recoverable value of underlying collateral.

How the audit matter was addressed

Assisted by our information technology specialists, we performed, among other things, the procedures outlined below:

Applying our knowledge, experience and market standards, we assessed the Company's credit and accounting policies, and the processes related to estimating ECLs. As part of the procedure, we assessed the process of identifying indicators of default, significantly increased credit risk, and allocating of loans to Stages. In addition, we tested IT control environment for data security and access.

We tested the design, implementation and operating effectiveness of selected key controls, including those over the matching of incoming payments and calculation of effective interest rate. We performed the testing by inquiry in combination with the observation, inspection of underlying documentation, and selected recalculations.

For a sample of loans, by reference to the underlying documentation (loan files) and through inquiries of the Company's credit officers, we evaluated whether examined loans were allocated to appropriate stages of IFRS 9, and whether appropriate EAD, PD, CCF and LGD parameters were applied to on-balance and off-balance exposures in determining the related ECLs. As part of the procedure, we specifically focused on the robustness of the Company's financial analysis of the borrower, the repayment pattern for the loan and the collateral provided (including the appropriateness of any haircuts applied).

Assisted by our own real estate valuation specialist, we challenged the valuation methods applied by the Company in respect of collateral valuation a sample of Stage 3 loans. As part of the procedure, among other things, we challenged the assumptions in the valuations used by the Company by comparing them to our specialist's expectations.

We assessed the accuracy and completeness of the Company's disclosures on the loss allowances and the related credit risk management in the notes to the separate financial statements

Other Information
In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

The Company has not prepared an annual report as at 31 December 2019, as it includes the respective information in the consolidated annual report. Consequently, this auditor's report does not include our statement on the other information.

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Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Financial Statements
The statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the statutory body 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 statutory body is responsible for assessing the Company'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 statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board, in collaboration with the Audit Committee, is responsible for overseeing the Company's financial reporting process.

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 regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, 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 regulations, we exercise professional judgment and maintain professional skepticism 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 control.

- Obtain an understanding of internal control 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's 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 Company'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 may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 with those charged with governance, 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 Requirementsy

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholder on 29 June 2017 and our uninterrupted engagement has lasted for 19 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 3 April 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit, we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the financial statements or annual report.

Statutory Auditor Responsible for the Engagement

Jindřich Vašina is the statutory auditor responsible for the audit of the separate financial statements of J & T BANKA, a.s. as at 31 December 2019, based on which this independent auditor's report has been prepared.

Prague, 8 April 2020

KPMG Česká republika Audit, s.r.o.
Evidenční číslo 71

Ing. Jindřich Vašina
Partner
Evidenční číslo 2059

17 Bond Issues

LEADER IN THE CZECH AND SLOVAK CORPORATE BOND MARKET

REPORT ON RELATIONS BETWEEN RELATED PARTIES FOR THE ACCOUNTING PERIOD OF 2019

Report on relations between the controlling entities and the controlled entity and between the controlled entity and entities controlled by the same controlling entity for the accounting period of 2019 of J & T BANKA, a.s.

prepared in compliance with Section 82 of Act No. 90/2012 Coll., on Corporations and Cooperatives (Act on Corporations)

This report has been prepared by the Board of Directors of J & T BANKA, a.s., with its registered office at Praha 8, Pobřežní 297/14, postcode 186 00, ID# 47115378 („the Bank").

I. Structure of relations between the controlling entities and the controlled entity and between the controlled entity and entities controlled by the same controlling entity, the role of the controlled entity in the structure, and manner and means of control.

The Board of Directors of J & T BANKA, a.s. is aware that during the period from 1 January 2019 to 31 December 2019, J & T BANKA, a.s. was directly controlled by the following persons and entities:

J&T FINANCE GROUP SE
ID# 27592502, with its registered office at Praha 8, Pobřežní 297/14, postcode 186 00, Czech Republic

The Board of Directors of J & T BANKA, a.s. is aware that during the period from 1 January 2019 to 31 December 2019, J & T BANKA, a.s. was indirectly controlled by the following persons and entities:

Ing. Ivan Jakabovič
Birth ID# 721008/6246, residing at 98000 MONACO, 41 avenue HECTOR OTTO, Monaco, who, along with Ing. Jozef Tkáč (see below) controls J&T FINANCE GROUP SE.

In addition, Ing. Ivan Jakabovič owns shares in the following companies:

J & T Securities, s.r.o.
ID# 31366431, with its registered office in Bratislava, Dvořákovo nábrežie 8, postcode 811 02, Slovakia, controlled by Ing. Ivan Jakabovič

Ing. Jozef Tkáč
Birth ID# 500616/210, residing at Bratislava, Júlová 10941/32, postcode 831 01, Slovakia, who, along with Ing. Ivan Jakabovič (see above) controls J&T FINANCE GROUP SE.

The Board of Directors of J & T BANKA, a.s. is aware that during the period from 1 January 2019 to 31 December 2019, J & T BANKA, a.s. was controlled by the same entities as the following other controlled entities, through J&T FINANCE GROUP SE

Poštová banka, a.s.
ID# 31340890, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by J&T FINANCE GROUP SE

Poštová poisťovňa, a. s. (Poisťovňa Poštovej banky, a. s.)
ID# 31405410, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

Dôchodková správcovská spoločnosť Poštovej banky, d.s.s., a. s.
ID# 35904305, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s.
ID# 31621317, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

PB Servis, a. s. (POBA Servis, a. s.)
ID# 47234571, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Poštová banka, a.s.

PB PARTNER, a. s. in liquidation
ID# 36864013, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

PB Finančné služby, a. s.
ID# 35817453, with its registered office at Hattalova 12, Bratislava 831 03, Slovakia, controlled by Poštová banka, a.s.

SPPS, a. s.
ID# 46552723, with its registered office at Nám. SNP 35, Bratislava 811 01, Slovakia, controlled by Poštová banka, a.s.

365.fintech, a.s.
ID# 51301547, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

Amico Finance, a. s.
ID# 48113671, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.
ID# 03451488, Na Příkopě 393/11, Staré Město, 110 00 Praha 1, Czech Republic, controlled by J&T FINANCE GROUP SE.

FORESPO SOLISKO a. s.
ID# 47232935, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO HELIOS 1 a. s.
ID# 47234032, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO HELIOS 2 a. s.
ID# 47234024, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO HOREC A SASANKA a. s.
ID# 47232994, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO PÁLENICA a. s.
ID# 47232978, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

INVEST-GROUND a. s.
ID# 36858137, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO - RENTAL 1 a.s.
ID# 36782653, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO - RENTAL 2 a. s.
ID# 36781487, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO BDS a.s.
ID# 27209938, with its registered office at Janáčkovo nábřeží 478/39, Smíchov, 150 00 Praha 5, Czech Republic, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

Devel Passege s. r. o.
ID# 43853765, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

FORESPO DUNAJ 6 a. s.
ID# 47235608, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

OSTRAVICE HOTEL a.s.
ID# 27574911, with its registered office at Praha 8, Pobřežní 297/14, postcode 186 00, Czech Republic, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.

J&T SERVICES ČR, a.s.
ID# 28168305, with its registered office at Praha 8, Pobřežní 297/14, postcode 186 00, Czech Republic, controlled by J&T FINANCE GROUP SE

J&T SERVICES SR, s.r.o.
ID# 46293329, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by J&T SERVICES ČR, a.s.

J&T FINANCE, LLC
ID# 1067746577326, with its registered office at Rossolimo 17, Moscow, Russia, controlled by J&T SERVICES ČR, a.s.

Hotel Kadashevskaya, LLC.
ID# 1087746708642, with its registered office at Kadashevskaya Nabereznaya 26, 115035 Moscow, Russia, controlled by J&T FINANCE, LLC

J&T Bank Switzerland Ltd. in liquidation
ID# CH02030069721, with its registered office in Zürich, Talacker 50, 12th floor, P.C. 8001, Switzerland, controlled by J&T FINANCE GROUP SE

PBI, a.s.
ID# 03633527, with its registered office at Sokolovská 394/17, 186 00 Praha 8, Czech Republic, controlled by J&T FINANCE GROUP SE

J&T Wine Holding SE
ID# 06377149, with its registered office at Pobřežní 297/14, Karlín, 186 00 Praha 8, Czech Republic, controlled by J&T FINANCE GROUP SE

Reisten, s.r.o.
ID# 25533924, with its registered office at Zahradní 288, 692 01 Pavlov, Czech Republic, controlled by J&T Wine Holding SE

KOLBY, a.s.
ID# 25512919, with its registered office at Česká č.ev. 51, 691 26 Pouzdřany, Czech Republic, controlled by J&T Wine Holding SE

SAXONWOLD LIMITED
ID# 508611, with its registered office at Cam Lodge, Kilquaide, The Russian Village, Co.Wicklow, A63 FK24, Ireland, controlled by J&T Wine Holding SE

World's End
ID# 200807010154, with its registered office at 5 Financial Plaza 116, Napa, CA, 94558, USA, controlled by SAXONWOLD LIMITED

OUTSIDER LIMITED
ID# HE 372202, with its registered office at Klimentos, 41-43; KLIMENTOS TOWER, Floor 2, Flat 21; 1061, Nicosia, Cyprus, controlled by J&T Wine Holding SE

STE CIVILE D'EXPLOITATION DU CHATEAU TEYSSIER
ID# 316 809 391, with its registered office at 33330 VIGNONET, Saint Emilion, France, controlled by OUTSIDER LIMITED

CT DOMAINES
ID# 507 402 386, with its registered office at 33330 VIGNONET, Saint Emilion, France, controlled by STE CIVILE D'EXPLOITATION DU CHATEAU TEYSSIER

J&T INTEGRIS GROUP LIMITED
ID# HE207436, with its registered office at Klimentos, Kyriakou Matsi, 11, NIKIS CENTER, Floor 3, Flat 301 1082, Nicosia, Cyprus, controlled by J&T FINANCE GROUP SE

Bayshore Merchant Services Inc.
ID# 01005740, with its registered office at TMF Place, Road Town, Tortola, British Virgin Islands, controlled by J&T J&T INTEGRIS GROUP LIMITED

J&T Bank & Trust Inc.
ID# 00011908, with its registered office at Lauriston House, Lower Collymore Rock, St. Michael, Barbados, controlled by Bayshore Merchant Services Inc.

J and T Capital, Sociedad Anonima de Capital Variable
ID# 155559102, with its registered office at Explanada 905-A, Lomas de Chapultepec, 11000, Ciudad de Mexico, Mexico, controlled by Bayshore Merchant Services Inc.

J&T MINORITIES PORTFOLIO LTD
ID# HE260754, with its registered office at Kyriakou Matsi, 11, NIKIS CENTER, Floor 3, Flat 301 1082, Nicosia, Cyprus, controlled by J&T INTEGRIS GROUP LIMITED

Equity Holding, a.s.
ID# 10005005, with its registered office at Praha 8, Pobřežní 297/14, postcode 186 00, Czech Republic, controlled by J&T MINORITIES PORTFOLIO LTD.

J&T Global Finance V., s. r. o. in liquidation
ID# 47916036, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by J&T INTEGRIS GROUP LIMITED
(until 31 July 2019)

J&T Global Finance VI., s.r.o.
ID# 50195131, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by J&T INTEGRIS GROUP LIMITED

J&T Global Finance VII., s.r.o.
ID# 05243441, with its registered office at Pobřežní 297/14, Karlín, 186 00 Praha 8, Czech Republic, controlled by J&T INTEGRIS GROUP LIMITED

J&T Global Finance VIII., s.r.o.
ID# 06062831, with its registered office at Pobřežní 297/14, Karlín, 186 00 Praha 8, Czech Republic, controlled by J&T INTEGRIS GROUP LIMITED

J&T Global Finance IX., s.r.o.
ID# 51836301, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by J&T INTEGRIS GROUP LIMITED

J&T Global Finance X., s.r.o.
ID# 07402520, with its registered office at Pobřežní 297/14, Karlín, 186 00 Praha 8, Czech Republic, controlled by J&T INTEGRIS GROUP LIMITED

J&T Mezzanine, a.s.
ID# 06605991, with its registered office at Pobřežní 297/14, Karlín, 186 00 Praha 8, Czech Republic, controlled by J&T FINANCE GROUP SE

J & T BANKA, a.s. is a member of the consolidation unit of the financial holding company of Ing. Jakabovič and Ing. Tkáč in compliance with Act No. 21/1992 Coll., on Banks. The manner and means of control described in this report ensue from control effected through a share in the company's share capital and voting rights.

II. Overview of acts made in the accounting period of 2019 at the instigation or in the interest of the controlling entity or entities controlled by the controlling entity where such acts concern assets with a value exceeding 10% of the controlled entity's equity identified from the last financial statements.

During the accounting period, no acts concerning assets the value of which exceeds 10% of the Bank's equity identified from the last financial statements were made in the interest or at the instigation of the controlling entity and entities controlled by the controlling entity.

III. Overview of contracts entered into between the controlled entity and the controlling entity or between controlled entities.

All contracts below were based on the arm's length principle, which refers to situation when contracts are agreed between two non-related parties in their best interests.

With J&T FINANCE GROUP SE:

Contracts in force entered into between related parties:
- Consignment agreement dated 15 December 2008, regarding the provision of stock brokerage services.
- Agreement on the provision of services (outsourcing) dated 26 June 2018 concerning the fulfilment of analytical function services.
- BROKERAGE CONTRACT dated 6 November 2013 concerning opportunities to conclude a contract with potential clients.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Contract for the custody of investment instruments, dated 1 January 2014, based on which J & T BANKA, a.s. provided to the related party custody of securities in 2019, in exchange for adequate consideration in the form of payment.
- Financial settlement agreement dated 3 January 2012, based on which J & T BANKA, a.s. settles its receivables and liabilities arising in connection with value added tax, as they are members of a single VAT group of which the Bank is the representing member.
- Cost splitting agreement dated 31 December 2014, based on which the companies mutually covered 50% of the cost of the audit of group reporting packages in 2019, in exchange for adequate consideration in the form of payment.
- Contract for the provision of a guarantee, dated 21 August 2006, as further amended, based on which, in 2019, J&T FINANCE GROUP SE provided a guarantee to selected clients of the Bank, in exchange for adequate consideration in the form of payment.
- General consignment agreement for the brokerage of purchase and sale of securities, dated 10 April 2008, as further amended, based on which, in 2019, J & T BANKA, a.s. provided the related party with stock brokerage services, in exchange for adequate consideration in the form of payment.
- General agreement on the provision of the services for legal entities dated 25 April 2019 based on which, in 2019, J & T BANKA, a.s. provided banking and investment services pursuant to this agreement to a related party, in exchange for adequate consideration in the form of payment.
- Contract for business lease of movable assets dated 22 September 2010, as further amended, based on which, in 2019, J&T FINANCE GROUP SE leased fixtures and fittings to the Bank, in exchange for adequate consideration in the form of lease payment.
- Contract for cooperation in providing the J&T Family and Friends banking services and in participating in the Magnus loyalty scheme dated 25 November 2011 based on which J & T BANKA, a.s. undertakes to provide the related party with an advantageous package of services and participation rights in the MAGNUS loyalty scheme as a social policy instrument, in exchange for adequate consideration in the form of payment.

- Contract for lease of movable assets and financial settlement dated 1 December 2014, as further amended, based on which J&T FINANCE GROUP SE leased fixtures and fittings in the River Park building complex in Bratislava to the Bank in 2019, in exchange for adequate consideration in the form of lease payment.
- Contract for provision of banking services dated 22 January 2014 based on which J & T BANKA, a.s. provided services pursuant to this contract in 2019, in exchange for adequate consideration in the form of payment. The contract was terminated as at 25 April 2019.
- General agreement on the provision of the services for legal entities dated 25 April 2019 based on which J & T BANKA, a.s. provided services pursuant to this contract in 2019, in exchange for adequate consideration in the form of payment.
- Cost splitting contract dated 6 October 2014 based on which J&T FINANCE GROUP SE and J & T BANKA, a.s. share the costs connected with the entry of a strategic investor into the J&T financial group, in exchange for adequate consideration in the form of payment of the costs.
- General agreement on trading in financial markets dated 30 November 2015 based on which J & T BANKA, a.s. concluded currency derivative transactions, in exchange for adequate consideration in the form of payment of the transaction price including commission.
- Overdraft facility agreement No. EUR 61/KTK/2016 dated 11 November 2016, as further amended, based on which J & T BANKA, a.s. undertook to provide funds (an overdraft facility) to the related party and J&T FINANCE GROUP SE undertook to repay the loan, and pay the interest and other fees in accordance with the agreed terms and conditions.
- Administrator contract dated 17 March 2016, along with a Special arrangement to this contract, based on which, in 2019, J&T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration in the form of payment.
- Agreement on the provision of services (outsourcing) dated 26 June 2018 based on which J & T BANKA, a.s. provided audit function (internal audit and compliance) services pursuant to this agreement in 2019, and J&T FINANCE GROUP SE undertook to provide adequate consideration in the form of payment.
- Agreement on the provision of services (outsourcing) dated 26 June 2018 based on which J & T BANKA, a.s. provided risk management services pursuant to this agreement in 2019, and J&T FINANCE GROUP SE undertook to provide adequate consideration in the form of payment.
- Contract for sale of movable assets dated 30 December 2019 based on which J & T BANKA, a.s. sold computer technology in 2019, in exchange for consideration in the form of payment of the purchase price.
- Current account maintenance in accordance with the Bank’s business terms and conditions.
- Issue of a debit card in accordance with the Bank's business terms and conditions.
- Provision of a safety deposit box in accordance with the Bank's business terms and conditions.
- Forward currency transactions in accordance with the Bank’s business terms and conditions.

With Ing. Ivan Jakabovič:

Contracts in force entered into between related parties:
- Consignment agreement No. 17726 for the brokerage of purchase and sale of securities, dated 13 March 2009.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Agreement on private banking services dated 24 November 2015 based on which J & T BANKA, a.s. provided services pursuant to this agreement in 2019, in exchange for adequate consideration in the form of payment.
- Agreement on exercising the office of the Supervisory Board member dated 30 December 2014, concluded under Act No. 90/2012 Coll., on Corporations and Cooperatives (“the Act on Corporations”).
- Contract for supply of services based on which J & T BANKA, a.s. provided services pursuant to this contract in 2019, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank’s business terms and conditions.
- Issue of debit and charge cards in accordance with the Bank's business terms and conditions.

With J & T Securities, s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2019:
- General agreement on provision of banking services dated 8 November 2018 based on which J & T BANKA, a.s. provided services pursuant to this agreement in 2019, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With Ing. Jozef Tkáč:

Contracts in force entered into between related parties:
- General agreement on custody of financial instruments having the form of share certificates dated 10 December 2009.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Agreement on private banking services dated 15 March 2012 based on which J & T BANKA, a.s. provided services pursuant to this agreement in 2019, in exchange for adequate consideration in the form of payment.
- Maintenance of a deposit account with a period of notice in accordance with the Bank's business terms and conditions.
- Agreement on exercising the office of the Supervisory Board member dated 30 December 2014, concluded under Act No. 90/2012 Coll., on Corporations and Cooperatives ("the Act on Corporations").
- Current account maintenance in accordance with the Bank's business terms and conditions.
- Issue of a charge card in accordance with the Bank's business terms and conditions.

With Poštová banka, a.s.:

Contracts in force entered into between related parties:
- greement on lease of non-residential premises dated 5 October 2010 based on which Poštová banka, a.s. leased to the Bank non-residential premises in the River Park building complex at Dvořákovo nábřeží, Bratislava.
- Contract for cooperation in participating in the Magnus loyalty scheme dated 22 October 2013 based on which J & T BANKA, a.s. undertook to provide the related party with participation in the MAGNUS loyalty scheme as a social policy instrument, in exchange for adequate consideration in the form of payment.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Consignment agreement dated 18 December 2008 based on which J & T BANKA, a.s. provided the related party with stock brokerage services in 2019, in exchange for adequate consideration in the form of payment.
- Subordinated loan agreement dated 21 September 2011, as further amended, based on which J & T BANKA, a.s undertook to provide funds (a loan), and Poštová banka, a.s. undertook to repay the loan and pay interest in accordance with the agreed terms and conditions.
- Contract for support of membership in the card company MasterCard dated 24 June 2014 based on which Poštová banka, a.s. provided payment system related services to J & T BANKA, a.s., a related party, in 2019, in exchange for adequate consideration in the form of payment.
- Contract for a loro account dated 27 May 2014 based on which Poštová banka, a.s. provided services connected with maintaining a Euro bank account used to settle transactions made with MasterCard payment cards.
- Contract for a loro account dated 27 May 2014 based on which Poštová banka, a.s. provided services connected with maintaining a CZK bank account used to settle transactions made with MasterCard payment cards.
- 2002 Master Agreement for derivative transactions between J & T BANKA, a.s. and Poštová banka, a.s. dated

10 June 2015 based on which the Bank concluded mainly currency derivative transactions, in exchange for adequate consideration in the form of payment of the transactions.
- Loan agreements between J & T BANKA, a.s. and Poštová banka, a.s. based on which J & T BANKA, a.s. provided services of a creditor, arranger, credit agent and security agent in respect of granting a credit line to third parties, and Poštová banka, a.s. acts as a creditor, arranger, credit agent and security agent.
- Master Funded Participation Agreement dated 24 September 2018 and Funded Participation Ticket number 1-2018/POBA and 1-2019/POBA dated 25 November 2019.
- Uncommitted credit facility dated 1 April 2019 based on which J & T BANKA, a.s. provided a credit commitment to a related party after having met the terms and conditions.
- Contract for cooperation in providing the J&T Family and Friends banking services and in participating in the Magnus loyalty scheme dated 1 January 2019 based on which J & T BANKA, a.s. undertook to provide the related party with participation in the MAGNUS loyalty scheme as a social policy instrument, in exchange for adequate consideration in the form of payment.
- Agreement on cooperation dated 19 March 2019 based on which the contractual parties agreed on the rules and terms and conditions of mutual cooperation.
- Forward currency transactions in accordance with the Bank’s business terms and conditions.
- Current account maintenance in accordance with the Bank’s business terms and conditions.

With Poštová poisťovňa, a. s.:

Contracts in force entered into between related parties based on which performance was provided in 2019:
- General agreement on the provision of the services for legal entities dated 20 November 2017 based on which J & T BANKA, a.s. provided services pursuant to this contract in 2019, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank’s business terms and conditions.
- Deposit account maintenance in accordance with the Bank’s business terms and conditions.

With Dôchodková správcovská spoločnosť Poštovej banky, d.s.s., a. s.:

Contracts in force entered into between related parties:
- Contract for provision of banking services dated 21 May 2014.

With PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s.:

Contracts in force entered into between related parties:
- Consignment agreement dated 29 May 2014, regarding the provision of stock brokerage services.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Contract for cooperation dated 13 July 2009, as further amended, based on which J & T BANKA, a.s., in 2019, provided the related party with services connected with collective investments pursuant to this contract and under the laws in force in the Czech Republic, in exchange for adequate consideration in the form of payment.
- Contract for cooperation in providing investment services dated 28 December 2018 based on which both parties agreed on cooperation in procuring purchase or sale of units issued by mutual funds managed by PPSS, in exchange for adequate consideration in the form of payment. This contract fully replaces the contract for provision of investment services dated 13 September 2013.

With PB Finančné služby, a. s.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Overdraft facility agreement No. EUR 04/KTK/2017 dated 23 January 2017, as further amended, based on which J & T BANKA, a.s undertook to provide funds (an overdraft facility) to the related party and PB Finanční služby, a.s. undertook to repay the loan, and pay the interest and other fees in accordance with the agreed terms and conditions.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With 365.fintech, a.s.:

Contracts in force entered into between related parties based on which performance was provided in 2019:
- General agreement on the provision of the services for legal entities dated 26 January 2018 based on which J & T BANKA, a.s. provided services pursuant to this contract in 2019, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.
- Issue of a debit card in accordance with the Bank's business terms and conditions.

With Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.:

Contracts in force entered into between related parties:
- General agreement on subscription, issue and redemption of investment shares dated 7 October 2014.

With OSTRAVICE HOTEL a.s.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T SERVICES ČR, a.s.

Contracts in force entered into between related parties:
- Contract for personal data processing dated 6 August 2014 based on which the parties thereto defined the rights and obligations in processing personal data when carrying out activities under the Contract for provision of expert support.
- Contract for personal data processing dated 1 January 2018 based on which the parties thereto defined the rights and obligations in processing personal data when carrying out activities under the Contract for lease of non-residential premises.
- Contract for personal data processing dated 25 May 2018 based on which the parties thereto defined the rights and obligations in processing personal data when carrying out activities under the Contract for provision of services.
- General agreement on provision of banking services for legal entities dated 1 August 2017.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Contract for provision of expert support dated 6 August 2014 based on which J&T SERVICES ČR, a.s. provided payroll and personnel services pursuant to this contract in 2019 and J & T BANKA, a.s. undertook to provide adequate consideration in the form of payment for the services.
- Overdraft facility agreement No. EUR 95/KTK/2013 dated 11/12/2013, as further amended, based on which J & T BANKA, a.s. undertook to provide funds (an overdraft facility) to the related party and J&T SERVICES ČR undertook to repay the loan, and pay the interest and other fees in accordance with the agreed terms and conditions.
- Bank guarantee agreement No. Z 09/OAO/2008 dated 21 April 2008, as further amended, based on which,

in 2019, J & T BANKA, a.s. issued a bank guarantee to the related party, in exchange for adequate consideration in the form of payment.

- Contract for sublease of non-residential premises dated 1 July 2008, as further amended, based on which, in 2019, J&T SERVICES ČR, a.s. provided the Bank with the lease of non-residential premises and fixtures and fittings at Sokolovská 394/17, Praha 8, in exchange for adequate consideration in the form of lease payment.
- Contract for provision of premises dated 1 January 2014 based on which, in 2019, J&T SERVICES ČR, a.s. provided the Bank with the lease of non-residential premises in the Prosek Point building complex, in exchange for adequate consideration in the form of lease payment.
- Contract for sublease of business premises dated 1 October 2019 based on which, in 2019, J&T SERVICES ČR, a.s. provided the Bank with the lease of non-residential premises in the Prosek Point building complex, in exchange for adequate consideration in the form of lease payment.
- Financial settlement agreement dated 1 January 2009 based on which J & T BANKA, a.s. settles its receivables and liabilities arising in connection with value added tax, as they are members of a single VAT group of which the Bank is the representing member.
- Contract for provision of services (outsourcing) dated 1 September 2014, as further amended, based on which J&T SERVICES ČR, a.s. provided services consisting in preparation of prudential consolidated financial statements pursuant to this contract in 2019, and J & T BANKA, a.s. undertook to provide adequate consideration in the form of payment for the services.
- Contract for provision of services (outsourcing) dated 5 January 2015 based on which J&T SERVICES ČR, a.s. provided reporting services and central purchases pursuant to this contract in 2019, and J & T BANKA, a.s. undertook to provide adequate consideration in the form of payment for the services.
- Contract for provision of services dated 31 January 2013 based on which J&T SERVICES ČR, a.s. provided legal services pursuant to this contract in 2019, and J & T BANKA, a.s. undertook to provide adequate consideration in the form of payment.
- Contract for lease of movable assets dated 1 July 2013, as further amended, based on which, in 2019, J&T SERVICES ČR, a.s. leased office furniture and equipment pursuant to this contract, in exchange for adequate consideration in the form of payment.
- Contract for cooperation dated 31 August 2011 based on which, in 2019, J&T SERVICES ČR, a.s. provided services connected with the provision of concierge services for payment card holders to the related party J & T BANKA, a.s. pursuant to this contract, in exchange for adequate consideration in the form of payment.
- Service contract dated 26 March 2013, as further amended, based on which J&T SERVICES ČR, a.s. provided development and maintenance services in respect of banking information system in 2019, and J & T BANKA, a.s. undertook to provide adequate consideration in the form of payment.
- Contract for cooperation in arranging social events dated 1 January 2014, as further amended, based on which J&T SERVICES ČR, a.s. undertook to ensure cultural and social events for employees under the terms and conditions of this contract, and J & T BANKA, a.s. undertook to provide adequate consideration in the form of proportionate part of the expenses.
- Contract for sublease of a motor vehicle dated 2 January 2014, as further amended, based on which, in 2019, J&T SERVICES ČR, a.s. leased to the Bank motor vehicles, in exchange for adequate consideration in the form of lease payment.
- Contract for sublease of a motor vehicle dated 23 January 2015, as further amended, based on which, in 2019, J&T SERVICES ČR, a.s. leased to the Bank motor vehicles, in exchange for adequate consideration in the form of lease payment.
- Contract for provision of services dated 31 December 2014, as amended, based on which J&T SERVICES ČR, a.s. provided logistic, operational and technical management services pursuant to this contract to the Bank in 2019, and J & T BANKA, a.s. undertook to provide adequate consideration in the form of payment.
- Contract for provision of services dated 31 December 2014 with J & T Banka, a. s. pobočka zahraničnej banky, as amended, based on which J&T SERVICES ČR, a.s. provided logistic, operational and technical management services pursuant to this contract in 2019, and J & T BANKA, a.s. undertook to provide adequate con-

sideration in the form of payment.
- Contract for provision of services dated 18 December 2014 based on which, in 2019, J&T SERVICES ČR, a.s. provided IT/IS services pursuant to this contract, and J & T BANKA, a.s. undertook to provide adequate consideration in the form of payment.
- Contract for sublease of business premises dated 31 March 2015 based on which, in 2019, J & T BANKA, a.s. provided J&T SERVICES ČR, a.s. with the use of premises in the JAVOR building, in exchange for adequate consideration in the form of payment.
- Contract for delegation of activities and provision of expert support dated 1 January 2015 based on which, in 2019, J & T BANKA, a.s. provided risk management, internal audit, compliance and AML services, in exchange for adequate consideration in the form of payment for the services.
- Contract for provision of services dated 1 January 2016, as further amended, based on which J&T SERVICES ČR, a.s. provided concierge and related services to the Bank in 2019, in exchange for adequate consideration in the form of payment for the services.
- Contract for provision of expert tax assistance and advice dated 1 January 2018 based on which J&T SERVICES ČR, a.s. provided tax advisory services and advisory services in respect of transaction projects in 2019, and J & T BANKA, a.s. undertook to pay consideration in the form of payment for the services.
- Contract for sale of movable assets dated 31 December 2019 based on which J & T BANKA, a.s. sold computer technology in 2019, in exchange for consideration in the form of payment of the purchase price.
- Current account maintenance in accordance with the Bank’s business terms and conditions.
- Issue of a debit card in accordance with the Bank's business terms and conditions.
- Provision of a safety deposit box in accordance with the Bank's business terms and conditions.

With J&T SERVICES SR, s.r.o.:

Contracts in force entered into between related parties:
- Overdraft facility agreement No. EUR 15/KTK_SR/2014 dated 31 December 2014, as amended, based on which J & T BANKA, a.s. undertook to provide funds (an overdraft facility) to the related party, and J&T Services SR, s.r.o. undertook to repay the loan, and pay interest and other fees in accordance with the agreed terms and conditions.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Mandate contract for payroll and personnel services dated 26 October 2012, as further amended, based on which, in 2019, J&T SERVICES SR, s.r.o. provided the Bank with personnel and payroll services, in exchange for adequate consideration in the form of payment.
- Contract for the lease of motor vehicles dated 2 January 2013 based on which, in 2019, J&T SERVICES SR, s.r.o. leased motor vehicles to the Bank, in exchange for adequate consideration in the form of lease payment.
- Contract for provision of services dated 2 January 2013, as further amended, based on which, in 2019, J&T SERVICES SR, s.r.o. provided the Bank with operational and logistic services specified in the supplement to this contract, in exchange for adequate consideration in the form of payment.
- Brokerage contract dated 3 April 2013 based on which, in 2019, J&T SERVICES SR, s.r.o. brokered banking products pursuant to this contract, in exchange for adequate consideration in the form of payment.
- Contract for delegation of activities and provision of expert support dated 1 January 2015 based on which, in 2019, J & T BANKA, a.s. provided risk management and internal audit services, in exchange for adequate consideration in the form of payment.
- Mandate contract for payroll and personnel services dated 31 December 2014, as further amended, based on which, in 2019, J&T SERVICES SR, s.r.o. provided the Bank with personnel and payroll services, in exchange for adequate consideration in the form of payment.
- Contract for lease of a motor vehicle dated 2 January 2013, as further amended, based on which, in 2019, J&T SERVICES SR, s.r.o. leased motor vehicles to the Bank, in exchange for adequate consideration in the form of

lease payment.

- Contract for provision of services dated 2 January 2013, as further amended, based on which, in 2019, J&T SERVICES SR, s.r.o. provided the Bank with operational and logistic services specified in the supplement to this contract, in exchange for adequate consideration in the form of payment.
- Contract for cooperation in providing the J&T Family and Friends banking services and in participating in the Magnus loyalty scheme dated 27 December 2011 based on which J & T B ANKA, a.s. undertakes to provide the related party with an advantageous package of services and participation rights in the MAGNUS loyalty scheme as a social policy instrument, in exchange for adequate consideration in the form of payment.
- Service Legal Agreement for providing services dated 18 December 2014, as further amended, based on which, in 2019, J&T SERVICES SR, s.r.o. provided the Bank with IT and press services, in exchange for adequate consideration in the form of payment.
- Contract for provision of services dated 9 December 2015, as further amended, based on which, in 2019, J&T SERVICES SR, s.r.o. provided the Bank with concierge services and related services, in exchange for adequate consideration in the form of payment for the services.
- Contract for cooperation in arranging sports and recreational events dated 15 March 2016 based on which J&T SERVICES SR, s.r.o. undertook to ensure the organisation and settlement of expenses for sports and recreational events for employees, in exchange for adequate consideration in the form of payment for the services.
- General agreement on provision of banking services dated 7 January 2013 based on which J & T BANKA, a.s. provided services pursuant to this agreement in 2019, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank’s business terms and conditions.
- Issue of a debit card in accordance with the Bank's business terms and conditions.

With J&T FINANCE, LLC:

Contracts in force entered into between related parties based on which performance was provided in 2019í:

- Brokerage contract No. 01-01/17 dated 30 June 2017, as further amended, based on which J&T FINANCE, LLC mediated opportunities to conclude contracts with potential clients, in exchange for adequate consideration in the form of payment. Acts on taking over the service related to this contract.

With OUTSIDER LIMITED:

Contracts in force entered into between related parties:

- General agreement on provision of services for legal entities dated 22 November 2017.
- Current account maintenance in accordance with the Bank’s business terms and conditions.

With STE CIVILE D'EXPLOITATION DU CHATEAU TEYSSIER

Contracts in force entered into between related parties:

- Maintenance of the Bank's internal account for the purpose of settling a contractual receivable.

Contracts in force entered into between related parties based on which performance was provided in 2019:

- Loan agreement, as further amended, dated 9 December 2016 based on which J & T BANKA, a.s. undertook to provide funds/loan, and STE CIVILE D'EXPLOITATION DU CHATEAU TEYSSIER undertook to repay the loan and pay interest, in accordance with the agreed terms and conditions.

With J&T Bank Switzerland Ltd. in liquidation:

Contracts in force entered into between related parties:
- Consignment agreement No. 18387 for the brokerage of purchase and sale of securities, dated 9 July 2009.
- General agreement on a loan secured by transfer of securities dated 1 November 2006.

With PBI, a.s.:

Contracts in force entered into between related parties:
- Consignment agreement dated 18 December 2015, regarding the provision of stock brokerage services.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T Wine Holding SE:

Contracts in force entered into between related parties:
- Escrow Account Agreement dated 18 December 2018 based on which J & T BANKA, a.s. has committed to establish and maintain an internal account, in exchange for adequate consideration in the form of payment for the services provided.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Current account maintenance in accordance with the Bank's business terms and conditions.

With Reisten, s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Overdraft facility agreement No. CZK 03/KTK/2019 dated 4 February 2019 based on which J & T BANKA, a.s. provided funds (an overdraft facility) to the related party and Reisten, s.r.o. undertook to repay the loan, and pay the interest and other fees in accordance with the agreed terms and conditions.
- Contract for subordination of receivables dated 4 February 2019
- Contract for law of negotiable instruments to be filled in, dated 4 February 2019
- Agreement on the provision of the banking services for legal entities and businessmen dated 7 January 2019 based on which J & T BANKA, a.s. provided services pursuant to this contract in 2019, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.
- Issue of a debit card in accordance with the Bank's business terms and conditions.

With KOLBY, a.s.:

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Agreement on assignment of the right to performance dated 15 January 2019 based on which KOLBY, a.s. assigned the right to advertising space to J & T BANKA, a.s., in exchange for adequate consideration in the form of payment.
- Agreement on assignment of the right to performance dated 17 October 2019 based on which KOLBY, a.s. assigned the right to advertising space to J & T BANKA, a.s., in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.
- Issue of a debit card in accordance with the Bank's business terms and conditions.

With J&T INTEGRIS GROUP LIMITED:
- Current account maintenance in accordance with the Bank’s business terms and conditions.

With J&T Bank & Trust Inc.:

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Consignment agreement for the brokerage of purchase and sale of investment instruments dated 13 August 2012 based on which, in 2019, J & T BANKA, a.s. provided the related party with stock brokerage services, in exchange for adequate consideration in the form of payment for the services.
- Current account maintenance in accordance with the Bank’s business terms and conditions.
- Issue of a debit card in accordance with the Bank's business terms and conditions.
- Forward currency transactions in accordance with the Bank’s business terms and conditions.

With J&T MINORITIES PORTFOLIO LTD:

Contracts in force entered into between related parties:
- Consignment agreement No. 19181 for the brokerage of purchase and sale of securities, dated 20 August 2010.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Contract for provision of banking services dated 5 February 2015 based on which J & T BANKA, a.s. provided services pursuant to this contract in 2019, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank’s business terms and conditions.

With Equity Holding, a.s.:

Contracts in force entered into between related partiesi:
- Consignment agreement No. 17599 dated 15 December 2008, regarding the provision of stock brokerage services.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Current account maintenance in accordance with the Bank’s business terms and conditions.

With J&T Global Finance V., s. r. o.:

Contracts in force entered into between related parties:
- Consignment agreement dated 21 August 2015, regarding the provisions of investment services.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- General agreement on the provision of the services for legal entities dated 10 February 2017 based on which J & T BANKA, a.s. provided services pursuant to this contract in 2019, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank’s business terms and conditions.

With J&T Global Finance VI., s.r.o.:

Contracts in force entered into between related parties:
- Bond placement agreement dated 20 April 2016, along with a Special arrangement to this agreement

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Administration contract dated 20 April 2016, along with a Special arrangement to this contract, based on which, in 2019, J & T BANKA, a.s. provided administration services as part of a bond issue programme.
- General agreement on the provision of the services for legal entities dated 7 March 2016 based on which J & T BANKA, a.s. provided services pursuant to this contract in 2019, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T Global Finance VII., s.r.o.:

Contracts in force entered into between related parties:
- Bond placement agreement dated 16 November 2016, along with a Special arrangement to this agreement.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Administrator contract dated 16 November 2016, along with a Special arrangement to this contract, based on which, in 2019, J&T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T Global Finance VIII., s.r.o.:

Contracts in force entered into between related parties:
- Bond placement agreement dated 21 June 2017, along with a Special arrangement to this agreement.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Administrator contract dated 21 June 2017, along with a Special arrangement to this contract, based on which, in 2019, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T Global Finance IX., s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2019:
- General agreement on the provision of the services for legal entities dated 16 July 2018 based on which J & T BANKA, a.s. provided services pursuant to this contract in 2019, in exchange for adequate consideration in the form of payment.
- Bond placement agreement dated 10 September 2018, along with a Special arrangement to this agreement, based on which J & T BANKA, a.s. arranged a bond issue in 2019, in exchange for adequate consideration in the form of payment.
- Administrator contract dated 10 September 2018, along with a Special arrangement to this contract, based on which, in 2019, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T Global Finance X., s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2019:
- Bond placement agreement dated 14 November 2018, along with a Special arrangement to this agreement, based on which J & T BANKA, a.s. arranged a bond issue in 2019, in exchange for adequate consideration in

the form of payment.
- Administrator contract dated 14 November 2018, along with a Special arrangement to this contract, based on which, in 2019, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

With J&T Mezzanine, a.s.:

Contracts in force entered into between related parties:
- Agreement on the provision of services (outsourcing) dated 26 June 2018 concerning the fulfilment of reporting services.

Contracts in force entered into between related parties based on which performance was provided in 2019:
- General agreement on trading in financial markets dated 28 June 2018.
- Agreement on provision of services (outsourcing) dated 26 June 2018 based on which J & T BANKA, a.s. provided audit function (internal audit and compliance) services pursuant to this agreement in 2019, and J&T Mezzanine, a.s. undertook to provide adequate consideration in the form of payment.
- Current account maintenance in accordance with the Bank's business terms and conditions.

IV. Assessment of whether the controlled entity incurred damage, and assessment of its settlement pursuant to Sections 71 and 72 of the Act on Corporations

The controlled entity incurred no damage as a result of the relations mentioned above pursuant to Sections 71 and 72 of the Act on Corporations.

V. Assessment of advantages and disadvantages arising from relations between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity, including a statement on whether advantages or disadvantages prevail and what are the risks arising from this fact for the controlled entity.

The Bank provides related parties with standard banking services, and the other relationships are entered into primarily to optimise the services used/provided and to utilise group synergies. As a result, the Bank is able to make its operations more effective and to provide its clients with comprehensive banking services and asset management, and to effect transactions in financial and capital markets also for retail clients. All transactions between the controlled entity and the Bank, or between the entities controlled by the same controlling entity and the Bank, were effected based on the arm´s length principle.

The Bank has no advantages or disadvantages from and faces no other additional risks in respect of the above relations.

VI. We declare that we have included all information known as of the date of the signature in the Report on relations between related parties of J & T BANKA, a.s., prepared in accordance with Section 82 of the Act on Corporations for the period from 1 January 2019 to 31 December 2019.

Prague, 8 April 2020

Board of Directors
J & T BANKA, a.s

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