CONSOLIDATED ANNUAL REPORT 2018

RŮST. **SPOLEČNĚ.**

J&T BANKA | JTBANK.CZ

PRESENTATION PART

FINANCIAL PART

CORPORATE GOVERNANCE AND DATA ON THE ISSUER

SELECTED FINANCIAL INDICATORS

Selected financial indicators – individual

in MCZK	2018	2017	2016	2015	2014	2013
ANNUAL FIGURES						
Profit before tax	1,919	1,855	1,854	1,963	1,575	748
Tax	(385)	(359)	(302)	(230)	(332)	(117)
Profit for the year	1,534	1,496	1,552	1,733	1,243	631
BALANCE AT YEAR-END						
Equity	18,606	18,998	18,943	16,799	14,376	12,917
Deposits and loans from banks	3,048	22,009	3,338	4,343	4,537	4,736
Deposits from customers	112,936	84,484	93,833	117,058	100,356	82,018
Due from financial institutions	53,734	46,670	21,105	33,661	6,295	2,940
Loans and advances to customers	66,966	63,785	69,714	70,042	66,311	56,383
Total assets	143,766	134,940	123,554	146,990	126,041	104,768
FINANCIAL RATIOS						
Return on Equity	8.16 %	7.89 %	8.68 %	11.12 %	9.11 %	6.26 %
Return on Assets	1.10 %	1.16 %	1.15 %	1.27 %	1.08 %	0.66 %
Capital adequacy	17.26 %	18.45 %	17.75 %	15.83 %	14.54 %	17.09 %
Operating expenses/operating income	42.21 %	43.26 %	39.75 %	39.08 %	46.14 %	53.54 %
Average number of employees	485	468	454	443	434	378
Assets per employee	296	288	272	332	290	277
Administrative expenses per employee	(4,2)	(3,7)	(3,6)	(3,7)	(3,7)	(3,7)
Profit after tax per employee	3,2	3,2	3,4	3,9	2,9	1,7

Selected financial indicators – consolidated

in MCZK	2018	2017	2016	2015	2014	2013
ANNUAL FIGURES						
Profit before tax	2,538	2,617	1,360	2,186	1,383	685
Tax	(462)	(421)	(407)	(310)	(381)	(151)
Share of profit of equity-accounted investees	–	(17)	(50)	167	340	321
Profit from continuing operations	2,076	2,196	953	1,876	1,342	855
Profit from discontinued operations	–	–	–	–	–	214
Profit for the year	2,076	2,196	953	1,876	1,342	1,069
BALANCE AT YEAR-END						
Equity	19,230	19,476	19,128	16,945	15,343	14,046
Deposits and loans from banks	2,250	21,923	3,174	4,259	4,616	5,083
Deposits from customers	118,999	91,704	103,053	121,812	106,946	85,823
Due from financial institutions	54,115	47,757	23,423	34,379	7,164	3,556
Loans and advances to customers	71,528	69,109	76,139	74,668	71,170	60,004
Total assets	150,104	142,996	133,114	154,851	133,801	110,237
FINANCIAL RATIOS						
Return on Equity	10.73 %	11.38 %	5.28 %	11.62 %	9.13 %	9.96 %
Return on Assets	1.42 %	1.59 %	0.66 %	1.30 %	1.10 %	1.08 %
Capital adequacy	15.31 %	15.98 %	15.88 %	13.91 %	13.44 %	15.85 %
Operating expenses/operating income	45.16 %	40.84 %	47.83 %	44.65 %	57.58 %	59.26 %
Average number of employees	719	728	717	689	688	487
Assets per employee	209	196	186	225	194	226
Administrative expenses per employee	(3,6)	(3,0)	(3,0)	(3,1)	(2,8)	(3,4)
Profit after tax per employee	2,9	3,0	1,3	2,7	2,0	2,2

20 YEARS

TWO DECADES OF SUCCESSFUL PARTNERSHIP WITH OUR CLIENTS.

FOREWORD

Dear clients, business partners and friends,
We built J & T BANKA, a.s. twenty years ago on the principal of partnership. Our investment products thus bring the possibility of taking part in success together. Our services aim to make your life easier and to help you deal with both business and private concerns. Our products and services earning multiple times the "Investment of the year" and the "Private bank of the Year" awards, together with the continuous growth in clients confirm that this premise resonates both with our clients and the expert community. I am glad that our partnership and success, already lasting for twenty years, enable us to develop not only business opportunities, but first and foremost to support exceptional sports and cultural events, arrange meeting with interesting personalities and support people in need.

We managed to achieve record results in the anniversary year. Profit after tax grew by 2.5% and exceeded the limit of CZK 1.53 billion. In particular, the growth of fee income, which comprises the record volume of prepared bond issues, contributed to the positive result. During the year, we launched issues in the notional value of over CZK 40 billion on the market, and thus, confirmed our role of the leader in the field of local bonds in the Czech and Slovak Republic. We created J&T BOND INDEX for an elementary idea of the market development of domestic corporate bonds. It covers all bond emissions received for trading on the Prague Stock Exchange and facilitates orientation for investors.

Our funds also received success and recognition. J&T MONEY, open mutual fund, was assessed by the Forbes magazine and company Fincentrum as the best fund on the Czech market and earned the "Investment of the Year 2018" award. It brought investors the best risk/reward ratio in the competition of other 974 funds offered on the Czech market.

We managed to develop collaboration with clients also in financing their business activities. The Bank's loan portfolio grew year on year by 5% to almost CZK 67 billion. Net interest income grew by CZK 0.09 billion to CZK 3.36 billion.

We are aware that our success also brings along a commitment to social responsibility; therefore we, just like in the years before, donated a part of our profits to support arts, sports and people in need.

We encourage talent and originality, and therefore we maintain our partnership with the Jindřich Chalupecký Award, the most prominent award for contemporary young Czech artists. We also provided our clients with the opportunity to enjoy fine art through our partnership with Galerie Rudolfinum (Rudolfinum Gallery) and Moravská Galerie (Moravian Gallery).

Thanks to our partnership, the tennis tournament of the J&T Banka Prague Open could be held in Prague, with many great names taking part, including the winner Petra Kvitová. Further, the prestigious international horse show-jumping race, J&T Banka CSI Olomouc 2018 was held.

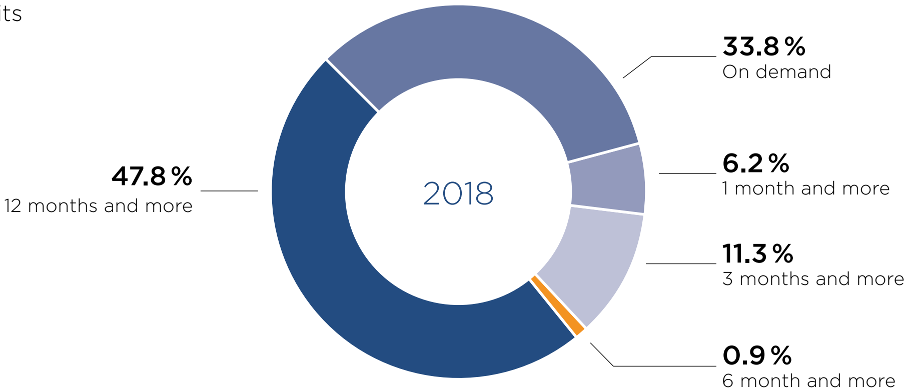
We continue to be associated with good-quality music. With the Bank's support, the Czech Philharmonic Orchestra is on its way to becoming one of the world's top ten orchestras. Part of the support is also cooperation with the concertmaster Josef Špaček.

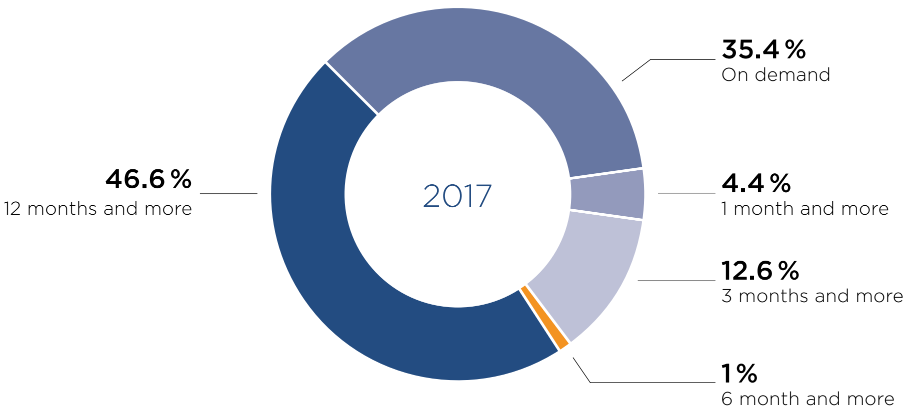
Our aim continues to be to help our clients increase the value of their assets and to create attractive investment opportunities for them. I believe that this is what we are good at, not only because of the twenty years of experience, but also because of our vision of us growing together with our clients. Since only if the profit of our clients grows, the Bank can grow too.

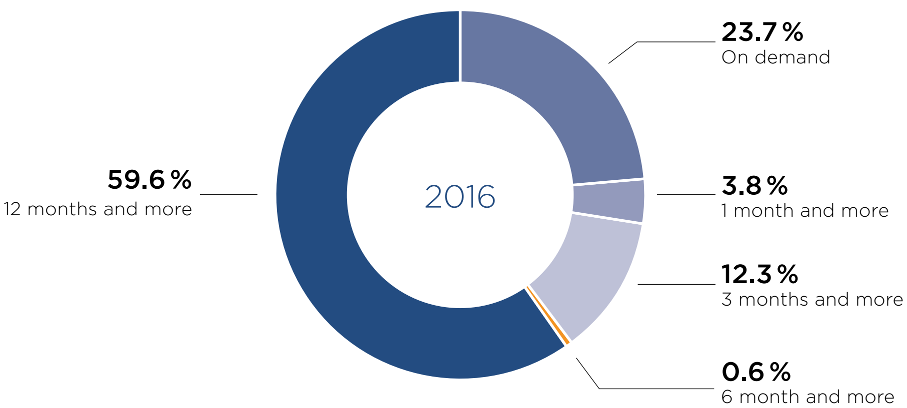
I thank all our employees for their outstanding work and our clients for their trust, which we greatly appreciate.

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

Structure of deposits







REPORT OF THE BOARD OF DIRECTORS

Financial results – the Bank

In 2018, the Bank's economic management was characterised by increase in assets and unprecedented operating profit/loss as well as net profit after tax.

The total assets increased year-on-year by 6.5%, reaching CZK 143.77 billion at the end of 2018 (in 2017: CZK 134.94 billion). The determining factor of the increase consisted primarily in the dynamic development of the deposit basis. By offering attractive interest rates and top private banking services, the Bank successfully addressed the target group of clients, which was reflected in the year-on-year increase in the total volume of deposits from clients by 33.7% to CZK 112.94 billion (in 2017: CZK 84.48 billion). The growing deposit trend was manifested by the increase of deposits in current accounts as well as in fixed-term accounts; the client deposits were managed with a view to their volume and optimal time structure. Deposits in fixed-term accounts remain the main source of funding for the Bank and nearly one half of them (47.8%) is represented by the deposits with a period of maturity of 1 year and more.

The total number of the Bank's clients has increased to 62,086; individuals remain the key segment with almost 95% share in the total number of clients.

In 2018, three basic factors were reflected 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. Based on a 5% year-on-year increase, the net volume of the loan portfolio amounted to almost CZK 66.97 billion. The Loan-To-Deposit ratio did not exceed the value of 60% due to the favourable development of primary deposits.

The Bank primarily allocated the available funds to the receivables from clients and receivables from banks, which favourably affected the interest revenue, i.e. the total profit.

The volume of financial assets held for trading was CZK 4.39 billion (in 2017: CZK 3.60 billion). In 2018, the volume of financial assets in the category of assets available-for-sale and valuated at fair value grew by 10.8% to the total amount of CZK 9.36 billion (as of 31 December 2017: CZK 8.45 billion).

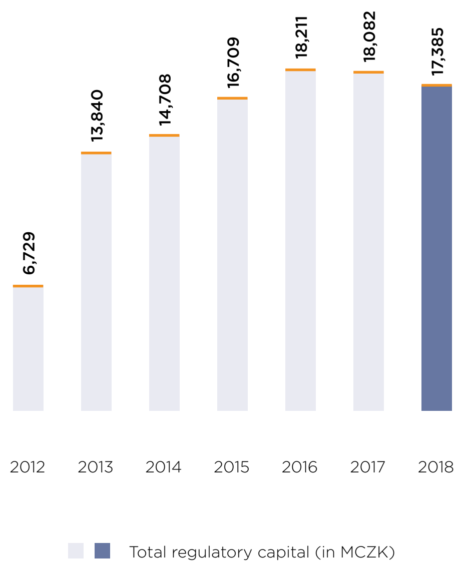
The Bank's equity equalled CZK 18.61 billion at the end of 2018 (in 2017: CZK 18.99 billion). In 2018, the Bank paid a dividend in the amount of CZK 1.25 billion to its parent company J&T FINANCE GROUP SE, which represents approximately 84% of the net profit for 2017. The Bank is sufficiently equipped 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 ratio of capital adequacy reached 17.26% (in 2017: 18.45 %). The year-by-year decrease in the equity by CZK 0.39 billion was mainly caused by the initial implementation of the International Accounting Standards IFRS9, within which the Bank accounted for the Expected Credit Loss (ECL) for loans and bonds in the amount of CZK 0.46 billion.

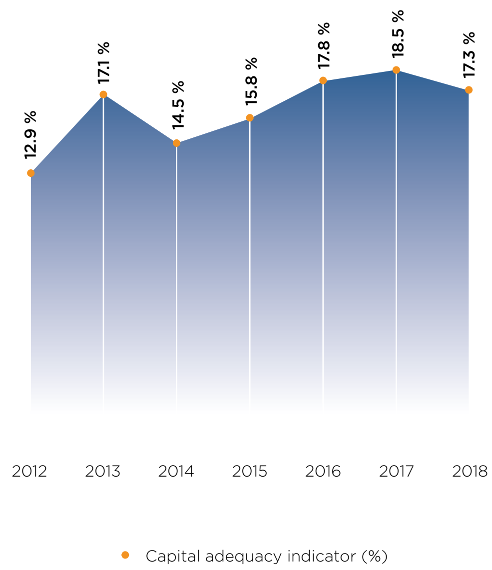
By achieving the net result after tax for 2018 at the level of CZK 1.53 billion, the Bank confirmed the long-term sustainability of the profits attained at the level exceeding CZK 1 billion. The Bank achieved the year-on-year increase by 2.5% especially by maintaining the existing level of net interest revenue and by a substantial increase in the revenues from fees and commissions.

The net interest income increased by 2.9% to CZK 3.36 billion (2017: CZK 3.27 billion). Two contradictory effects were reflected in the developments of the net interest income during the year. On the one hand, the interest expenses increased by 10.5%, which equals CZK 0,10 billion, and, on the other hand, the interest income increased by 4.7%, which represents a total increase of CZK 0.20 billion.

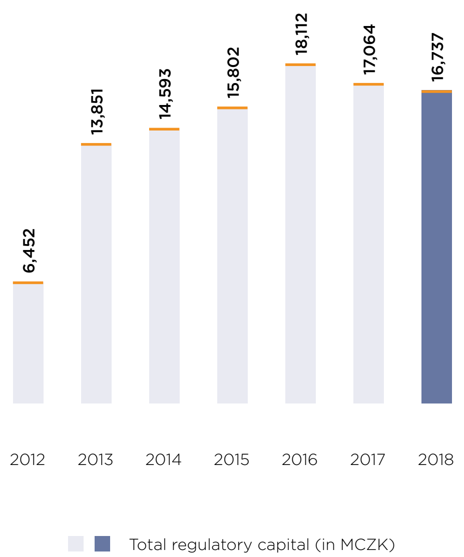
The increase in interest expenses was influenced primarily by increase in the volume of deposits in the fixed-term accounts. The Bank's strategic goal is to provide its clients with an attractive interest rates on their deposit products also

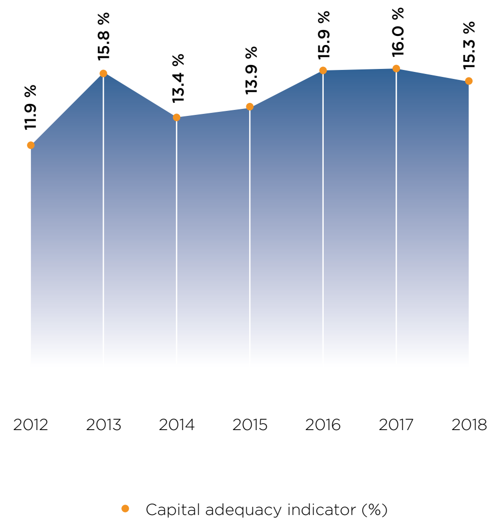
Regulatory capital and Capital adequacy
Individual data





Regulatory capital and Capital adequacy
Consolidated data





in the subsequent period. Thus, in relation to the diversity of risk investment profiles of its clients, the Bank strives to create optimal conditions for a wide spectrum of investment mix of bank deposits and alternative investment products. The net profit from fees grew year-on-year by almost 50% to CZK 1.35 billion (in 2017: CZK 0.90 million). The factor determining their growth consisted primarily in the volume of issues of promissory notes programmes and corporate bonds, which the Bank, as the issuance manager, successfully implemented and placed on the market.

The dynamic developments in the area of non-interest revenues manifest the successful strategy related to investment banking services and confirm the stable position of the Bank on the Czech and Slovak bank market as an investment specialist. During 2018, the Bank managed bond issues in the nominal value of CZK 40 billion and provided services to private clients in the area of securities management and client portfolio management. The Bank received CZK 0.65 billion of new investments to the funds managed by J&T INVESTIČNÍ SPOLEČNOST, a.s., a subsidiary company.

The operating revenues were positively affected by dividends received from the subsidiaries of the Bank. In 2018, the dividends from property interests reached the amount of CZK 0.27 billion, which is by CZK 0.14 billion more compared to the previous year.

The net profit from trading recorded more favourable developments compared to 2017, i.e. increase by CZK 0.09 billion to loss CZK 0.05 billion (in 2017: loss CZK 0.14 billion). Due to the development of interest rates, the loss of derivative transactions by which the Bank secures the interest revenues decreased and, at the same time, the situation on the market allowed to gain profits from trading in securities.

The Bank's operating expenses amounted to CZK 2.09 billion in 2018, which represents a year-on-year increase by 17.5% (2017: CZK 1.78 billion). The indicator of administrative expenses per employee rose to CZK 4.2 million in 2018 (2017: CZK 3.7 million). The Bank keeps the ratio of operating expenses to total assets under the level of 1.5% in the long term, which corresponds to the average value recorded in the bank sector in 2018. The ratio of operating costs to operating revenues recorded a positive development, decreasing year-on-year from 43.3% to 42.2%.

The net change in allowances for impairment of loans increased by CZK 0.18 billion to CZK 0.57 billion in 2018 (in 2017: CZK 0.38 million).

Financial results – the Group

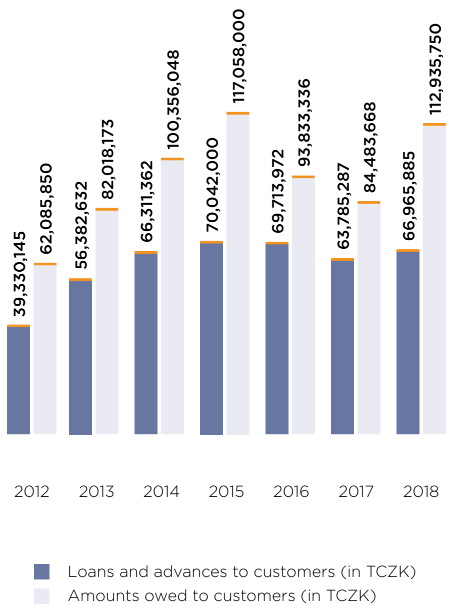
The Group closed 2018 with total assets amounting to CZK 150.10 billion (2017: CZK 143.00 billion), which represents an increase by almost 5.0%. The profit after tax equalled CZK 2.08 billion in 2018; in 2017 it amounted to CZK 2.20 billion. The net interest revenues of the Group increased by 2.1% to CZK 3.81 billion as compared to the previous year (2017: CZK 3.73 billion), at a comparable pace of growth of interest revenues and expenses.

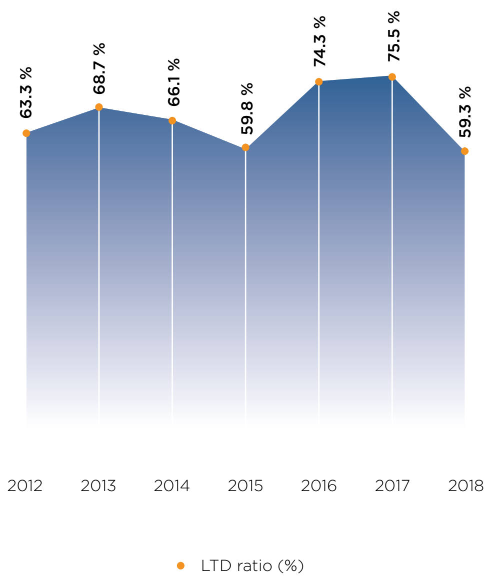
The net profit from fees and commissions recorded a dynamic development. It grew year-on-year by almost 40% and amounted to CZK 1.59 billion; as compared to 2017, it increased by CZK 0.45 billion. The aforementioned increase reflected, in particular, the effect of increase in the amount of fees collected by the Bank associated with the activities in the area of issue of corporate bonds and sale of other investment products.

The net profit from trading reached the amount of CZK 0.25 billion in 2018 (2017: CZK 0.48 million). The development of profit at a consolidated level in individual years is primarily affected by the development of exchange rates of the Czech crown vis-à-vis the rouble, dollar and euro.

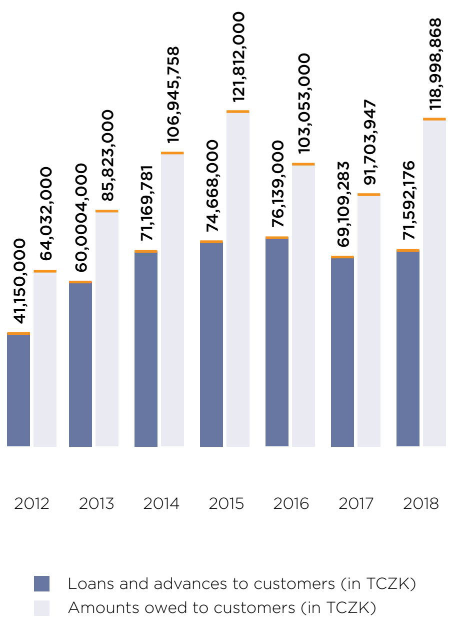
In 2018, the Group's other operating income decreased by CZK 0.12 billion to CZK 0.23 billion in comparison with the previous year. It was primarily influenced by the sale of the joint venture of PGJT B.V. in the amount of CZK 0.19 billion, which abnormally affected the economic results of 2017. After considering this one-off effect, a slight increase was recorded with respect to the other operating income.

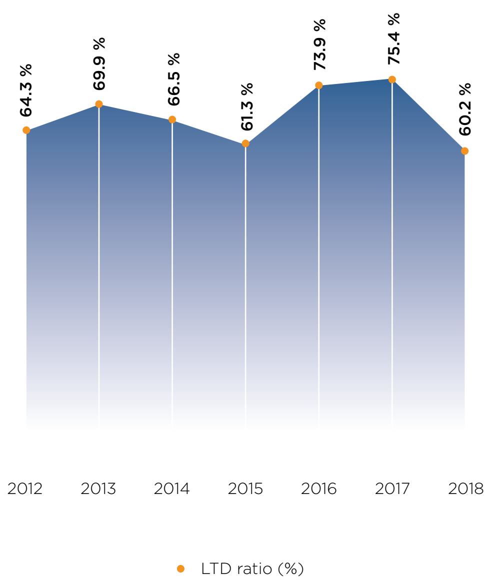
Client deposits and loans
Individual data





Client deposits and loans
Consolidated data





The operating costs increased by 14.9% to CZK 2.66 billion in 2017, especially due to the increase in personnel costs. The net change in allowances for impairment of loans decreased by 11% to CZK 0.68 billion (2017: CZK 0.76 billion).

The volume of client deposits within the Group increased by 29.8% to CZK 119.0 billion in 2018 (2017: CZK 91.7 billion). The volume of the portfolio of receivables from clients increased by 3.5% to CZK 71.53 billion (2017: CZK 69.11 billion).

The Group's equity recorded no significant changes in the year-on-year comparison. At the end of 2018, it amounted to CZK 19.23 billion (in 2017: 19.47 billion). The year-by-year decrease of 1.2% corresponds to the development of profit for the current period, which forms part of the equity.

The sufficient capital amount will enable the Group to grow and develop also in the coming years. The capital adequacy on a consolidated basis was 15.31% at the end of 2018.

The total number of the Group's clients equalled 66,510 at the end of 2018. The number of clients in the Group increased by more than 13 thousand year-on-year.

Financial markets

In 2018, the J&T MONEY fund was recognized as the best fund on the Czech market, which replaced the winner of 2017, the J&T BOND fund, on the imaginary product pedestal. The "Best Investment of the Year" competition is held by the Forbes magazine jointly with the Fincentrum company. In 2018, the J&T MONEY fund recorded the best risk/reward ratio among other 974 funds offered on the Czech market. The "Investment of the Year" award was already granted to the fund in 2013. J&T MONEY was already recognized as the best Mixed Fund in the Czech market four times.

The quality of the funds is manifested especially by the long-term, time-tested numbers regarding their revenues since the establishment of the funds. J&T MONEY, the fund which was founded in September 2012, attained an average revenue of 4.16% p. a. and currently manages assets in the amount exceeding CZK 8 billion. However, great long-term results are also achieved by other two client-friendly funds J&T BOND (4.45% p.a. since its foundation in December 2011, assets – approx. CZK 5 billion) and J&T High Yield Money Market CZK (4.75% p.a. since its foundation in September 2010, assets approx. CZK 5 billion).

In 2018, the total volume of assets deposited in mutual funds administered by J&T INVESTIČNÍ SPOLEČNOST, a.s. increased by 12% to CZK 27.7 billion.

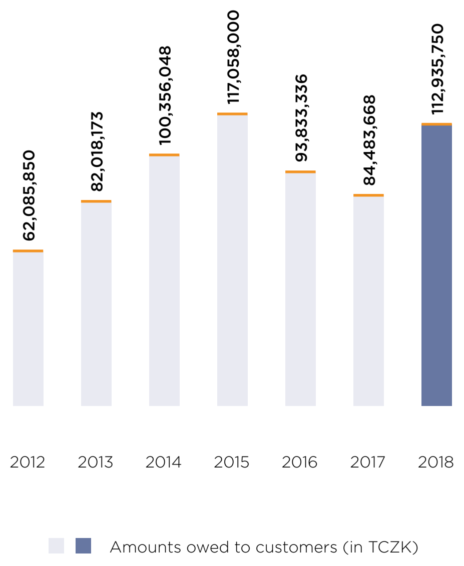
Preparation for further extension of the product range took place in 2018. Two new funds, J&T RENTIER and J&T DIVIDEND, were established and placed on the market in the 1st quarter of 2019. J&T RENTIER offers an interesting combination of corporate bonds and dividend shares and represents a further step for investors who are already familiar with J&T MONEY and J&T BOND, and now look for further investment opportunities, where they are willing to accept the portfolio risk with a share component. The offer of share investments represented by the J&T OPPORTUNITY fund to this date will be extended by J&T DIVIEND, a fund which is primarily aimed at a strong dividend shares accompanied by the selected growth companies.

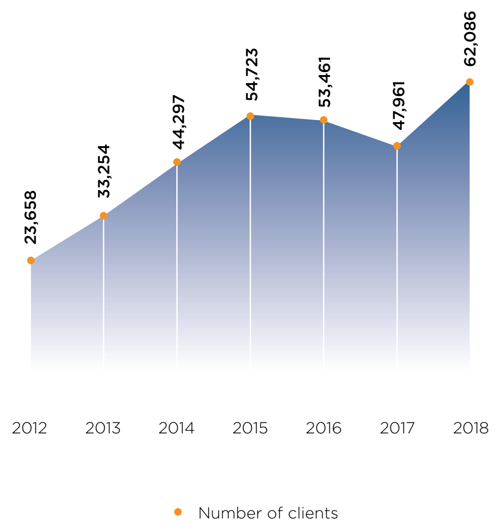
The Bank assumes that a successful fund team will further be extended depending on the new market opportunities and demand of clients.

New issues set records

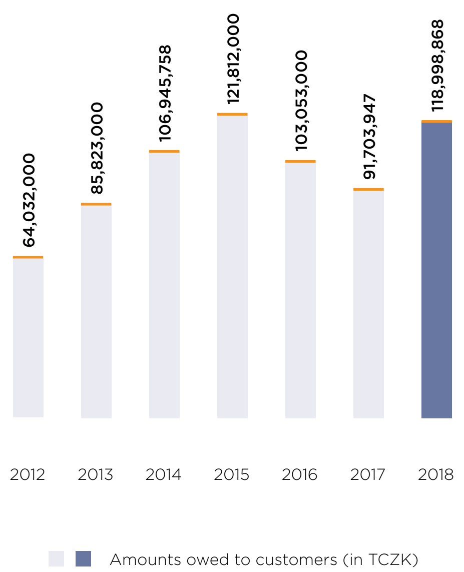
2018 was a record-breaking year not only in terms of number and volume of the above-mentioned bond issues, i.e. 24, in the total nominal value of CZK 40 billion, but also with respect to the real volume subscribed equalling CZK 37.2 billion. Similarly, 2018 was a record-breaking year in the area of bond issues successfully repaid in the amount of approx. CZK 21.8 billion, which the Bank placed on the market in the past.

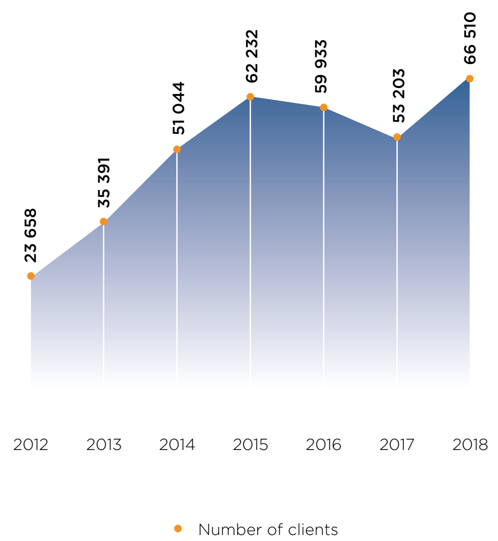
Client deposits and number of clients
Individual data





Client deposits and number of clients
Consolidated data





Furthermore, the Bank confirms the role of a leader in the field of local bonds in the Czech Republic and Slovakia, where the bonds in the total amount exceeding CZK 126 billion have already been successfully placed, of which already more than CZK 52 billion have been repaid in due time or earlier.

The Bank thus pursues the continuous positive trend of financing companies in a regulated capital market and systematically increases their awareness of the possibilities and benefits of diversification of financial resources.

More services for clients

In 2018, in relation to hedging of currency risk, the clients started to use the favourable conditions on the exchange rate swaps market after the increase in rates of the Czech crown. The Bank complied with the clients' wishes to the maximum not only by offering the classic exchange rate swaps, but primarily the client-friendly Cross currency swaps, which amounted to a volume of CZK 3.375 billion in 2018.

Preparation of a new version of multi-currency cash pooling system for clients actively trading on capital markets was started in 2018. Apart from the substantial improvement in the current version, the number of currencies used will also be extended. The final implementation of the system is planned for 2019.

The clients' investments are growing

The overall increase in the clients' investments can be considered successful in 2018. In contrast to the end of 2017, when the value of the clients' assets equalled CZK 125.6 billion, the total investments increased by 15.5%, reaching the amount of CZK 145.1 billion in 2018. Of which the amount of funds managed within individual portfolios reached 5.5 CZK billion by the end of the year. Therefore, J&T BANKA is traditionally included among the largest administrators of available funds of state and municipality enterprises in the Czech Republic, and the volume of the individual's assets managed by the Bank is also gradually growing. In the past year, the Bank recorded increased demand for strategies representing a greater risk. However, in terms of the total volume of the funds managed, the conservative strategies focused on the protection of the invested funds and attaining stable revenues still prevail.

The increase in the clients' investments reflects not only the extension of the product offer in the area of new issues of bonds and funds, but also the Bank's business activity on the secondary market. The Bank, as the fifth largest stock trader on the Prague Stock Exchange, based on the official statistics of the stock exchange, with the total annual volume of CZK 15.76 billion, and the first largest bond trader with the total annual amount of CZK 16.51 billion, actively supports the liquidity of the clients' investments on the secondary official regulated market. Furthermore, the statistics comprises only the stock transactions realised in a continuous trading mode without setting off any direct transactions, where equally important transaction volume is also traded. Due to this, the Bank further actively supports the interest of investors and issuers to access the market.

Information technologies

In 2018, 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.

At the beginning of the year, the Bank implemented a separate authentication module supporting services following from the PSD2 (Payment services Directive) on the provision of a system interface to the external entities authorised by the clients. The ePortal application and related systems were modified to meet the requirements of the PSD2.

New summary statements were made available for the clients trading in securities and changes were made in the confirmations of the transactions. The information systems have been modified to meet the requirements of the MiFID2 (Markets in Financial Instruments Directive).

The basic infrastructure of the information systems, databases, specialised applications, data networks, data storage sites and servers is administered by the Bank's own IS/IT (information systems and information technologies) departments. Primary support for critical components of the information systems is provided internally; moreover, the support for operation of all critical systems is contractually guaranteed and provided by the suppliers based on the respective service contracts. In addition to usual working hours, the IT teams are responsible for continuous support in the form of being on call, depending on the needs of the individual departments and information systems. The information systems are subject to regular audits in terms of operation and safety.

The IS/IT infrastructure is located in the Czech Republic in secured geographically separated data centres that are created using the redundant components in the power supply systems, cooling systems and own ICT elements to achieve the maximum availability. Data centres and ICT facilities operated there are monitored by several independent systems. In 2018, several power supplies from the distribution network were interrupted and some of the components were replaced during the operation, but no failure of the ICT technology occurred and 100% availability was ensured.

In 2018, the area of occupational safety was re-organised and an independent Security Department (SD), which defines the IT safety standards in all aspects and, subsequently, in co-operation with the contractually guaranteed partners, supervises their implementation in order to provide maximum protection for the entire IT environment of the Group, was established.

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 organises a trainee programme for university students and graduates, which enjoys an ever-growing interest from among the graduates and other applicants.

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 508 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 arts, the Bank remains as a general partner of Rudolfinum Gallery (Galerie Rudolfinum), one of the major galleries of fine arts in the Czech Republic. The gallery opened the new season with the exhibition of Domestic Arenas followed by a successful exhibition of works by Mat Collishaw, a member of the Young British Artists group, in the Grand Gallery. The gallery closed the year with an exhibition of Petr Písařík's works titled Space Maker.

The Bank has been, as usual, the partner of the Jindřich Chalupecký Award, the most prominent award granted to contemporary young Czech artists. Lukáš Hofmann won the 2018 Award after having been selected by the jury for distinctive, principal and emancipatory attitudes. His work was subsequently included in the Bank's Magnus Art collection, which associates works of the Award's laureates. We believe that it is important to recognise an investment in talent, and not only talent, in time, and this is the reason why the Bank has partnered with this prestigious 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 will thus again be able to get oriented in the contemporary artistic scene and get acquainted with the artists who made it into the top hundred.

The partnership with the violin prodigy Josef Špaček, which gave hundreds of clients and employees of the Bank the opportunity to listen to violin recitals performed by one of the world's best violinists, has become a fixture in our long-term support and co-operation with the Czech Philharmonic Orchestra. 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. In 2018, music enthusiasts welcomed the jazz player Rudy Linka and Ida Nielsen, a Danish bass guitarist and singer whose style can be described as an overlap of funk, hip hop and reggae. Both artists arrived in the Czech Republic to organise a private concert for the Bank's clients and friends.

Prague also saw already the 9th tournament of the J&T Banka Prague Open. The audience was delighted to watch Petra Kvitová securing another Czech victory at the tournament. The tournament was held under the administration of the WTA and, as usual, brought the best of women's tennis that can be seen in the Czech Republic to the courts of the Sparta Prague Tennis Club. Viewing stands packed with visitors every day of the tournament, the total number of visitors exceeding 25 thousand, lots of attention from Czech and foreign media and an excellent atmosphere make this tournament the flagship sporting event supported by the Bank.

Horse lovers could once again attend the prestigious international horse show-jumping race, J&T Banka CSI Olomouc 2018, last June. Meticulous organisation, professional services and facilities for both the jockeys and horses, crowds of visitors and, above all, a unique atmosphere, all this makes this race a fixed part of the calendars of Europe's and world's elite jockeys and we are proud to have had the opportunity to be at its beginning and to be part of its further growth.

Outlook for 2019

Client care continues to be the Bank's priority, in particular, our effort to create sufficient opportunities for cooperation and connection of such opportunities with capital. We are currently by far the largest arranger of corporate bond issues on the markets in the Czech and Slovak Republic. We have built several funds based on bond emissions and promissory note programmes which we ensure for our clients. These funds have been repeatedly appreciated by the expert community, and judging by the growth of the volume of administered assets, they are a sought-after investment of our clients. In 2019, we plan to extend these funds, especially by those combining the world of bonds with the world of share markets. The main task in the area of investment product offer is making the world of private equity investments more accessible in the next period. We see a great opportunity in the possibility of taking part in business activities, success and risks, not only through loans and bond emissions, but also through capital. The Bank especially focuses on financing acquisitions, restructuring and development, i.e. on financing areas with a higher degree of risk, but with more attractive revenues. Our intention is to widen the spectrum of possibilities offered using private equity funds and to address, with the client, not only debt financing, but also capital participation with the alternative of dividing risks and profits with other investors. Our aim is to launch, during the year, an offer of first private equity and venture funds, which will invest in opportunities that the Bank encounters when dealing with financing. We believe that the new opportunities will not only interest our existing clients, but will also attract a number of new ones.

The importance of accurate identification and knowledge of our clients grows with the developing offer of investment opportunities as well as with a wider spectrum of risk classes and investment horizons. The solutions and possibilities offered thus should resonate with the clients' situation in life and their assets. Reinforcing our knowledge in this direction will also enable the Bank to better check and assess how we manage to satisfy our clients' expectations of the investments.

With the growth in the volume of trade, number of clients and transactions, there is a constant growing need to digitize internal processes. In 2019, the Bank plans to finish the implementation of the ERP system, which should make the internal process of document workflow significantly more efficient and better arranged. The preparation of a new loan module is entering its implementation phase. The Bank expects from it a closer interconnection of the loan process from the identification of the opportunity, to loan provision, risk monitoring and successful repayment. We are also fully aware of the deficit the Bank has to its clients and partners in the field of digital channels and digital support to private bankers. After a number of changes in the IS/IT team, we also reinforced the role of business analysts in business departments and we believe that we will bring first significant improvements as early as this year.

Ensuring first-class level of services and products to our clients also results in an increase in the number of clients. The Bank is today a complex institution with hundreds of employees, providing investment and private banking on several markets. With the growing number of employees and greater specialization, it is important not to lose the values that we grew from – partnership, courage and high demands. One of our main goals for 2019 is to reinforce and promote these values in everyday working life of our employees.

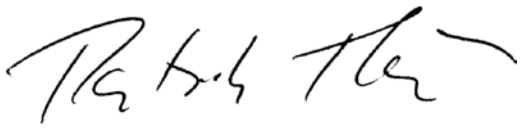
With respect to the Bank's growth, the demands on the control model are also gradually changing. Therefore, the Bank established the Executive board, which, apart from selected Board members, comprises people who cover significant areas of the Bank's activity long-term. Our goal is to gradually reinforce the competences of this body in the direction of the Bank's operation control and implementation of strategic intentions. The Bank's Board of Directors will focus in particular on formulating the strategies and checking their fulfilment.

In 2018, our expectations of high insecurities around Brexit negotiations were confirmed. Considering the fact that the Bank and the Group did not and do not have any significant exposures towards the United Kingdom of Great Britain and Northern Ireland or the clients residing in these countries and neither the Bank nor the Group have their business model and profitability linked to the foreign market, we do not expect that the decision on Brexit would significantly affect (positively or negatively) the Bank's or the Group's economic management in the years to come.

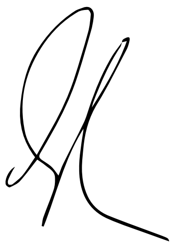
There are a number of developmental tasks ahead for the Bank. We believe that their fulfilment will not only bring greater profits for the shareholders, but will primarily result in satisfied clients.

Declaration

To the best of our knowledge, this annual report presents a true and fair view of business activities, financial position and the economic results the Bank and the Group in 2018 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.

NON-FINANCIAL INFORMATION

In this Annual Report, the Bank, as a large enterprise and a public interest entity, specifies also other non-financial information and information regarding diversity, which supplements the financial and non-financial information set out in other chapters of this Annual Report.

Company profile
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 and opportunities of our clients and markets through appropriate products and services.

Company's market position
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 represented by the 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. 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.

Corruption
The Bank has set certain rules for ethical behaviour of its employees; it motivates them to comply with the rules and adequately monitors this compliance. The Bank defines the rules for management and avoidance of conflicts of interest, as well as anti-corruption policy and donation policy in order to prevent the possibility of accepting a bribe or a request for its acceptance by the employees. The employees may not make provision of any service conditional upon any consideration.

For the purpose of detection of any unfair conduct, the Bank establishes an anonymous channel enabling both the clients and the Bank's employees to report an unlawful or unethical conduct of any of the employees; the channel is administered by the Compliance & AML Department in conformity with the Company's internal rules. This channel intended for reporting of any unfair conduct may also be used by the Bank's employees who learn about an unfair or unethical conduct of any of their colleagues or supervisors. The Bank guarantees that, within its internal procedures, the reporting person will not be exposed to any negative consequences by the employer or the colleagues. Each report accepted by the Bank in this regime shall always be verified and the reporting person (as far as possible based on the nature of the report) is informed of the results of the investigation.

Within its activities, the Bank is not engaged in any corrupt or other unethical practices when promoting its interests, it strives to comply with all its statutory duties to the maximum extent and respects the third-party interests. In respect of the corrupt practices of third parties, the Bank shall proceed in conformity with the legal regulations, especially the Code of Criminal Procedure and anti-money laundering laws.

Environmental impacts
Given the non-manufacturing nature of the Bank's activities, they have no significant impact on the environment and do not constitute any essential burden for it. From the viewpoint of implementation of the Bank's principles of diligence, the

Bank creates individual working groups for individual projects and if there are any negative impacts on the environment, the Bank strives to identify and limit them. At the present time, the Bank has no information on the extent of the carbon footprint caused directly and/or indirectly by its activities.

Similarly, the volume and nature of the goods and services from the suppliers do not pose a risk of a significant impact on the environment. Where possible and provided that the purpose of the supply is met, the Bank shall select a local or regional supplier.

Working conditions

The Bank actively pursues its business only in countries where compliance with the working conditions laid down by the legislation, the prohibition of child labour and forced labour or the absence of restriction of collective bargaining 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. No violation of labour-law regulations or occupational safety rules was recorded in 2018 and no penalty or sanction was imposed on the Bank in this respect.

Training and education

Education of all employees forms an integral part of the Bank's activities and represents the core of its success.

The company values are pursued primarily by individuals' own initiative; in spite of that, the Bank has a group of cross-sectional competences which serve as a guideline for setting of individuals' development plans, i.e. part of the individual KPI. Improving knowledge and skills on the basis of competences results in an effective implementation of the goals of individuals and, subsequently, of the entire department/division/Bank.

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-leave for studies. The Bank promotes knowledge of foreign languages and provides the employees with the opportunity to participate in various language courses; it also promotes their participation in expert conferences and seminars.

Equality

The Bank does not apply the formal diversity policy, does not have any quotas for occupying individual positions, but consistently takes into account the education, qualifications and professional experience of the candidates for the individual positions. However, it also ensures equal treatment and equal opportunities for all of its employees in connection with the selection of employees, evaluation of work performance, remuneration and learning opportunities. The Bank naturally acknowledges cultural and individual differences among employees and respects different qualities and characteristics of each employee. No case of discrimination occurred in the Bank in 2018.

Group

The Bank, as a consolidating entity, applies values, access to working conditions and equality and other non-financial information set above even at the level of the Group.

Patrik Tkáč

Štěpán Ašer

Igor Kováč

Tomáš Klimíček

Anna Macaláková

BANK'S MANAGEMENT

Board of Directors

Patrik Tkáč
Board Chairman

Štěpán Ašer
Board Member

Igor Kováč
Board Member

Tomáš Klimíček
Board Member

Anna Macaláková
Board Member
(appointed on 11 June 2018)

Procuration

Vlastimil Nešetřil, Ph.D.
Milan Sležka
Alena Tkáčová

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
(appointed on 10 December 2018)

Tomáš Janík
Supervisory Board Member
(appointed on 10 December 2018)

Jozef Spišiak
Supervisory Board Member
(termination of membership on 9 December 2018)

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 2018, 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 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 9, Prosecká 851/64, Postal Code 190 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. Varaždin, 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, Thunovská 12, 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

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

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 Hypovereins-bank 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.

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. Varaždin, 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.

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

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 and for the Information Systems Unit.

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 2018, 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, Lamačská cesta 3, Postal Code 841 04
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
Supervisory Board Member (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, Lamačská cesta 3, Postal Code 841 05
Board of Directors - Chairman

Nadace J&T, Id. No.: 27162524, Prague 9, Prosecká 851/64, Postal Code 190 00
Managing Board - Member

Energetický a průmyslový holding, a.s., Id. No.: 28356250, Brno, Příkop 843/4, Postal Code 602 00
Supervisory Board - Chairman

EP Energy, a.s., Id. No.: 29259428, Brno, Příkop 843/4, Postal Code 602 00
Supervisory Board - Chairman

EP Industries, a.s., Id. No.: 29294746, Brno, Příkop 843/4, Postal Code 602 00
Supervisory Board - Member

EP Power Europe, a.s., Id. no.: 27858685, 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 (formerly J&T FINANCE, a.s.).

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 Praha fotbal, a.s., Id. No.: 46356801, Prague 7, Tř. Milady Horákové 1066/98, 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, Prague 9, Prosecká 851/64, Postal Code 190 00
Managing Board - Member

Karlín development II. s.r.o., Id. No.: 28161980, Prague 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 the past five years he has not been involved in any other companies.

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, receivership or liquidation of another company.

COMMITTEES OF THE BANK

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 2018, 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

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 2018, the IC had following members:
— Drahotský Daniel, Chairman of the IC, Director of the Financial Markets Unit
— Vodička Petr, Member of the IC, Manager of the Financial Markets Department – own account
— Kováč Igor, Member of the IC, Board Member
— Klimíček Tomáš, Member of IC, Board Member
— Míšek Radoslav, Member of the IC, Manager of the Risk Management Department

Project Committee

The Project Committee (the "PC") has been established by the Bank's Board of Directors. The PC's main objective and purpose is to manage Bank´s internal projects. The PC discusses and approves new projects in the context of Bank's strategic development, regulatory requirements and business plans and discusses and approves changes in the project with the impact to content, schedule or budget of the project and approves projects' final reports. The PC discusses and approves list of potential external suppliers within selection procedures within scope of the project and approves selection procedures' results. The PC has at least 3 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2018, the PC had the following members:
— Nešetřil Vlastimil, Chairman of the PC, Director of the Operations Unit
— Macaláková Anna, Member of the PC, Board Member
— Kešnerová Mária, Member of the PC, Director of the Finance Division
— Drahotský Daniel, Member of the PC, Director of the Financial Markets Unit

— Tkáčová Alena, Member of the PC, Director of the Trade CR Division
— Krotký Michal, Member of the PC, Director of the Information Systems Division
— Dvořák Michal, Member of the PC, Board Member of J&T Services ČR, a.s.

Information Systems Committee
The Information Systems Committee (the "ISC") has been established by the Bank's Board of Directors. The ISC's main objective and purpose is to manage the development of banking information systems by the Bank. The ISC discusses the IS/IT development strategy, discusses and specifies priorities of individual IS/IT systems development and other changes in the IS/IT area in the context of business plans, regulatory requirements and the Bank's strategic development, it discusses and approves acquisitions of new IS/IT systems, discusses plans and results of implementation of significant requirements for IS/IT systems changes, discusses and approves the list of potential IS/IT suppliers for the tender purposes, discusses and approves results of tenders in the IS/IT area, evaluates co-operation with IS/IT suppliers, discusses operational reports in the IS/IT area. The ISC has at least 3 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2018, the ISC had the following members:
— Krotký Michal, Chairman of the ISC, Director of the Information Systems Division
— Nešetřil Vlastimil, Member of the ISC, Director of the Operations Unit
— Macaláková Anna, Member of the ISC, Board Member
— Kešnerová Mária, Member of the ISC, Director of the Finance Division
— Drahotský Daniel, Member of the ISC, Director of the Financial Markets Unit
— Dvořák Michal, Member of the ISC, Board Member of J&T Services ČR, a.s.

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 2018, the SC had the following members:
— Nešetřil Vlastimil, Chairman of the SC, Director of the Operations Unit
— Slobodník Michal, Member of the SC, Security Specialist
— Krejčí Oldřich, Member of the SC, Security Consultant
— Broschinski Petr, Member of the SC, IS/IT Security Specialist

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 2018, 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
- Maxim Ján, Member of the ORDC, Compliance Officer SR (organisational unit of J&T Banka SR)

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 3 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2018, the VC had the following members:
- Míšek Radoslav, Chairman of the VC, Manager of the Risk Management Department
- Drahotský Daniel, Member of the VC, Director of the Financial Markets Unit
- Kešnerová Mária, Member of the VC, Director of the Finance Division
- Kubeš Michal, Member of the VC, Adviser to the Bank's Board of Directors
- Zábojník Miloslav, Member of the VC, Chairman of the Board of Directors 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 2018, the IIC had the following members:
- Drahotský Daniel, 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

— Tomeš Libor, Member of the IIC, Manager of the Process and Project Management 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 2018, 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 2018, 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 DIRECTORS OF THE BANK

- Office of the Chairman of the Board of Directions
- Top Management
- Bank Management Department
- Safety Department
- Internal Audit and Inspection Department

UNIT SALES

- China Desk Department
- Advisors Department
- Advisors Section 1.
- Advisors Section 2.
- Advisors Section 3.
- Marketing Department CR
- DIVISION LENDING BUSINESS CR
- DIVISION SALES CR
  - Sales Development and Support Department CR
  - Back Office Section
  - Sales Support Section
  - Private Banking Department CR
  - Private Banking Section 1

UNIT FINANCIAL MARKETS

- DIVISION FINANANCIAL MARKETS
  - Business Support Section Division Financial Markets
  - Investment Center Section
  - Financial Markets Department CR – Other Person´s Account
  - Financial Markets Department CR – Own Person´s Account
  - Financial Markets Department SR

UNIT OPERATIONS

- Process and Project Management Department
- DIVISION OPERATION CR
  - Business Support Division Operation CR
  - Family Office Support Section
  - Banking Operations and International Banking Department CR
  - Banking Operations Section
  - International Banking Section

UNIT INFORMATION SYSTEMS

- Digital Experience Department
- DIVISION INFORMATION SYSTEMS
  - System and Application Integration Department
  - IT Infrastructure Department
  - Database Section
  - Supporting Applications Department
  - Customers and Internal Interfaces Department

UNIT FINANCE

- DIVISION FINANCE
  - Business Support Section Division Finance
  - Treasury Department
  - Liquidity Management Section
  - Financial Analysis Department
  - Economy Department CR

UNIT RISK MANAGEMENT

- DIVISION RISK MANAGEMENT AND CREDIT AND LOANS ADMINISTRA-TION
  - Business Sup-port Section Division Risk Management and Credit and Loan Administration
  - Risk Management Department
  - Credit Risk Management Department
  - Credit and Loans Administration Department CR
  - Credit and Loans Administration Department SR

UNIT ADMINISTRATION

- DIVISION ADMINISTRA-TION
  - Legal Department CR
  - Legal Department SR
  - Compliance and AML Department

UNIT SLOVAK REPUBLIC (SR)

- Unit Management Department SR
- Magnus Department
- DIVISION SALES SR
  - Business Support Section Division Sales SR
  - Private Banking Department SR
  - Comfort Department SR
  - Business Call Centrum Section
  - Comfort line Section
- DIVISION OPERATION SR
  - The High Tatras Exposition
  - The Košice Exposition
  - Process and Product Department SR
  - Banking Operation Department SR
  - Front Office Section SR

Private Banking Section 2

Private Banking Section 3

Private Banking Section 4

Private Banking Section 5

Russian Desk Section

Branch Brno

Branch Ostrava

Client Center Department CR

External Sale Department CR

External Sale Front Office Section

External Sale Support Section

Client Portfolio Management Department

Research Department

Payment Cards, Internet Banking and Back Office Clear Deal Section

Financial Markets Back Office Department CR

New Issues Department

ePortal Section

Business Intelligence Department

BI DWH Section

BI Reporting Section

BI Architecture and governance Section

Banking Applications Department

Bank and Information System Section

Financial and Securities Systems Section

Accounting Section

Reporting Section

Economy Department SR

Accounting Section

Reporting Section

Marketing and Communi-cation Department SR

Lending Business Department SR

Payment Cards and Internet Banking Section

Back Office Department SR

Back Office Comfort Section

Back Office PB Section

Financial Markets Back Office Department SR

REPORT OF THE SUPERVISORY BOARD

In 2018, the Supervisory Board of J&T BANKA, a.s. had five members and then, from 10 December 2018, six members. 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 2018, 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 individual and consolidated financial statements as of 31 December 2018 audited by the Bank's external auditor, KPMG Česká republika Audit, s.r.o. According to the auditor's report issued on 29 March 2019, 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 2018 and expenses, income and the results of its operations and cash flows for the year 2018 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 2018 worked out 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 2018 and with the settlement of the profit/loss, i.e. the distribution of profit of J&T BANKA, a.s. for 2018 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.

In Prague, on 29 March 2019

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, USD, GBP, CAD, HUF, CHF, PLN, TRY, RON, AUD, RUB, SEK, 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. Varaždin
Varazdin, Croatia
SWIFT: VBVZ HR 22
Currency: HRK

Citibank Europe plc, organizační složka
Prague, Czech Republic
SWIFT: CITI CZ PX
Currency: MXN, ZAR

CZK 150.1 bil.

TOTAL ASSETS
ATTAINED
A YEAR-ON-YEAR
INCREASE
OF ALMOST 5 %.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

in MCZK	Note	2018	2017
ASSETS			
Cash and balances with central banks	7	4,456	6,911
Due from financial institutions	8	54,115	47,757
Positive fair value of derivatives	9	374	609
Loans and advances to customers at amortised cost	12	71,528	69,109
Loans and advances to customers at fair value through profit or loss	12	64	–
Financial assets for trading	10a	5,122	5,227
Financial assets mandatorily at fair value through profit or loss	10b	6,111	–
Financial assets at fair value through profit or loss	10c	52	–
Financial assets available for sale	10d	–	11,009
Financial assets at fair value through other comprehensive income	10e	5,892	–
Financial assets held to maturity	10f	–	13
Financial assets at amortised cost	10g	30	–
Disposal groups held for sale	20	252	416
Investment in equity accounted investees	51	7	7
Current tax asset	28	2	8
Deferred tax asset	29	312	90
Investment property	15	356	407
Property, plant and equipment	16	175	204
Intangible assets	17	115	129
Goodwill	17	33	33
Prepayments, accrued income and other assets	19	1,108	1,067
Total Assets		**150,104**	**142,996**
LIABILITIES			
Deposits and loans from banks	21	2,250	21,923
Deposits from customers	22	118,999	91,704
Negative fair value of derivatives	9	240	241
Financial liabilities at fair value through profit or loss	23	50	–
Subordinated debt	24	937	1,567
Current tax liability	28	176	68
Deferred tax liability	29	89	98
Other liabilities and provisions	25	8,133	7,919
Total Liabilities		**130,874**	**123,520**
Share capital	26	10,638	10,638
Retained earnings and other reserves	26	5,423	5,647
Other capital instruments	26	2,597	2,597
Equity attributable to equity holders of the parent		**18,658**	**18,882**
Non-controlling interest	27	572	594
Total Equity		**19,230**	**19,476**
Total Equity and Liabilities		**150,104**	**142,996**

The accompanying notes, set out on pages 50 to 151, are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

in MCZK	Note	2018	2017
Interest income calculated using effective interest rate	30	4,986	4,906
Other interest income	30	161	135
Interest expense	31	(1,342)	(1,316)
Net interest income		**3,805**	**3,725**
Fee and commission income	32	1,794	1,436
Fee and commission expense	33	(204)	(299)
Net fee and commission income		**1,590**	**1,137**
Impairment of assets available for sale	10d	–	(123)
Net trading income	34	246	483
Gain on a bargain purchase	1	–	85
Other operating income	35	229	345
Operating income		**5,870**	**5,652**
Personnel expenses	36	(1,383)	(1,084)
Other operating expenses	37	(1,174)	(1,128)
Depreciation and amortisation	16,17	(94)	(96)
Operating expenses		**(2,651)**	**(2,308)**
Profit before provisions, allowances and income tax expenses		**3,219**	**3,344**
Net change in provisions from financial activities	13	(1)	41
Net change in allowances for impairment of financial assets at amortised cost	13	(680)	(763)
Revenues from cession in portfolio of loans and other receivables		–	12
Profit before tax, excluding profit from equity accounted investees		**2,538**	**2,634**
Loss from equity accounted investees, net of tax	50	–	(17)
Profit before tax		**2,538**	**2,617**
Income tax expenses	28	(462)	(421)
Profit for the period		**2,076**	**2,196**

in MCZK	Note	2018	2017
ATTRIBUTABLE TO:			
Equity holders of the parent		2,086	2,260
Non-controlling interest		(10)	(64)
Profit for the period		**2,076**	**2,196**
OTHER COMPREHENSIVE INCOME — ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS:			
Revaluation reserve — financial assets available for sale			
Net change in fair value		—	162
Net amount reclassified to profit or loss		—	(41)
Related tax		—	(23)
Revaluation reserve — financial assets at fair value through other comprehensive income — debt instruments			
Net change in fair value		23	—
Expected credit loss		(55)	—
Related tax		(3)	—
Foreign exchange translation differences		(353)	(439)
OTHER COMPREHENSIVE INCOME - ITEMS THAT ARE NOT RECLASSIFIED TO PROFIT OR LOSS:			
Revaluation reserve — financial assets at fair value through other comprehensive income — capital instruments			
Net change in fair value		21	—
Net amount at disposal		1	—
Other comprehensive income for the period, net of tax		(366)	(341)
Total comprehensive income for the period		1,710	1,855
ATTRIBUTABLE TO:			
Equity holders of the parent		1,721	1,924
Non-controlling interest		(11)	(69)
Total comprehensive income for the period		**1,710**	**1,855**

The accompanying notes, set out on pages 50 to 151, are an integral part of these consolidated financial statements. The Board of Directors approved these consolidated financial statements on 29 March 2019.

Signed on behalf of the Board:

Štěpán Ašer, MBA
Member of the Board of Directors

Ing. Igor Kováč
Member of the Board of Directors

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

in MCZK	Share capital	Capital funds
Balance at 31 December 2017	**10,638**	**43**
Impact of IFRS 9		
Expected credit loss, after tax	–	–
Reclassification of investments, after tax	–	–
Balance at 1 January 2018	**10,638**	**43**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		
Profit for the period	–	–
OTHER COMPREHENSIVE INCOME, NET OF TAX — 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		
Net change in fair value	–	–
Expected credit loss	–	–
Related tax	–	–
OTHER COMPREHENSIVE INCOME — ITEMS THAT ARE NOT RECLASSIFIED TO PROFIT OR LOSS		
Revaluation reserve — financial assets at fair value through other comprehensive income — capital instruments		
Net change in fair value	–	–
Net amount at disposal	–	–
Total comprehensive income for the period	**–**	**–**
TOTAL TRANSACTIONS WITH OWNERS OF THE GROUP, RECOGNIZED DIRECTLY IN EQUITY		
Dividends	–	–
Distribution from capital instruments	–	–
Set up of Perpetuity fund	–	–
Transfer of legal reserve fund	–	3
Other movements	–	–
Balance at 31 December 2018	**10,638**	**46**

Information about equity instruments is disclosed in note 26.

Translation and revaluation reserve	Retained earnings	Perpetuity fund	Other capital instruments	Total	Non-controlling interest	Total equity
(1,122)	**6,545**	**181**	**2,597**	**18,882**	**594**	**19,476**
79	(510)	–	–	(431)	(3)	(434)
(263)	263	–	–	–	–	–
(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 CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

in MCZK	Share capital	Capital funds
Balance at 1 January 2017	**10,638**	**40**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		
Profit for the period	–	–
OTHER COMPREHENSIVE INCOME, NET OF TAX- ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS		
Foreign exchange translation differences	–	–
Revaluation reserve (available-for-sale financial assets):		
Net change in fair value, after tax	–	–
Net amount reclassified to profit or loss, after tax	–	–
Total comprehensive income for the period	**–**	**–**
TOTAL TRANSACTIONS WITH OWNERS OF THE GROUP, RECOGNIZED DIRECTLY IN EQUITY		
Dividends	–	–
Distribution from capital instruments	–	–
Set up of Perpetuity fund	–	–
Own shares of subsidiary	–	–
Effect of disposals of subsidiaries	–	–
Transfer of legal reserve fund	–	3
Balance at 31 December 2017	**10,638**	**43**

The accompanying notes, set out on pages 50 to 151, are an integral part of these consolidated financial statements.

Translation and revaluation reserve	Retained earnings	Perpetuity fund	Other capital instruments	Total	Non-controlling interest	Total equity
(808)	**5,843**	**155**	**2,597**	**18,465**	**663**	**19,128**
–	2,260	–	–	2,260	(64)	2,196
(435)	–	–	–	(435)	(4)	(439)
195	–	–	–	195	1	196
(96)	–	–	–	(96)	(2)	(98)
(336)	**2,260**	**–**	**–**	**1,924**	**(69)**	**1,855**
–	(1,310)	–	–	(1,310)	–	(1,310)
–	–	(216)	–	(216)	–	(216)
–	(242)	242	–	–	–	–
–	(1)	–	–	(1)	–	(1)
22	(2)	–	–	20	–	20
–	(3)	–	–	–	–	–
(1,122)	**6,545**	**181**	**2,597**	**18,882**	**594**	**19,476**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

in MCZK	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax from continuing operations		2,538	2,617
Adjustments for:			
Depreciation and amortisation	16, 17	94	96
Gain on a bargain purchase	1	–	(85)
Allowances for impairment of loans	13	680	763
Foreign currency difference from allowances for impairment of loans	13	(14)	(86)
Provisions from financial activities		1	–
Gain on sale of intangible and tangible fixed assets		16	21
Change in other provisions and other assets		292	13
Profit/(loss) from equity accounted investees		–	17
Unrealised foreign exchange gains/(loss), net		(402)	150
Impairment of FVOCI / assets available for sale		(55)	123
Fair value adjustment to P&L from FVTPL assets		32	15
Profit from sale associate		–	(189)
Cash generated from (used in) operations:			
Compulsory minimum reserves in central banks		(120)	(51)
Due from financial institutions		(350)	134
Originated loans and receivables		(3,329)	6,353
Financial assets held to maturity, AFS and FVTPL		–	(883)
Financial assets at amortised cost, FVOCI and FVTPL		(991)	–
Prepayments, accrued income and other assets		(41)	(56)
Disposal groups held for sale		164	(197)
Deposits and loans from banks		(19,673)	18,749
Deposits from customers		27,295	(11,349)
Other liabilities and provisions		(180)	1,923
Issuance of certificates (Credit Linked Notes)		50	–
Net increase / (decrease) in fair values of derivatives			
Fair value of derivative instruments		234	(314)
Tax effect			
Income tax expenses paid		(488)	(313)
Net cash flows from operating activities		**5,753**	**17,451**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of and proceeds from sale of intangible and tangible fixed assets, net		(67)	(93)
Disposal of associate		–	210
Net cash flows used in investing activities		**(67)**	**117**

in MCZK	Note	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Distribution from capital instruments		(262)	(216)
Dividends paid		(1,254)	(1,310)
Proceeds and repayment of subordinated debt		(632)	121
Foreign currency difference from subordinated debt		2	3
Net cash flows from financing activities		**(2,146)**	**(1,402)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,540**	**16,166**
Cash and cash equivalents at beginning of period	6, 38	52,666	36,853
Effects of exchange rate fluctuations on cash held		(102)	(351)
Cash and cash equivalents at end of period	6, 38	56,104	52,668
Cash flows from operating activities include:			
Interest received		4,885	3,775
Interest paid		1,645	1,407
Dividends received		–	66

The Group does not held 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 50 to 151, are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 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 719 employees in 2018 (2017: 730). The Group operates in the Czech Republic, Slovakia, Croatia and Russia.

A 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 consolidation Group as at 31 December 2018 are as follows:

Company	Country of incorporation	Share capital in mil. CZK	% shareholding	Consolidation method	Principal activities
J & T BANKA, a.s. (parent company)	Czech Republic	10,638		parent company	Banking activities
J&T INVESTIČNÍ SPOLEČNOST, a.s.	Czech Republic	20	100	Full	Investment activities
ATLANTIK finanční trhy, a.s.	Czech Republic	81	100	Full	Investment activities
J&T IB and Capital Markets, a.s.	Czech Republic	2	100	Full	Advisory activities
— XT-card a.s.	Czech Republic	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	594	99	Full	Investment activities
— Interznanie OAO	Russia	65	50	Full	Real estate
J&T REALITY, o.p.f.	Czech Republic	–	53.08	Full	Collective investment fund
J&T banka d.d.	Croatia	1,058	84.17	Full	Banking activities
J&T Leasingová společnost, a.s.	Czech Republic	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 the note 40.

On April 30, 2018, the Group increased its share in J&T banka d.d. to 84.17% resulted from purchasing own shares by J&T banka d.d.

On December 13, 2018, the Group increased its share in J&T Leasingová společnost, a.s. in the amount of CZK 110 million as the contribution to capital funds.

On December 31, 2018, the J&T REALITY, o.p.f. converted its reference currency from EUR to CZK and the nominal value of all the shares was restated using conversion rate CZK 26 to EUR 1.

During 2018, there were no restriction on the ownership rights held over subsidiaries.

The companies included in the consolidation Group as at 31 December 2017 are as follows:

Company	Country of incorporation	Share capital in mil. CZK	% shareholding	Consolidation method	Principal activities
J & T BANKA, a.s. (parent company)	Czech Republic	10,638		parent company	Banking acitivites
J&T INVESTIČNÍ SPOLEČNOST, a.s.	Czech Republic	20	100	Full	Investment activities
ATLANTIK finanční trhy, a.s.	Czech Republic	81	100	Full	Investment activities
J&T IB and Capital Markets, a.s.	Czech Republic	2	100	Full	Advisory activities
— XT-Card a.s.	Czech Republic	10	32	Equity	IT/Programming activities
J&T Bank, a.o.	Russia	2,385	99.95	Full	Banking activities
— Interznanie, OAO	Russia	74	50	Full	Real estate
— AKB "Khovanskiy" a.o.	Russia	372	100	Full	Banking activities
TERCES MANAGEMENT LIMITED	Cyprus	563	99	Full	Investment activities
— Interznanie, OAO	Russia	74	50	Full	Real estate
J&T REALITY, o.p.f.	Czech Republic	—	53.08	Full	Collective investment fund
J&T banka d.d.	Croatia	1,056	82.76	Full	Banking activities
J&T Leasingová společnost, a.s.	Czech Republic	32	100	Full	Financing activities

The subsidiary Vaba d.d. bank Varaždin changed it's name to J&T banka d.d. on January 1, 2017.

On February 22, 2017, the Group subscribed for 100 % share in J&T Leasingová společnost, a.s. of 4 600 000 units of ordinary shares in total nominal value of CZK 30 million aiming to expand its activities to provide leasing services.

On July 3, 2017, the Group sold its share in the company PGJT B.V.

On October 4, 2017, J&T Bank, a.o. purchased AKB „Khovanskiy“ a.o. at a discount from the its original shareholders with the aim to optimize and expand its business activities. The transaction costs were CZK 335 million resulted into recognition of gain on a bargain purchase CZK 85 million in the financial statements of the Group.

During 2017, there were no restriction on the ownership rights held over subsidiaries.

Acquisitions and disposals of subsidiaries made in 2018 and 2017 are further presented 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 2018 – 31 December 2018 ("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, available-for-sale assets 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 recognized 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 2018, and have not been applied in preparing these financial statements:

IFRS 16 Leases

IFRS 16 was endorsed by the EU in November 2017 and shall be effective for accounting periods starting on and after 1 January 2019, with a retrospective or modified retrospective approach.

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.

IFRS 16 will bring major changes in the accounting of lessees. Right-of-use of the asset and corresponding liability shall be recognised in the lessee's statement of financial position with two exceptions that may be used:

— when the lease term does not exceed 12 months and contains no purchase option,
— when the underlying asset has a low value when new.

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 profit and loss.

A lessor shall classify each of its leases 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.

The Group, as a lessee, leases mainly head office premises, branches, cars, that should be recognised in Property and equipment under IFRS 16 since 1 January 2019.

The Group applies IFRS 16 initially on 1 January 2019, using the modified retrospective approach.

The Group plans to apply the practical expedient of grandfathering the definition of a lease on transition. This means that IFRS 16 will be applied to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17.

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.

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.

Based on the information currently available, the Group estimates that it will recognize additional lease liabilities of CZK 366 million with corresponding recognition of the right-of use assets of CZK 376 million as at 1 January 2019. The difference CZK 10 million is represented by rentals prepaid as at 31 December 2018 already recognized in" Other assets".

IFRIC 23 Uncertainty over Income Tax Treatments
Effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the Group's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. The Group must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation
Effective for annual periods beginning on or after 1 January 2019.

These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss.

The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.

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

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 effective date has not yet been determined by the IASB.

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 amendments, when initially applied, will not have a significant effect on the consolidated financial statements of the Group.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
Effective for annual periods beginning on or after 1 January 2019.

The Amendments clarifies that companies account for investments in associates or joint ventures, for which equity method is not applied, in accordance with provisions of IFRS 9 Financial Instruments.

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

Amendments to IAS 19 Employee Benefits
Effective for annual periods beginning on or after 1 January 2019.

The Amendments require that the Group uses current and updated assumptions when a change to a plan, and amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

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

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 amendments, when initially applied, will not have a significant effect on the consolidated financial statements of the Group.

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 amendments, when initially applied, will not have a significant effect on the consolidated financial statements of the Group.

Annual Improvements to IFRS 2015-2017 Cycle
Effective for annual periods beginning on or after 1 January 2019.

The Improvements to IFRSs (2015-2017) contains four amendments to standards. The main changes were to:
— clarify that the entity remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations;
— clarify that the entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 Joint Arrangements;
— clarify that the entity should always accounts for income tax consequences of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized past transactions or events that generated distributable profits; and
— clarify that the entity should exclude from the funds that the entity borrows generally borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete as borrowings made specifically for the purpose of obtaining a qualifying asset should not apply to a borrowing originally made specifically to obtain a qualifying asset if that asset is ready for its intended use or sale.

Other new International Financial Reporting Standards and Interpretations not yet due
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.

(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

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 those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group´s share of the total recognised gains and losses 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 recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in expect of the associate.

(iii) Joint ventures

Joint ventures are those enterprises over whose activities the Group has joint control, established by contractual agreement. 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, any non-controlling interests and the 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 principles

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

(b) Financial assets and liabilities

Classification and measurement of financial assets and financial liabilities

As of 1 January 2018, the Group applied IFRS 9 Financial Instruments relating to the classification and measurement of financial assets and financial liabilities, as well as impairment of financial assets. IFRS 9 also significantly amended IFRS 7 Financial Instruments: Disclosure, as a result of which it was necessary to adjust the disclosures for financial instruments.

The Group has decided, in accordance with the transitional period of IFRS 9, not to change the information already disclosed for comparable period. As the result, comparative period in the financial statements for 2018 is in the structure used in the financial statements for 2017 based on the original classification and measurement in accordance with IAS 39 valid for period 2017.

For this reason, there are also published accounting methods and valuation methods applicable to financial instruments in accordance with IAS 39.

The Group has decided to continue applying IAS 39 also to hedge accounting as permitted by IFRS 9.

Financial assets according to 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, the reasons for such sales and its expectations about future sales activity;
- the contractual cash flow characteristics of the asset ("SPPI - solely paments 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;
- "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 following criteria when performing 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

Strategy "Hold and collect" has an objective to hold 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, 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.

In 2018, the IASB issued an amendment to IFRS 9 on early repayment with a negative compensation. Negative compensation arises when contract terms allow the debtor early repayment of the instrument before its contractual maturity, but the amount of advance may be lower than unpaid principal amount and interest. In order to meet valuation criteria at amortized cost, negative compensation must constitute "reasonable compensation for the early termination of the contract". The Group does not expect a significant volume of early repayment elements with negative compensation, which would have to be measured at fair value through profit or loss (FVTPL).

Financial assets at fair value through other comprehensive income

Strategy "Hold, collect and sell" has an objective to both collecting contractual cash flows and selling financial assets; model represents so called "mixed" business model. This model distinguishes two different types of accounting treatment as for equity instruments and as for debt instruments.

Debt instruments, those that meet the criteria of SPPI test are classified within the business model 'hold, collect and sell' and are measured at fair value through other comprehensive income. These instruments are the subject of impairment measurement. Expected credit loss is recognized in profit or loss and the changes in the fair value of the instrument are recognized in OCI. When the financial asset is derecognized, gain or loss is recognized in profit loss as a result of reclassification of the gain or loss from other comprehensive income to profit or loss. FX differences in relation to the financial asset, interest revenues calculated using EIR as well as dividends are also recognized in profit or loss. Interest revenues are presented on the line of interest income.

Equity instruments, those held within the strategy "Holed, collect and sell" and not held for trading are measured as financial assets at FVOCI. These assets are not the subject of ECL calculation and any changes in the fair value are recognized in other comprehensive income. That revaluation impact will not be reclassified to profit or loss upon disposal. FX differences are recognized in other comprehensive income as part of the revaluation reserve as well. When the equity instrument is sold, the corresponding gain or loss remains in other comprehensive income and is not reclassified to profit or loss. Only dividends from these financial assets are recognized in profit, but only if do not result from decrease of the investment value.

Financial assets at fair value through profit or loss

Strategy "Trading" has an objective to actively trade with financial asset. These assets are measured at fair value, with any gains/losses arising on measurement recognised in profit or loss. Typical assets in this category are derivatives and financial assets for trading. FX differences are presented in profit or loss. These assets are not the subjects for expected credit loss 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.

If there are recorded financial assets as fair value option, those debt instruments even if they meet the amortised cost or FVOCI criteria are measured at FVTPL.

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 Group’s financial assets.

Recognition
The Group 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.

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 trade date.

Measurement
Financial assets are measured initially at fair value, including transaction costs, with the exception of transaction costs related to financial assets designated at fair value through profit or loss which 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), except any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, which 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 statement of financial position 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 the statement of comprehensive income 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 investment designated as measured at FVOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Interest from financial assets and liabilities 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. A financial liability is derecognised when it is extinguished.

Financial assets measured at FVOCI and FVTPL that are sold are derecognised and the corresponding receivables from the buyer are recognised on the day the Group commits to sell the assets.

Financial assets at amortised costs are derecognised on the day they are sold by the Group.

Financial liabilities according to IFRS 9

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 at acquisition - FV Option;
- financial liabilities arising from the transfer of financial assets that does not qualify for derecognition – short sales measured at FVTPL;
- contingent liabilities (if recognition criteria 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 FV of financial liabilities in respect of the change in credit risk that is presented in the OCI for the liabilities in FVTPL. The other part of the change in FV is presented in the 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 of own credit risk is the responsibility of the local Credit risk department.

As a financial liability, in the provision part, is also presented expected credit loss for off balance sheet positions as provided loan commitments and guarantees.

Impairment

Impairment of financial assets by applying the IFRS 9 approach is based on expected credit loss (“ECL”) model which applies to the following financial assets of Reporting entity: financial assets measured at amortised costs, financial assets measured at FVOCI - debt instruments, loan commitments and financial guarantees measured at amortised costs.

For the purposes of ECL model calculation, the portfolio of financial assets is split into segments. Within each segment are financial assets 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 first recognition, the financial asset is included in stage 1 or POCI. Subsequent reclassification is carried out according to the definition of significant increase in credit risk (Stage 2) or impairment (default) of the asset (Stage 3).

General approach for impairment of Group financial assets:

Stage 1
— initial recognition of a financial asset - the creation of a credit loss for 12-months ECL;
— the expected 12-months credit losses are all discounted cash flows that are not expected to be received until maturity of the financial asset that are results of a possible default occurring within 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 revenue is calculated from the gross carrying amounts ("GCA").

Stage 2
— if the credit risk increases significantly from the initial recognition of the financial asset;
— the estimate of ECL over the remaining life of the exposure is required to be recorded;
— interest revenue is calculated from the GCA.

Stage 3
— the credit quality of the financial asset has significantly deteriorated and resulted into a credit loss or impairment of the asset;
— ECL over the remaining life of the exposure is required to be recorded;
— interest revenue should be calculated from net amortised costs;
— lifetime ECLs result from all possible default events over the expected life of a financial instrument. This means that an entity needs to estimate the risk of a default occurring on the financial instrument during its expected life.

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 since initial recognition and whether it is therefore necessary to report the expected credit losses over the lifetime.

At the end of the reporting period the Group 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.

Purchased or originated credit-impaired financial assets (POCI)
In addition to purchased defaulted loans may POCI arise as a result of the restructuring of borrowers in financial difficulties that lead to significant change 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 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 assets 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.

The Group 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 assets 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 assessment:

- 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:
  - 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 3-fold increase in PD, all significant changes in PD are captured.

Qualitative factors to be considered in assessment:

- 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 monthsetc.

Credit impaired financial assets

A financial asset is 'credit-impaired' when one or more events 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.

Signs of default

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 judgment 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 re-structuralized;
- 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 asset at FVOCI as a result of a decrease in the registered capital, the resulting income 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 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 (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 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 (or lifetime if expected maturity shorter than 12 months) 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 2 steps:

— calculation of one-year PDs as the long-term average of observed failure rates;
— 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 consider 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.

ECL presentation in the financial statements

— 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 not classified as significant (i.e. the difference between the 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 a financial asset was not derecognized, the Group recalculate 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.

Costs, fees adjusting the carrying amount of a modified financial asset are amortized over the remaining term of modified financial asset.

If a modification of the original financial asset results in the derecognition of the financial asset, the recognition of a new financial asset in line with the general requirements for the initial recognition is required.

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.

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 "IFRS").

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.

Non-performing exposures comprise receivables with debtor's failure classified in stage 3 (under special conditions defined by EBA also exposures in Stage 2 might 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 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 and options are initially recognized 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 recognized 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
When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a commitment, changes in the fair value of the derivative are recognised immediately in the statement of comprehensive income together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line as the hedged item).

Hedge accounting is discontinued if the derivative expire or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked. Any adjustment to a hedged item for which the effective interest rate method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Classification and measurement according to IAS 39

Classification

As for reporting period 2017, the Group classified and measured all the financial instrument according to requirements IAS 39. Based on that standard at previous year end, reported financial instruments at fair value through profit or loss are those that the Group principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated as effective hedging instruments and liabilities from short sales of financial instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Originated loans and receivables comprise loans, advances to banks and customers other than purchased loans and promissory notes.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

Available-for-sale assets are financial assets that are not measured at fair value through profit or loss or held to maturity.

The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:
- in classifying financial assets or liabilities as "trading", management has determined that the Group meets the description of trading assets and liabilities;
- the Group regularly evaluates the liquidity of particular financial instrument with respect to market conditions;
- in classifying financial assets as held-to-maturity, management has determined that the Group has both the positive intention and the ability to hold the assets until their maturity date as required.

Impairment

Financial assets are reviewed quarterly and at each statement of financial position date to determine whether there is objective evidence of impairment. If any such indication exists, the recoverable amount of the asset is estimated.

The Group assesses at the end of each quarter, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(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 on the statement of financial position and the consideration paid is recorded as a loan. The difference between the sale price and repurchase price is treated s interest and accrued evenly over the life of the transaction. Repos and reverse repos 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, form the date the asset is available for use. The estimated amortization rates per a year are as follows:

Software	25%
Other intangible assets	11% – 50%
Customers relationships	5% – 33%

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated 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) 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 stated at fair value, as determined by an independent registered appraiser or by management. Fair value is calculated 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.

(g) Operating lease payments

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 the total expense, 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.

(h) Foreign currency

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. In case of modification of loan conditions, such as change of interest rate or instalment calendar, the effective interest rate is updated in line with newly agreed conditions. 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.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at 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 financial assets originated or purchased credit-impaired (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 FVOCI, bonds determined as 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 three 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.

(j) Taxation
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 and other banks and short-term highly liquid investments with original maturities of three months or less including government bonds.

(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
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
— Unallocated

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 except for “other" financial assets and liabilities and current and deferred income tax asset / liability.

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 and discontinued operations
Disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. 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. This condition is regarded as met only when 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 re-sale.

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 in the consolidated statement of profit or loss depends on the classification and measurement of the equity investment, 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 of those resulted from decrease of share capital in the invested entity, when it 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 capital funds
Other capital funds 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 capital 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:
a. 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;
b. if the Certificates will or may be settled in the entity's own equity instruments, the Certificates are non-derivative that includes no contractual obligation for the issuer to deliver a variable number of it’s own equity instruments.

The Group may repay the Certificates with approval of the Czech National Bank. Holders of Certificates have no right to ask for repayment, except in the case of 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 and are exempt from paying compensation. The Group will pay interests, if there are funds available and approved to be used by the General Meeting of the Group. When there are not sufficient resources available, the payment is reduced. Interest income can be drawn from:
- the Group's net income;
- retained earnings from previous periods;
- other funds that might be divided among its shareholders.

As the Group has no obligation to deliver interest income to the holders of Certificates or to settle the contractual obligation by sourcing other financial assets and as the Certificates have no maturity date, they are included in Tier 1 subsidiary regulatory 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 on-going 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 at amortised cost. 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 reserves to off balance sheet items are based on management's judgment 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.

If the fair values had been higher or lower by 10% than management's estimates, the net carrying amount of Level 3 financial instruments would have been estimated to be CZK 445 million higher or lower than as disclosed as at 31 December 2018 (2017: CZK 365 million).

Determining fair values

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 specificities 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 level 3 financial instruments is disclosed in the notes 10.

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 the 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 48 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.

In 2018, impairment test of the cash-generating unit J&T INVESTIČNÍ SPOLEČNOST, a.s. was calculated based on discounted cash flows. The cash flows were derived from the J&T INVESTIČNÍ SPOLEČNOST, a.s.'s long term business plan, the key assumptions being forecast profit after tax for the period, these were applied over a specific five-year forecast period. The average growth rate used for this period was 9.87% (2017: 11.69%). Expected cash flows were discounted using a weighted average cost of capital 10.08% (2017: 10.99%). There was no impairment loss identified as a result of this impairment test in 2018 and 2017.

5. APPLICATION OF NEW STANDARD IFRS 9

a) Classification and measurement of financial instruments

The following table shows the changes between the different classification and measurement of carrying amount under IAS 39 and IFRS 9 as at 1 January 2018. The effects are published on the original positions of the balance sheet according to origin requirements of IAS 39.

The vast majority of the loan portfolio meets conditions of the above SPPI test and is thus classified as AC, i.e. it is recognized practically unchanged from the previous reporting under IAS 39. Financial assets acquired for trading purposes and measured at FVTPL remain classified as business model "Trading" and measured at FVTPL. Financial assets available for sale under IAS 39 were analysed in detail and debt instruments that did not pass SPPI test together with the shares from this category were classified as FVOCI under IFRS 9. Most allotment certificates were reclassified to business model FVTPL mandatorily as according to IFRS 9 they do not meet relevant criteria for classification as FVOCI.

in MCZK Financial instrument category IAS 39	IAS 39 Measurement category	IAS 39 31 December 2017
FINANCIAL ASSETS		
Cash and balances with central banks	Amortised cost	6,911
Due from financial institutions	Amortised cost	47,757
Positive fair value of derivatives	FVTPL	609
Loans and advances to customers	Amortised cost	69,109
Financial assets at fair value through profit or loss	FVTPL	5,227
Financial assets available for sale — capital instruments — allotment certificates	AFS	5,121
Financial assets available for sale — capital instruments — shares	AFS	436
Financial assets available for sale — debt instruments	AFS	5,452
Financial assets held to maturity	Amortised cost	13
Prepayments, accrued income and other assets	Amortised cost	1,057
* balance do not include assets out of scope IFRS 9		
Total financial assets		**141,692**
FINANCIAL LIABILITIES		
Deposits and loans from banks	Amortised cost	21,923
Deposits from customers	Amortised cost	91,704
Negative fair value of derivatives	FVTPL	241
Subordinated liabilities	Amortised cost	1,567
Other liabilities and provisions	Amortised cost	7,235
Total financial liabilities		**122,670**

Financial instrument category IFRS 9	IFRS 9 Measurement category	IFRS 9 1 January 2018
Cash and balances to central banks	Amortised cost	6,905
Due from financial institutions	Amortised cost	47,755
Positive fair value of derivatives	FVTPL	609
Loans and advances to customers at amortised cost	Amortised cost	68,487
Loans and advances to customers at fair value through profit or loss	FVTPL	206
Financial assets for trading	FVTPL	3,819
Financial assets mandatorily at fair value through profit or loss	FVTPL	5,121
Financial assets at fair value through other comprehensive income	FVOCI	436
Financial assets at fair value through other comprehensive income	FVOCI	6,860
Financial assets at amortised cost	Amortised cost	13
Prepayments, accrued income and other assets	Amortised cost	1,057
* balance do not include liabilities out of scope IFRS 9		
		141,268
Deposits and loans from banks	Amortised cost	21,923
Deposits from customers	Amortised cost	91,704
Negative fair value of derivatives	FVTPL	241
Subordinated debt	Amortised cost	1,567
Other liabilities and provisions	Amortised cost	7,336
		122,771

b) Reconciliation of financial position at first time application

Reconciliation of balance sheet presented according to IAS 39 reclassified to categories according to IFRS 9 as at 1 January 2018 including revaluation in accordance with IFRS 9 shows table below.

Financial instrument category IFRS 9

in MCZK
ASSETS
Cash and balances to central banks
Expected credit loss IFRS 9
Total 1 January 2018
Due from financial institutions
Expected credit loss IFRS 9
Total 1 January 2018
Positive fair value of derivatives
Loans and advances to customers at amortised cost
Transfer to
Loans and advances to customers at fair value through profit or loss
Expected credit loss IFRS 9
Total 1 January 2018
Loans and advances to customers at fair value through profit or loss
Transfer from
Loans and advances to customers at amortised cost
Total 1 January 2018
Financial assets for trading
Transfer to
Financial assets at fair value through other comprehensive income — debt instruments
Total 1 January 2018
Financial assets available for sale
Transfer to
Financial assets mandatorily at fair value through profit or loss
Financial assets at fair value through other comprehensive income — capital instruments — shares
Financial assets at fair value through other comprehensive income — debt instruments
Total 1 January 2018
Financial assets mandatorily at fair value through profit or loss
Transfer from
Financial assets available for sale
Total 1 January 2018
Financial assets at fair value through other comprehensive income
Transfer from
Financial assets available for sale — capital instruments — shares
Financial assets available for sale — debt instruments
Financial assets for trading
Expected credit loss IFRS 9
Total 1 January 2018

IAS 39 31 December	Reclassification	Remeasurement	IFRS 9 1 January	RE impact	OCI impact
6,911	**–**	**–**	**–**	**–**	**–**
–	–	(6)		(6)	
–	–	–	6,905	–	–
47,757	–	–	–	–	–
–	–	(2)	–	(2)	–
–	–	–	47,755	–	–
609	–	–	609	–	–
69,109	**–**	**–**	**–**	**–**	**–**
–	(206)	–	–	–	–
–	–	(416)	–	(416)	–
–	–	–	68,487	–	–
–	**–**	**–**	**–**	**–**	**–**
–	206	–	–	–	–
–	–	–	206	–	–
5,227	**–**	**–**	**–**	**–**	**–**
–	(1,408)	–	–	(11)	11
–	–	–	3,819	–	–
11,009	**–**	**–**	**–**	**–**	**–**
–	(5,121)	–	–	–	–
–	(436)	–	–	–	–
–	(5,452)	–	–	–	–
–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**
–	5,121	–	–	274	(274)
	–	–	5,121	–	–
–	**–**	**–**	**–**	**–**	**–**
–	436	–	–	–	–
–	5,452	–	–	–	–
–	1,408	–	–	–	–
–	–	–	–	(79)	79
–	–	–	7,296	–	–

Financial instrument category IFRS 9

in MCZK
ASSETS
Financial assets held to maturity
Transfer to
Financial assets at amortised cost
Total 1 January 2018
Financial assets at amortised cost
Transfer from
Financial assets held to maturity
Total 1 January 2018
Prepayments, accrued income and other assets
Financial assets total
LIABILITIES
Deposits and loans from banks
Deposits from customers
Negative fair value of derivatives
Subordinated debt
Other liabilities and provisions
Expected credit loss IFRS 9
Total 1 January 2018
Financial liabilities total

IAS 39 31 December	Reclassification	Remeasurement	IFRS 9 1 January	RE impact	OCI impact
13	**–**	**–**	**–**	**–**	**–**
–	(13)	–	–	–	–
–	–	–	–	–	–
–	**–**	**–**	**–**	**–**	**–**
–	13	–	–	–	–
–	–	–	13	–	–
1,057	–	–	1,057	–	–
141,692	**–**	**(424)**	**141,268**	**(240)**	**(184)**
21,923	–	–	21,923	–	–
91,704	–	–	91,704	–	–
241	–	–	241	–	–
1,567	–	–	1,567	–	–
7,235	–	–	–	–	–
–	–	101	–	(101)	–
–	–	–	7,336	–	–
122,670	**–**	**101**	**122,771**	**(101)**	**–**

c) Reconciliation of allowances

The following table shows the reconciliation of impairment allowances in accordance with IAS 39 and the provisions for promises and financial guarantees under IAS 37 at 31 December 2017 and the initial expected credit loss calculated in accordance with IFRS 9 as at 1 January 2018.

in MCZK

Category	IAS 39 31 December	Reclassi-fication	Remeasu-rement	IFRS 9 1 January
Impairment of balances deposited in central banks	–	–	(6)	(6)
Impairment of balances deposited in financial institutions	–	–	(2)	(2)
Impairment of loans and to customers at amortised cost	(3,023)	–	(397)	(3,420)
Impairment of other assets at amortised cost	(10)	–	–	(10)
Impairment of financial assets at fair value through other comprehensive income	–	–	(79)	(79)
Off balance sheet exposures – provision to loan commitments and provided guarantees	(19)	–	(101)	(120)
Total	**(3,093)**	**–**	**(585)**	**(3,678)**

d) Impact of IFRS 9 to deferred tax

The following table shows impact of first time adoption of IFRS 9 to positions of deferred tax.

in MCZK	IAS 39 31.12.2017	IFRS 9 01.01.2018	RE impact
Deferred tax asset/(liability)	(8)	86	94

6. CASH AND CASH EQUIVALENTS

in MCZK	2018	2017
Cash on hand (note 7)	275	265
Current accounts with central banks (note 7)	1,482	1,168
Term deposits in central banks up to 3 months (note 7)	855	3,753
Current accounts with banks (note 8)	804	1,316
Loans to central banks – repurchase agreements (note 8)	52,437	45,006
Term deposits due from fin. institutions up to 3 months (note 8)	251	227
Loans due from banks – repurchase agreements (note 8)	–	933
Total	**56,104**	**52,668**

7. CASH AND BALANCES WITH CENTRAL BANKS

in MCZK	2018	2017
Balances with central banks (including obligatory minimum reserves)	1,845	1,725
Current accounts with central banks	1,487	1,168
Term deposits in central banks up to 3 months	855	3,753
Expected credit losses (note 13)	(6)	–
Total balance with central banks	4,181	6,646
Cash on hand	275	265
Total	**4,456**	**6,911**

Balances with central banks represent the obligatory minimum reserves maintained under Czech National Bank, National Bank of Slovakia, Central Bank of the Russian Federation regulations and the Croatian National Bank. The obligatory minimum reserve is stated as 2% of primary deposits with maturity of less than two years and is interest bearing except for Central Bank of the Russian Federation where the obligatory minimum reserve is stated as 5% of primary deposits and is non-interest bearing and the Croatian National Bank where the obligatory minimum reserves is stated as 12% of liquid claims and is non-interest bearing. The Group 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 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.

8. DUE FROM FINANCIAL INSTITUTIONS

in MCZK	2018	2017
Current accounts with banks	805	1 316
Term deposits and loans up to 3 months	251	227
Term restricted deposits and loans over 3 months	92	2
Subordinated loans to banks	206	205
Loans due from banks - repurchase agreements (note 10)	–	933
Loans to central banks - repurchase agreements (note 10)	52,437	45,006
Other receivables	327	68
Expected credit losses (note 13)	(3)	–
Total	**54,115**	**47,757**

There were no overdue current account with banks as of 31 December 2018 and 31 December 2017.

The contractual weighted average interest rate on deposits and loans with other banks was 1.70% p.a. (2017: 0.63% p.a.).

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

9. DERIVATIVES

(a) Derivatives held for trading:

in MCZK	2018 Notional amount buy	2018 Notional amount sell	2018 Fair value Positive	2018 Fair value Negative
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)**

in MCZK	2017 Notional amount buy	2017 Notional amount sell	2017 Fair value Positive	2017 Fair value Negative
Currency derivatives	79,538	(79,103)	521	(238)
Equity derivatives	953	(874)	79	–
Commodity derivatives	5	(5)	–	(3)
Total as at 31 December 2017	**80,496**	**(79,982)**	**600**	**(241)**

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

Purchased and written options are recognized in the trading portfolio. Written options comprise derivatives embedded in structured client deposits. The Group has purchased matching options (with the same underlying assets, maturity and strike prices) from third parties in order to hedge the exposures. Accordingly, the fair value of the purchased options portfolio equals to the fair value of the sum of the written options.

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.

The foreign currency structure of these transactions was as follows:

Long position	CZK	EUR	USD	RUB	other
31 December 2018	51 %	41 %	1 %	1 %	6 %
31 December 2017	57 %	39 %	1 %	1 %	2 %

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

Short position	CZK	EUR	USD	RUB	other
31 December 2018	39 %	44 %	9%	1 %	7 %
31 December 2017	36 %	59 %	2%	1 %	2 %

(b) Derivatives held for risk management:

Fair value hedging

in MCZK	2018 Notional amount buy	2018 Notional amount sell	2018 Fair value Positive	2018 Fair value Negative
Currency derivatives	143	(141)	1	–
Total as at 31 December 2018	**143**	**(141)**	**1**	**–**

in MCZK	2017 Notional amount buy	2017 Notional amount sell	2017 Fair value Positive	2017 Fair value Negative
Currency derivatives	265	(255)	9	–
Total as at 31 December 2017	**265**	**(255)**	**9**	**–**

All derivatives held for risk management are classified as level 2 according to fair value hierarchy.

The objective of this hedge is to cover the foreign currency exposure to changes in fair value of financial assets available for sale and investment in equity accounted investees denominated in foreign currency over the hedging period. The Group uses currency forwards to reach effectiveness within the hedging relationship.

10. FINANCIAL SECURITIES

(a) Financial assets for trading:

in MCZK	2018 Fair value	2017 Fair value
SHARES		
— domestic	311	467
— foreign	303	10
BONDS		
— domestic	2,476	1,715
— foreign	2,025	3,035
ALLOTMENT CERTIFICATE		
— domestic	3	—
— foreign	4	—
Total	**5,122**	**5,227**

in MCZK	2018 Fair value	2017 Fair value
SHARES		
— listed	614	477
BONDS		
— listed	4,501	4,750
ALLOTMENT CERTIFICATE		
— listed	7	—
Total	**5,122**	**5,227**

in MCZK	2018 Fair value	2017 Fair value
SHARES		
— corporate	432	371
— financial institutions	182	106
BONDS		
— government	2,345	2,228
— financial institutions	555	1,099
— corporate	1,601	1,423
ALLOTMENT CERTIFICATE		
— financial institutions	7	—
Total	**5,122**	**5,227**

in MCZK	2018 Fair value	2017 Fair value
SHARES		
— Level 1 — quoted market price	611	458
— Level 2 — derived from quoted prices	—	17
— Level 3 — calculated using valuation techniques	3	2
BONDS		
— Level 1 — quoted market price	3,278	3,450
— Level 2 — derived from quoted prices	1,183	1,266
— Level 3 — calculated using valuation techniques	40	34
ALLOTMENT CERTIFICATE		
— Level 2 — derived from quoted prices	7	—
Total	**5,122**	**5,227**

Foreign bonds include mainly company bonds of CZK 1 873 million (2017: CZK 2 289 million) in the structure of Slovakian bonds of CZK 849 million (2017: CZK 1 191 million), Russian bonds of CZK 233 million (2017: CZK 568 million), Luxembourgian bonds of CZK 527 million (2017: CZK 223 million), Great Britain bonds of CZK 128 million (2017: CZK 0 million), Dutch bonds of CZK 63 million (2017: CZK 165 million) and Irish bonds of CZK 28 million (2017: CZK 84 million).

Foreign government bonds totalling to CZK 152 million (2017: CZK 746 million) represent Poland government bonds of CZK 64 million (2017: CZK 64 million), Romanian government bonds of CZK 61 million (2017: CZK 62 million) and Turkish government bonds of CZK 27 million (2017: CZK 41 million).

The contractual weighted average interest rate on bonds was 3.5% p.a. (2017: 4.13% p.a.).

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

in MCZK	2018 Fair value
ALLOTMENT CERTIFICATES	
— domestic	2,598
— foreign	3,513
Total	**6,111**

in MCZK	2018 Fair value
ALLOTMENT CERTIFICATES	
— not listed	6,111
Total	**6,111**

in MCZK	2018 Fair value
ALLOTMENT CERTIFICATES	
— financial institutions	6,111
Total	**6,111**

in MCZK	2018 Fair value
ALLOTMENT CERTIFICATES	
— Level 2 — derived from quoted prices	4,036
— Level 3 — calculated using valuation techniques	2,075
Total	**6,111**

Foreign allotment certificates comprise of Malta certificates of CZK 3 477 million (2017: CZK 2 376 million).

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

in MCZK	2018 Fair value
Bonds	
— domestic/listed/corporate	52
Total	**52**

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

(d) Financial assets available for sale:

in MCZK	2017 Fair value
SHARES	
— domestic	164
— foreign	272
ALLOTMENT CERTIFICATES	
— domestic	2,525
— foreign	2,596
BONDS	
— domestic	815
— foreign	4,637
Total	**11,009**

in MCZK	2017 Fair value
SHARES	
— listed	347
— not listed	89
ALLOTMENT CERTIFICATES	
— listed	88
— not listed	5,033
BONDS	
— listed	4,592
— not listed	860
Total	**11,009**

in MCZK	2017 Fair value
SHARES	
— financial institutions	89
— corporate	347
ALLOTMENT CERTIFICATES	
— financial institutions	5 115
— corporate	6
BONDS	
— government	468
— financial institutions	1,163
— corporate	3,821
Total	**11,009**

in MCZK	2017 Fair value
SHARES	
— Level 1 — quoted market price	215
— Level 2 — derived from quoted prices	220
— Level 3 — calculated using valuation techniques	1
ALLOTMENT CERTIFICATES	
— Level 2 — derived from quoted prices	4,102
— Level 3 — calculated using valuation techniques	1,019
BONDS	
— Level 1 — quoted market price	2,253
— Level 2 — derived from quoted prices	599
— Level 3 — calculated using valuation techniques	2,600
Total	**11,009**

Foreign shares in portfolio as at 31 December 2017 comprised mainly Slovakian company shares of CZK 131 million, Russian company shares of CZK 89 million and Swiss company shares of CZK 52 million.

Foreign allotment certificates comprise of Malta certificates of CZK 2 376 million, Slovakian certificates of CZK 132 million and Croatian certificates of CZK 88 million.

Foreign bonds in portfolio as at 31 December 2017 comprised mainly of Slovakian company bonds of CZK 2 510 million, Luxembourgian company bonds of CZK 824 million, Croatian company bonds of CZK 413 million, Irish company bonds of CZK 364 million, Dutch company bonds of CZK 204 million and Russian company bonds of CZK 170 million.

The contractual weighted average interest rate on bonds was 5.21% p.a.

No promissory notes in portfolio in 2018.

In 2017, the Group has identified an impairment of financial assets available for sale amounting to CZK 123 million.

(e) Financial assets at fair value through other comprehensive income:

in MCZK	2018 Fair value
SHARES	
— domestic	177
— foreign	280
BONDS	
— domestic	690
— foreign	4,745
Total	**5,892**

in MCZK	2018 Fair value
SHARES	
— listed	358
— not listed	99
BONDS	
— listed	5,106
— not listed	329
Total	**5,892**

in MCZK	2018 Fair value
SHARES	
— financial institutions	95
— corporate	362
BONDS	
— government	916
— financial institutions	1,216
— corporate	3,303
Total	**5,892**

Foreign shares in portfolio as at 31 December 2018 comprised mainly Slovakian company shares of CZK 142 million and Russian company shares of CZK 95 million.

Foreign bonds in portfolio as at 31 December 2018 comprised mainly of Slovakian company bonds of CZK 2 402 million, Russian company bonds of CZK 1 149 million, Croatian company bonds of CZK 516 million, Kazachstan company bonds of CZK 292 million and Dutch company bonds of CZK 151 million.

The contractual weighted average interest rate on bonds was 3.16% p.a.

All bonds are classified in stage 1 and total amount of expected credit loss as at 31 December 2018 is CZK 24 million.

in MCZK	2018 Fair value
SHARES	
— Level 1 — quoted market price	177
— Level 2 — derived from quoted prices	276
— Level 3 — calculated using valuation techniques	4
BONDS	
— Level 1 — quoted market price	2,499
— Level 2 — derived from quoted prices	608
— Level 3 — calculated using valuation techniques	2,328
Total	**5,892**

(f) Financial assets held to maturity:

in MCZK	2017 Amortised cost
BONDS	
— foreign/listed/corporate	13
Total	**13**

Foreign bonds comprised of Luxemburgian corporate bonds of CZK 13 million. The contractual weighted average interest rate on bonds was 2.93% p.a.

(g) Financial assets at amortised cost:

in MCZK	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	POCI	Carrying amount
BONDS						
— foreign/listed/financial institutions	31	(1)	–	–	–	30
31 December 2018	**31**	**(1)**	**–**	**–**	**–**	**30**

Foreign bonds comprise of Russian zero bond at level 2.

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, so there may be a situation that in the case of one issuer, one security may be classified into level 1 and the other one into level 2 or 3, based on the criteria stated in an internal decision-making tree.

The following table sets out information about significant unobservable inputs used at December 31, 2018 in measuring financial assets categorised as Level 3 in the fair value hierarchy:

Type of financial assets	Valuation technique	Significant unobservable input	Range of estimates	Fair value measurement sensitivity to unobservable inputs
bonds	discounted cash flow	Credit spread	1% - 5%	A significant increase would result in a lower fair value.
		Free-risk rate	-0,5% - 3,0%	
allotment certificate	discounted cash flow	Expected cash flow from fund	Investment based	A significant increase in expected net cash flows would result in a higher fair value.

The following table shows a reconciliation of the opening and closing balances as for 2018 of Level 3 financial assets that are recorded at fair value:

in MCZK	1.1.2018	Revaluation to OCI	Revaluation to profit or loss	Transfer from Level 2	Addition	Liquidation	FX movement	Interest income	31.12.2018
FINANCIAL ASSETS FOR TRADING									
shares	2	—	1	—	—	—	—	—	3
bonds	34	—	(3)	26	—	(17)	—	—	40
FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS									
allotment certificates	1 019		26	—	1 030	(5)	5	—	2,075
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME									
shares	1	—	—	—	3	—	—	—	4
bonds	2,519	24	—	—	—	(228)	21	(8)	2,328
Total	**3,575**	**24**	**24**	**26**	**1,033**	**(250)**	**26**	**(8)**	**4,450**

11. REPURCHASE AND RESALE AGREEMENTS

(a) Resale 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. Legal right to financial assets is transferred to the Group, respectively entity which is a loan provider. Reverse repurchases are entered into as a facility to provide funds to customers. As of 31 December 2018 and 31 December 2017, assets purchased pursuant to the agreements to resell them were as follows:

in MCZK	Fair value of asets held as collateral	Carrying amount of receivable	Repurchase date	Repurchase price
Loans to banks (note 8)	51,903	52,437	To 1 month	52,456
Loans and advances to customers (note 12)	1,100	758	To 1 month	760
Loans and advances to customers (note 12)	2,684	1,787	To 3 months	1,795
Total as at 31 December 2018	**55,687**	**54,982**		**55,011**
Loans to banks (note 8)	45,274	45,939	To 1 month	45,068
Loans and advances to customers (note 12)	1,996	1,279	To 1 month	1,204
Loans and advances to customers (note 12)	595	365	To 3 months	366
Total as at 31 December 2017	**47,865**	**47,583**		**46,638**

(b) Repurchase agreements

Transactions where securities are sold under a repurchase agreement (repo transaction) at a predetermined price are accounted for as loans collateralised by the securities. The legal title to the respective securities is transferred to the lender. However, the securities transferred under a repo transaction are still recognised in the statement of financial position. The price for the sold securities are recognised as a liability and presented under “Deposits and loans from banks” or “Deposits from customers”.

in MCZK	Fair value of assets given as collateral	Carrying amount of liability	Repurchase date	Repurchase price
Loans from customers (note 22)	12	12	To 1 month	12
Loans from customers (note 22)	2	3	To 3 months	3
Total as at 31 December 2018	**14**	**15**		**15**
Loans from banks (note 21)	20,541	20,540	To 5 Years	20,518
Loans from customers (note 22)	38	38	To 1 month	38
Loans from customers (note 22)	17	17	To 1 Year	18
Total as at 31 December 2017	**20,596**	**20,595**		**20,574**

As at 31 December 2018, the Group does not recognize securities sold under repurchase agreements in the statement of financial position (2017: CZK 20 540 million). Securities under repurchase agreements recognize of CZK 15 million (2017: CZK 55 million) which were purchased under reverse repurchase operations before.

12. LOANS AND ADVANCES TO CUSTOMERS

in MCZK	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 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 — repurchase agreements	2,545	—	—	—	—	2,545
Margin lending (debets)	8,638	—	—	—	—	8,638
Other receivables	26	(1)	—	(3)	(1)	21
Total 31 December 2018	**75,397**	**(208)**	**(51)**	**(3,579)**	**(31)**	**71,528**

Loans and advances to customer at FVTPL

in MCZK	31.12.2018	31.12.2017
Loans and advances to customer at FVTPL mandatorily	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 perfomance measurement of these loans and advance are on a fair value basis.

Loans and advances to customers as at 31 December 2018 include loans amounting to CZK 8 016 million (2017: CZK 17 668 million) where the repayment of the loans is dependent upon the successful realization of the assets whose acquisition was financed by the relevant loans. These assets are pledged in favour of the Group. The financed assets may comprise both tangible and intangible assets. The Group recognises the loans dependent on asset realisation according to the actual nature of each individual loan.

The amount of non-interest bearing loans as at 31 December 2018 totalled to CZK 103 million (2017: CZK 106 million). These loans were mostly acquired from the former Podnikatelská banka or loans that are after due and therefore bearing no interest. Receivables from these loans are fully impaired.

The contractual weighted average interest rate on loans to customers was 5.78% p.a. (2017: 6.10% p.a.).

For the additional information about Loans and advances to customers refer to note 43.

Allowances for impairment of loans according to IAS 39

in MCZK	2017
1 January	2,700
Charge / (reversal) in the reporting period	763
Use / write-offs	(354)
Currency difference	(86)
Total as at 31 December	**3,023**

13. EXPECTED CREDIT LOSSES

a) Cash and cash balances at central banks at amortised cost

in MCZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**–**	**–**	**–**	**–**	**–**
Effect from implementation IFRS 9	6	–	–	–	6
Total as at 1 January 2018	**6**	**–**	**–**	**–**	**6**
New financial assets originated or purchased	6	–	–	–	6
Financial assests derecognised during the period	(6)				(6)
Total as at 31 December 2018	**6**	**–**	**–**	**–**	**6**

b) Loans and advances to banks at amortised cost

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

c) Loans and advances to customers at amortised cost

in MCZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**30**	**10**	**2,917**	**66**	**3,023**
Effect from implementation IFRS 9	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	–	–
— changes in credit risk net	(51)	10	1,224	(18)	1,165
— modification of contracutual cash flows of financial assets without derecognition net	–	1	(57)	–	(56)
New financial assets originated or purchased	114	2	107	–	223
Unwind of discount	–	–	67	3	70
Financial assests derecognised during the period	(43)	(6)	(604)	(1)	(654)
Write-offs / Use	(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**

d) Financial assets at FVOCI

in MCZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**–**	**–**	**–**	**–**	**–**
Effect from implementation IFRS 9	79	–	–	–	79
Total as at 1 January 2018	**79**	**–**	**–**	**–**	**79**
— changes in credit risk net	(65)	–	–	–	(65)
New financial assets originated or purchased	20	–	–	–	20
Financial assests derecognised during the period	(11)	–	–	–	(11)
Foreign exchange rate movements	1	–	–	–	1
Total as at 31 December 2018	**24**	**–**	**–**	**–**	**24**

e) Financial assets at amortised cost (bonds)

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

f) Financial commitments and quarantees

in MCZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**14**	**—**	**5**	**—**	**19**
Effect from implementation IFRS 9	11	1	89	—	101
Total as at 1 January 2018	**25**	**1**	**94**	**—**	**120**
— changes in credit risk net	(14)	(1)	38	—	23
New financial assets originated or purchased	46	3	2	—	51
Financial assests derecognised during the period	(32)	(3)	(38)	—	(73)
— modification of contracutual cash flows of financial assets without derecognition net	(1)	2	—	—	1
Foreign exchange rate movements	(1)	—	—	—	(1)
Total as at 31 December 2018	**23**	**2**	**96**	**—**	**121**

g) Other assets

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

14. GROSS CARRYING AMOUNT

Gross carrying amount of financial assets

in MCZK	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**
Reclasification	(206)	—	—	—	(206)
Effect from implementation IFRS 9	—	—	(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 of full repayment)	445	37	177	—	659
Increase due to origination and acquisition — gross	31,842	35	240	7	32,124
Financial assests derecognised during the period	(23,979)	(723)	(2,608)	(111)	(27,421)
Write-offs / Use	—	—	(13)	—	(13)
Other	7	4	24	5	40
Foreign exchange rate movements	(38)	8	29	(8)	9
Total as at 31 December 2018	**63,875**	**2,987**	**8,472**	**63**	**75,397**

Financial assets at FVOCI

in MCZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**6,664**	**—**	**—**	**—**	**6,664**
Effect from implementation IFRS 9	—	—	—	—	—
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 of full repayment)	(26)	—	—	—	(26)
Increase due to origination and acquisition — gross	4,950	—	—	—	4,950
Financial assests derecognised during the period	(6,284)	—	—	—	(6,284)
Foreign exchange rate movements	155	—	—	—	155
Total as at 31 December 2018	**5,465**	**—**	**—**	**—**	**5,465**

15. INVESTMENT PROPERTY

Investment property include building in the property of Interznanie, OAO amounting to CZK 356 million (2017: CZK 407 million). Entire 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 2018 and as at 31 December 2017.

The following table set out information about significant unobservable inputs used in measuring assets categorised as Level 3 in the fair value hierarchy at December 31, 2018:

Type of assets	Valuation technique	Significant unobservable input	Range of estimates	Fair value measurement sensitivity to unobservable inputs
Investment property	The sales comparison approach	Price per sq. m	Investment property value	A significant increase would result in a higher fair value.

in MCZK	2018	2017
1 January	**407**	**469**
Change	(2)	(4)
Effect of movement in foreign exchange	(49)	(58)
Total as at 31 December	**356**	**407**

In 2018 there was a minor change in the share of leased area building companies in the consolidation scope of the Group which affected the amount of investment property.

Rental income from investment property of CZK 14 million (2017: CZK 19 million) has been recognized in other operating income. Operating expenses directly attributable to investment property of CZK 4 million (2017: CZK 6 million) have been recognized in other operating expenses.

16. PROPERTY, PLANT AND EQUIPMENT

The movements during the period were as follows:

in MCZK	Land and buildings	Fixtures, fittings and equipment	Total
COST			
1 January 2017	**200**	**119**	**319**
Additions	9	13	22
Additions from acquisition	–	2	2
Disposals	–	(7)	(7)
Effect of movement in foreign exchange	(18)	(5)	(23)
31 December 2017	**191**	**122**	**313**
DEPRECIATION AND IMPAIRMENT LOSSES			
1 January 2017	**31**	**72**	**103**
Depreciation	8	10	18
Depreciation from acquisition	–	2	2
Disposal	–	(7)	(7)
Effect of movement in foreign exchange	(3)	(4)	(7)
31 December 2017	**36**	**73**	**109**
COST			
1 January 2018	**191**	**122**	**313**
Additions	–	3	3
Disposals	–	(8)	(8)
Effect of movement in foreign exchange	(13)	(4)	(17)
31 December 2018	**178**	**113**	**291**
DEPRECIATION AND IMPAIRMENT LOSSES			
1 January 2018	**36**	**73**	**109**
Depreciation	12	7	19
Disposals	–	(8)	(8)
Effect of movement in foreign exchange	(2)	(2)	(4)
31 December 2018	**46**	**70**	**116**
NET BOOK VALUE			
31 December 2017	**155**	**49**	**204**
31 December 2018	**132**	**43**	**175**

Property is insured against theft and natural disaster.

17. INTANGIBLE ASSETS AND GOODWILL

The movements during the period were as follows:

in MCZK	Software	Other intangible assets	Goodwill	Total
COST				
1 January 2017	**479**	**135**	**460**	**1,074**
Additions	71	–	–	71
Additions from acquisition	2	–	3	5
Disposals	(3)	–	–	(3)
Effect of movement in foreign exchange	(4)	–	(33)	(37)
31 December 2017	**545**	**135**	**430**	**1,110**
AMORTIZATION AND IMPAIRMENT LOSSES				
1 January 2017	**352**	**123**	**430**	**905**
Amortisation	70	8	–	78
Effect of movement in foreign exchange	(2)	–	(33)	(35)
31 December 2017	**420**	**131**	**397**	**948**
COST				
1 January 2018	**545**	**135**	**430**	**1,110**
Additions	56	8	–	64
Additions from acquisition	–	–	–	–
Disposals	(3)	–	–	(3)
Effect of movement in foreign exchange	(1)	–	(29)	(30)
31 December 2018	**597**	**143**	**401**	**1,141**
AMORTIZATION AND IMPAIRMENT LOSSES				
1 January 2018	**420**	**131**	**397**	**948**
Amortisation	74	1	–	75
Effect of movement in foreign exchange	–	–	(29)	(29)
31 December 2018	**494**	**132**	**368**	**994**
NET BOOK VALUE				
31 December 2017	**125**	**4**	**33**	**162**
31 December 2018	**104**	**11**	**33**	**148**

There was no increase in goodwill in 2018 and 2017 (see the note 48).

Based on the impairment testing, there was not recorded impairment of goodwill in 2018 and in 2017 (see the note 4).

18. OPERATING LEASES

(a) Leases entered into as lessee

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

in MCZK	2018	2017
Less than one year	70	113
Between one and five years	214	356
More than five years	43	–
Total	**327**	**469**

(b) Leases entered into as lessor

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

in MCZK	2018	2017
Less than one year	3	29
Between one and five years	9	19
Total	**12**	**48**

19. PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS

in MCZK	2018	2017
Other trade receivables	409	376
Receivables from customers from securities trading	340	402
Other receivables	202	94
Prepayments and accrued income	96	108
Receivables from fees for portfolio management	45	65
Advance payments — other	27	23
Other tax assets	8	9
Allowances for impairment of other assets	(19)	(10)
Total	**1,108**	**1,067**

Other trade receivables as at 31 December 2018 include fees for the issue of bonds and promissory notes of CZK 167 million (2017: CZK 13 million) and large number of sundry items that are not significant on an individual basis.

All other assets are classified at amortised cost, gross carrying amount totally CZK 1 126 million is classified generally in Stage 2 except of CZK 8 million in Stage 1 and CZK 6 million in Stage 3. Expected credit loss movement for other assets is in note 13.

20. DISPOSAL GROUPS HELD FOR SALE

The disposal group consists principally of companies which are intended to be sold or contributed in-kind as part of the Group's on-going reorganisation plan in 2018.

The structure of the assets and liabilities of the disposal group held for sale as at 31 December 2018 is as follows:

2018

in MCZK	J&T Ostravice Active Life UPF	Other	Total
Assets associated with assets held for sale	64	188	252
Net amount of disposal group held for sale	**64**	**188**	**252**

Sale of J&T Ostravice Active Life UPF was delayed by approval process of land plan that is out of the Group's control. Approving of the land plan was an inevitable condition to run the entity's activities and commence the sale. In 2018, communications and networks were completed according to the plan and sale of the land was launched.

As the Fund received sufficient sources of cash, according to the fund's statute a 40 % portion of funds shares was admitted to each owner as at reference date, December 31, 2018. The settlement date must be no later than 5 months from the reference date, after approval the funds property value by auditor. For the Group, this meant realizing a 40% share of the investment held.

The Group's share will continue to decline as sales will be proceeded.

The other assets held for sale represent land, buildings and apartments, which were repossessed as collaterals to loans and are planned to be sold.

The structure of the assets and liabilities of the disposal group as at 31 December 2017 was as follows:

2017

in MCZK	J&T Ostravice Active Life UPF	Other	Total
Assets associated with assets held for sale	107	309	416
Net amount of disposal group held for sale	**107**	**309**	**416**

21. DEPOSITS AND LOANS FROM BANKS

Deposits and loans from banks comprise:

in MCZK	2018	2017
Deposits from banks	2,250	1 383
Loans from banks — repurchase agreements (note 11)	—	20,540
Total	**2,250**	**21,923**

The contractual weighted average interest rate on deposits and loans from banks was 0.15% p.a. as at 31 December 2018 (2017: -1.78% p.a.).

22. DEPOSITS FROM CUSTOMERS

Deposits from customers comprise:

in MCZK	2018	2017
Current accounts	55,424	41,241
Term deposits	63,505	50,343
Loans from customers — repurchase agreements (note 11)	15	55
Other	55	65
Total	**118,999**	**91,704**

The contractual weighted average interest rate on deposits from customers was 1.15% p.a. as at 31 December 2018 (2017: 1.01% p.a.).

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

in MCZK	2018 Fair value	2017 Fair value
Issued debt securities	50	—
Total	**50**	**—**

On April 23, 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 are subject to the repayment of the nominal value and interest income of the underlying asset. Certificates are issued in CZK, interest is paid quarterly. The issuance of certificates is kept in the records of the Central Securities Depository.

At initial recognition, the Group recorded issued debt securities and 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 another basis. Changes in fair value due to credit risk during 2018 were CZK 1 million.

24. SUBORDINATED DEBT

Subordinated debt at amortised cost:

in MCZK	2018	2017
Issued subordinated bonds	—	640
Subordinated debt — term deposit from customers	937	927
Total	**937**	**1 567**

On 17 September 2018 were repaid subordinated bonds, which the Group issued on 28 February 2007, with a notional amount of EUR 25 million maturing in 2022.

The subordinated debt – term deposit from customers with a maturity up to 2025 bear an interest rate between 5.1% and 7.4% p.a.

Czech National Bank approved the subordinated debt as a part of the capital for regulatory purposes.

25. OTHER LIABILITIES AND PROVISIONS

in MCZK	2018	2017
Payables from securities of clients at trader´s disposal	6,292	6,035
Estimated payables, accruals and deferred income	174	164
Trade payables	157	133
Payables to employees	35	46
Payables related to social costs	16	14
Other tax liabilities	49	41
Other liabilities	284	754
Other liabilities	**7,007**	**7,187**
Provision for employee bonuses	956	649
Other current provisions	18	32
Provision for loyalty programmes — customers	28	29
Provision for off-balance sheet items (note 13)	121	19
Stage 1	23	–
Stage 2	2	–
Stage 3	96	–
Provision for loyalty programmes — employees	3	3
Provisions	1,126	732
Total	**8,133**	**7,919**

Other liabilities primarily include payables from clearing of CZK 23 million (2017: CZK 70 million) and incoming and outgoing payments from nostro accounts of CZK 8 million (2017: CZK 332 million).

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.

The loyalty programme has been established to provide non-monetary performances to employees in relation to the employment and similar relationships, and bonuses and to customers when they sign up for any of selected Group products. Since the performance is provided for an unlimited period of time and the withdrawals can be made continuously, the provision for loyalty programme is a long-term one. The Group establishes a provision for loyalty programme for bonuses to customers of CZK 28 million (2017: CZK 29 million) and to employees of CZK 3 million (2017: CZK 3 million).

A provision for off-balance sheet items comprises in particular the provision for the loan committments and guarantees of CZK 121 million (2017: CZK 19 million).

As at 31 December 2018, other provisions amounted to CZK 18 million (2017: CZK 32 million). It is expected that these provisions will be utilised after 12 or more months after the balance sheet date. These provisions include in particular a provision for unpaid premium interest from municipal deposits and a provision for commission fees in respect of the bond emission.

Provisions:

in MCZK	Balance as at 1 January 2018	Additions / Creations	Use / Release	Foreign exchange difference	Balance as at 31 December 2018
Employee bonuses	649	651	(342)	(2)	956
Other current provisions	32	14	(28)	—	18
Loyalty programmes — customers	29	—	(1)	—	28
Provision for off-balance	120	51	(50)	—	121
Loyalty programmes — employees	3	4	(4)	—	3
Total	**833**	**720**	**(425)**	**(2)**	**1 126**

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

in MCZK	2018
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 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 relevant part of the profit will be paid to the purpose-built capital fund for the payment of revenue from certificates, that is part of the Equity, and the rest of the profit will be paid as a dividend to shareholders.

Retained earnings
Retained earnings are distributable to the Group's shareholders and are subject to the shareholders meeting resolution. As at 31 December 2018, retained earnings amounted to CZK 6 887 million (2017: CZK 6 545 million). For detail of retained earnings refer to 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 last paragraph in Other capital instruments.

The other non-distributable capital funds amounted to CZK 46 million as at 31 December 2018 (2017: CZK 43 million).

Translation and revaluation reserve
Translation and revaluation reserve comprise the items arisen from the following:
— changes in the fair value of financial assets available for sale;
— all foreign exchange difference arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Group.

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The sum of translation and revaluation reserve was negative as at 31 December 2018 amounting to CZK 1 671 million (2017: CZK 1 122 million).

Other capital instruments
On 19 June 2014, the Czech National Bank approved the prospectus of revenue certificate emission of total estimated value of CZK 1 000 million with expected revenue of 10% p.a.

On 12 September 2015, the Czech National Bank approved the prospectus of second revenue certificate emission of total estimated value of CZK 1 000 million with expected revenue of 9% p.a.

On 11 December 2015, the Czech National Bank approved the prospectus of third revenue certificate emission of total estimated value of EUR 50 million with expected revenue of 9% p.a.

As at 31 December 2018, the volume of outstanding certificates reached CZK 2 597 million (2017: CZK 2 597 million).

On 30 June 2014, the Bank's Board of Directors also approved the establishment of a purpose-built capital fund for the payment of revenue from certificates of CZK 100 million. This fund was created from retained earnings. The payment of revenue from certificates is governed by the conditions defined in the prospectus. In 2018, revenue of CZK 262 million (2017: CZK 216 million) was paid out from the fund. As at 31 December 2018, the purpose-built capital fund for the payment of revenue from certificates was in amount of CZK 161 million (2017: CZK 181 million).

27. NON-CONTROLLING INTEREST

in MCZK	2018	2017
J&T Bank, a.o.	1	2
Interznanie, OAO	(3)	(3)
TERCES MANAGEMENT LIMITED	5	5
J&T REALITY, o.p.f.	528	537
J&T banka d.d.	41	53
Total	**572**	**594**

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

31.12.2018

in MCZK	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/loss 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)	–
Net increase in cash and cash equivalents	(79)	(31)

31.12.2017

in MCZK	J&T REALITY, o.p.f.	J&T banka d.d.
Non-controlling interest	46.92%	17.24%
Assets	1,202	4,389
Liabilities	56	3,914
Net assets	**1,146**	**475**
Carrying amount of non-controlling interest	537	53
Income	89	307
Profit for the period	(99)	(103)
Total profit for the period	**(99)**	**(103)**
Profit for the period attributable to non-controlling interest	(46)	(18)
Cash flows from operating activities	27	(203)
Cash flows from financing activities	–	43
Cash flows from investing activities	49	(1)
Net increase in cash and cash equivalents	76	(161)

28. INCOME TAX

Income tax was calculated in accordance with Czech tax regulations at the rate of 19% in 2018 (2017: 19%). The income tax rate for 2019 will be 19%.

The Slovak branch pays tax in accordance with Slovak tax law. 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 income tax rate in Slovakia for 2018 is 21% (2017: 21%). As from 1 January 2019 the tax rate in Slovakia is 21%.

The Czech Republic currently has a number of laws related to various taxes imposed by governmental authorities. Applicable taxes include value-added tax, corporate tax, and payroll (social) taxes and various others. Tax declarations, together with other legal compliance areas (such as customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose fines, penalties and interest charges. This results in tax risks in the Czech Republic which are substantially more significant than typically found in countries with more developed tax systems.

Effects of different tax rates of subsidiaries are taken into account when calculating income tax in total and are represented by row “Effect of tax rates in foreign jurisdictions”. The income tax rate in Russia for 2018 is 20% (2017: 20%). The income tax rate in Croatia for 2018 is 18% (2017: 18%).

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

The reconciliation of the expected income tax expense is as follows:

in MCZK	2018	2017
Profit before tax	2,538	2,617
Tax using applicable tax rate (19%)	482	497
Reconciliation:		
Effect of tax rates in foreign jurisdictions	8	24
Non-taxable income	(376)	(234)
Non/deductible expenses	340	152
Changes in estimates related to prior years	–	(13)
Other	8	(5)
Income taxes total	**462**	**421**
Effective tax rate	18.2%	16.1%
of which:		
Deferred tax (expense) / revenue	140	10
Current tax (expense)	(602)	(431)

The main adjustments when calculating the taxable profit from the accounting profit relate to tax exempt income 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, gifts and representation expenses.

29. DEFERRED TAX

The Group has the following deferred tax assets and liabilities:

in MCZK	2018 Deferred tax asset / (liability)	2017 Deferred tax asset / (liability)
Property, plant and equipment	4	–
Financial assets available for sale/FVOCI	14	(15)
Financial assets FVTPL	(8)	–
Investment property	(61)	(80)
Loans and receivables	56	–
Tax losses	25	14
Other liabilities and provisions	193	73
Net deferred tax asset / (liability)	**223**	**(8)**

The deferred tax asset and liability is calculated using the 2018 income tax rate of 19%, for J&T Bank, a.o. 20%, J&T banka d.d. 18% and for J&T Banka Slovak Branch 21% (2017: 19%, 20%, 18% and 21%).

The following table shows the reconciliation between the deferred tax charge and the change in deferred tax liabilities in 2018.

in MCZK	2018	2017
Deferred tax liability, net as at 31 December	(8)	(23)
IFRS 9 transition impact	94	–
Adjusted deferred tax liability, net as at 1 January	86	(23)
Deferred tax expense in the period (see note 28)	140	10
Deferred tax recognized in equity	(14)	(8)
Currency difference	11	(13)
Net deferred tax asset / (liability)	**223**	**(8)**

The following table shows the net deferred tax by company as at 31 December 2018:

in MCZK	Deferred tax Asset	Deferred tax Liability	Net
J&T BANKA, a.s. (parent company)	303	–	303
J&T INVESTIČNÍ SPOLEČNOST, a.s.	2	–	2
J&T Leasingová společnost, a.s.	2	–	2
J&T IB and Capital Markets, a.s.	–	(1)	(1)
Interznanie, OAO	–	(61)	(61)
J&T Bank, a.o.	–	(27)	(27)
J&T banka d.d.	5	–	5
Net deferred tax asset / (liability)	**312**	**(89)**	**223**

The following table shows the net deferred tax by company as at 31 December 2017:

in MCZK	Deferred tax Asset	Deferred tax Liability	Net
J & T BANKA, a.s. (parent company)	83	–	83
J&T INVESTIČNÍ SPOLEČNOST, a.s.	3	–	3
ATLANTIK finanční trhy, a.s.	–	(2)	(2)
Interznanie, OAO	–	(70)	(70)
J&T Bank, a.o.	–	(28)	(28)
J&T banka d.d.	4	–	4
Net deferred tax asset / (liability)	**90**	**(98)**	**(8)**

30. INTEREST INCOME

in MCZK	2018	2017
Interest income from:		
Due from financial institutions	77	89
Loans and advances to customers	3,865	4,288
Repo transactions	740	261
Bonds and other fixed income securities	465	403
Total	**5,147**	**5,041**

Item "Loans and advances to customers" includes commissions for origination of loans of CZK 109 million (2017: CZK 86 million), which are part of effective interest rate.

Interest income according to classes of assets:

in MCZK	2018	2017
Interest income from:		
Financial assets at fair value through profit or loss:		
— those held for trading	153	100
— those mandatorily at fair value	7	—
— those designated at initial recognition	1	35
Other interest income:	161	135
Financial assets available for sale	—	246
Financial assets at FVOCI	302	—
Financial assets held to maturity	2	23
Loans and other receivables at amortised cost	4,682	4,637
— of which: Impaired loans and receivables	322	292
— of which: Forbereance	31	114
Interest income calculated using effective interest rate:	4,986	4,906
Total	**5,147**	**5,041**

31. INTEREST EXPENSE

in MCZK	2018	2017
Interest expense on:		
Deposits and loans from banks	(25)	(12)
Deposits from customers	(1,273)	(1,251)
Repo transactions	(19)	(20)
Subordinated bonds and promissory notes	(25)	(33)
Total	**(1,342)**	**(1,316)**

in MCZK	2018	2017
INTEREST EXPENSE ACCORDING TO CLASSES OF LIABILITIES:		
Interest expense on:		
Financial liabilities at amortised cost	(1,341)	(1,316)
Financial liabilities at fair value through profit or loss	(1)	–
Total	**(1,342)**	**(1,316)**

32. FEE AND COMMISSION INCOME

in MCZK	2018	2017
Fee and commission income from:		
Securities and derivatives for customers	1,562	1,211
Loan activities	68	81
Payment transactions	133	121
Other	31	23
Total	**1,794**	**1,436**

33. FEE AND COMMISSION EXPENSE

in MCZK	2018	2017
Fee and commission expense on:		
Transactions with securities	(144)	(231)
Payment transactions	(31)	(33)
Other	(29)	(35)
Total	**(204)**	**(299)**

34. NET TRADING INCOME

in MCZK	2018	2017
Realised and unrealised losses on financial instruments at FV	120	165
Net gains / (losses) on derivative operations	(358)	139
Net profit / (loss) from foreign currency translation	393	86
Net gains / (losses) on hedging derivative operations	–	3
Dividend income	36	54
Impairment of financial assets at FVOCI	55	36
Total net trading income	**246**	**483**

Net trading income comprises of:

in MCZK	2018	2017
Financial assets and liabilities at fair value through profit or loss:		
— those held for trading	(283)	236
— those designated at initial recognition	1	—
— those mandatorily designated at FVTPL	69	—
Financial assets available for sale	—	161
Financial assets at FVOCI	66	—
Exchange rate differences	393	86
Total	**246**	**483**

35. OTHER OPERATING INCOME

in MCZK	2018	2017
Revenues from services and consulting	171	67
Rental income from investment property	14	19
Income from rendered operating leases	16	19
Rental income	7	6
Profit from transfer of FI with control and significant influence	—	189
Other income	21	45
Total	**229**	**345**

Other income of CZK 21 million at 31 December 2018 (2017: CZK 45 million) includes a large number of sundry items that are not significant on an individual basis.

36. PERSONNEL EXPENSES

in MCZK	2018	2017
Wages and salaries	(1,010)	(769)
Remuneration of persons holding executive powers	(114)	(97)
Compulsory soc. security contributions	(206)	(199)
Other social costs	(53)	(19)
Total personnel expenses	**(1,383)**	**(1,084)**
Average number of employees during the reporting period	719	730

There were 21 members of the Group's Board of Directors at 31 December 2018 (2017: 20).

37. OTHER OPERATING EXPENSES

in MCZK	2018	2017
Rent expense	(138)	(143)
Loss on disposal on assets	(7)	–
Contributions to Deposit Insurance Fund	(51)	(64)
Contributions to Crisis Resolution Fund	(56)	(84)
Taxes and fees	(80)	(67)
OPERATING COSTS:		
Outsourcing	(234)	(203)
Advertising expenses and representation	(193)	(163)
Repairs and maintenance — IS, IT	(30)	(32)
Audit, legal and tax consulting	(55)	(50)
— statutory audit of the annual accounts	(16)	(12)
— other assurance services	(9)	(12)
— tax consultancy	(3)	(4)
— other non-audit services	(26)	(23)
Services related to rent	(50)	(44)
Consulting expenses	(23)	(32)
Sponsoring and gifts	(24)	(30)
Communication expenses	(22)	(21)
Materials	(16)	(16)
Transport and accommodation, travel expenses	(14)	(17)
Expenses related to investment property	(4)	(6)
Other operating costs	(177)	(156)
Total	**(1,174)**	**(1,128)**

Other operating costs of CZK 177 million at 31 December 2018 (2017: CZK 156 million) include a large number of sundry items that are not significant on an individual basis.

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 fees include a special bank levy to the Slovak Tax Authority. 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”.

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

in MCZK	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 2016	**1,613**	**12,226**	**20,000**	**988**	**2,026**	**36,853**
Change in 2017	(180)	(8,473)	25,006	(55)	(483)	15,815
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**

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

39. FINANCIAL COMMITMENTS AND CONTINGENCIES

Financial commitments and contingencies comprise:

in MCZK	Stage 1	Stage 2	Stage 3	Total 2018	Total 2017
Unused credit lines	9,006	76	498	9,580	8,348
Granted guarantees	2,386	46	1	2,433	2,070

Values taken into custody, administration and deposit is not subject to impairment. As at December 31, 2018 total amount of these off balance sheet items is CZK 81 312 million (2017: CZK 71 674 million).

40. SEGMENT REPORTING

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
  - o Includes 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 500 thousand);
- ALCO

  - Includes balance sheet items of strategic importance that are managed by the Asset and Liability Committee;
- Unallocated
  - Includes balance sheet items that are not included in the segments above.

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:
- Financial assets available for sale and held to maturity
- Due from financial institutions
- Deposits and loans from banks
- Cash and balances with central 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 2018:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Cash and balances with central banks	–	–	–	–	4,456	–	4,456
Due from financial institutions	–	–	–	–	54,115	–	54,115
Securities and the positive fair value of derivatives	11,658	–	–	–	5,923	–	17,581
Investment in equity accounted investees	–	–	–	–	7		7
Investment property	–	–				356	356
Loans and advances to customers	12,037	53,873	5,255	427	–	–	71,592
Current tax assets	–	–	–	–	–	2	2
Deferred tax assets	–	–	–	–	–	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
Total Assets	**23,695**	**53,873**	**5,255**	**427**	**64,753**	**2,101**	**150,104**
Negative fair value of derivatives	240	–	–	–	–	–	240
Deposits and loans from banks	–	–	–	–	2,250	–	2,250
Deposits from customers	3	42,042	21,879	55,075	–	–	118,999
Financial liabilities at fair value through profit or loss	–	–	–	–	50	–	50
Subordinated debt	–	294	251	392	–	–	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**	**8,398**	**130,874**

Consolidated statement of financial position as at 31 December 2017:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Cash and balances with central banks	–	–	–	–	6,911	–	6,911
Due from financial institutions	20,541	–	–	–	27,216	–	47,757
Securities and the positive fair value of derivatives	5,828	–	–	–	11,030	–	16,858
Investment in equity accounted investees	–	–	–	–	7	–	7
Investment property	–	–	–	–	–	407	407
Loans and advances to customers	8,893	55,486	4,149	581	–	–	69,109
Current tax assets	–	–	–	–	–	8	8
Deferred tax assets	–	–	–	–	–	90	90
Property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	–	–	–	–	–	1,433	1,433
Disposal groups held for sale	–	–	–	–	416	–	416
Total Assets	**35,262**	**55,486**	**4,149**	**581**	**45,580**	**1,938**	**142,996**
Negative fair value of derivatives	241	–	–	–	–	–	241
Deposits and loans from banks	20,541	–	–	–	1,382	–	21,923
Deposits from customers	44	32,856	18,909	39,895	–	–	91,704
Subordinated debt	–	924	241	402	–	–	1,567
Current tax liability	–	–	–	–	–	68	68
Deferred tax liability	–	–	–	–	–	98	98
Other liabilities and provisions	–	–	–	–	–	7,919	7,919
Total Liabilities	**20,826**	**33,780**	**19,150**	**40,297**	**1,382**	**8,085**	**123,520**

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

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Net interest income	**389**	**1,690**	**340**	**573**	**733**	**80**	**3,805**
Fee and commission income	1,616	144	8	7	19	–	1,794
Fee and commission expense	(146)	(42)	–	(2)	(14)	–	(204)
Net trading income / (expense)	171	–	–	–	75	–	246
Other operating income	169	33	–	–	–	27	229
Operating income	**2,199**	**1,825**	**348**	**578**	**813**	**107**	**5,870**
Personnel expenses	(178)	(80)	(161)	(42)	–	(922)	(1,383)
Other operating expenses	(108)	(42)	(69)	(69)	–	(886)	(1,174)
Depreciation and amortisation	(1)	(4)	(1)	(5)	–	(83)	(94)
Profit before provisions, allowances and income taxes	**1,912**	**1,699**	**117**	**462**	**813**	**(1 784)**	**3,219**
Net change in provisions from financial activities	–	(7)	–	–	6	–	(1)
Net change in allowances for impairment of loans	–	(604)	(79)	–	3	–	(680)
Profit before tax, excluding profit from equity accounted investees	**1,912**	**1,088**	**38**	**462**	**822**	**(1,784)**	**2,538**
Profit before tax	1,912	1,088	38	462	822	(1,784)	2,538
Income tax expenses	(328)	(186)	(19)	(96)	(135)	302	(462)
Profit for the period	**1,584**	**902**	**19**	**366**	**687**	**(1,482)**	**2,076**

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.

Consolidated statement of comprehensive income for the period ended 31 December 2017:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Net interest income	**361**	**1,746**	**349**	**368**	**876**	**25**	**3,725**
Fee and commission income	1,266	150	5	11	4	–	1,436
Fee and commission expense	(236)	(59)	–	(4)	–	–	(299)
Impairment of assets available for sale	–	–	–	–	(123)	–	(123)
Net trading income / (expense)	412	17	–	–	54	–	483
Gain on a bargain purchase	–	–	–	–	85	–	85
Other operating income	66	41	–	–	–	238	345
Operating income	**1,869**	**1,895**	**354**	**37**	**89**	**263**	**5,652**
Personnel expenses	(162)	(66)	(166)	(43)	–	(647)	(1,084)
Other operating expenses	(87)	(46)	(59)	(59)	–	(877)	(1,128)
Depreciation and amortisation	(3)	(4)	(1)	(4)	–	(84)	(96)
Profit before provisions, allowances and income tax expenses	**1,617**	**1,779**	**128**	**269**	**896**	**(1,345)**	**3,344**
Net change in provisions from financial activities	–	44	(2)	–	(1)	–	41
Net change in allowances for impairment of loans	(1)	(659)	(98)	(5)	12	–	(751)
Profit before tax, excluding profit from equity accounted investees	**1,616**	**1,164**	**28**	**264**	**907**	**(1,345)**	**2,634**
Profit/(loss) from equity accounted investees	–	–	–	–	–	(17)	(17)
Profit before tax	**1,616**	**1,164**	**28**	**264**	**907**	**(1,362)**	**2,617**
Income tax expenses	(213)	(177)	(22)	(52)	(95)	138	(421)
Continuing operations	**1,403**	**987**	**6**	**212**	**812**	**(1,224)**	**2,196**
Profit for the period	**1,403**	**987**	**6**	**212**	**812**	**(1,224)**	**2,196**

Basic ratios of entities within the Group are as follows:

in MCZK	Average no of employees 2018	Total assets at 31.12.2018	Turnover at 31.12.2018	Profit/(Loss) before tax at 31.12.2018	Tax at 31.12.2018
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	–

in MCZK	Average no of employees 2017	Total assets at 31.12.2017	Turnover at 31.12.2017	Profit/(Loss) before tax at 31.12.2017	Tax at 31.12.2017
J & T BANKA, a.s. (branch)	122	23,552	1,119	180	(35)
J&T INVESTIČNÍ SPOLEČNOST, a.s.	13	248	258	138	(26)
ATLANTIK finanční trhy, a.s.	3	811	162	18	(4)
J&T IB and Capital Markets, a.s.	8	233	68	4	(5)
J&T Bank, a.o.	122	7,656	4,832	234	(22)
Interznanie, OAO	20	518	75	21	(5)
J&T banka d.d.	90	4,388	311	(103)	—
J&T Leasingová společnost, a.s.	5	64	1	(5)	—
J&T REALITY o.p.f.	—	1,202	194	(99)	—
TERCES MANAGEMENT LIMITED	—	504	—	(1)	—

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 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 43d.

Consolidated statement of financial position as at 31 December 2018:

in MCZK	Czech Republic	Slovakia	Other EU	Other countries	Total
Cash and balances with central banks	2,365	1,002	829	260	4,456
Due from financial institutions	52,677	316	776	346	54,115
Securities and the positive fair value of derivatives	6,245	3,454	5,688	2,258	17,645
Investment in equity accounted investees	7	—	—	—	7
Loans and advances to customers	20,309	12,057	32,208	6,954	71,528
Current tax assets	—	—	—	2	2
Deferred tax assets	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	0	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 provisions	3,843	916	2,206	1,168	8,133
Total Liabilities	**71,271**	**22,749**	**29,473**	**7,381**	**130,874**

Consolidated statement of financial position as at 31 December 2017:

in MCZK	Czech Republic	Slovakia	Other EU	Other countries	Total
Cash and balances with central banks	5,074	841	765	231	6,911
Due from financial institutions	45,511	321	614	1,311	47,757
Securities and the positive fair value of derivatives	5,853	4,020	5,366	1,619	16,858
Investment in equity accounted investees	7	–	–	–	7
Loans and advances to customers	20,544	14,397	28,665	5,503	69,109
Current tax assets	4	–	–	4	8
Deferred tax assets	38	48	4	–	90
Investment property	–	–	5	402	407
Property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	906	118	251	158	1,433
Disposal groups held for sale	108	–	67	241	416
Total Assets	**78,045**	**19,745**	**35,737**	**9,469**	**142,996**
Negative fair value of derivatives	54	14	172	1	241
Deposits and Loans from banks	75	565	20,697	586	21,923
Deposits from customers	51,035	21,980	13,061	5,628	91,704
Subordinated debt	857	1	684	25	1,567
Current tax liability	78	(10)	–	–	68
Deferred tax liability	1	–	–	97	98
Other liabilities and provisions	3,964	630	2,120	1,205	7,919
Total Liabilities	**56,064**	**23,180**	**36,734**	**7,542**	**123,520**

Výkaz o úplném výsledku za rok končící 31. prosincem 2018:

in MCZK	Czech Republic	Slovakia	Other EU	Other countries	Total
Interest income	2,051	785	1,671	640	5,147
Interest expense	(673)	(211)	(309)	(149)	(1,342)
Net interest income	**1,378**	**574**	**1,362**	**491**	**3,805**
Fee and commission income	875	545	285	89	1,794
Fee and commission expense	(129)	(35)	(23)	(17)	(204)
Net trading income / (expense)	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 provisions, allowances and income taxes	**875**	**633**	**1,259**	**452**	**3,219**
Net change in provisions from financial activities	(1)	(7)	1	6	(1)
Net change in allowances for impairment of loans	(75)	(837)	238	(5)	(679)
Net change in allowances for impairment of financial assets at amortised cost	–	–	–	(1)	(1)
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 expenses	**(397)**	**(42)**	**–**	**(23)**	**(462)**
Continuing operations	**402**	**(253)**	**1,498**	**429**	**2,076**
Profit for the period	402	(253)	1,498	429	2,076

Consolidated statement of comprehensive income for the year ended 31 December 2017:

in MCZK	Czech Republic	Slovakia	Other EU	Other countries	Total
Interest income	1,413	1,097	1,915	616	5,041
Interest expense	(726)	(214)	(162)	(214)	(1,316)
Net interest income	**687**	**883**	**1,753**	**402**	**3,725**
Fee and commission income	859	170	334	73	1,436
Fee and commission expense	(246)	(14)	(26)	(13)	(299)
Impairment of assets s available for sale	(123)	–	–	–	(123)
Net trading income / (expense)	(41)	461	(59)	122	483
Gain on a bargain purchase	–	–	–	85	85
Other operating income	156	43	102	44	345
Operating income	**1,292**	**1,543**	**2,104**	**713**	**5,652**
Personnel expenses	(579)	(263)	(67)	(175)	(1,084)
Other operating expenses	(682)	(278)	(72)	(96)	(1,128)
Depreciation and amortisation	(75)	(2)	(13)	(6)	(96)
Profit before provisions, allowances and income taxes	**(44)**	**1,000**	**1,952**	**436**	**3,344**
Net change in provisions from financial activities	36	(6)	12	(1)	41
Net change in allowances for impairment of loans	(71)	(350)	(254)	(88)	(763)
Revenues from cession in portfolio of loans and other receivables	–	–	–	12	12
Profit before tax, excluding profit from equity accounted investees	**(79)**	**644**	**1,710**	**359**	**2,634**
Profit/(loss) from equity accounted investees	–	–	–	(17)	(17)
Profit before tax	**(79)**	**644**	**1,710**	**342**	**2,617**
Income tax expenses	(359)	(35)	–	(27)	(421)
Continuing operations	**(438)**	**609**	**1,710**	**315**	**2,196**
Profit for the period	**(438)**	**609**	**1,710**	**315**	**2,196**

41. RELATED PARTIES — GENERAL

The outstanding balances and transactions with related parties of the Group are with related parties as presented in the following tables. All transactions with such entities took place under standard market conditions.

The related parties are sorted in the following categories:
I) Parent. This category includes J&T FINANCE GROUP SE.
II) Majority owners of J&T FINANCE GROUP SE Jozef Tkáč and Ivan Jakabovič and companies they own. Those companies do not prepare consolidated financial statements that would include the Group except of the company J&T FINANCE GROUP SE.
III) Subsidiaries. This category includes subsidiaries of J&T FINANCE GROUP SE which are included in its consolidated financial statements by reason of majority ownership excluding the subsidiaries of the Group that are not included in the category.
IV) Associates and joint ventures. This category includes associates and joint ventures of the Group and J&T FINANCE GROUP SE.
V) Key management personnel of the entity or its parent. This category includes related parties which are connected through key management personnel of the Group or its parent.

Balance sheet items as at 31 December 2018

in MCZK	I.	II.	III.	IV.	V.	Total
Receivables	1	–	926	1,823	802	3,552
Payables	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 December 2018						
Expenses	(298)	–	(997)	–	(25)	(1,320)
Income	299	–	912	13	389	1,613

Balance sheet items as at 31 December 2017

in MCZK	I.	II.	III.	IV.	V.	Total
Receivables	2	–	1,025	–	4,050	5,077
Payables	778	79	1,018	–	567	2,373
Granted guarantees	–	–	7	–	4	11
Received guarantees	880	–	89	–	–	969
Provided loan commitments	511	–	107	–	39	657
Received loan commitments	–	–	1,532	–	–	1,532
Received collateral	–	–	462	–	661	1,123
Profit / Loss items for period ended 31 December 2017						
Expenses	(409)	–	(231)	–	(161)	(801)
Income	306	–	597	–	277	1,180

Receivables from related parties consist primarily of loans and overdrafts. Payables to related parties include especially term deposits, deposits payable on demand, savings and tied deposits.

Revenues and costs consist mainly of gains / losses on currency derivatives, interest income, borrowing costs and income from commissions and brokering fees.

Receivables and payables from members of the Board of Directors and the Supervisory Board

in MCZK	2018	2017
Provided loans	5	7
Received loans	30	19

The members of the Board of Directors and the Supervisory Board represent the key executives of the Group.

The Group's key management 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 employees of the Group as at 31 December 2018 amounted to CZK 109 million (2017: CZK 58 million). The loans provided to the Board of Directors and Supervisory Board were provided under arm's length basis.

42. RISK MANAGEMENT POLICIES AND DISCLOSURES

The strategy, main goals and processes
The fundamental goal of risk management is profit maximization with respect to the exposed risk taken, while considering the Group´s risk appetite.

In doing so, it must be ensured that the Group activities outcome is predictable and in compliance with both trading 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 that, risks are monitored, assessed and eventually limited, at least as strictly as required by Czech National Bank. The internal limits are being reconsidered regularly and in case of significant changes of market conditions to ensure their compliance with both the overall group´s 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 adequate remedial measures.
— The banks within the Group establish 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 banks within the Group establish targets for selected indicators of liquidity, that wants to achieve in a specified time horizon, and certain limits, below which the system of liquidity indicators cannot decrease.
— The banks within the Group establish goals and on 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 Bank´s Risk Appetite Statement.

43. 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) Exposition forborne

at 31.12.2018

in MCZK	Gross carrying amount	ECL	Net carrying amount
Performing exposition	66,862	(260)	66,602
— performing exposition forborne	620	(8)	612
Non-performing exposition	8,535	(3,609)	4,926
— non-performing exposition forborne	5,440	(2,050)	3,390
Total	**75,397**	**(3,869)**	**71,528**

at 31.12.2017

in MCZK	2017
Performing exposition	61,419
— performing exposition forborne	2,935
Non-performing exposition	7,690
— non-performing exposition forborne	2,498
Total	**69,109**

in MCZK	2018	2017
The share of exposition forborne on the total loans provided to clients	5.60 %	7.86 %
Share of non-performing exposures in total loans to customers	6.89 %	11.13 %

(b) Concentration of loans to customers by economic sector

at 31.12.2018

in MCZK	Gross carrying amount	ECL	Net carrying amount
NOT FORBORNE			
Non-financial organisations	50,407	(1,663)	48,744
Financial organisations	16,494	(55)	16,439
Households	2,392	(49)	2,343
Other	44	(44)	–
Total	**69,337**	**(1,811)**	**67,526**
FORBORNE			
Non-financial organisations	5,796	(1,950)	3,846
Financial organisations	117	(15)	102
Households	147	(93)	54
Total	**6,060**	**(2,058)**	**4,002**

Not forborne

in MCZK	2017
Non-financial organisations	41,723
Financial organisations	19,892
Households	1,924
Other	137
Total	**63,676**

Forborne

in MCZK	2017
Non-financial organisations	5,257
Financial organisations	117
Households	59
Total	**5,433**

(c) Concentration of loans to customers by industry:

in MCZK	2018	2017
Real estate activities	19,059	12,382
Financial activities	8,762	18,216
Manufacturing	6,731	8,605
Wholesale and retail trade	6,650	2,978
Information and communication	5,718	6,078
Sports, entertainment and recreation activities	5,502	713
Construction	4,457	6,747
Production and distribution of electricity, gas and heat	4,039	4,100
Accommodation and food service activities	3,042	2,563
Professional, scientific and technical activities	1,205	2,009
Transporting and storage	1,141	1,133
Private households and employed persons	737	1,172
Water supply, services relating to water and waste management and redevelopment	724	57
Mining and quarrying, agriculture	638	337
Human health services and social work activities	603	273
Agriculture, forestry and fishing	398	161
Other	2,122	1,585
Total	**71,528**	**69,109**

(d) Concentration of loans to customers by location:

in MCZK	2018	2017
Czech Republic	20,309	20,544
Cyprus	17,269	17,130
Slovakia	12,057	14,397
Luxembourg	4,765	3,944
Croatia	3,121	2,857
Switzerland	2,622	2,648
Netherlands	2,343	2,347
Russia	1,610	2,049
Malta	796	1,234
Poland	955	572
Maldives	360	380
Ireland	1,134	291
British Virgin Islands	1,300	260
Germany	1,049	–
France	773	–
Cayman Islands	545	–
Monaco	286	–
Others	234	456
Total	**71,528**	**69,109**

(e) Concentration of loans to customers by location of realization of project and collateral:

in MCZK	2018	2017
Czech Republic	31,746	37,114
Slovakia	9,700	13,430
Poland	5,354	1,840
Ukraine	3,719	462
Croatia	3,346	2,857
USA	2,731	455
China	2,275	2,463
Germany	2,233	1,848
Spain	2,121	2
Russia	1,610	2,299
Slovenia	1,529	1,565
Great Britain	1,308	17
Austria	867	1,589
Hungary	545	–
Cyprus	523	592
France	521	448
Maldives	360	380
Monako	286	3
Greece	251	698
Luxembourg	128	–
Malta	–	822
Other	375	225
Total	**71,528**	**69,109**

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 2018

in MCZK	Loans to banks & central banks	Repurchase agreements – financial institutions	Loans and advances to customers	Repurchase agreements - customers and debets
PROVIDED LOANS AND REPURCHASE AGREEMENTS IMPAIRED:				
Provided loans and repurchase agreements at amortised cost in stage 1 and 2 individually				
Gross amount	5,868	52,437	55,573	11,183
Impairment	(9)	–	(259)	–
Carrying amount	**5,859**	**52,437**	**55,314**	**11,183**
Provided loans and repurchase agreements at amortised cost in stage 1 and 2 collectively				
Gross amount	–	–	106	–
Impairment	–	–	–	–
Carrying amount	**–**	**–**	**106**	**–**
Total provided loans and repurchase agreements at amortised cost in stage 1 and 2	**5,859**	**52,437**	**55,420**	**11,183**
to maturity date	5,859	52,437	55,412	11,183
up to 1 month	–	–	4	–
1 month to 6 months	–	–	4	–
PROVIDED LOANS AND REPURCHASE AGREEMENTS IMPAIRED:				
Impaired provided loans and repurchase agreements at amortised cost in stage 3 individually				
Gross amount	–	–	8,535	–
Impairment	–	–	(3,610)	–
Carrying amount	**–**	**–**	**4,925**	**–**
Impaired provided loans and repurchase agreements at amortised cost in stage 3 collectively				
Gross amount	–	–	–	–
Impairment	–	–	–	–
Carrying amount	**–**	**–**	**–**	**–**
Total provided loans and repurchase agreements at amortise cost in stage 3	**–**	**–**	**4,925**	**–**
to maturity date	–	–	4,740	–
up to 1 month	–	–	5	–
1 month to 6 months	–	–	10	–
6 months to 12 months	–	–	21	–
more than 12 months	–	–	149	–
Total	**5,859**	**52,437**	**60,345**	**11,183**

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 counterparty’s payment discipline. Past due receivables are presented in the appropriate columns according to the period past due.

As at 31 December 2017

in MCZK	Loans to banks & central banks	Repurchase agreements – financial institutions	Loans and advances to customers	Repurchase agreements - customers and debets
PROVIDED LOANS AND REPURCHASE AGREEMENTS IMPAIRED:				
Impaired provided loans and repurchase agreements at amortised cost individually assessed not forborne:				
Gross amount	–	–	5,530	–
Impairment	–	–	(1,292)	–
Carrying amount	**–**	**–**	**4,238**	**–**
Impaired provided loans and repurchase agreements at amortised cost individually assessed forborne:				
Gross amount	–	–	3,606	–
Impairment	–	–	(1,728)	–
Carrying amount	**–**	**–**	**1,878**	**–**
Impaired provided loans and repurchase agreements at amortised cost collectively assessed not forborne:				
Gross amount	–	–	74	–
Impairment	–	–	(3)	–
Carrying amount	**–**	**–**	**71**	**–**
Impaired provided loans and repurchase agreements at amortised cost collectively assessed forborne:				
Gross amount	–	–	–	–
Impairment	–	–	–	–
Carrying amount	**–**	**–**	**–**	**–**
Total provided loans and repurchase agreements impaired	**–**	**–**	**6,187**	**–**

As at 31 December 2017

in MCZK	Loans to banks & central banks	Repurchase agreements – financial institutions	Loans and advances to customers	Repurchase agreements - customers and debets
PROVIDED LOANS AND REPURCHASE AGREEMENTS NOT IMPAIRED:	**1,819**	**45,939**	**54,683**	**8,239**
Neither past due nor impaired:	**1,819**	**45,939**	**50,033**	**8,239**
— not forborne	1,819	45,939	46,675	8,239
— forborne	—	—	3,358	—
Past due not impaired:	**—**	**—**	**4,650**	**—**
— not forborne	—	—	4,453	—
— forborne	—	—	197	—
to maturity date	—	—	4,421	—
up to 1 month	—	—	140	—
1 month to 6 months	—	—	45	—
more than 12 months	—	—	44	—
Total provided loans and repurchase agreements not forborne	**1,819**	**45,939**	**55,437**	**8,239**
Total provided loans and repurchase agreements forborne	**—**	**—**	**5,433**	**—**
Total	**1,819**	**45,939**	**60,870**	**8,239**
Of which: Provided loans and repurchase agreements neither past due nor impaired with a sign of impairment:	**—**	**—**	**5,873**	**—**
Gross amount not forborne	—	—	2,318	—
Gross amount forborne	—	—	3,555	—

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 provision 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 counterparty’s payment discipline. Past due receivables are presented in the appropriate columns according to the period past due.

(g) Collateral and credit enhancements for provided loans and repurchase agreements

in MCZK	Carrying amount stage 1 and 2	Accepted collateral value stage 1 at 2	Carrying amount stage 3	Accepted collateral value stage 3
Neither past due	**89,236**	**100,543**	**3,602**	**5,508**
— Guarantees	2,515	2,515	—	—
— Acceptances of promissory note	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	1,171	2,144
— Other	5,460	9,989	—	—
— Securities received under reverse repurchase agreements	55,691	55,691	—	—
Past due	**64**	**186**	**112**	**273**
— Real estate	64	186	104	265
— Cash deposits	—	—	8	8

in MCZK	2017 Carrying value	2017 Accepted collateral value decreased to carrying value	2017 Accepted collateral value
Neither past due nor impaired:	**75,339**	**75,339**	**84,715**
Guarantees	1,836	1,836	1,882
Acceptances of promissory note	1,330	1,330	1,877
Real estate	7,403	7,403	10,682
Cash deposits	2,107	2,107	2,107
Securities	8,912	8,912	9,418
Other	5,886	5,886	10,884
Securities received under reverse repurchase agreements	47,865	47,865	47,865
Past due but not impaired:	**830**	**830**	**1,797**
Real estate	342	342	695
Cash deposits	63	63	63
Other	425	425	1,039
Impaired:	**3,941**	**3,941**	**5,712**
Real estate	1,994	1,994	3,029
Cash deposits	8	8	8
Pledges — securities	1,939	1,939	2,675

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.

(h) Unconsolidated structured entities

The Group engages in various business activities with structured entities which are companies designed to achieve a specific business purpose and usually designed so that voting or similar rights are not dominant factor in deciding who controls the entity.

A structured entity has often some or all of the following features or attributes:
— Restricted activities;
— A narrow and well defined objective;
— Insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

The Group provides financing to certain structured entities for the purchase of assets that are collateralized in favor of the Group by the structured entities. The Group enters into transactions with these entities in the normal course of business to facilitate customer transactions and for specific investment opportunities. The entities covered by this disclosure note are not consolidated because the Group does not control them through voting rights, contract, funding agreements, or other means.

Income derived from involvement with structured entities represents interest income recognized by the Group on the funding provided to structured entities.

The Group's interests in unconsolidated structured entities refer to contractual involvement that exposes the group to variability of returns from the performance of the structured entities.

The maximum exposure to loss for the Group is determined by considering the nature of the interest in the unconsolidated structured entity and represents the maximum loss that the Group could be required to report as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred.

As at 31 December 2018 there are no unconsolidated structured entities identified (2017: no unconsolidated structured entities identified). There was no loss incurred in 2018 and 2017 in respect of loans provided.

(i) Credit risk processes

Evaluating the risk of failure of counterparty is based on a credit analysis, processed by the Credit Risk Management dept. 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, minimum once a month.

The extent of the risk is evaluated by Risk Management dept. When actual or possible breach of the adopted internal credit limits is identified (trading book exposures, derivatives transactions, margin trading), the Financial Markets dept. 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 investment committee.

(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 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 seven 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 evaluates financial and non-financial indicators, that may not be monitored within 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 to open positions in bonds is evaluated.

The decrease in fair value at the end of the corresponding reporting period:

in MCZK	2018	2017
Decrease of the trading portfolio value due to a rating migration by one credit class	122	91

(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.

As of 31 December 2018, the Group record customer trades that would not be recognized in the Group financial statements in the form of repo transaction of CZK 2 501 million and reverse repo transactions of CZK 1 089 million (2017: clients repo transactions of CZK 1 155 million and reverse repo transactions of CZK 1 155 million).

44. LIQUIDITY RISK

Liquidity risk represents a risk that the Group is not able to meet its commitments as they are becoming mature. The banks within the Group are required to report system of indicators to the National Banks 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 banks within the Group perform an everyday monitoring of their liquidity position to indicate potential liquidity problems. The analysis takes into account all sources of funding that the corresponding bank of the Group is using and interconnected obligations the bank has to pay. For the purpose of sufficient liquidity reserve the banks within the Group hold sufficient amount of liquid instruments (such as government bonds), maintain balances with central banks on a reasonable level and collect short-term receivables.

The banks within the Group assort all cash flows into timeframes according to maturities of the instruments to which the cash flows relate, and subsequently observe 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.

Three scenarios are used in terms of liquidity risk management of the Group:
A) Expected Scenario
B) Alternative Scenarios

Alternative Scenarios are based on stress imposed on components that might be negatively affected when liquidity problems crisis start 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 present or possible breach of the adopted internal / external liquidity limits is identified as well as ALCO is informed, in order to ensure the 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.

The main precautionary measures introduced by the Risk Dept. of the corresponding bank in this area to respond to the economic crisis were as follows:
— implementation of stress tests based on various crisis scenarios;
— prudent internal limits for on-demand and mid-term available liquidity.

a) Liquidity risk of liquidity relevant instruments as of 31 December 2018:

Table shows the liquidity risk based on remaining contractual maturity dates.

in MCZK	Carrying amount	Contractual cash flows	Up to 3 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
ASSETS							
Cash and balances with the central banks	4,456	4,456	4,033	–	–	–	423
Due from financial institutions	54,115	54,226	53,834	100	49	243	–
Financial assets (without derivatives)	17,271	17,917	332	1,187	5,936	4,113	6,349
Investment in equity accounted investees	7	7	–	–	–	–	7
Loans and advances to customers	71,528	84,395	15,646	16,793	35,632	16,311	13
Total	**147,377**	**161,001**	**73,845**	**18,080**	**41,617**	**20,667**	**6,792**
Off balance							
Unused credit lines	9,581	9,581	9,581	–	–	–	–
Granted guarantees	2,434	2,434	2,434	–	–	–	–

in MCZK	Carrying amount	Contractual cash flows	Up to 3 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
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 at fair value through profit or loss	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	**25,141**	**36,945**	**1,894**	**(3,704)**	**12,670**	**19,687**	**6,398**
Cumulative liquidity position			**1,894**	**(1,810)**	**10,860**	**30,547**	**36,945**

Expected liquidity

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 period and percentage of deposits that remain available are prolonged. Those ratios are used for managing the liquidity risk.

Relating to 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. The projects' latest expected completion date may not be the same as the contractual maturity date.

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Over 3 months & up to 1 year	1 to 5 years	>5 years	Undefined maturity
Loans and advances to customers	71,528	84,395	16,060	17,249	32,833	18,166	87

Loans that are already in the process of refinancing negotiation are presented according the expected date of refinancing.

a) Liquidity risk of liquidity relevant instruments as of 31 December 2017:

Table shows the liquidity risk based on remaining contractual maturity dates.

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Over 3 months & up to 1 year	1 to 5 years	>5 years	Undefined maturity
ASSETS							
Cash and balances with central banks	6,911	6,912	6,415	–	–	–	497
Due from financial institutions	47,757	47,804	47,562	8	234	–	–
Securitites (without derivatives)	16,250	18,207	886	3,799	5,070	4,682	3,770
Investment in equity accounted investees	7	7	–	–	–	–	7
Loans and advances to customers	69,109	81,173	15,650	13,015	39,656	12,839	13
Total	**140,034**	**154,103**	**70,513**	**16,822**	**44,960**	**17,521**	**4,287**
Off balance							
Unused credit lines	8,348	9,122	8,332	220	532	1	37
Granted guarantees	2,070	2,092	2,066	22	4	–	–

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Over 3 months & up to 1 year	1 to 5 years	>5 years	Undefined maturity
LIABILITIES							
Deposits and Loans from banks	21,923	(21,904)	(21,822)	(38)	(13)	(31)	–
Deposits from customers	91,704	(92,471)	(58,367)	(21,379)	(12,360)	(365)	–
Subordinated debt	1,567	(1,976)	(23)	(75)	(1,547)	(331)	–
Total	**115,194**	**(116,351)**	**(80,212)**	**(21,492)**	**(13,920)**	**(727)**	**–**
Net Liquidity position	**24,840**	**37,752**	**(9,699)**	**(4,670)**	**31,040**	**16,794**	**4,287**
Cumulative liquidity position	**–**	**–**	**(9,699)**	**(14,369)**	**16,671**	**33,465**	**37,752**

Expected liquidity

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Over 3 months & up to 1 year	1 to 5 years	>5 years	Undefined maturity
Loans and advances to customers	69,109	81,172	15,977	13,090	39,089	12,951	65

b) Liquidity risk of derivatives as of 31 December 2018:

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Up 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**

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Up to 1 year	1 year to 5 years
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)**

b) Liquidity risk of derivatives as of 31 December 2017:

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Up to 1 year	1 year to 5 years
DERIVATIVE FINANCIAL ASSETS					
Currency derivatives					
— outflow	—	(1,152)	(1,152)	—	—
— inflow	529	1,681	1,482	89	110
Other derivatives					
— inflow	80	80	—	—	80
Total	**609**	**609**	**330**	**89**	**190**

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Up to 1 year	1 year to 5 years
DERIVATIVE FINANCIAL LIABILITIES					
Currency derivatives					
— outflow	(238)	(435)	(316)	(107)	(12)
— inflow	—	197	197	—	—
Other derivatives					
— inflow	(3)	(3)	(3)	—	—
Total	**(241)**	**(241)**	**(122)**	**(107)**	**(12)**

45. 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 46 and Note 47, 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 2018 and 31 December 2017 are as follows:

in MCZK	2018	2017
VaR market risk overall	128	110
VaR interest rate risk (general risk)	111	73
VaR FX risk	139	76
VaR stock risk	38	18
VaR commodity risk	1	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 ten years (long-term scenario). The potential change in the fair value of the portfolio is monitored and assessed.

in MCZK	2018	2017
Change in the fair value of the trading portfolio due to historic shock scenario		
short-term scenario	95	56
medium-term scenario	106	58
long-term scenario	348	334

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:

(% of Tier 1 + Tier 2)	2018	2017
Decrease in the present value of the investment portfolio due to a sudden change in interest rates by 200 bp	1,35	5,67

46. 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 2018 was as follows:

in MCZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
ASSETS					
Cash and balances with central banks	2,503	–	–	1,953	4,456
Due from financial institutions	53,584	–	206	325	54,115
Fair value of derivatives, financial assets	3,196	5,086	2,207	7,156	17,645
Investment in equity accounted investees	–	–	–	7	7
Loans and advances to customers	59,081	7,481	1,742	3,224	71,528
Investment property, property, plant and equipment, intangible assets, goodwill	–	–	–	679	679
Current tax assets	–	–	–	2	2
Deferred tax assets	–	–	–	312	312
Prepayments, accrued income and other assets	45	–	4	1,059	1,108
Disposal groups held for sale	–	–	–	252	252
Total assets	**118,409**	**12,567**	**4,159**	**14,969**	**150,104**
LIABILITIES					
Negative fair value of derivatives	164	71	–	5	240
Deposits and loans from banks	775	10	24	1,441	2,250
Deposits from customers	65,569	32,627	383	20,420	118,999
Financial liabilities at fair value through profit or loss	–	50	–	–	50
Subordinated liabilities	184	561	192	–	937
Current tax liability	–	–	–	176	176
Deferred tax liability	–	–	–	89	89
Other liabilities and provisions	47	–	–	8,086	8,133
Share capital	–	–	–	10,638	10,638
Retained earnings and other reserves	–	–	–	8,592	8,592
Total liabilities and equity	**66,739**	**33,319**	**599**	**49,447**	**150,104**
Net interest rate risk position	**51,670**	**(20,752)**	**3,560**	**(34,478)**	**–**
Cumulative interest rate risk position	**51,670**	**30,918**	**34,478**	**–**	**–**

Interest rate risk exposure as at 31 December 2017 was as follows:

in MCZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
ASSETS					
Cash and balances with central banks	5,105	–	–	1,806	6,911
Due from financial institutions	46,910	205	–	642	47,757
Securities and the positive fair value of derivatives	4,255	4,142	2,426	6,035	16,858
Investment in equity accounted investees	–	–	–	7	7
Loans and advances to customers	36,448	16,362	2,130	14,169	69,109
Investment property, property, plant and equipment, intangible assets, goodwill	–	–	–	773	773
Current tax asset	–	–	–	8	8
Deferred tax asset	–	–	–	90	90
Prepayments, accrued income and other assets	37	17	–	1,013	1,067
Disposal groups held for sale	–	–	–	416	416
Total assets	**92,755**	**20,726**	**4,556**	**24,959**	**142,996**
LIABILITIES					
Negative fair value of derivatives	229	12	–	–	241
Deposits and loans from banks	21,126	13	27	757	21,923
Deposits from customers	68,358	11,814	331	11,201	91,704
Subordinated debt	710	676	185	(4)	1,567
Current tax liability	–	–	–	68	68
Deferred tax liability	–	–	–	98	98
Other liabilities and provisions	17	–	–	7,902	7,919
Share capital	–	–	–	10,638	10,638
Retained earnings and other reserves (incl. NCI)	–	–	–	8,838	8,838
Total liabilities and equity	**90,440**	**12,515**	**543**	**39,498**	**142,996**
Net interest rate risk position	**2,315**	**8,211**	**4,013**	**(14,539)**	**–**
Cumulative interest rate risk position	**2,315**	**10,526**	**14,539**	**–**	**–**

47. 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.

As at 31 December 2018:

in MCZK	CZK	USD	EUR	RUB	Other	Total
ASSETS						
Cash and balances with the central banks	2,324	50	1,286	189	607	4,456
Due from financial institutions	52,570	362	979	130	74	54,115
Fair value of derivatives, financial assets	8,247	1,310	6,095	1,077	916	17,645
Investment in equity accounted investees	7	–	–	–	–	7
Loans and advances to customers	17,518	7,670	42,643	1,317	2,380	71,528
Current tax assets	–	–	–	2	–	2
Deferred tax assets	239	–	68	–	5	312
Investment property, property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	480	264	449	514	80	1,787
Disposal groups held for sale	65	–	–	126	61	252
Total	**81,450**	**9,656**	**51,520**	**3,355**	**4,123**	**150,104**

in MCZK	CZK	USD	EUR	RUB	Other	Total
LIABILITIES						
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
Issued debt securities	50	–	–	–	–	50
Subordinated debt	691	173	73	–	–	937
Current tax liability	157	–	19	–	–	176
Deferred tax liability	2	–	–	87	–	89
Other liabilities and equity	26,587	495	2,005	(1,356)	(128)	27,603
Total	**90,946**	**3,582**	**53,189**	**1,265**	**1,122**	**150,104**
Long position off-balance sheet:						
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 off-balance sheet:						
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**

As at 31 December 2017:

in MCZK	CZK	USD	EUR	RUB	Other	Total
ASSETS						
Cash and balances with central banks	5,061	23	1,029	189	609	6,911
Due from financial institutions	45,449	212	827	1,169	100	47,757
Securities and the positive fair value of derivatives	6,470	1,822	6,460	1,472	634	16,858
Investment in equity accounted investees	7	–	–	–	–	7
Loans and advances to customers	23,797	2,098	39,663	1,713	1,838	69,109
Current tax asset	4	–	–	4	–	8
Deferred tax asset	38	–	48	–	4	90
Investment property, property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	805	133	262	536	104	1,840
Disposal groups held for sale	108	–	–	241	67	416
Total	**81,739**	**4,288**	**48,289**	**5,324**	**3,356**	**142,996**

in MCZK	CZK	USD	EUR	RUB	Other	Total
LIABILITIES						
Deposits and loans from banks	20,005	73	1,733	–	112	21,923
Deposits from customers	51,120	2,775	33,295	3,511	1,244	91,945
Subordinated debt	691	164	712	–	–	1,567
Current tax liability	78	–	(10)	–	–	68
Deferred tax liability	1	–	–	97	–	98
Disposal groups held for sale	–	–	–	–	–	–
Other liabilities and equity	26,331	780	1,468	(914)	(270)	27,395
Total	**98,226**	**3,792**	**37,198**	**2,694**	**1,086**	**142,996**
Long position off-balance sheet:						
items from derivative transactions	45,965	1,154	31,176	930	1,535	80,760
items from spot transactions with share instruments	39	40	–	–	–	79
Short position off-balance sheet:						
items from derivative transactions	28,595	1,684	47,421	1,200	1,338	80,238
items from spot transactions with share instruments	39	40	–	–	–	79
Open position asset/(liability)	**883**	**(34)**	**(5,154)**	**2,360**	**2,467**	**522**

48. 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 management within each subsidiary. 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.

49. CAPITAL MANAGEMENT

The Group policy 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 the Regulation (EU) no. 575/2013 of the European Parliament and Council Regulation (the "CRR") of 26 June 2013. Until 31 December 2013 the capital adequacy ratio was calculated in accordance with the Czech National Bank ("CNB") decree no. 123/2007 Coll.

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, net of goodwill, intangible assets and additional value adjustments;
  - Additional Tier 1 capital (AT1), which includes capital instruments (subordinated income certificates) issued in accordance with CRR.
- Tier 2 capital, which consists of eligible subordinated debt approved by Czech National Bank in the amount of CZK 270 million (31 December 2017: CZK 952 million).

Until 31 December 2013, the capital adequacy ratio was calculated as the ratio of regulatory capital to capital requirements multiplied by 8% according to regulatory requirements. The capital adequacy ratio had to be a minimum value of 8%.

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.

The specific countercyclical capital buffer rate is calculated in accordance with §63 ČNB decree No. 163/2014 Sb. 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.

Minimum requirements for capital ratios for 31 December 2018 are as follows:

	Minimum requirement	Capital conservation buffer	Countercyclical buffer	Total requirement
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	**8%**	**2.5%**	**0.61%**	**11.11%**

Regulatory capital and equity reconciliation

The tables below summarize the composition of own funds (regulatory capital) and equity and capital ratios for 31 December 2018 and 31 December 2017, providing a complete reconciliation of individual items of regulatory capital to equity items.

31 December 2018

in MCZK	Regulatory capital	Equity
Paid-up 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**

31 December 2017

in MCZK	Regulatory capital	Equity
Paid-in capital registered in the Commercial Register	10,638	10,638
Retained earnings	4,073	4,285
Profit for the period	—	2,260
Accumulated other comprehensive income	(1,101)	(1,122)
Reserve funds	42	224
Non-controlling interest	39	594
(-) Additional value adjustments (AVA)	(18)	—
(-) Intangible assets other than goodwill	(129)	—
Deferred tax liabilities associated with intangible assets other than goodwill	4	—
(-) Goodwill	(33)	—
Paid-in AT1 instruments	2,597	2,597
Total Tier 1 capital	**16,112**	**n/a**
Total Tier 2 capital	952	—
Total regulatory capital/equity	**17,064**	**19,476**

Risk weighted assets (RWA) and capital ratios

in MCZK	31 December 2018	31 December 2017
Central governments or central banks	319	67
Regional governments or local authorities	—	7
Institutions	1,158	1,216
Corporates	54,153	54,558
Retail	121	192
Secured by mortgages on immovable property	6,408	2,304
Exposures in default	5,275	7,302
Items associated with particular high risk	17,015	17,160
Covered bonds	52	52
Collective investments undertakings (CIU)	4,818	3,469
Equity	705	736
Other items	1,400	1,038
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	**91,425**	**88,101**
Traded debt instruments	4,000	4,648
Equity	1,231	1,135
Position risk in collective investment undertakings (CIUs)	16	1
Foreign Exchange	3,467	4,637
Total risk exposure amount for position, foreign exchange and commodities risks	**8,715**	**10,421**
Operational risk	8,741	7,968
Total risk exposure amount for credit valuation adjustment	477	315
Total risk exposure amount	**109,357**	**106,805**

Capital adequacy ratios

%	31 December 2018	31 December 2017
Common Equity Tier 1 capital (CET1)	12.69%	12.65%
Tier 1 capital	15.06%	15.09%
Total regulatory capital	**15.31%**	**15.98%**

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.

50. FAIR VALUES 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 in the case of fixed rate loans.

Financial assets 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.

As at 31 December 2018

in MCZK	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
FINANCIAL ASSETS					
Cash and balances with central banks	–	4,454	–	4,454	4,456
Due from financial institutions	–	54,119	–	54,119	54,115
Loans and 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

As at 31 December 2017

in MCZK	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
FINANCIAL ASSETS					
Cash and balances with central banks	–	6,911	–	6,911	6,911
Due from financial institutions	–	47,762	–	47,762	47,757
Loans and advances to customers	–	–	71,233	71,233	69,109
FINANCIAL LIABILITIES					
Deposits and loans from banks	–	21,872	–	21,872	21,923
Deposits from customers	–	91,583	–	91,583	91,704
Subordinated debt	–	1,528	–	1,528	1,567

51. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

a) Acquisitions of subsidiaries, associates and joint ventures

Contribution to capital in 2018

in MCZK	Date of 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 of subsidiaries in 2018 (see note 1).

The Group did not acquire any new associates in 2018.

The capital increase in subsidiaries, see below for details:

New subsidiaries in 2017

in MCZK	Date of acquisition	Cost	Contribution to capital	Total cash outflow
J&T Leasingová společnost, a.s.	22.2.2017	–	30	–
AKB "Khovanskiy" a.o.	4.10.2017	335	–	335
Total		**335**	**30**	**335**

The Group increased the capital of subsidiaries in 2017 (see note 1).

Contribution to capital of subsidiaries does not represent the cash outflow from the Group.

b) Formation/establishment of subsidiaries and joint ventures

The Group did not form/establish any new subsidiaries and joint ventures in 2018 and 2017.

The Group did not increase the capital of joint ventures in 2018.

Contribution to capital of subsidiaries does not represent the cash outflow from the Group. Contribution to capital of joint ventures represents the cash outflow from the Group as they are not consolidated using full method.

c) Effect of acquisitions of subsidiaries

The Group did not acquire any new associates in 2018.

The acquisitions of new subsidiaries (only consolidated “full method”) had the following effect on the Group´s assets and liabilities:

1.1.-31.12.2017

in MCZK	J&T Leasingová společnost, a.s.	AKB "Khovanskiy" a.o.
Cash and balances with central banks	–	1,013
Loans and advances to customers	–	222
Tangible and Intangible assets	1	1
Deferred tax assets	–	19
Prepayments, accrued income and other assets	3	47
Amounts owed to customers	1	622
Amounts owed to financial institutions	5	–
Debt securities issued	–	18
Subordinated debt	–	177
Accruals, provisions and other liabilities	1	52
Net identifiable assets and liabilities	**(3)**	**433**
Non-controlling interest	–	–
Goodwill on acquisition of new subsidiaries	**3**	**–**
Gain on a bargain purchase		**(85)**
Consideration transferred, paid in cash	–	(335)
Cash acquired	–	999
Net cash inflow (outflow)	–	664
Profit or loss since acquisition date	(5)	5
Profit or loss of the acquired entities for the year 2017	–	25
Revenues of the acquired entity for the year 2017	–	80

d) Disposals of subsidiaries
The Group did not dispose of any subsidiary in 2018 and 2017.

e) Disposals of associates and joint ventures
The Group did not dispose any associates and joint ventures in 2018.

The Group sold of the PGJT in 2017 (see note 1).

Disposal of associates and joint ventures in 2017

in MCZK	Date of disposal	Cost	Total cash inflow
PGJT B.V.	3.7.2017	210	210
Total		**210**	**210**

f) Effect of disposals of subsidiaries
The Group did not dispose of any subsidiary in 2018 and 2017.

52. INVESTMENTS 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 represent the audited figures.

As at 31 December 2018

in MCZK	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) year 2013-2017	1
Group's share in the post-acquisition profit / (loss) year 2018	–
Total	**7**

As at 31 December 2017

in MCZK	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) year 2013-2016	1
Group's share in the post-acquisition profit / (loss) year 2017	–
Total	7

Summary financial information for equity accounted investees as at 31 December 2018:

in MCZK	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	**0**	**0**

Summary financial information for equity accounted investees as at 31 December 2017:

in MCZK	PGJT B.V. Joint venture	XT—card a.s. Associate	Total
Assets	–	19	19
Liabilities	–	7	7
Net Assets	**–**	**12**	**12**
Income	99	38	137
Expenses	(157)	(38)	(195)
Profit / (loss)	**(58)**	**0**	**(58)**
Group's share	50%	32%	x
Negative value of the investment	12	–	12
Group's share in profit / (loss) of equity accounted investees	**(17)**	**–**	**(17)**

53. SUBSEQUENT EVENTS

There are no subsequent events to be reported in this financial statements for the period ended as December 31, 2018.

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This document is an English translation of the Czech auditor's report. Only the Czech version of the report is legally binding.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF J & T BANKA, a.s.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of J & T BANKA, a.s. and its subsidiaries (together referred as "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 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 financial position of the Group as at 31 December 2018, and of its financial performance and its 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.

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.

Allowances for impairment of loans

Key audit matter

We focused on this matter because of the highly subjective and complex judgements made by the Group's management in determining the necessity for, and then estimating the size of, loss allowances for loans and advances to customers at amortised cost (further only as "loans").

Loss allowances for loans at CZK 3,869 million as at 31 December 2018 represented estimate of the expected credit losses (ECL) for loans at the balance sheet date.

The loans are allocated into one of three stages in line with IFRS 9 Financial instruments in order to estimate the loss allowances.

Stage 1 and Stage 2 loans are performing loans. Stage 2 loans are loans where significant increase in credit risk since origination has been observed. Stage 3 loans are non-performing, i.e. credit-impaired loans.

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Recorded in the Commercial Register kept by the Municipal Court in Prague, Section C, Insert No. 24185

Identification No. 49619187
VAT CZ699001996
ID data box: 8h3gtra

Key inputs, assumptions and judgments relevant for the calculation of loss allowances comprise:
— definition of default and definition of significant increase in credit risk (SICR);
— probability of default (PD) estimated based on Group's historical data;
— exposure at default (EAD);
— estimation of loss given default (LGD);
— estimation 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.

For further information, please refer to Note 3 (Accounting policies), Note 12 (Loans and advances to customers at amortised cost) and Note 13 (Expected credit losses) in the notes to the consolidated financial statements.

How the audit matter was addressed

To address this key audit matter, we performed, among other things, the procedures outlined below:

Applying our knowledge, experience and market standards in the industry, we critically assessed and challenged the Group's credit and accounting policies and evaluated the processes related to calculation of expected credit losses by involving our credit risk specialists.

We tested the design, implementation and operating effectiveness of relevant controls, in particular controls over the matching of incoming payments. We performed the testing by inquiry in combination with the observation, inspection of underlying documentation, and selected recalculations.

In collaboration with our credit risk specialists we re-performed, recalculated and critically assessed the construction of the PD curves including forward-looking information for the loan portfolio.

On a sample of loans, we evaluated whether examined loans were allocated to appropriate stages based on inspection of particular credit files, inquiry of responsible credit officers and our assessment of the latest development in relation to the borrower.

Furthermore, we checked LGD used by the Group on this sample of loans. In particular, we challenged the key assumptions in relation to both the amount and timing of estimated cash flows. We determined whether LGD used by the Group was appropriate.

We engaged our real estate valuation specialist to challenge the valuation methods applied by the Group. This specialist critically challenged the assumptions stated in the valuation reports used by the Group by comparing them to our specialist's expectations based on his knowledge and experience.

Furthermore, we recalculated ECL on the complete portfolio of the on and off balance exposures of major Group's components using data analytics approach and compared our results with balances recognized in the accounting books.

We assessed the adequacy of the Group's disclosures on the loss allowances and the related credit risk management in the notes to the consolidated 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 consolidated financial statements and our auditor's reports. 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 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 consolidated financial statements is, in all material respects, consistent with the separate and 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 J & T BANKA, a.s. 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 and Audit Committee are responsible for the oversight of 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 J & T BANKA, a.s. by the General Meeting of Shareholders on 29 June 2017 and our uninterrupted engagement has lasted for 18 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of J & T BANKA, a.s., which we issued on 27 March 2019 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 J & T BANKA, a.s. and its controlled undertakings with any other services that have not been disclosed in notes to the consolidated financial statements or annual report.

Statutory Auditor Responsible for the Engagement

Vladimír Dvořáček is the statutory auditor responsible for the audit of the consolidated financial statements of J & T BANKA, a.s. as at 31 December 2018, based on which this independent auditor's report has been prepared.

Prague, 29 March 2019

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Registration number 71

Vladimír Dvořáček
Partner
Registration number 2332

CZK 143.7 bil.

BANK´S TOTAL ASSETS GREW YEAR-ON-YEAR BY 6,54 %.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

in MCZK	Note	31.12.2018	31.12.2017
ASSETS			
Cash and balances with central banks	7	3,367	5,915
Due from banks and other financial institutions	8	53,734	46,670
Positive fair value of derivatives	9	400	593
Loans and advances to customers at amortised cost	12	66,966	63,785
Financial assets for trading	10a	4,389	3,601
Financial assets mandatorily at fair value through profit or loss	10b	6,066	–
Financial assets at fair value through profit or loss	10c	52	–
Financial assets available for sale	10d	–	8,445
Financial assets at fair value through other comprehensive income	10e	3,241	–
Disposal groups held for sale	1	64	107
Ownership interests	1	4,142	4,617
Deferred tax asset	26	303	83
Property, plant and equipment	15	35	38
Intangible assets	16	90	101
Prepayments, accrued income and other assets	18	917	985
Total Assets		**143,766**	**134,940**
LIABILITIES			
Deposits and loans from banks	19	3,048	22,009
Deposits from customers	20	112,936	84,484
Negative fair value of derivatives	9	238	241
Financial liabilities at fair value through profit or loss	21	50	–
Subordinated debt	22	749	1,388
Other liabilities and provisions	23	7,982	7,760
Current tax liability	25	157	60
Total Liabilities		**125,160**	**115,942**
Share capital	24	10,638	10,638
Retained earnings and other reserves	24	5,371	5,763
Other capital instruments	24	2,597	2,597
Total Equity		**18,606**	**18,998**
Total Equity and Liabilities		**143,766**	**134,940**

The accompanying notes, set out on pages 166 to 250, are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

in MCZK	Note	31.12.2018	31.12.2017
Interest income calculated using effective interest rate	27	4,351	4,194
Other interest income	27	145	100
Interest expense	28	(1,134)	(1,026)
Net interest income		**3,362**	**3,268**
Fee and commission income	29	1,531	1,153
Fee and commission expense	30	(181)	(252)
Net fee and commission income		**1,350**	**901**
Dividends from ownership interests		270	128
Net trading income	31	(46)	(141)
Impairment of assets available for sale	10d	–	(123)
Other operating income	32	18	74
Operating income		**4,954**	**4,107**
Personnel expenses	33	(1,077)	(775)
Other operating expenses	34	(944)	(930)
Depreciation and amortisation	15,16	(70)	(69)
Operating expenses		**(2,091)**	**(1,774)**
Profit before allowances, provisions and income tax expenses		**2,863**	**2,333**
Net change in provisions from financial activities	14	(11)	41
Net change in allowances for impairment of loans	14	(565)	(384)
Allowances for ownership interests	1	(368)	(135)
Profit before tax		**1,919**	**1,855**
Income tax expenses	25	(385)	(359)
Profit for the period		**1,534**	**1,496**
Profit for the period attributable to:			
Shareholders of the Bank		1,534	1,496
Profit for the period		**1,534**	**1,496**

in MCZK	Note	31.12.2018	31.12.2017
Other comprehensive income — items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve — financial assets available for sale			
Net change in fair value		–	145
Net amount reclassified to profit or loss		–	(35)
Related tax		–	(21)
Revaluation reserve — financial assets at fair value through other comprehensive income — debt instruments			
Net change in fair value		42	–
Net amount reclassified to profit or loss on disposal		(53)	–
Related tax		(8)	–
Foreign exchange translation differences		5	(4)
Other comprehensive income — items that are not reclassified to profit or loss:			
Revaluation reserve — financial assets at fair value through other comprehensive income — equity instruments			
Net change in fair value		10	–
Related tax		(2)	–
Other comprehensive income for the period, net of tax		**(6)**	**85**
Total comprehensive income for the period		**1,528**	**1 581**

The accompanying notes, set out on pages 166 to 250, are an integral part of these financial statements.

The Board of Directors approved these consolidated financial statements on 29 March 2019.

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 2018

in MCZK	Share capital
Balance at 1 January 2017	**10,638**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	
Profit for the period	–
Dividends	–
Issue of capital instruments	–
Contribution to Perpetuity fund	–
OTHER COMPREHENSIVE INCOME	
Foreign exchange translation differences	–
Fair value reserve (available-for-sale financial assets):	
Net change in fair value, after tax	–
Net amount reclassified to profit or loss, after tax	–
Balance at 31 December 2017	**10,638**
Impact of transition to IFRS 9	
Expected credit losses, after tax	–
Reclassification of allotment certificates, after tax	–
Balance at 1 January 2018	**10,638**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	
Profit for the period	–
Dividends	–
Issue of capital instruments	–
Contribution to Perpetuity fund	–
OTHER COMPREHENSIVE INCOME — ITEMS THAT ARE OR MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS:	
Foreign currency translation differences	–
Revaluation reserve — financial assets at fair value through other comprehensive income — debt instruments	
Net change in fair value	–
Expected credit losses	–
Related tax	–
OTHER COMPREHENSIVE INCOME — ITEMS THAT ARE NOT SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS:	
Revaluation reserve — financial assets at fair value through other comprehensive income — equity instruments	
Net change in fair value	–
Related tax	–
Balance at 31 December 2018	**10,638**

For more information on equity instruments see note 24. The accompanying notes, set out on pages 166 to 250, are an integral part of these financial statements.

Retained earnings	Perpetuity fund	Other capital instruments	Revaluation reserve	Total
5,500	**155**	**2,597**	**53**	**18,943**
1,496	–	–	–	1,496
(1,310)	–	–	–	(1,310)
–	**(216)**	**–**	**–**	**(216)**
(242)	**242**	**–**	**–**	**–**
–	**–**	**–**	**(4)**	**(4)**
–	–	–	117	117
–	–	–	(28)	(28)
5,444	**181**	**2,597**	**138**	**18,998**
(466)	**–**	**–**	**62**	**(404)**
274	–	–	(274)	–
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**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

in MCZK	Note	31.12.2018	31.12.2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,919	1,855
Adjustments for:			
Depreciation and amortisation	15, 16	70	69
Allowances for impairment of loans	14	565,	384
Allowances for impairment of provisions for off-balance		11	
FX difference from allowances for impairment of loans	12	6	(48)
Amortized costs of sold intangible and tangible fixed assets		4	1
Change in other provisions		268	(13)
Change in revaluation of financial assets at fair value through profit or loss		83	87
Ownership interests — unrealised FX difference / FV hedge		222	433
Creation of allowances for ownership interests	1	368	135
Profit from sale of associate		—	(55)
Financial assets available for sale — unrealised FX difference / FV hedge		(1)	272
Impairment of financial assets at fair value through other comprehensive income/available-for-sale securities	10d	(53)	123
Net unrealized foreign exchange gains/losses		(65)	162
(Increase) / decrease of operating assets:			
Compulsory minimum reserves in central banks		(175)	(108)
Due from financial institutions		162	(109)
Originated loans and receivables		(4,090)	5,593
Financial assets held to maturity		—	617
Financial assets at fair value through profit or loss		(1,965)	(1,023)
Financial assets available for sale		—	(314)
Financial assets at fair value through other comprehensive income		222	—
Disposal groups held for sale		43	—
Prepayments, accrued income and other assets		68	(162)
Increase / (decrease) of operating liabilities:			
Deposits and loans from banks		(18,961)	18,671
Deposits from customers		28,452	(9,349)
Other assets/liabilities		(157)	1,948
Income tax expenses paid		(423)	(237)
Credit linked notes issued		50	—
Net increase / (decrease) in fair values of derivatives			
Fair value of derivative instruments		190	(338)
Net cash flows from operating activities		**6,813**	**18,594**

in MCZK	Note	31.12.2018	31.12.2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(1,254)	(1,310)
Distribution from capital instruments		(262)	(216)
Repayment of subordinated debt		(641)	(42)
Foreign currency difference from subordinated debt		2	3
Net cash flows from financing activities		**(2,155)**	**(1,565)**
CASH FLOW FROM INVESTMENT ACTIVITIES			
Acquisition of and proceeds from sale of intangible and tangible fixed assets, net		(58)	(63)
Pariticpations — contribution to capital		(110)	(30)
Disposal of associate		—	211
Net cash flows used in investing activities		**(168)**	**118**
Net increase in cash and cash equivalents		**4,490**	**17,147**
Cash and cash equivalents at beginning of period	5, 32	50,234	33,141
Effects of exchange rate fluctuations on cash held		13	(54)
Cash and cash equivalents at end of period	5, 32	54,737	50,234
Cash flows from operating activities include:			
Interest received		4,336	3,449
Interest paid		1,421	1,186
Dividends received		292	194

The accompanying notes, set out on pages 166 to 250, are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 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 with clients of the Bank, 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 485 employees in 2018 (2017: 468). The Bank operates in the Czech Republic, Slovakia.

Slovakia 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 ultimate parent company of the Bank is J&T FINANCE GROUP SE, which is owned by Jozef Tkáč (45.05%), Ivan Jakabovič (45.05%), and Rainbow Wisdom Investments Limited (9.90%).

Ownership interests
The below listed companies became the Bank´s subsidiaries, with the intention of the shareholder to centralize financial services under the Bank´s supervision.

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 the acquisitions will significantly contribute to the growth of the Bank’s revenues.

Company	Netto balance at 31.12.2018 in mil. CZK	Ownership interest impairment at 31.12.2018 in mil. CZK	Share capital in mil. CZK	% share-holding	Principal activities	Country of incorporation
J&T Bank, a.o.	2,451	–	2,094	99.95	Banking acitivites	Russia
ATLANTIK finanční trhy, a.s.	82	192	81	100	Investment activities	Czech Republic
J&T INVESTIČNÍ SPOLEČNOST, a.s.	149	–	20	100	Investment activities	Czech Republic
J&T IB and Capital Markets, a.s.	2	–	2	100	Advisory activities	Czech Republic
TERCES MANAGEMENT LIMITED	322	197	594	99	Investment activities	Cyprus
J&T REALITY, o.p.f.	599	50	–	53.08	Investment activities	Czech Republic
J&T banka d.d.	397	490	1,058	84.17	Banking activities	Croatia
J&T Leasingová společnost, a.s.	140	–	32	100	Financial activities	Czech Republic
Total	**4,142**	**929**				

On April 30, 2018, the Bank increased its share in J&T banka d.d. to 84.17% resulted from purchasing own shares by J&T banka d.d.

On April 30, 2018, the Bank increased its share in J&T banka d.d. to 84.17% resulted from purchasing own shares by J&T banka d.d.

On December 13, 2018, the Bank increased its share in J&T Leasingová společnost, a.s. in the amount of CZK 110 million as the contribution to capital funds.

Effective 31 December 2018, the reference currency of J&T REALITY, o.p.f. investment fund was changed from EUR to CZK. In connection with this, the nominal value of allotment certificates was changed from EUR 1.00 to CZK 26.00, and the ownership interest was converted from EUR to CZK.

In 2018, the Bank created allowances for ownership interests in the total amount of CZK 368 million.

A year-on-year change in total allowances for ownership interests of CZK 379 million was affected by the creation of allowances in 2018 and by a negative foreign currency difference of CZK 11 million on translation of allowances for ownership interests in currencies other than Czech crown.

During 2018, there were no restrictions of the ownership rights held over subsidiaries.

Disposal groups held for sale as at 31 December 2018 are as follows:

Company	Balance at 31.12.2018 in mil. CZK	% shareholding	Principal activities	Country of incorporation
J&T Ostravice Active Life UPF	64	46.74	Investments in companies owning real estate	Czech Republic
Total	**64**			

The sale of the Bank's share in J&T Ostravice Active Life UPF investment fund was delayed due by the approval process for the zoning plan, which is beyond the Bank's control. In the course of 2018, roads and engineering networks were completed as planned, allowing to offer the first land plots 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 was obligatorily redeemed/purchased. 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, no later, however, than 5 months from the decisive date. For the Bank, this meant realisation of 40% of its investment held.

After further sale of land, there will be more redemptions, and the Bank's shareholding will further decrease.

Company	Balance at 31.12.2017 in mil. CZK	Ownership interest impairment at 31.12.2017 in mil. CZK	Capital share in mil. CZK	% share-holding	Principal activities	Country of incorporation
J&T Bank, a.o.	2,703	–	2,351	99.95	Banking activities	Russia
ATLANTIK finanční trhy, a.s.	82	192	81	100	Investment activities	Czech Republic
J&T INVESTIČNÍ SPOLEČNOST, a.s.	149	–	20	100	Investment activities	Czech Republic
J&T IB and Capital Markets, a.s.	2	–	2	100	Advisory activities	Czech Republic
TERCES MANAGEMENT LIMITED	324	168	0,06	99	Investment activities	Cyprus
J&T REALITY, o.p.f.	616	22	–	53.08	Investment activities	Czech Republic
J&T banka d.d.	711	168	1,056	82.76	Banking activities	Croatia
J&T Leasingová společnost, a.s.	30	–	32	100	Financial activities	Czech Republic
Total	**4 617**	**550**				

The subsidiary Vaba d.d. bank Varaždin changed it's name to J&T banka d.d. on January 1, 2017.

On February 22, 2017, the Bank subscribed for 100 % share in J&T Leasingová společnost, a.s. of 4 600 000 units of ordinary shares in total nominal value of CZK 30 million aiming to expand its activities to provide leasing services.

On July 3, 2017, the Bank sold its share in the company PGJT B.V.

In 2017, the Bank created allowances for ownership interests in the total amount of CZK 135 million.

A year-on-year change in total allowances for ownership interests of CZK 101 million was affected by a positive foreign currency difference of CZK 34 million on translation of allowances for ownership interests in currencies other than Czech crown.

During 2017, there were no restriction on the ownership rights held over subsidiaries.

Disposal groups held for sale as at 31 December 2017 are as follows:

Company	Balance at 31.12.2017 in mil. CZK	% shareholding	Principal activities	Country of incorporation
J&T Ostravice Active Life UPF	107	46,74	Investments in companies owning real estate	Czech Republic
Total	**107**			

2. BASIS OF PREPARATION

(a) Statement of compliance

The 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 2018 – 31 December 2018 ("reporting period").

(b) Basis of preparation

The 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 Bank 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.

Below stated accounting methods have been applied consistently in all periods presented in this 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 recognized 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 2018, and have not been applied in preparing these financial statements:

IFRS 16 Leases
IFRS 16 was endorsed by the EU in November 2017 and shall be effective for accounting periods starting on and after 1 January 2019, with a retrospective or modified retrospective approach.

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.

IFRS 16 will bring major changes in the accounting of lessees. Right-of-use of the asset and corresponding liability shall be recognised in the lessee's statement of financial position with two exceptions that may be used:
— when the lease term does not exceed 12 months and contains no purchase option,
— when the underlying asset has a low value when new.

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 profit and loss.

A lessor shall classify each of its leases 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.

The Bank, as a lessee, leases mainly head office premises, branches, cars, that should be recognised in Property and equipment under IFRS 16 since 1 January 2019.

The Bank applies IFRS 16 initially on 1 January 2019, using the modified retrospective approach.

The Bank plans to apply the practical expedient of grandfathering the definition of a lease on transition. This means that IFRS 16 will be applied to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17.

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 on a lease-by-lease basis.

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 Bank applied a single discount rate to a portfolio of leases according to the currency in which the lease is paid.

Based on the information currently available, the Bank estimates that it will recognize additional lease liabilities of CZK 252 million with corresponding recognition of the right-of use assets of CZK 262 million as at 1 January 2019. The difference CZK 10 million is represented by rentals prepaid as at 31 December 2018 already recognized in" Other assets".

IFRIC 23 Uncertainty over Income Tax Treatments
Effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the Bank's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. The Bank must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation
Effective for annual periods beginning on or after 1 January 2019.

These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss.

The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.

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

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
Effective for annual periods beginning on or after 1 January 2019.

The Amendments clarifies that companies account for investments in associates or joint ventures, for which equity method is not applied, in accordance with provisions of IFRS 9 Financial Instruments.

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

Amendments to IAS 19 Employee Benefits
Effective for annual periods beginning on or after 1 January 2019.

The Amendments require that the Bank uses current and updated assumptions when a change to a plan, and amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

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

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 amendments, when initially applied, will not have a significant effect on the consolidated financial statements of the Bank.

Annual Improvements to IFRS 2015-2017 Cycle
Effective for annual periods beginning on or after 1 January 2019.

The Improvements to IFRSs (2015-2017) contains four amendments to standards. The main changes were to:
— clarify that the entity remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations;
— clarify that the entity does not remeasure its previously held interest in a joint operation when it obtains joint control

of the joint operation in accordance with IFRS 11 Joint Arrangements;
- clarify that the entity should always accounts for income tax consequences of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized past transactions or events that generated distributable profits; and
- clarify that the entity should exclude from the funds that the entity borrows generally borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete as borrowings made specifically for the purpose of obtaining a qualifying asset should not apply to a borrowing originally made specifically to obtain a qualifying asset if that asset is ready for its intended use or sale. The capitalized borrowing costs should not exceed the total borrowing cost for the reporting period.

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

Other new International Financial Reporting Standards and Interpretations not yet due
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.

(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 Slovakian branch is the Euro ("EUR").

3. ACCOUNTING POLICIES

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

(a) Financial assets and liabilities

Classification and measurement of financial assets and financial liabilities
As of 1 January 2018, the Bank applied IFRS 9 Financial Instruments relating to the classification and measurement of financial assets and financial liabilities, as well as impairment of financial assets. IFRS 9 also significantly amended IFRS 7 Financial Instruments: Disclosure, as a result of which it was necessary to adjust the disclosures for financial instruments.

The Bank has decided, in accordance with the transitional period of IFRS 9, not to change the information already disclosed for comparable period. As the result, comparative period in the financial statements for 2018 is in the structure used in the financial statements for 2017 based on the original classification and measurement in accordance with IAS 39 valid for period 2017.

For this reason, there are also published accounting methods and valuation methods applicable to financial instruments in accordance with IAS 39.

Financial assets according to 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 to the Bank's management;
  - — the risks that affect the performance of the business model;
  - — the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity;
- — the contractual cash flow characteristics of the asset ("SPPI - solely paments 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;
- — "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 Bank takes into consideration following criteria when performing 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

Strategy "Hold and collect" has an objective to hold 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, 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.

In 2018, the IASB issued an amendment to IFRS 9 on early repayment with a negative compensation. Negative compensation arises when contract terms allow the debtor early repayment of the instrument before its contractual maturity, but the amount of advance may be lower than unpaid principal amount and interest. In order to meet valuation criteria at amortized cost, negative compensation must constitute "reasonable compensation for the early termination of the contract". The Bank does not expect a significant volume of early repayment elements with negative compensation, which would have to be measured at fair value through profit or loss (FVTPL).

Financial assets at fair value through other comprehensive income

Strategy "Hold, collect and sell" has an objective to both collecting contractual cash flows and selling financial assets; model represents so called "mixed" business model. This model distinguishes two different types of accounting treatment as for equity instruments and as for debt instruments.

Debt instruments, those that meet the criteria of SPPI test are classified within the business model 'hold, collect and sell' and are measured at fair value through other comprehensive income. These instruments are the subject of impairment measurement. Expected credit loss is recognized in profit or loss and the changes in the fair value of the instrument are recognized in OCI. When the financial asset is derecognized, gain or loss is recognized in profit or loss as a result of reclassification of the gain or loss from other comprehensive income to profit or loss. FX differences in relation to the financial asset, interest revenues calculated using EIR as well as dividends are also recognized in profit or loss. Interest revenues are presented on the line of 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. These assets are not the subject of ECL calculation and any changes in the fair value are recognized in other comprehensive income. That revaluation impact will not be reclassified to profit or loss upon disposal. FX differences are recognized in other comprehensive income as part of the revaluation reserve as well. When the equity instrument is sold, the corresponding gain or loss remains in other comprehensive income and is not reclassified to profit or loss. Only dividends from these financial assets are recognized in profit, but only if do not result from decrease of the investment value.

Financial assets at fair value through profit or loss

Strategy "Trading" has an objective to actively trade with financial asset. These assets are measured at fair value, with any gains/losses arising on measurement recognised in profit or loss. Typical assets in this category are derivatives and financial assets for trading. FX differences are presented in profit or loss. These assets are not the subjects for expected credit loss 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.

If there are recorded financial assets as fair value option, those debt instruments even if they meet the amortised cost or FVOCI criteria are measured at FVTPL.

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.

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. The transaction costs related to financial assets designated at fair value through profit or loss are recognized directly in 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), except any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, which 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 statement of financial position 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 the statement of comprehensive income 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 investment designated as measured at FVOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Interest from financial assets and liabilities 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. A financial liability is derecognised when it is extinguished.

Upon derecognition, the difference between the asset's carrying amount, and the sum total 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 labilities when the related obligation specified in the contract is either discharged, cancelled, or expires.

Financial assets measured at FVOCI and FVTPL that are sold are derecognised and the corresponding receivables from the buyer are recognised on the day the Bank commits to sell the assets.

Financial assets at amortised costs are derecognised on the day they are sold by the Bank.

Financial liabilities according to IFRS 9

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 at acquisition - FV Option;
- financial liabilities arising from the transfer of financial assets that does not qualify for derecognition — short sales measured at FVTPL;
- contingent liabilities (if recognition criteria 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 FV of financial liabilities in respect of the change in credit risk that is presented in the OCI for the liabilities in FVTPL. The other part of the change in FV is presented in the PL.

As a financial liability, in the provision part, is also presented expected credit loss for off balance sheet positions as provided loan commitments and guarantees.

Impairment

Impairment of financial assets by applying the IFRS 9 approach is based on expected credit loss ("ECL") model which applies to the following financial assets of Reporting entity financial assets measured at amortised costs, financial assets measured at FVOCI - debt instruments, loan commitments and financial guarantees measured at amortised costs.

For the purposes of ECL model calculation, the portfolio of financial assets is split into segments. Within each segment are financial assets 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 first recognition, the financial asset is included in Stage 1 or POCI. Subsequent reclassification is carried out according to the definition of significant increase in credit risk (Stage 2) or impairment (default) of the asset (Stage 3).

Stage 1

- initial recognition of a financial asset;
- the expected 12-months credit losses are all discounted cash flows that are not expected to be received until maturity of the financial asset that are results of a possible default occurring within 12 months after the reporting date;
- interest revenue is calculated from the gross carrying amounts ("GCA").

Stage 2

- if the credit risk increases significantly from the initial recognition of the financial asset;

- the expected lifetime credit losses are all discounted cash flows that are not expected to be received until maturity of the financial asset that are results of a possible default;
- interest revenue is calculated from the GCA.

Stage 3

- the credit quality of the financial asset has significantly deteriorated and resulted into a credit loss or impairment of the asset;
- the expected lifetime credit losses are all discounted cash flows that are not expected to be received until maturity of the financial asset that are results of a possible default;
- interest revenue 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, 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 Bank determines whether there has been a significant increase in credit risk since initial recognition and whether it is therefore necessary to report the expected credit losses over the lifetime.

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 may POCI arise as a result of the restructuring of borrowers in financial difficulties that lead to significant change 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 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 assets 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 assets 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:
- 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:
  - 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 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 3-fold increase in PD, all significant changes in PD are captured.

Qualitative factors to be considered in assessment:
- the receivable or its significant portion is overdue for more than 30 days;
- 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.

Credit impaired financial assets

A financial asset is ‘credit-impaired’ when one or more events 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 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 judgment 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 re-structuralized;
- 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 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 (or lifetime if expected maturity shorter than 12 months) PD is determined.

Determination of loss given default (LGD)

LGD 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.

LGD is be determined individually for materially significant credit exposures - in the form of a scenario analysis, from credit analysis or previous credit 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, 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 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 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 consider 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 Banks assigns relevant internal credit risk rating to counterparties, depending on their creditworthiness.

ECL presentation in the financial statements

— 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 not classified as significant (i.e. the difference between the 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 a financial asset was not derecognized, the Bank recalculate 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. Costs, fees adjusting the carrying amount of a modified financial asset are amortized over the remaining term of modified financial asset.

If a modification of the original financial asset results in the derecognition of the financial asset, the recognition of a new financial asset in line with the general requirements for the initial recognition is required.

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.

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 (further "IFRS").

Forbearance is an exposure where the Bank 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 are mainly those classified in Stage 1 and Stage 2. Non-performing exposures comprise receivables with debtor's failure classified in Stage 3 (under special conditions defined by EBA also exposures in Stage 2 might 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.

Structure and credit quality portfolio detail is described in note 40.

Treasury bills
Treasury bills, comprising bills issued by 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 and options are initially recognized 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 recognized 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
When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a commitment, changes in the fair value of the derivative are recognised immediately in the statement of comprehensive income together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line as the hedged item).

Hedge accounting is discontinued if the derivative expire or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked. Any adjustment to a hedged item for which the effective interest rate method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Under IFRS 9, derivatives embedded in contracts that are financial assets within the scope of the standard are not recognised and measured separately, but the hybrid financial instrument is considered in its entirety.

Classification and measurement according to IAS 39

Classification

The financial instruments at fair value through profit or loss are those that the Bank principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated as effective hedging instruments and liabilities from short sales of financial instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Originated loans and receivables comprise loans, advances to banks and customers other than purchased loans and promissory notes.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Available-for-sale assets are financial assets that are not measured at fair value through profit or loss or held to maturity.

The Bank's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:
— In classifying financial assets or liabilities as “trading”, management has determined that the Bank meets the description of trading assets and liabilities;
— The Bank regularly evaluates the liquidity of particular financial instrument with respect to market conditions;
— In classifying financial assets as held-to-maturity, management has determined that the Bank has both the positive intention and the ability to hold the assets until their maturity date as required.

Impairment

Financial assets are reviewed quarterly and at each statement of financial position date to determine whether there is objective evidence of impairment. If any such indication exists, the recoverable amount of the asset is estimated.

The Bank assesses at the end of each quarter, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(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 on the statement of financial position and the consideration paid is recorded as a loan. The difference between the sale price and repurchase price is treated as interest and accrued evenly over the life of the transaction. Repos and reverse repos are recognised on a settlement date basis.

(c) 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 5 years.

(d) Tangible assets

Tangible assets are stated at historical cost less accumulated 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) Operating lease payments

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 the total expense, 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

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. In case of modification of loan conditions, such as change of interest rate or instalment calendar, the effective interest rate is updated in line with newly agreed conditions. 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.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at 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 financial assets originated or purchased credit-impaired (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 FVOCI, bonds determined as 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.

The negative income from the financial assets is booked as interest expense, positive income from financial liabilities is booked 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 three 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) Taxation

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 and other banks and short-term highly liquid investments 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

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 case of control/supervision all following conditions must be met:
— power over the company in which 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 in 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 classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. 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. This condition is regarded as met only when 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.

Disposal groups held for sale are measured at the lower of:
— Net book value of the asset at the date of classification to "disposal group 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
— Unallocated / Other

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 except for "other" financial assets and liabilities and current and deferred income tax asset / liability.

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

Dividends are 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 the payment of the dividend is established. Usually, this is the dividend date for listed equity securities, and the date when the dividend is approved by shareholders for non-listed equity securities.

Presentation of dividend income depends on the classification of financial assets and the measurement of ownership interests, i.e.:
— for equity instruments held for trading, dividend income is presented in the statement of comprehensive income in net trading income;
— for equity instruments at fair value through other comprehensive income, where the dividend does not represent the impairment of the investment, the dividend is presented in the statement of comprehensive income in net trading income, otherwise in other comprehensive income;
— for equity instruments not measured at fair value through other comprehensive income and not held for trading, dividend income is presented in the statement of comprehensive income 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 capital funds

Other capital funds 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 capital 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:

a. 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;
b. if the Certificates will or may be settled in the entity's own equity instruments, the Certificates are non-derivative that includes no contractual obligation for the issuer to deliver a variable number of it's own equity instruments.

The Bank may repay the Certificates with approval of the Czech National Bank. Holders of Certificates have no right to ask for repayment, except in the case of 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 and are exempt from paying compensation. 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 resources available, the payment is reduced. Interest income can be drawn from:

— the Bank's net income,
— retained earnings from previous periods,
— other funds that might be divided among its shareholders.

As the Bank has no obligation to deliver interest income to the holders of Certificates or to settle the contractual obligation by sourcing other financial assets and as the Certificates have no maturity date, they are included in Tier 1 subsidiary capital. 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 on-going 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 at amortised cost. 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 reserves to off balance sheet items are based on management's judgment 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 — 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 — 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 — 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 the market for a financial instrument is not active, fair value is estimated by using valuation techniques. In applying valuation techniques, management uses estimates and assumptions that are consistent with available information about estimates and assumptions that market participants would use in setting a price for the financial instrument.

If the fair values had been higher or lower by 10% than management's estimates, the net carrying amount of Level 3 financial instruments would have been estimated to be CZK 444 million higher or lower than as disclosed as at 31 December 2018 (2017: CZK 355 million).

In the vast majority of cases, estimates of fair values of investments, bonds and loans granted at Level 3 are determined using the discounted cash flow (DCF) method, with inputs based on the business plans or expected cash flow developments for the given asset. Before inputting the data in the DCF model, the Bank's management carefully assessed individual business plans and cash flow development assumptions. Discount rates were set based on the sector and country specifics of the instruments. Main underlying assumptions made in the calculation comprise the expected cash flows and the discount rates.

The hierarchy structure of selected assets and liabilities is given in note 44, details on securities classified at Level 3 are disclosed in note 10.

5. APPLICATION OF NEW STANDARD IFRS 9

a) Classification and measurement of financial instruments

The following table shows the changes between the different classification and measurement of carrying amount under IAS 39 and IFRS 9 as at 1 January 2018. The effects are published on the original positions of the balance sheet according to origin requirements of IAS 39.

in MCZK Financial instrument category IAS 39	IAS 39 Measurement category	IAS 39 31 December 2017
FINANCIAL ASSETS		
Cash and balances with central banks	Amortised cost	5,915
Due from banks and other financial institutions	Amortised cost	46,670
Positive fair value of derivatives	FVTPL	593
Loans and advances to customers	Amortised cost	63,785
Financial assets at fair value through profit or loss	FVTPL	3,601
Financial assets available for sale — debt instruments	AFS	3,074
Financial assets available for sale — capital instruments — shares	AFS	347
Financial assets available for sale — capital instruments — allotment certificates	AFS	5,024
Prepayments, accrued income and other assets	Amortised cost	985
Total financial assets		**129,994**
FINANCIAL LIABILITIES		
Deposits and loans from banks	Amortised cost	22,009
Deposits from customers	Amortised cost	84,484
Negative fair value of derivatives	FVTPL	241
Subordinated liabilities	Amortised cost	1,388
Other liabilities and provisions	Amortised cost	7,760
Total financial liabilities		**115,882**

The vast majority of the loan portfolio meets conditions of the above SPPI test and is thus classified as AC, i.e. it is recognized practically unchanged from the previous reporting under IAS 39. Financial assets acquired for trading purposes and measured at FVTPL remain classified as business model “Trading” and measured at FVTPL. Financial assets available for sale under IAS 39 were analysed in detail and debt instruments that did not pass SPPI test together with the shares from this category were classified as FVOCI under IFRS 9. Most allotment certificates were reclassified to business model FVTPL mandatorily as according to IFRS 9 they do not meet relevant criteria for classification as FVOCI.

Financial instrument category IFRS 9	IFRS 9 Measurement category	IFRS 9 1 January 2018
Cash and balances with central banks	Amortised cost	5,915
Due from banks and other financial institutions	Amortised cost	46,670
Positive fair value of derivatives	FVTPL	593
Loans and advances to customers at amortised cost	Amortised cost	63,388
Financial assets for trading	FVTPL	3,601
Financial assets at fair value through other comprehensive income	FVOCI	3,074
Financial assets at fair value through other comprehensive income	FVOCI	347
Financial assets mandatorily at fair value through profit or loss	FVTPL	5,024
Prepayments, accrued income and other assets	Amortised cost	985
		129,597
Deposits and loans from banks	Amortised cost	22,009
Deposits from customers	Amortised cost	84,484
Negative fair value of derivatives	FVTPL	241
Subordinated liabilities	Amortised cost	1,388
Other liabilities and provisions	Amortised cost	7,861
		115,983

b) Reconciliation of financial position

Reconciliation of balance sheet presented according to IAS 39 reclassified to categories according to IFRS 9 as at 1 January 2018 including revaluation in accordance with IFRS 9 shows table below.

in MCZK Financial instrument category IFRS 9
Cash and balances with central banks
Due from banks and other financial institutions
Positive fair value of derivatives
Loans and advances to customers
Expected credit losses under IFRS 9
Closing balance at 1 January 2018
Financial assets for trading
Financial assets available for sale
Transfer to FVOCI — debt instruments
Transfer to FVOCI — equity instruments — shares
Transfer to FVOCI — equity instruments — allotment certificates
Closing balance at 1 January 2018
Financial assets at fair value through other comprehensive income
Transfer from available for sale — debt instruments
Transfer from available for sale — equity instruments - shares
Loss from expected credit losses from debt instruments under IFRS 9
Closing balance at 1 January 2018
Financial assets mandatorily at fair value through profit or loss
Transfer from available for sale — equity instruments — allotment cerfiticates
Closing balance at 1 January 2018
Prepayments, accrued income and other assets
Total Financial assets
Deposits and loans from banks
Deposits from customers
Negative fair value of derivatives
Subordinated debt
Other liabilities and provisions
Loss from expected credit losses of loan commitments and guarantees under IFRS 9
Total Financial liabilities

IAS 39 Carrying amount	Reclassification	Recognition of expected credit losses	IFRS 9 Carrying amount	Impact to retained earnings	Impact to OCI
5,915	–	–	5,915	–	–
46,670	–	–	46,670	–	–
593	–	–	593	–	–
63,785	–	–	–	–	–
–	–	(397)	–	(397)	–
–	–	–	63,388	–	–
3,601	–	–	3,601	–	–
8,445	–	–	–	–	–
–	(3,074)	–	–	–	–
–	(347)	–	–	–	–
–	(5,024)	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	3,074	–	–	–	–
–	347	–	–	–	–
–	–	–	–	(62)	62
–	–	–	3,421	–	–
–	–	–	–	–	–
–	5,024	–	–	274	(274)
–	–	–	5,024	–	–
985	–	–	985	–	–
129,994	–	**(397)**	**129,597**	**(185)**	**(212)**
22,009	–	–	22,009	–	–
84,484	–	–	84,484	–	–
241	–	–	241	–	–
1,388	–	–	1,388	–	–
7,760	–	–	–	–	–
–	–	101	7,861	(101)	–
115,882	–	**101**	**115,983**	**(101)**	**–**

c) Reconciliation of loan allowances

The following table shows the reconciliation of impairment allowances in accordance with IAS 39 and the provisions for commitments and financial guarantees under IAS 37 at 31 December 2017 and the initial expected credit loss calculated in accordance with IFRS 9 as at 1 January 2018.

in MCZK	IAS 39 31.12.2017	Reclassification	Recognition of expected credit losses	IFRS 9 01.01.2018
Loans and advances to customers at amortised cost	(2,219)	–	(377)	(2,596)
Financial assets at fair value through other comprehensive income – debt instruments	–	–	(62)	(62)
Off balance sheet exposure – loan commitments and provided guarantees	(8)	–	(101)	(109)
Total	**(2,227)**	**–**	**(540)**	**(2,767)**

d) Impact of IFRS 9 to deferred tax

The following table shows impact of first time adoption of IFRS 9 to positions of deferred tax.

in MCZK	IAS 39 31.12.2017	IFRS 9 01.01.2018	Impact to retaines earnings
Deferred tax asset	83	177	94

6. CASH AND CASH EQUIVALENTS

in MCZK	2018	2017
Cash on hand and current accounts with central banks (note 7)	926	751
Term deposits in central banks up to 3 months (note 7)	855	3,753
Loans to central banks – repurchase agreements (note 8)	52,437	45,006
Loans due from banks – repurchase agreements (note 8)	–	60
Current accounts with banks or payable within 3 months (note 8)	519	664
Total	**54,737**	**50,234**

7. CASH AND BALANCES WITH CENTRAL BANKS

in MCZK	2018	2017
Balances with central banks (including obligatory minimum reserves)	1,586	1,411
Current accounts with central banks	797	614
Term deposits in central banks up to 3 months	855	3,753
Total balance with central banks	3,238	5,778
Cash on hand	129	137
Total	**3,367**	**5,915**

Balances with central banks represent the obligatory minimum reserves maintained under 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 banks, 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.

8. DUE FROM FINANCIAL INSTITUTIONS

in MCZK	2018	2017
Current accounts with banks	255	648
Term deposits and loans up to 3 months	264	16
Fixed term deposits and loans over 3 months	—	409
Loans to central banks — repurchase agreements (note 11)	52,437	45,006
Loans due from banks — repurchase agreements (note 11)	—	60
Subordinated loans to banks	451	460
Other receivables due from banks	327	71
Total	**53,734**	**46,670**

Subordinated loans to banks are provided to related banks.

Other receivables due from banks includes primarily cash collateral of derivative transactions amounting to CZK 325 million (2017: CZK 67 million).

There were no overdue current account with banks as of 31 December 2018 and 31 December 2017.

The contractual weighted average interest rate on deposits and loans with other banks was 1.77% p.a. (2017: 0.54% p.a.).

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

Those balances have immaterial ECL as of 31 December 2018.

9. DERIVATIVES

(a) Derivatives held for trading:

in MCZK	2018 Notional amount buy	2018 Notional amount sell	2018 Fair value Positive	2018 Fair value Negative
Currency derivatives	79,799	(79,422)	293	(205)
Cross currency swaps	6,744	(6,744)	78	(32)
Commodity derivatives	—	—	—	(1)
Total as at 31 December 2018	**86,543**	**(86,166)**	**371**	**(238)**

in MCZK	2017 Notional amount buy	2017 Notional amount sell	2017 Fair value Positive	2017 Fair value Negative
Currency derivatives	79,655	(79,161)	566	(222)
Other derivatives	5	(5)	–	(3)
Total as at 31 December 2017	**79,660**	**(79,166)**	**566**	**(225)**

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.

Purchased and written options are recognized in the trading portfolio. Written options comprise derivatives embedded in structured client deposits. The Bank has purchased matching options (with the same underlying assets, maturity and strike prices) from third parties in order to hedge the exposures. Accordingly, the fair value of the purchased options portfolio equals to the fair value of the sum of the written options.

Currency derivatives, generally in the form of 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 IAS 39 does not allow include this type of derivatives in the category of hedging derivatives.

The foreign currency structure of these transactions was as follows:

in MCZK	CZK	EUR	USD	Other
LONG POSITION				
31 December 2018	50%	42%	2%	6%
31 December 2017	56%	39%	2%	3%

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

in MCZK	CZK	EUR	USD	Other
SHORT POSITION				
31 December 2018	38%	44%	8%	10%
31 December 2017	34%	60%	2%	4%

(b) Derivatives held for risk management:

Fair value hedging

in MCZK	2018 Notional amount buy	2018 Notional amount sell	2018 Fair value Positive	2018 Fair value Negative
Forward currency contracts	3,086	(3,075)	29	–
Total as at 31 December 2018	**3,086**	**(3,075)**	**29**	**–**

in MCZK	2017 Notional amount buy	2017 Notional amount sell	2017 Fair value Positive	2017 Fair value Negative
Forward currency contracts	2,096	(2,085)	27	(16)
Total as at 31 December 2017	**2,096**	**(2,085)**	**27**	**(16)**

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

The objective of this hedge is to cover the foreign currency exposure to changes in fair value of financial assets available for sale and investment in equity accounted investees denominated in foreign currency over the hedging period. The Bank uses currency forwards to reach effectiveness within the hedging relationship.

10. FINANCIAL SECURITIES

(a) Financial assets for trading

in MCZK	2018 Fair value	2017 Fair value
SHARES		
— domestic	311	467
— foreign	120	10
BONDS		
— domestic	2,440	1,733
— foreign	1,512	1,391
ALLOTMENT CERTIFICATES		
— domestic	3	—
— foreign	3	—
Total	**4,389**	**3,601**

in MCZK	2018 Fair value	2017 Fair value
SHARES		
— listed	431	477
BONDS		
— listed	3,952	3,124
ALLOTMENT CERTIFICATES		
— not listed	6	—
Total	**4,389**	**3,601**

in MCZK	2018 Fair value	2017 Fair value
SHARES		
— financial institutions	192	106
— corporate	239	371
BONDS		
— government	2,117	1,500
— financial institutions	415	675
— corporate	1,420	949
ALLOTMENT CERTIFICATES		
— financial institutions	6	—
Total	**4,389**	**3,601**

in MCZK	2018 Fair value	2017 Fair value
SHARES		
— Level 1 — quoted market price	429	458
— Level 2 — derived from quoted prices	—	17
—Level 3 — calculated using valuation techniques	2	2
BONDS		
— Level 1 — quoted market price	2,640	1,972
— Level 2 — derived from quoted prices	1,272	1,135
— Level 3 — calculated using valuation techniques	40	17
ALLOTMENT CERTIFICATES		
— Level 2 — derived from quoted prices	6	—
Total	**4,389**	**3,601**

Shares in portfolio as at 31 December 2018 comprise mainly non-government bonds of CZK 1 360 million (2017: CZK 1 224 million) mainly Slovakian bonds of CZK 653 million (2017: CZK 989 million), Luxemburgian bonds of CZK 618 million (2017: CZK 172 million), Netherlands bonds of CZK 63 million (2017: CZK 40 million), and Cyprian bonds of CZK 22 million (2017: CZK 15 million).

Foreign government bonds totaling the amount of CZK 152 million (2017: CZK 167 million) represent Poland government bonds of CZK 64 million (2017: CZK 64 million), Romanian government bonds of CZK 61 million (2017: CZK 62 million) and Turkish government bonds of CZK 27 million (2017: CZK 41 million).

The contractual weighted average interest rate on bonds was 3.81% p.a. (2017: 3.44% p.a.).

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

in MCZK	2018 Fair value
ALLOTMENT CERTIFICATES	
— domestic	2,592
— foreign	3,474
Total	**6,066**

in MCZK	2018 Fair value
ALLOTMENT CERTIFICATES	
— not listed	6,066
Total	**6,066**

in MCZK	2018 Fair value
ALLOTMENT CERTIFICATES	
— financial institutions	6,066
Total	**6,066**

in MCZK	2018 Fair value
ALLOTMENT CERTIFICATES	
— Level 2 — derived from quoted prices	3,998
— Level 3 — calculated using valuation techniques	2,068
Total	**6,066**

Foreign allotment certificates comprise of Malta certificates of CZK 3 474 million (2017: CZK 2 373 million).

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

in MCZK	2018 Fair value
BONDS	
— domestic/listed/corporate	52
Total	**52**

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

(d) Financial assets available for sale:

in MCZK	2017 Fair value
SHARES	
— domestic	164
— foreign	183
ALLOTMENT CERTIFICATES	
— domestic	2,519
— foreign	2,505
BONDS	
— domestic	797
— foreign	2,277
Total	**8,445**

in MCZK	2017 Fair value
SHARES	
— listed	347
ALLOTMENT CERTIFICATES	
— not listed	5,024
BONDS	
— listed	2,214
— not listed	860
Total	**8,445**

in MCZK	2017 Fair value
SHARES	
— corporate	347
ALLOTMENT CERTIFICATES	
— financial institutions	5,024
BONDS	
— financial institutions	518
— corporate	2,556
Total	**8,445**

in MCZK	2017 Fair value
SHARES	
— Level 1 — quoted market price	216
— Level 2 — derived from quoted prices	131
ALLOTMENT CERTIFICATES	
— Level 2 — derived from quoted prices	4,011
— Level 3 — calculated using valuation techniques	1,013
BONDS	
— Level 1 — quoted market price	37
— Level 2 — derived from quoted prices	518
— Level 3 — calculated using valuation techniques	2,519
Total	**8,445**

Foreign shares in portfolio as at 31 December 2017 comprise mainly Slovakian corporate shares of CZK 131 million and Swiss company shares of CZK 52 million.

Foreign allotment certificates comprise of Malta certificates of CZK 2 373 million and Slovakian certificates of CZK 132 million.

Foreign bonds include bonds of Slovakian companies of CZK 2 277 million.

The contractual weighted average interest rate on bonds was 4.67% p.a.

In 2017, the Bank has identified an impairment of financial assets available for sale amounting to CZK 123 million.

(e) Financial assets at fair value through other comprehensive income:

in MCZK	2018 Fair value
SHARES	
— domestic	177
— foreign	181
BONDS	
— domestic	593
— foreign	2,290
Total	**3,241**

in MCZK	2018 Fair value
SHARES	
— listed	358
BONDS	
— listed	2,554
— not listed	329
Total	**3,241**

in MCZK	2018 Fair value
SHARES	
— corporate	358
BONDS	
— financial institutions	519
— corporate	2,364
Total	**3,241**

in MCZK	2018 Fair value
SHARES	
— Level 1 — quoted market price	177
— Level 2 — derived from quoted prices	181
BONDS	
— Level 1 — quoted market price	37
— Level 2 — derived from quoted prices	518
— Level 3 — calculated using valuation techniques	2,328
Total	**3,241**

No shares were sold in 2018; dividends paid on shares held were CZK 11 million.

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, so there may be a situation that in the case of one issuer, one security may be classified into level 1 and the other one into level 2 or 3, based on the criteria stated in an internal decision-making tree.

The following table set out information about significant unobservable inputs used at December 31, 2018 in measuring financial assets categorised as Level 3 in the fair value hierarchy:

Type of financial assets	Valuation technique	Significant unobservable input	Range of estimates	Fair value measurement sensitivity to unobservable inputs
bonds	discounted cash flow	Credit spread	1% - 5%	A significant increase would result in a lower fair value.
		Free-risk rate	-0.5% - 3.0%	
allotment certificate	discounted cash flow	Expected cash flow from fund	Investment based	A significant increase in expected net cash flows would result in a higher fair value.

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

in MCZK	01.01.2018	Revaluation to OCI	Revaluation to profit or loss	Transfer to Stage 2	Addition	Liquidation	FX movement	Interest income	31.12.2018
FINANCIAL ASSETS FOR TRADING									
Shares	2	–	–	–	–	–	–	–	2
Bonds	17	–	(3)	43	–	(17)	–	–	40
FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS									
Allotment certificates	1,013	–	26	–	1,030	(5)	4	–	2,068
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME									
Bonds	2,519	24	–	–	–	(228)	21	(8)	2,328
Total	**3,551**	**24**	**23**	**43**	**1,030**	**(250)**	**25**	**(8)**	**4,438**

11. REPURCHASE AND RESALE AGREEMENTS

(a) Resale 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. Legal right to financial assets is transferred to the Bank, respectively entity which is a loan provider. Reverse repurchases are entered into as a facility to provide funds to customers. As of 31 December 2018 and 31 December 2017, assets purchased pursuant to the agreements to resell them were as follows:

in MCZK	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase date	Repurchase price
Loans to central banks (note 8)	51,903	52,437	To 1 month	52,456
Loans and advances to customers (note 12)	1,100	758	To 1 month	760
Loans and advances to customers (note 12)	2,684	1,787	To 3 months	1,795
Total as at 31 December 2018	**55,687**	**54,982**		**55,011**
Loans to central banks (note 8)	44,295	45,006	To 1 month	45,009
Loans to banks (note 8)	42	60	To 1 month	59
Loans and advances to customers (note 12)	1,908	1,201	To 1 month	1,204
Loans and advances to customers (note 12)	595	364	To 3 months	366
Total as at 31 December 2017	**46,840**	**46,631**		**46,638**

(b) Repurchase agreements

Transactions where securities are sold under a repurchase agreement (repo transaction) at a predetermined price are accounted for as loans collateralised by the securities. The legal title to the respective securities is transferred to the lender. However, the securities transferred under a repo transaction are still recognised in the statement of financial position. The price for the sold securities are recognised as a liability and presented under "Deposits and loans from banks" or "Deposits from customers".

in MCZK	Fair value of assets given as collateral	Carrying amount of liability	Repurchase date	Repurchase price
Deposits from customers (note 20)	2	3	To 1 month	3
Total as at 31 December 2018	**2**	**3**		**3**
Deposits from banks (note 19)	20,786	20,541	To 1 month	20,518
Deposits from customers (note 20)	20	20	To 1 month	21
Total as at 31 December 2017	**20,806**	**20,561**		**20,539**

As at 31 December 2018, the Bank does not recognize securities sold under repurchase agreements in the statement of financial position (2017: CZK 20 786 million) and securities under repurchase agreements of CZK 3 million (2017: CZK 20 million) which were purchased under reverse repurchase operations before.

12. LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COSTS

in MCZK	Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	ECL Stage 3 — POCI	Net carrying amount
Loans and advances to customers	59,118	(175)	(43)	(2,906)	—	55,994
Loans and advances to customers — repurchase agreements and debets	2,545	—	—	—	—	2,545
Debt securities — promissory notes	8,427	—	—	—	—	8,427
Other receivables	3	—	—	(1)	(2)	—
Total 31 December 2018	**70,093**	**(175)**	**(43)**	**(2,907)**	**(2)**	**66,966**

Structure of loans and advances under IAS 39

in MCZK	2017
Loans and advances to customers	55,858
Loans and advances to customers — repurchase agreements (note 11)	1,565
Bank overdrafts	8,489
Other receivables	92
Loss allowances for impairment of loans (note 13)	(2,219)
Total net loans and advances to customers	**63,785**

Loans and advances to customers as at 31 December 2018 include loans amounting to CZK 6 949 million (2017: CZK 17 668 million) where the repayment of the loans is dependent upon the successful realization of the assets whose acquisition was financed by the relevant loans. These assets are pledged in favour of the Bank. The financed assets may comprise both tangible and intangible assets. The Bank recognises the loans dependent on asset realisation according to the actual nature of each individual loan.

The amount of non-interest bearing loans as at 31 December 2018 totalled to CZK 103 million (2017: CZK 106 million). These loans were mostly acquired from the former Podnikatelská banka or loans that are after due and therefore bearing no interest. Receivables from these loans are fully impaired.

The contractual weighted average interest rate on loans to customers was 5.4% p.a. (2017: 5.85% p.a.).

Rollforward of allowances for impairment of loans under IAS 39

in MCZK	2017
1 January	**1,991**
Charge / (reversal) in the reporting period	384
Use / write-off	(108)
Currency difference	(48)
31 December	**2,219**

Use of allowances for impairment of loans for the year ended 31 December 2017 amounting to CZK 108 million represents the sale of receivables with gross value of CZK 108 million to which provisions of CZK 108 million. The selling price of these receivables was insignificant.

For the year ended 31 December 2017 and 31 December 2016 allowances were used upon the write-off of receivables, but the amount was insignificant.

Details of changes in gross book value of loans, including movement in ECLs for 2018 are disclosed in note 13. Further information on loans and advances to customers is disclosed in note 40.

13. GROSS CARRYING AMOUNT OF FINANCIAL ASSETS

Gross carrying amount of Loans and advances to customers at amortised cost

in MCZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
As at 31 December 2017	**54,620**	**3,348**	**8,034**	**2**	**66,004**
Effect from implementation IFRS 9	—	—	(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 (excep of 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 derecognized during the period	(23,281)	(701)	(2,073)	—	(26,055)
Foreign exchange and other movements	186	9	39	—	234
Write-offs	—	—	(13)	—	(13)
Total as at 31 December 2018	**60,879**	**2,851**	**6,361**	**2**	**70,093**

„Increase due to origination and acquisition“ represents increase in Loans to customers – repurchase agreements and debets of CZK 10 958 million, "Financial assets derecognized during the period" comprise decrease of Loans to customers – repurchase agreements and debets amounting to CZK 7 964 million. The remaining movements represet the newly provided loans or repayment of previously provided loans.

Financial assets at FVOCI

in MCZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**3,074**	**—**	**—**	**—**	**3,074**
Effect from implementation IFRS 9	—	—	—	—	—
Total as at 1 January 2018	**3,074**	**—**	**—**	**—**	**3,074**
Movement in interest — accrued less paid (excep of full repayment)	(8)	—	—	—	(8)
Financial assets derecognized 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**

14. EXPECTED CREDIT LOSSES

ECL to Loans and advances to customers at amortised cost

in MCZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**–**	**–**	**2,217**	**2**	**2,219**
Effect from implementation IFRS 9	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	–	–
– changes in credit risk net	(38)	11	1,133	–	1,106
– modification of contracutual cash flows of financial assets without derecognition net	–	1	(58)	–	(57)
New financial assets originated or purchased	93	–	22	–	115
Unwind of discount	–	–	57	–	57
Foreign exchange rate movements	–	–	5	–	5
Financial assests derecognised during the period	(33)	(2)	(564)	–	(599)
Write-offs / Use	–	–	(96)	–	(96)
Total as at 31 December 2018	**175**	**43**	**2,907**	**2**	**3,127**

The use of ECL to loans and advances to customers at amortised cost amounting to CZK 96 million represents the sale of impaired receivables in gross amount of CZK 123 million. The sale price of the receivables was CZK 27 million in 2018.

ECL to Financial commitments and quarantees

in MCZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**1**	**–**	**7**	**–**	**8**
Effect from implementation IFRS 9	10	2	89	–	101
Total as at 1 January 2018	**11**	**2**	**96**	**–**	**109**
– changes in credit risk net	(14)	(2)	38	–	22
– modification of contracutual cash flows of financial assets without derecognition net	(1)	2	–	–	1
New financial assets originated or purchased	32	–	2	–	34
Financial assests derecognised during the period	(8)	–	(38)	–	(46)
Foreign exchange rate movements	–	–	(1)		(1)
Total as at 31 December 2018	**20**	**2**	**97**	**–**	**119**

ECL to Financial assets at FVOCI

in MCZK	Stage 1	Stage 2	Stage 3	Stage 3 - POCI	Total
Total as at 31 December 2017	**—**	**—**	**—**	**—**	**—**
Effect from implementation IFRS 9	62	—	—	—	62
Total as at 1 January 2018	**62**	**—**	**—**	**—**	**62**
— changes in credit risk net	(64)	—	—	—	(64)
New financial assets, created or purchased	11	—	—	—	11
Foreign exchange rate movements	1	—	—	—	1
Total as at 31 December 2018	**10**	**—**	**—**	**—**	**10**

15. PROPERTY, PLANT AND EQUIPMENT

The movements during the period were as follows:

in MCZK	Land and buildings	Fixtures, fittings and equipment	Total
COST			
1 January 2017	21	71	92
Additions	—	2	2
Disposals	—	(5)	(5)
31 December 2017	**21**	**68**	**89**
ACCUMULATED DEPRECIATION			
1 January 2017	9	41	50
Depreciation	2	3	5
Disposal	—	(4)	(4)
31 December 2017	**11**	**40**	**51**
COST			
1 January 2018	21	68	89
Additions	—	1	1
Disposals	—	(2)	(2)
31 December 2018	**21**	**67**	**88**
ACCUMULATED DEPRECIATION			
1 January 2018	11	40	51
Depreciation	2	2	4
Disposals	—	(2)	(2)
31 December 2018	**13**	**40**	**53**
NET BOOK VALUE			
31 December 2017	**10**	**28**	**38**
31 December 2018	**8**	**27**	**35**

The Bank did not record any fixed tangible assets under construction at the end of 2018 and 2017.

Property is insured against theft and natural disaster.

16. INTANGIBLE ASSETS

The movements during the period were as follows:

in MCZK	Software	Other	Total
COST			
1 January 2017	421	–	421
Additions	61	–	61
31 December 2017	**482**	**–**	**482**
ACCUMULATED AMORTISATION			
1 January 2017	317	–	317
Amortisation	64	–	64
31 December 2017	**381**	**–**	**381**
COST			
1 January 2018	482	–	482
Additions	47	10	57
Disposals	(2)	–	(2)
31 December 2018	**527**	**10**	**537**
ACCUMULATED AMORTISATION			
1 January 2018	381	–	381
Amortisation	65	1	66
31 December 2018	**446**	**1**	**447**
NET BOOK VALUE			
31 December 2017	**101**	**–**	**101**
31 December 2018	**81**	**9**	**90**

The Bank did not record any Intangible assets under construction at the end of 2018 and 2017.

17. OPERATING LEASES

(a) Leases entered into as lessee

The Bank has non-cancellable operating lease payables as follows:

in MCZK	2018	2017
Less than one year	55	91
Between one and five years	198	230
More than five years	44	–
Total	**297**	**321**

(b) Leases entered into as lessor

The Bank has non-cancellable operating lease receivables as follows:

in MCZK	2018	2017
Less than one year	2	2
Between one and five years	2	4
Total	**4**	**6**

18. PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS

in MCZK	2018	2017
Prepayments and accrued income	55	91
Receivables from customers from securities trading	339	402
Other receivables	415	370
Receivables from fees for portfolio management	45	65
Other receivables	37	36
Advance payments — other	27	22
Allowances for impairment of other assets	(1)	(1)
Total	**917**	**985**

Other trading receivables as at 31 December 2018 include reward for the issue of bonds and promissory notes of CZK 167 million (2017: CZK 13 million).

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 by the end of 2018 (2017: CZK 1 million).

19. DEPOSITS AND LOANS FROM BANKS

Deposits and loans from banks comprise:

in MCZK	2018	2017
Deposits from banks	3,048	1,468
Loans from banks — repurchase agreements (note 11)	—	20,541
Total	**3,048**	**22,009**

Deposits from banks includes current deposits, term deposits and other financial liabilities.

The contractual weighted average interest rate on deposits and loans from banks was 0% p.a. (2017: -1.77% p.a.).

20. DEPOSITS FROM CUSTOMERS

Deposits from customers comprise:

in MCZK	2018	2017
Current accounts	33,647	26,305
Term deposits	79,286	58,157
Loans from customers — repurchase agreements (note 11)	3	20
Other liabilities	—	2
Total	**112,936**	**84,484**

The contractual weighted average interest rate on deposits from customers was 1.09% p.a. as at 31 December 2018 (2017: 0.83% p.a.).

21. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

in MCZK	2018 Fair value	2017 Fair value
Bonds issued	50	—
Total	**50**	**—**

On 23 April 2018, the Bank issued credit linked notes – certificates transferring the credit risk of the underlying asset to the certificate holder. All payments under the certificate are conditional upon repayment of the nominal amount an interest income from the underlying asset. Certificates are issued in CZK, interest is paid on a quarterly basis. Records of the certificates issued are maintained by of the Central Securities Depository.

Upon initial recondition, the Bank classified the bonds issued in liabilities, and the bonds that are the underlying assets of these certificates as at fair value through profit or loss, to eliminate or significantly reduce a measuring or recognition inconsistency (accounting mismatch) that may arise when assets and liabilities are measured on a different basis.

Net change in the fair value arising from the credit risk was a gain of CZK 1 million in 2018.

22. SUBORDINATED DEBT

Subordinated debt at amortised cost:

in MCZK	2018	2017
Issued subordinated bonds	—	640
Subordinated debt — term deposit from customers	749	748
Total	**749**	**1,388**

On 17 September 2018, subordinated bonds issued by the Bank on 28 February 2017 with the nominal value of EUR 25 million and maturity in 2022 were repaid early. Czech National Bank approved the subordinated debt as a part of the capital for regulatory purposes.

The subordinated debt – term deposit from customers with a maturity up to 2025 bear an interest rate between 5.1% and 7.4% p.a. Czech National Bank approved the subordinated debt as a part of the capital for regulatory purposes. The interest rate was 5.16% p.a. as at 31 December 2018 (2017: 5.42% p.a.).

23. OTHER LIABILITIES AND PROVISIONS

in MCZK	2018	2017
Payables from securities of clients at trader´s disposal	6,294	6,041
Trade payables	146	123
Accruals and deferred income	161	142
Other tax liabilities	43	33
Payables to employees	28	25
Payables related to social costs	13	11
Other liabilities	257	724
Other liabilities	**6,942**	**7,099**
Provision for employee bonuses	863	580
Provision for off-balance sheet items	119	8
Stage 1	20	—
Stage 2	2	—
Stage 3	97	—
Provision for loyalty programmes — customers	28	29
Provision for untaken vacation	18	14
Provision for loyalty programmes — employees	2	3
Other provisions	10	27
Provisions	**1,040**	**661**
Total	**7,982**	**7,760**

Other liabilities primarily include payables from clearing of CZK 23 million (2017: CZK 70 million), incoming and outgoing payments from nostro accounts of CZK 8 million (2017: CZK 332 million) and other minor items.

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 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 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.

The loyalty programme has been established to provide non-monetary performances to employees in relation to the employment and similar relationships, and bonuses and to customers when they sign up for any of selected Bank products. Since the performance is provided for an unlimited period of time and the withdrawals can be made continuously, the provision for loyalty programme is a long-term one. The Bank establishes a provision for loyalty programme for bonuses to customers of CZK 28 million (2017: CZK 29 million) and to employees of CZK 2 million (2017: CZK 3 million).

A provision for off-balance sheet items comprises in particular the provision for the loan promises and guarantees of CZK 119 million (2017: CZK 3 million). The balance of the provision as at 31 December 2017 was adjusted for the impact of the first-time adoption of IFRS 9 as at 1 January 2018 of CZK 101 million (note 5).

As at 31 December 2018 other provisions amounted to CZK 10 million (2017: CZK 27 million). It is expected that these provisions will be utilised after 12 or more months after the balance sheet date. These provisions include in particular a provision for unpaid premium interest from municipal deposits and a provision for commission fees in respect of the bond emission.

Provisions:

in MCZK	Balance as at 1 January 2018	Additions / Creations	Use / Release	Balance as at 31 December 2018
Provision — employee bonuses	580	610	(327)	863
Provision for off-balance sheet items — financing activities	109	57	(47)	119
Provision — customer loyalty system	29	–	(1)	28
Provision for untaken holidays	14	12	(8)	18
Provision — employee loyalty system	3	3	(4)	2
Other provisions	27	3	(20)	10
Total	**762**	**685**	**(407)**	**1,040**

24. EQUITY

Share capital is fully paid and consists of:

in MCZK	2018
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 relevant part of the profit will be paid to the purpose-built capital fund for the payment of revenue from certificates, that is part of the Equity, and the rest of the profit will be paid as a dividend to shareholders.

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 shareholders meeting resolution. As at 31 December 2018, retained earnings amounted to CZK 5 290 million (2017: CZK 5 444 million). For detail of retained earnings refer to 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 last paragraph in Other capital instruments.

Revaluation reserve

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 2018, revaluating reserve for these financial assets was CZK -80 million (2017: CZK 138 million).

b) Other revaluation reserves
Other revaluation reserves are represented by the FX difference from the translation of the Slovak branch‘s statements amounted to CZK -1 million (2017: CZK 4 million).

Assets and liabilities of the Bank's Slovakian branch are translated to Czech crowns using a rate of exchange valid as at the reporting date. Income and expenses of the Bank's Slovakian branch are translated to Czech crowns using the average rate of exchange for the relevant period.

Other capital instruments
On 19 June 2014, the Czech National Bank approved the prospectus of revenue certificate emission of total estimated value of CZK 1 000 million with expected revenue of 10% p.a.

On 12 September 2015, the Czech National Bank approved the prospectus of second revenue certificate emission of total estimated value of CZK 1 000 million with expected revenue of 9% p.a.

On 11 December 2015, the Czech National Bank approved the prospectus of third revenue certificate emission of total estimated value of EUR 50 million with expected revenue of 9% p.a.

As at 31 December 2018, the volume of outstanding certificated reached CZK 2 597 million (2017: CZK 2 597 million).

On 30 June 2014, the Bank's Board of Directors also approved the establishment of a purpose-built capital fund for the payment of revenue from certificates of CZK 100 million. This fund was created from retained earnings. The payment of revenue from certificates is governed by the conditions defined in the prospectus. In 2018, the Bank transferred another CZK 242 million (2017: CZK 242 million) to the fund, within the distribution of the profit for 2017. In 2018, revenue of CZK 262 million (2017: CZK 216 million) was paid out from the fund. As at 31 December 2018, the purpose-built capital fund for the payment of revenue from certificates was in amount of CZK 161 million (2017: CZK 181 million).

25. INCOME TAX

Income tax was calculated in accordance with Czech tax regulations at the rate of 19% in 2018 (2017: 19%). The income tax rate for 2019 will be 19%.

The Slovak branch pays tax in accordance with Slovak tax law. 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 income tax rate in Slovakia for 2018 is 21% (2017: 21%). As from 1 January 2019 the tax rate in Slovakia is 21%.

The Czech Republic currently has a number of laws related to various taxes imposed by governmental authorities. Applicable taxes include value-added tax, corporate tax, and payroll (social) taxes and various others. Tax declarations, together with other legal compliance areas (such as customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose fines, penalties and interest charges. This results in tax risks in the Czech Republic which are substantially more significant than typically found in countries with more developed tax systems.

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

The reconciliation of the expected income tax expense is as follows:

in MCZK	2018	2017
Profit before tax	1,919	1,855
Statutory income tax rate	19%	19%
Income tax expenses	365	352
Non-taxable revenues	(282)	(175)
Tax non-deductible expenses	303	169
Correction of tax expenses from previous periods and additional payments	(1)	13
Total income tax expenses	**385**	**359**
Effective tax rate	20.00%	19.38%

The main adjustments when calculating the taxable profit from the accounting profit relate to tax exempt income and 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 tax non-deductible expenses are dividend income from ownership interests, dissolve/use of allowances for receivables and use/write-offs of allowances. A significant portion of non-taxable revenues was represented by the gain from the sale of ownership interests.

Income tax expenses amounting to CZK 521 million (2017: CZK 348 million) are calculated in accordance with the Czech accounting standards from profit adjusted according to the Czech Law on Income Tax, as amended.

26. DEFERRED TAX

The Bank has the following deferred tax assets and liabilities:

in MCZK	2018 Deferred tax asset / (liability)	2017 Deferred tax asset / (liability)
Property, plant and equipment	(1)	(2)
FVOCI	21	(33)
Provision for off-balance sheet items	22	–
Loan allowances	94	–
Other temporary differences	167	118
Net deferred tax asset / (liability)	**303**	**83**

Deferred tax asset or liability is calculated using the corporate income tax rate applicable to 2018, i.e. 19% (for 2017: 19%).

The following table shows the reconciliation between the deferred tax charge and the change in deferred tax liabilities in 2018.

in MCZK	2018	2017
Deferred tax asset, net as at 31 December	83	99
Impact of first-time application of IFRS 9 in equity	94	–
Adjusted balance as at 1 January	177	99
Deferred tax recognised in profit or loss (note 25)	136	7
Deferred tax recognized in equity	(10)	(21)
Currency difference (Slovak branch)	–	(2)
Net deferred tax asset / (liability) at the end of the period	**303**	**83**

27. INTEREST INCOME

in MCZK	2018	2017
Interest income from:		
Due from financial institutions	98	104
Loans and advances to customers	3,390	3,736
Repo transactions	724	181
Bonds and other fixed income securities	284	273
Total	**4,496**	**4,294**

Item “Loans and advances to customers” includes commissions for origination of loans of CZK 109 million (2017: CZK 86 million), which are part of effective interest rate.

Interest income according to classes of assets:

in MCZK	2018	2017
Interest income from:		
Financial assets at fair value through profit or loss:		
– those held for trading	144	100
– those designated at initial recognition	1	–
Total Other interest income	145	100
Financial assets available for sale	–	160
Financial asset at FVOCI	139	–
Financial assets held to maturity	–	13
Loans and advances at amortised cost	4,212	4,021
– in which: unpaid interest on impaired loans	245	145
– in which: unpaid interest on loans with relief (forbearance)	31	114
Interest income calculated using effective interest rate	4,351	4,194
Total	**4,496**	**4,294**

28. INTEREST EXPENSE

in MCZK	2018	2017
Interest expense on:		
Deposits and loans from banks	(24)	(7)
Deposits from customers	(1,066)	(967)
Repo transactions	(19)	(19)
Subordinated bonds and promissory notes	(25)	(33)
Total	**(1,134)**	**(1,026)**

Interest expense according to classes of liabilities:

in MCZK	2018	2017
Interest expense on:		
Financial liabilities at amortised cost	(1,133)	(1,026)
Financial liabilities at fair value through profit or loss	(1)	–
Total	**(1,134)**	**(1,026)**

29. FEE AND COMMISSION INCOME

in MCZK	2018	2017
Fee and commission income from:		
Securities and derivatives for customers	1,259	922
Loan activities	52	45
Payment transactions	115	100
Other	105	86
Total	**1,531**	**1,153**

30. FEE AND COMMISSION EXPENSE

in MCZK	2018	2017
Fee and commission expense on:		
Transactions with securities	(139)	(195)
Payment transactions	(19)	(23)
Other	(23)	(34)
Total	**(181)**	**(252)**

31. NET TRADING INCOME

Net trading income includes:

in MCZK	2018	2017
Realised and unrealised losses on financial instruments at fair value	75	114
Net gains / (losses) on derivative operations	(324)	(68)
Net profit / (loss) from foreign currency translation	121	(254)
Net gains / (losses) on hedging derivative operations	6	1
Dividend income — financial assets	23	66
Release of ECL on FVOCI debt instruments	53	–
Total net trading income	**(46)**	**(141)**

Net trading income comprises of:

in MCZK	2018	2017
Financial assets and liabilities at fair value through profit or loss:		
— those held for trading	(302)	(7)
— those designated at initial recognition	1	–
— those mandatorily designated at FV	69	–
Financial assets available for sale	–	120
Financial assets at fair value through other comprehensive income	65	–
Exchange rate differences	121	(254)
Total	**(46)**	**(141)**

32. OTHER OPERATING INCOME

in MCZK	2018	2017
Income from outsourcing	12	14
Income from net	2	2
Income from sale of ownership interests	–	55
Other income	4	3
Total	**18**	**74**

Other income includes a large number of sundry items that are not significant on an individual basis.

33. PERSONNEL EXPENSES

in MCZK	2018	2017
Wages and salaries	(757)	(510)
Remuneration of persons holding executive powers	(114)	(97)
Compulsory soc. security contributions	(160)	(153)
Other social costs	(46)	(15)
Total personnel expenses	**(1,077)**	**(775)**
Average number of employees during the reporting period	**485**	**468**

There were 5 members of the Bank's Board of Directors at 31 December 2018 (2017: 4).

34. OTHER OPERATING EXPENSES

in MCZK	2018	2017
Rent expense	(119)	(123)
Contributions to Deposit Insurance Fund	(27)	(38)
Contributions to Crisis Resolution Fund	(56)	(83)
Taxes and fees	(46)	(49)
Operating costs:		
Outsourcing	(230)	(202)
Advertising expenses and representation	(188)	(156)
Rep Outsourcing airs and maintenance — IS, IT	(25)	(26)
Sponsoring and gifts	(24)	(30)
Services related to rent	(34)	(32)
Audit, legal and tax consulting	(31)	(31)
— statutory audit of the annual accounts	(8)	(7)
— other assurance services	(9)	(8)
— tax consultancy	(2)	(3)
— other non-audit services	(12)	(14)
Consulting expenses	(10)	(19)
Communication expenses	(17)	(15)
Transport and accommodation, travel expenses	(11)	(15)
Materials	(12)	(13)
Repairs and maintenance — other	(3)	(2)
Other operating costs	(111)	(96)
Total	**(944)**	**(930)**

Other operating costs of CZK 111 million at 31 December 2018 (2017: CZK 101 million) include a large number of sundry items that are not significant on an individual basis.

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 fees include a special bank levy to the Slovak Tax Authority. This levy does not fall within the scope of IAS 12

Income Taxes. The Bank considers the levy to be operational in nature and has accrued the respective cost within “Other operating expenses”.

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

in MCZK	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 2016	**641**	**12,226**	**20,000**	**55**	**219**	**33,141**
Change in 2017	109	(8,473)	25,006	6	445	17,093
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**

36. FINANCIAL COMMITMENTS AND CONTINGENCIES

Financial commitments and contingencies comprise:

in MCZK	Stage 1	Stage 2	Stage 3	2018	2017
Unused credit lines	9,898	76	187	10,161	8,074
Granted guarantees	2,140	46	—	2,186	2,043

Customers’ assets accepted for custody are not subject to impairment. As at the end of 2018, they amounted to CZK 53 606 million (2017: CZK 47 028 million).

37. SEGMENT REPORTING

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

(a) Business segments

The Bank comprises the following main business segments:

- Financial markets
  - Includes 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;
- Unallocated
  - Includes balance sheet items that are not included in the segments above.

ALCO segment mainly includes the following items:
- Securities and fair value of derivatives;
- Due from financial institutions;
- Deposits and loans from banks;
- Cash and balances with central banks.

Personnel costs, 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 2018

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Cash and balances with central banks	–	–	–	–	3,367	–	3,367
Due from financial institutions	–	–	–	–	53,734	–	53,734
Securities and the positive fair value of derivatives	4,760	–	–	–	9,388	–	14,148
Ownership interests	–	–	–	–	4,142	–	4,142
Loans and advances to customers	10,972	50,727	5,255	12	–	–	69,966
Deferred tax assets	–	–	–	–	–	303	303
Prepayments, accrued income and other assets	–	–	–	–	–	1,042	1,042
Disposal groups held for sale	–	–	–	–	64	–	64
Total Assets	**15,732**	**50,727**	**5,255**	**12**	**70,695**	**1,345**	**143,766**
Negative fair value of derivatives	238	–	–	–	–	–	238
Deposits and loans from banks	–	–	–	–	3,048	–	3,048
Deposits from customers	–	41,086	20,097	51,753	–	–	112,936
Financial liabilities at fair value through profit or loss	–	–	–	–	50	–	50
Subordinate debt	–	121	251	377	–	–	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**	**8,139**	**125,160**

Statement of financial position as at 31 December 2017:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Cash and balances with central banks	—	—	—	—	5,915	—	5,915
Due from financial institutions	20,541	—	—	—	26,129	—	46,670
Securities and the positive fair value of derivatives	4,166	—	—	—	8,473	—	12,639
Ownership interests	—	—	—	—	4,617	—	4,617
Loans and advances to customers	7,977	51,642	4,149	17	—	—	63,785
Deferred tax assets	—	—	—	—	—	83	83
Prepayments, accrued income and other assets	—	—	—	—	—	1,124	1,124
Disposal groups held for sale	—	—	—	—	107	—	107
Total Assets	**32,684**	**51,642**	**4,149**	**17**	**45,241**	**1,207**	**134,940**
Negative fair value of derivatives	224	—	—	—	17	—	241
Deposits and loans from banks	20,541	—	—	—	1,468	—	22,009
Deposits from customers	—	31,336	17,333	35,815	—	—	84,484
Subordinated debt	—	760	241	387	—	—	1,388
Current tax liability	—	—	—	—	—	60	60
Other liabilities and provisions	—	—	—	—	—	7,760	7,760
Total Liabilities	**20,765**	**32,096**	**17,574**	**36,202**	**1,485**	**7,820**	**115,942**

Statement of comprehensive income for the period ended 31 December 2018:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Net interest income	**297**	**1,361**	**426**	**581**	**617**	**80**	**3,362**
Fee and commission income	1,413	111	5	2	—	—	1,531
Fee and commission expense	(140)	(41)	—	—	—	—	(181)
Dividends from investment in equity	—	—	—	—	270	—	270
Net trading income / (expense)	(108)	—	—	—	62	—	(46)
Other operating income	—	—	—	—	—	18	18
Operating income	**1,462**	**1,431**	**431**	**583**	**949**	**98**	**4,954**
Personnel expenses	(99)	(51)	(161)	(35)	—	(731)	(1,077)
Other operating expenses	(65)	(8)	(69)	(54)	—	(748)	(944)
Depreciation and amortisation	—	—	(1)	—	—	(69)	(70)
Profit before provisions, allowances and income taxes	**1,298**	**1,372**	**200**	**494**	**949**	**(1 450)**	**2,863**
Net change in provisions from financial activities	—	(11)	—	—	—	—	(11)
Net change in allowances for loan losses	—	(486)	(79)	—	—	—	(565)
Allowances for Ownership interests	—	—	—	—	(368)	—	(368)
Profit before tax	**1,298**	**875**	**121**	**494**	**581**	**(1 450)**	**1,919**
Income tax expenses	(260)	(175)	(24)	(99)	(117)	290	(385)
Profit for the period	**1,038**	**700**	**97**	**395**	**464**	**(1 160)**	**1,534**

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.

The activities of the Bank's branch are the same as the Bank's activities. In 2018, the Branch had 129 employees on average (2017: 122 employees). Total assets belonging to the Slovakian branch amount to CZK 24 067 million (31 December 2017: CZK 23 552 million). For 2018, the Slovakian branch reported operating income of CZK 1 037 million (2017: CZK 1 119 million), profit before tax of CZK 215 million (31 December 2017: CZK 180 million) and corporate income tax of CZK 43 million (31 December 2017: CZK 35 million).

The branch was not granted any public aid. Stated accounting balances are before consolidation adjustments.

Statement of comprehensive income for the period ended 31 December 2017:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Net interest income	**266**	**1 388**	**462**	**406**	**721**	**25**	**3,268**
Fee and commission income	1,055	90	5	3	–	–	1,153
Fee and commission expense	(195)	(57)	–	–	–	–	(252)
Dividends from investment in equity	–	–	–	–	128	–	128
Impairment of assets available for sale	–	–	–	–	(123)	–	(123)
Net trading income / (expense)	(194)	–	–	–	53	–	(141)
Other operating income	–	–	–	–	–	79	79
Operating income	**931**	**1 421**	**467**	**409**	**780**	**104**	**4,112**
Personnel expenses	(97)	(49)	(166)	(30)	–	(433)	(775)
Other operating expenses	(50)	(11)	(59)	(45)	–	(770)	(935)
Depreciation and amortisation	–	–	(1)	–	–	(68)	(69)
Profit before provisions, allowances and income taxes	**784**	**1 361**	**241**	**334**	**780**	**(1,167)**	**2,333**
Net change in provisions from financial activities	–	43	(2)	–	–	–	41
Net change in allowances for loan losses	–	(288)	(98)	2	–	–	(384)
Allowances for Ownership interests	–	–	–	–	(135)	–	(135)
Profit before tax	**784**	**1 116**	**141**	**336**	**645**	**(1,167)**	**1,855**
Income tax expenses	(152)	(216)	(27)	(65)	(125)	226	(359)
Profit for the period	**632**	**900**	**114**	**271**	**520**	**(941)**	**1,496**

(b) Geographical segments

In presenting information on the basis of geographical areas, revenue is based on the customer'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 40d.

Consolidated statement of financial position as at 31 December 2018:

in MCZK	Czech Republic	Slovakia	Other EU	Other countries	Total
Cash and balances with central banks	2,365	1,002	–	–	3,367
Due from financial institutions	52,532	317	777	108	53,734
Securities and the positive fair value of derivatives	6,202	3,145	4,673	128	14,148
Ownership interests	973	–	718	2,451	4,142
Loans and advances to customers	19,089	12,043	30,178	5,656	66,966
Deferred tax assets	235	68	–	–	303
Prepayments, accrued income and other asset	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
Total Liabilities	**89,607**	**22,697**	**26,575**	**4,887**	**143,766**

Consolidated statement of financial position as at 31 December 2017:

in MCZK	Czech Republic	Slovakia	Other EU	Other countries	Total
Cash and balances with central banks	5,074	841	–	–	5,915
Due from financial institutions	45,325	321	836	188	46,670
Securities and the positive fair value of derivatives	5,804	3,586	3,138	111	12,639
Ownership interests	879	–	1,035	2,703	4,617
Loans and advances to customers	19,530	14,383	26,052	3,820	63,785
Deferred tax assets	35	48	–	–	83
Prepayments, accrued income and other asset	843	117	157	7	1,124
Disposal groups held for sale	107	–	–	–	107
Total Assets	**77,597**	**19,296**	**31,218**	**6,829**	**134,940**
Negative fair value of derivatives	53	15	172	1	241
Deposits and Loans from banks	75	563	20,633	738	22,009
Deposits from customers	51,109	21,902	9,855	1,618	84,484
Subordinated debt	693	1	668	26	1,388
Other liabilities and provisions	3,996	619	2,094	1,111	7,820
Total Liabilities	**55,926**	**23,100**	**33,422**	**3,494**	**115,942**

Statement of comprehensive income for the year ended 31 December 2018:

in MCZK	Czech Republic	Slovakia	Other EU	Other countries	Total
Net interest income	1,319	562	1,164	317	3,362
Fee and commission income	685	545	237	64	1,531
Fee and commission expense	(121)	(35)	(20)	(5)	(181)
Dividends from Ownership interests	135	–	–	135	270
Net trading income / (expense)	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 provisions, allowances and income taxes	**728**	**570**	**1,113**	**452**	**2,863**
Net change in provisions from financial activities	(2)	(7)	(3)	–	(11)
Net change in allowances for impairment of 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 expenses	(342)	(43)	–	–	(385)
Profit for the period	**359**	**(316)**	**1,041**	**451**	**1,534**

Statement of comprehensive income for the year ended 31 December 2017:

in MCZK	Czech Republic	Slovakia	Other EU	Other countries	Total
Net interest income	588	876	1,572	232	3,268
Fee and commission income	667	170	289	27	1,153
Fee and commission expense	(216)	(14)	(19)	(3)	(252)
Dividends from Ownership interests	100	–	–	28	128
Net trading income / (expense)	(497)	462	(76)	(30)	(141)
Impairment of assets available for sale	(123)	–	–	–	(123)
Other operating income	16	6	57	–	79
Operating income	**535**	**1,500**	**1,823**	**254**	**4,112**
Personnel expenses	(512)	(263)	–	–	(775)
Other operating expenses	(646)	(277)	(6)	(6)	(935)
Depreciation and amortisation	(67)	(2)	–	–	(69)
Profit before provisions, allowances and income taxes	**(1,225)**	**(542)**	**(6)**	**(6)**	**(1,779)**
Net change in provisions from financial activities	35	(6)	12	–	41
Net change in allowances for impairment of loans	37	(350)	(71)	–	(384)
Allowances for Ownership interests	(13)	–	(122)	–	(135)
Profit before tax	**(631)**	**602**	**1,636**	**248**	**1,855**
Income tax expenses	(324)	(35)	–	–	(359)
Profit for the period	**(955)**	**567**	**1,636**	**248**	**1,496**

38. RELATED PARTIES - GENERAL

The outstanding balances and transactions with related parties of the Bank are with related parties as presented in the following tables. All transactions with such entities took place under standard market conditions.

The related parties are sorted in 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. Those companies do not prepare consolidated financial statements that would include the Bank except of the company J&T FINANCE GROUP SE.
III. Subsidiaries. This category includes subsidiaries of J&T FINANCE GROUP SE which are included in its consolidated financial statements by reason of majority ownership and 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 which these key management personnel own or co-own. This category includes related parties which are connected through key management personnel of the Bank or its parent and companies they own or co-own.

in MCZK	I.	II.	III.	IV.	V.	Total
BALANCE AND OFF — BALANCE SHEET ITEMS AS AT 31 DECEMBER 2018						
Receivables	1	–	1,677	1,823	802	4,303
Payables	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 DECEMBER 2018						
Expenses	(298)	–	(1,391)	–	(25)	(1,714)
Income	299	–	1,602	13	389	2,303

in MCZK	I.	II.	III.	IV.	V.	Total
BALANCE AND OFF — BALANCE SHEET ITEMS AS AT 31 DECEMBER 2017						
Receivables	2	–	2,143	–	4,050	6,195
Payables	699	79	1,847	–	567	3,192
Granted guarantees	–	–	7	–	4	11
Received guarantees	880	–	89	–	–	969
Provided loan commitments	511	–	849	–	39	1,399
Received loan commitments	–	–	1,532	–	–	1,532
Received collateral	–	–	462	–	661	1,123
PROFIT / LOSS ITEMS FOR PERIOD ENDED 31 DECEMBER 2017						
Expenses	(409)	–	(671)	–	(161)	(1,241)
Income	306	–	1,177	–	277	1,760

Receivables from related parties consist primarily of loans and overdrafts. Payables to related parties include especially term deposits, deposits payable on demand, savings and tied deposits.

Income and expenses mainly consist of gains/losses from currency derivatives, interest income and expenses from loans and income from fees and commissions from the mediation of issues.

Receivables/liabilities from members of the Board of Directors and the Supervisory Board

in MCZK	31. 12. 2018	31. 12. 2017
Loans provided	5	7
Loans received	30	19

Members of the Board of Directors and the Supervisory Board comprise key management personnel of the Bank.

Apart from the above, key management personnel of the Bank did not receive any other remuneration in the form of short-term benefits, benefits on the termination of employment, other long-term employee benefits, benefits upon an early termination of employment or any share-based payments.

Loans to employees of the Bank as at 31 December 2018 amounted to CZK 73 million (2017: CZK 26 million).

The loans provided to the Board of Directors and Supervisory Board were provided under standard market conditions.

39. RISK MANAGEMENT POLICIES AND DISCLOSURES

The strategy, main goals and processes
The fundamental goal of risk management is profit maximization with respect to the exposed risk taken, while considering the Bank´s risk appetite.

In doing so, it must be ensured that the Bank activities outcome is predictable and in compliance with both trading 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 that, risks are monitored, assessed and eventually limited, at least as strictly as required by Czech National Bank. The internal limits are being reconsidered regularly and in case of significant changes of market conditions to ensure their compliance with both the overall group´s strategy and market and credit conditions. The adherence to the limits is monitored and reported daily. In case of their potential breach, the Bank immediately adopts adequate 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 wants to achieve in a specified time horizon, and certain limits, below which the system of liquidity indicators cannot decrease.
— The Bank establishes goals and on 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 Bank´s Risk Appetite Declaration.

40. CREDIT RISK

The Bank'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 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) Exposition forborne

at 31.12.2018

in MCZK	Gross carrying amount	ECL	Net carrying amount
Performing exposition	63,730	(218)	63,512
— performing exposition forborne	604	(8)	596
Non-performing exposition	6,363	(2,909)	3,454
— non-performing exposition forborne	3,851	(1,644)	2,207
Total	**70,093**	**(3,127)**	**66,966**

in MCZK	2018	2017
The share of exposition forborne on the total loans provided to clients	4.19 %	6.85%
Share of non-performing exposures in total loans to customers	5.16 %	8.99 %

in MCZK	2017
Performing exposition	58,052
— performing exposition forborne	2,934
Non-performing exposition	5,733
— non-performing exposition forborne	1,438
Total	**63,785**

(b) Concentration of loans to customers by economic sector:

at 31.12.2018

in MCZK	Gross carrying amount	ECL	Net carrying amount
NOT FORBORNE			
Non-financial organisations	47,874	(1,386)	46,488
Financial organisations	15,993	(52)	15,941
Households	1,736	(2)	1,734
Other	35	(35)	–
Total	**65,638**	**(1,475)**	**64,163**
FORBORNE			
Non-financial organisations	4,199	(1,546)	2,653
Financial organisations	117	(15)	102
Households	139	(91)	48
Total	**4,455**	**(1,652)**	**2,803**

in MCZK	2017
Total not forborne	**59,412**
Non-financial organisations	38,781
Financial organisations	19,375
Households	1,256
Total forborne	**4,373**
Non-financial organisations	4,197
Financial organisations	117
Households	59
Total	**63,785**

(c) Concentration of loans to customers by industry:

in MCZK	2018	2017
Real estate activities	18,516	10,682
Financial activities	7,962	19,099
Manufacturing	6,624	8,269
Wholesale and retail trade	6,286	2,482
Information and communication	5,502	713
Sports, entertainment and recreation activities	5,484	6,017
Construction	4,063	5,869
Production and distribution of electricity, gas and heat	4,039	4,100
Accommodation and food service activities	2,881	2,149
Transporting and storage	1,135	1,123
Professional, scientific and technical activities	978	1,828
Water supply, services relating to water and waste management and redevelopment	724	–
Mining and quarrying, agriculture	637	331
Health and social care	565	257
Private households and employed persons	524	535
Administrative and support service activities	244	192
Agriculture, forestry, fishery	385	–
Other	417	139
Total	**66,966**	**63,785**

(d) Concentration of loans to customers by location:

in MCZK	2018	2017
Czech Republic	19,089	19,530
Cyprus	16,787	16,648
Slovakia	12,043	14,383
Luxembourg	4,634	3,944
Switzerland	2,622	2,648
Netherland	2,229	2,303
Croatia	1,817	770
British Virgin Islands	1,300	260
Ireland	1,134	291
Germany	1,049	–
Poland	955	572
Malta	796	1,234
France	773	288
Cayman Islands	545	–
Maldives	360	380
Russia	312	366
Monaco	286	163
Ukraine	116	–
Lichtenstein	114	–
Others	5	5
Total	**66,966**	**63,785**

(e) Concentration of loans to customers by location of realization of project and collateral:

in MCZK	2018	2017
Czech Republic	30,410	36,101
Slovakia	9,687	13,416
Poland	5,355	1,840
Ukraine	3,719	462
USA	2,731	454
China	2,275	2,463
Germany	2,233	1,848
Spain	2,121	–
Croatia	2,040	769
Slovenia	1,529	1,565
Great Britain	1,308	17
Austria	867	1,589
Hungary	545	–
France	521	448
Maldives	360	380
Russia	312	616
Monaco	286	–
Greece	251	698
Cyprus	41	110
Malta	–	822
Other	375	187
Total	**66,966**	**63,785**

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 2018:

in MCZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers and other receivables	Repurchase agreements – customers and debets
Loans granted and resale contracts at amortized cost, classified in Stage 1 or Stage 2, gross carrying amount	1,297	52,437	52,758	10,972
Individual ECL	–	–	(218)	–
Net carrying amount	1,297	52,437	52,540	10,972
Loans granted and resale contracts at amortized cost, classified in Stage 1 or Stage 2, gross carrying amount in total	**1,297**	**52,437**	**52,540**	**10,972**
— to maturity date	1,297	52,437	52,539	10,972
— up to 1 month	–	–	1	–
Loans granted and resale contracts at amortized cost, classified in Stage 3, gross carrying amount	–	–	6,363	–
Individual ECL	–	–	(2,909)	–
Net carrying amount	–	–	3,454	–
Loans granted and resale contracts at amortized cost, classified in Stage 3, gross carrying amount in total	–	–	3,454	–
— to maturity date	–	–	3,360	–
— up to 1 month	–	–	3	–
— 6 months to 12 months	–	–	8	–
— more than 12 months	–	–	83	–
Total	**1,297**	**52,437**	**55,994**	**10,972**

K 31. prosinci 2017:

in MCZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers and other receivables	Repurchase agreements – customers and debets
Provided loans and repurchase agreements at amortised cost individually assessed not forborne:				
Gross amount	–	–	4,259	–
Impairment	–	–	(780)	–
Carrying amount	**–**	**–**	**3,479**	**–**
Provided loans and repurchase agreements at amortised cost individually assessed forborne:				
Gross amount	–	–	2,258	–
Impairment	–	–	(1,440)	–
Carrying amount	**–**	**–**	**818**	**–**
Total provided loans and repurchase agreements	**–**	**–**	**4,297**	**–**
Provided loans and repurchase agreements to maturity without adjustments without relief:	**1,603**	**45,067**	**43,528**	**7,976**
Provided loans and repurchase agreements to maturity without adjustments without relief:	**–**	**–**	**3,358**	**–**
Provided loans and repurchase agreements after maturity without adjustments without relief:	**–**	**–**	**4,429**	**–**
Provided loans and repurchase agreements after maturity without adjustments with relief (forbearance):	**–**	**–**	**197**	**–**
to maturity date	–	–	4,421	–
up to 1 month	–	–	124	–
1 month to 6 months	–	–	37	–
6 months to 12 months				
more than 12 months	–	–	44	–
Total provided loans and resale not forborne	**1,603**	**45,067**	**51,436**	**7,976**
Total provided loans forborne	**–**	**–**	**4,373**	**–**
Of which: Financial assets neither past due nor impaired with a sign of impairment:	**–**	**–**	**5,477**	**–**
Gross amount not forborne	–	–	1,922	–
Gross amount forborne	–	–	3,555	–

Assets classified as "Financial assets neither past due nor impaired with a sign of impairment" represent those loans with a sign of impairment whose present value of expected cash flows exceeds their carrying value, and therefore no provision 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.

(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 had completely failed to fulfill their obligations and if any potential collateral had no value as well. Those 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.

31.12.2018

in MCZK	2018 Carrying amount Stage 1	2018 Eligible collateral value Stage 1 and Stage 2	2018 Carrying amount Stage 3	2018 Eligible collateral value Stage
To maturity:	**85,984**	**97,545**	**2,535**	**4,441**
— Guarantees	2,450	2,704	—	—
— Acceptances of promissory note	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	—	—
After maturity:	**64**	**187**	**112**	**273**
— Real estate	63	186	104	265
— Cash deposits	—	—	8	8
— Other	1	1	—	—

31.12.2017

in MCZK	2017 Carrying amount	2017 Eligible collateral value
Neither past due nor impaired:	**69,823**	**79,200**
— Guarantees	1,740	1,785
— Acceptances of promissory note	1,330	1,877
— Real estate	5,506	8,785
— Cash deposits	1,971	1,972
— Securities	7,834	8,341
— Other	4,602	9,600
— Securities received under reverse repurchase agreements	46,840	46,840
Past due but not impaired:	**830**	**1,797**
— Real estate	342	695
— Cash deposits	63	63
— Other	425	1,039
Impaired:	**2,880**	**4,651**
— Real estate	934	1,968
— Cash deposits	8	8
— Securities	1,938	2,675

Other 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 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.

(h) Unconsolidated structured entities

The Bank engages in various business activities with structured entities which are companies designed to achieve a specific business purpose and usually designed so that voting or similar rights are not dominant factor in deciding who controls the entity.

A structured entity has often some or all of the following features or attributes:
— restricted activities;
— a narrow and well defined objective;
— insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

The Bank provides financing to certain structured entities for the purchase of assets that are collateralized in favor of the Bank by the structured entities. The Bank enters into transactions with these entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

The entities covered by this disclosure note are not consolidated because the Bank does not control them through voting rights, contract, funding agreements, or other means.

Income derived from involvement with structured entities represents interest income recognized by the Bank on the funding provided to structured entities.

The Bank's interests in unconsolidated structured entities refer to contractual involvement that exposes the group to variability of returns from the performance of the structured entities.

The maximum exposure to loss for the Bank is determined by considering the nature of the interest in the unconsolidated structured entity and represents the maximum loss that the Bank could be required to report as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred.

As at 31 December 2018 and as at 31 December 2017, the Bank did not record any loans and amounts due from unconsolidated structured entities. There was no loss incurred in 2018 and 2017 in respect of loans provided.

(i) Credit risk processes

Evaluating the risk of failure of counterparty is based on a credit analysis, processed by the Credit Risk Management dept. 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, minimum once a month by Credit Risk Management dept. The risk is calculated in accordance with ICAAP.

The extent of the risk is evaluated by Risk Management dept. When actual or possible breach of the adopted internal credit limits is identified (trading book exposures, derivatives transactions, margin trading), the Financial Markets dept. 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 Investment Committee.

(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 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 evaluates financial and non-financial indicators, that may not be monitored within 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 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 to open positions in bonds is evaluated.

The decrease in fair value at the end of the corresponding reporting period:

in MCZK	31.12.2018	31.12.2017
Decrease of the trading portfolio value due to a rating migration by one credit class	84	63

(in the Standard & Poor's scale)

(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.

As of 31 December 2018, the Bank record customer trades that would not be recognized in the Bank financial statements in the form of repo transaction of CZK 2 501 million and reverse repo transactions of CZK 1 089 million (2017: clients repo transactions of CZK 1 155 million and reverse repo transactions of CZK 1 155 million).

41. LIQUIDITY RISK

Liquidity risk represents a risk that the Bank is not able to meet its commitments as they are becoming mature. The banks within the Bank are required to report system of indicators to the National Banks 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 perform an everyday monitoring of their liquidity position to indicate potential liquidity problems. The analysis takes into account all sources of funding that the corresponding bank of the Bank is using and interconnected obligations the bank has to pay. For the purpose of sufficient liquidity reserve the banks within the Bank hold sufficient amount of liquid instruments (such as government bonds), maintain balances with central banks on a reasonable level and collect short-term receivables.

The Bank assort all cash flows into timeframes according to maturities of the instruments to which the cash flows relate, and subsequently observe 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.

Three scenarios are used in terms of liquidity risk management:
A) Expected Scenario
B) Risk Scenario
C) Stress Scenarios

Stress Scenarios are based on stress imposed on components that might be negatively affected when liquidity 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 present or possible breach of the adopted internal / external liquidity limits is identified as well as ALCO is informed, in order to ensure the 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 main precautionary measures introduced by the Risk Dept. of the Bank in this area to respond to the economic crisis were as follows:
— implementation of stress tests based on various crisis scenarios;
— prudent internal limits for on-demand and mid-term available liquidity.

Liquidity risk of liquidity relevant instruments as of 31 December 2018:

Table shows the liquidity risk based on remaining contractual maturity dates.

in MCZK	Carrying amount	Contractual cash flows	Up to 3 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
ASSETS							
Cash and balances with the central banks	3,367	3,367	3,202	–	–	–	165
Due from financial institutions	53,734	53,939	53,301	25	290	323	–
Securities	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							
Unused credit lines	10,161	10,161	10,161	–	–	–	
Granted guarantees	2,186	2,186	2,186	–	–	–	–

in MCZK	Carrying amount	Contractual cash flows	Up to 3 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
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 liquidity

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 Bank regularly monitors period and percentage of deposits that remain available to the Bank or are prolonged. Those ratios are used for managing the liquidity risk on the Bank level.

Relating to 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. The projects' latest expected completion date may not be the same as the contractual maturity date.

in MCZK	Carrying amount	Contractual cash flows	Up to 3 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
Loans and advances to customers	66,966	79,041	15,332	16,402	29,742	17,491	74

Liquidity risk of derivatives as of 31 December 2018

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Up to 1 year	1 year to 5 years
DERIVATIVE FINANCIAL ASSETS					
Currency derivatives					
— inflow	322	322	102	182	38
Cross currency contracts					
— inflow	—	3,370	—	—	3,370
— outflow	78	(3,374)	—	—	(3,374)
Total	**400**	**318**	**102**	**182**	**34**

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Up to 1 year	1 year to 5 years
DERIVATIVE FINANCIAL LIABILITIES					
Currency derivates					
— outflow	205	205	53	112	39
Cross currency contracts					
— inflow	—	3,374	—	—	3,374
— outflow	32	(3,370)	—	—	(3,370)
Total	**237**	**209**	**53**	**112**	**43**

Liquidity risk as of 31 December 2017:

Table shows the liquidity risk based on remaining contractual maturity dates.

in MCZK	Carrying amount	Contractual cash flows	Up to 3 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
ASSETS							
Cash and balances with the central banks	5,915	5,915	4,504	—	—	—	1,411
Due from financial institutions	46,670	46,836	46,221	24	320	271	—
Securities	12,046	13,409	36	534	3,375	3,615	5,849
Loans and advances to customers	63,785	74,432	14,316	12,261	36,035	11,820	—
Total	**128,416**	**140,592**	**65,077**	**12,819**	**39,730**	**15,706**	**7,260**
Off balance							
Unused credit lines	8,074	8,074	8,074	—	—	—	—
Granted guarantees	2,043	2,064	2,064	—	—	—	—

in MCZK	Carrying amount	Contractual cash flows	Up to 3 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
LIABILITIES							
Deposits and loans from banks	22,009	21,986	21,986	—	—	—	—
Deposits from customers	84,484	85,158	54,603	18,582	11,864	109	—
Subordinated debt	1,388	1,667	20	65	1,498	84	—
Total	**107,881**	**108,811**	**76,609**	**18,647**	**13,362**	**193**	**—**

Expected liquidity

in MCZK	Carrying amount	Contractual cash flows	Up to 3 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
Loans and advances to customers	63,785	74,433	14,911	12,025	35,492	11,952	53

Liquidity risk of derivatives as of 31 December 2017:

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Up to 1 year	1 year to 5 years
DERIVATIVE FINANCIAL ASSETS					
Currency derivatives					
— inflow	593	593	339	143	111
Total	**593**	**593**	**339**	**143**	**111**

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Up to 1 year	1 year to 5 years
DERIVATIVE FINANCIAL LIABILITIES					
Currency derivatives					
— outflow	238	238	118	108	11
Commodity derivatives					
— outflow	3	3	3	—	—
Total	**241**	**241**	**121**	**108**	**11**

42. 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 43 and Note 44, 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 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 2018 and 31 December 2017 are as follows:

in MCZK	31. 12. 2018	31. 12. 2017
VaR market risk overall	90	105
VaR interest rate risk (general risk)	101	69
VaR FX risk	73	67
VaR stock risk	15	18
VaR commodity risk	1	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 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 Bank as a whole. These scenarios evaluate the deepest drop of the current portfolio value which would have happened in the previous one or ten 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 MCZK	31. 12. 2018	31. 12. 2017
short-term scenario	46	46
medium-term scenario	51	49
long-term scenario	238	325

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 (for selected currencies the decrease / increase in interest rates can be above 200 basis points).

The decrease in the present value of the investment portfolio in percentage points of equity would be as follows:

(% of Tier 1 + Tier 2)	31.12.2018	31.12.2017
Decrease in the present value of the investment portfolio due to a sudden change in interest rates by 200 bp	0.23	4.32

43. 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 2018 was as follows:

in MCZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
ASSETS					
Cash and balances with central banks	1,817	–	–	1,550	3,367
Due from financial institutions	53,035	168	206	325	53,734
Securities and the positive fair value of derivatives	2,478	3,100	1,709	6,861	14,148
Loans and advances to customers	57,725	4,783	1,247	3,211	66,966
Ownership interests	–	–	–	4,142	4,142
Investment property, property, plant and equipment, intangible assets	–	–	–	125	125
Deferred tax assets	–	–	–	303	303
Prepayments, accrued income and other assets	–	–	–	917	917
Disposal groups held for sale	–	–	–	64	64
Total assets	**115,055**	**8,051**	**3,162**	**17,498**	**143,766**
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
Finacial liabilities at fair value through profit or loss	–	50	–	–	50
Subordinated debt	184	546	21	(2)	749
Current tax liability	–	–	–	157	157
Other liabilities and provisions	–	–	–	7,982	7,982
Share capital	–	–	–	10,638	10,638
Retained earnings and other reserves, other capital instruments	–	–	–	7,968	7,968
Total liabilities and equity	**61,706**	**32,720**	**233**	**49,107**	**143,766**
Net interest rate risk position	53,349	(24 669)	2,929	(31,609)	–
Cumulative interest rate risk position	53,349	28,680	31,609	–	–

Interest rate risk exposure as at 31 December 2017 was as follows:

in MCZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
ASSETS					
Cash and balances with central banks	4,551	–	–	1,364	5,915
Due from financial institutions	45,638	205	179	648	46,670
Securities and the positive fair value of derivatives	2,629	2,658	1,503	5,849	12,639
Loans and advances to customers	34,893	12,894	1,573	14,425	63,785
Ownership interests	–	–	–	4,617	4,617
Investment property, property, plant and equipment, intangible assets	–	–	–	139	139
Deferred tax assets	–	–	–	83	83
Prepayments, accrued income and other assets	–	–	–	985	985
Disposal groups held for sale	–	–	–	107	107
Total assets	**87,711**	**15,757**	**3,255**	**28,217**	**134,940**
LIABILITIES					
Deposits and loans from banks	21,067	–	–	942	22,009
Deposits from customers	61,762	11,337	91	11,294	84,484
Negative fair value of derivatives	229	12	–	–	241
Subordinated debt	711	660	21	(4)	1,388
Other liabilities and provisions	–	–	–	7,820	7,820
Share capital	–	–	–	10,638	10,638
Retained earnings and other reserves	–	–	–	8,360	8,360
Total liabilities and equity	**83,769**	**12,009**	**112**	**39,050**	**134,940**
Net interest rate risk position	3,942	3,748	3,143	(10,833)	–
Cumulative interest rate risk	3,942	7,690	10,833	–	–

44. 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.

As at 31 December 2018, the exposure to Bank's foreign exchange risk was as follows:

in MCZK	CZK	USD	EUR	RUB	Other	Total
ASSETS						
Cash and balances with the central banks	2,322	12	1,012	–	21	3,367
Due from financial institutions	52,470	317	682	128	137	53,734
Securities	7,793	190	5,539	–	226	13,748
Loans and advances to customers at amortized cost	16,214	7,669	41,683	35	1,365	66,966
Ownership interests	973	321	–	2,451	397	4,142
Positive fair value of derivatives, Prepayments, accrued income and other assets, deferred tax asset	1,202	157	384	–	2	1,745
Disposal groups held for sale	64	–	–	–	–	64
Total	**81,038**	**8,666**	**49,300**	**2,614**	**2,148**	**143,766**

in MCZK	CZK	USD	EUR	RUB	Other	Total
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
Financial liabilities at fair value through profit or loss	50	–	–	–	–	50
Subordinated debt	692	–	57	–	–	749
Other liabilities and equity	24,109	515	2,019	1	339	26,983
Total	**88,457**	**2,834**	**51,547**	**374**	**554**	**143,766**
Long position off-balance sheet:						
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 off-balance sheet:						
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)	**3,119**	**(96)**	**(4,296)**	**1,079**	**581**	**387**

As at 31 December 2017, the exposure to Bank's foreign exchange risk was as follows:

in MCZK	CZK	USD	EUR	RUB	Other	Total
ASSETS						
Cash and balances with the central banks	5,050	9	847	–	9	5,915
Due from financial institutions	45,314	164	917	125	150	46,670
Securities and the positive fair value of derivatives	6,401	174	5,846	–	218	12,639
Loans and advances to customers	22,669	2,100	38,879	66	71	63,785
Ownership interests	264	324	616	2,703	710	4,617
Deferred tax assets	35	–	48	–	–	83
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	741	131	249	–	3	1,124
Disposal groups held for sale	107	–	–	–	–	107
Total	**80,581**	**2,902**	**47,402**	**2,894**	**1,161**	**134,940**

in MCZK	CZK	USD	EUR	RUB	Other	Total
LIABILITIES						
Deposits and loans from banks	20,005	80	1,857	3	64	22,009
Deposits from customers	51,012	1,775	31,105	411	181	84,484
Subordinated debt	691	–	697	–	–	1,388
Other liabilities and equity	24,610	833	1,456	3	157	27,059
Total	**96,318**	**2,688**	**35,115**	**417**	**402**	**134,940**
Long position off-balance sheet:						
items from derivative transactions	46,139	1,579	31,663	730	1,645	81,756
items from spot transactions with share instruments	39	40	–	–	–	79
Short position off-balance sheet:						
items from derivative transactions	27,721	1,598	48,490	2,104	1,338	81,251
items from spot transactions with share instruments	39	40	–	–	–	79
Open position asset/(liability)	**2,681**	**195**	**(4,540)**	**1,103**	**1,066**	**505**

45. OPERATIONAL RISK

Operational risk is a risk of loss arising from inadequate or failed internal processes, people and systems, or from external events, including IT risk and 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 management within each subsidiary. 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:
- 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.

46. CAPITAL MANAGEMENT

The Bank policy 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 the Regulation (EU) no. 575/2013 of the European Parliament and Council Regulation (the "CRR") of 26 June 2013.

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 capital instruments (subordinated income certificates) issued in accordance with CRR.
- Tier 2 capital, which consists of eligible subordinated debt approved by Czech National Bank in the amount of CZK 270 million (31 December 2017: CZK 952 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. 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 §63 ČNB decree No. 163/2014 Sb. 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.

Minimum requirements for capital ratios for 31 December 2018 are as follows:

	Minimum requirement	Capital conservation buffer	Countercyclical buffer	Total requirement
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	**8%**	**2.5%**	**0.63%**	**11.13%**

Regulatory capital and equity reconciliation

The tables below summarize the composition of own funds (regulatory capital) and equity and capital ratios for 31 December 2018 and 31 December 2017, providing a complete reconciliation of individual items of regulatory capital to equity items.

31 December 2018

in MCZK	Regulatory capital	Equity
Paid-up 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 other than goodwill	(88)	—
Other temporary adjustments to CET1	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**

31 December 2017

in MCZK	Regulatory capital	Equity
Paid-in capital registered in the Commercial Register	10,638	10,638
Retained earnings	3,887	3,948
Profit for the period	–	1,496
Accumulated other comprehensive income	120	138
Reserve funds	–	181
(-) Additional value adjustments (AVA)	(14)	–
(-) Intangible assets other than goodwill	(98)	–
Paid-in AT1 instruments	2,597	2,597
Total Tier 1 capital	**17,130**	**n/a**
Total Tier 2 capital	952	–
Total regulatory capital/equity	**18,082**	**18,998**

Based on the opinion of the Czech National Bank, retained earnings are reduced by the anticipated payment amount of the income from subordinated income certificates (AT1 instruments) in the next four quarters that are not covered by a special-purpose fund for the payment of the income from those certificates before its inclusion in regulatory capital.

Risk weighted assets (RWA) and capital ratios

in MCZK	31. 12. 2018	31. 12. 2017
Central governments or central banks	–	–
Institutions	1,119	1,057
Corporates	48,500	47,488
Retail	63	64
Secured by mortgages on immovable property	5,898	2,260
Exposures in default	4,301	5,986
Items associated with particular high risk	16,143	18,098
Covered bonds	52	52
Collective investments undertakings (CIU)	4,809	3,460
Equity	4,692	4,931
Other items	886	437
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	**86,464**	**83,833**
Traded debt instruments	3,654	3,082
Equity	860	1,135
Position risk in collective investment undertakings (CIUs)	16	1
Foreign Exchange	1,911	2,659
Total risk exposure amount for position, foreign exchange and commodities risks	**6,441**	**6,877**
Operational risk	7,436	7,004
Total risk exposure amount for credit valuation adjustment	401	315
Total risk exposure amount	**100,742**	**98,029**

Capital adequacy ratios

v %	31. 12. 2018	31. 12. 2017
Common Equity Tier 1 capital (CET1)	14.41	14.83
Tier 1 capital	16.99	17.47
Total regulatory capital	**17.26**	**18.45**

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 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.

47. FAIR VALUES 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 banks and other 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 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, analyzed according to the hierarchy that reflects the significance of the inputs used in the valuation were as follows:

As at 31 December 2018

in MCZK	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
FINANCIAL ASSETS					
Cash and balances with central banks	–	3,366	–	3,366	3,367
Due from banks and other financial institutions	–	53,736	–	53,736	53,734
Loans and advances to customers at amortised cost	–	–	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

As at 31 December 2017

in MCZK	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
FINANCIAL ASSETS					
Cash and balances with central banks	–	5,914	–	5,914	5,915
Due from banks and other financial institutions	–	46,684	–	46,684	46,670
Loans and advances to customers at amortised cost	–	–	65,507	65,507	63,785
FINANCIAL LIABILITIES					
Deposits and loans from banks	–	21,958	–	21,958	22,009
Deposits from customers	–	84,256	–	84,256	84,484
Subordinated debt	–	1,366	–	1,366	1,388

48. SUBSEQUENT EVENTS

From December 31, 2018, 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.

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This document is an English translation of the Czech auditor's report. Only the Czech version of the report is legally binding.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF J & T BANKA, a.s.

Report on the Audit of the Separate 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 statement of financial position as at 31 December 2018, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows 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 financial position of the Company as at 31 December 2018, and of its financial performance and its 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 Separate 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.

Key Audit Matters

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

Loss allowances for loans and advances to customers at amortised cost

Key audit matter

We focused on this matter because of the highly subjective and complex judgements made by the Company's management in determining the necessity for, and then estimating the size of, loss allowances for loans and advances to customers at amortised cost (further only as "loans").

Loss allowances for loans at CZK 3,127 million as at 31 December 2018 represented estimate of the expected credit losses (ECL) for loans at the balance sheet date.

The loans are allocated into one of three stages in line with IFRS 9 Financial instruments in order to estimate the loss allowances.

Stage 1 and Stage 2 loans are performing loans. Stage 2 loans are loans where significant increase in credit risk since origination has been observed. Stage 3 loans are non-performing, i.e. credit-impaired loans.

Key inputs, assumptions and judgments relevant for the calculation of loss allowances comprise:

— definition of default and definition of significant increase in credit risk (SICR);
— probability of default (PD) estimated based on Company's historical data;
— exposure at default (EAD);
— estimation of loss given default (LGD);
— estimation 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.

For further information, please refer to Note 3 (Accounting policies), Note 12 (Loans and advances to customers at amortised cost) and Note 14 (Expected credit losses) in the notes to the separate financial statements.

How the audit matter was addressed

To address this key audit matter, we performed, among other things, the procedures outlined below:

Applying our knowledge, experience and market standards in the industry, we critically assessed and challenged the Company's credit and accounting policies and evaluated the processes related to calculation of expected credit losses by involving our credit risk specialists.

We tested the design, implementation and operating effectiveness of relevant controls, in particular controls over the matching of incoming payments. We performed the testing by inquiry in combination with the observation, inspection of underlying documentation, and selected recalculations.

In collaboration with our credit risk specialists we re-performed, recalculated and critically assessed the construction of the PD curves including forward-looking information for the loan portfolio.

On a sample of loans, we evaluated whether examined loans were allocated to appropriate stages based on inspection of particular credit files, inquiry of responsible credit officers and our assessment of the latest development in relation to the borrower.

Furthermore, we checked LGD used by the Company on this sample of loans. In particular, we challenged the key assumptions in relation to both the amount and timing of estimated cash flows. We determined whether LGD used by the Company was appropriate.

We engaged our real estate valuation specialist to challenge the valuation methods applied by the Company. This specialist critically challenged the assumptions stated in the valuation reports used by the Company by comparing them to our specialist's expectations based on his knowledge and experience.

Furthermore, we recalculated ECL on the complete portfolio of the on and off balance exposures using data analytics approach and compared our results with balances recognized in the accounting books.

We assessed the adequacy 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 consolidated annual report other than the separate and consolidated financial statements and our auditor's reports. The statutory body is responsible for the other information.

The Company has not prepared an annual report as at 31 December 2018, 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.

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Separate Financial Statements

The statutory body is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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 and Audit Committee are responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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 separate 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 Shareholders on 29 June 2017 and our uninterrupted engagement has lasted for 18 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 27 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Recorded in the Commercial Register kept by the Municipal Court in Prague, Section C, Insert No. 24185

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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 separate financial statements or annual report.

Statutory Auditor Responsible for the Engagement

Vladimír Dvořáček is the statutory auditor responsible for the audit of the separate financial statements of J & T BANKA, a.s. as at 31 December 2018, based on which this independent auditor's report has been prepared.

Prague
29 March 2019

KPMG Česká republika Audit, s.r.o.
Registration number 71

Vladimír Dvořáček
Partner
Registration number 2332

CZK 2.08 bil.

CONSOLIDATED
NET PROFIT
FOR THE PERIOD.

REPORT ON RELATIONS BETWEEN RELATED PARTIES FOR THE ACCOUNTING PERIOD OF 2018

prepared in accordance with Section 82 of Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (the Act on Business 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 2018 to 31 December 2018, 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 2018 to 31 December 2018, 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 at 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 2018 to 31 December 2018, 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.
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.

PB IT, a.s., v likvidáci
ID# 47621320, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s. (until 17 April 2018)

365.fintech, a.s.
ID# 51301547, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s. (since 23 January 2018)

Amico Finance, a.s.
ID# 48113671, with its registered office at Hurbanovo námestie 1, Bratislava 811 06, Slovakia, controlled by Poštová banka, a.s. (since 13 November 2018)

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 Poštová banka, a.s.

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. (since 31 December 2017)

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 PASSAGE 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 at 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

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

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 (since 18 December 2018)

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 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 III., s. r. o.
ID# 47101181, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by J&T INTEGRIS GROUP LIMITED (until 31 August 2018)

J&T Global Finance IV., B.V.
ID# 60411740, with its registered office at La Fontainestraat 7, 1902CW, Castricum, Netherlands, controlled by J&T INTEGRIS GROUP LIMITED (until 14 May 2018)

J&T Global Finance V., s. r. o.
ID# 47916036, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by J&T INTEGRIS GROUP LIMITED

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 (since 24 July 2018)

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 (since 27 August 2018)

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 accordance 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 registered capital and voting rights.

II. Summary of acts made in the accounting period of 2018 which were made at the instigation or in the interest of the controlling entity or the entities controlled by the controlling entity if these acts concerned assets the value of which exceeds 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. Summary of contracts entered into between the controlled entity and the controlling entity or between controlled entities.

With J&T FINANCE GROUP SE:

Contracts in force entered into between related parties:
Contract for the provision of a guarantee dated 15 December 2005, as further amended, regarding the provision of a guarantee as to a minimum amount of revenue generated by a client's portfolio.
— Agent agreement 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 2018:
— Contract agreement 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 2018, in exchange for adequate consideration.
— 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 2018, in exchange for adequate consideration.
— Contract for the provision of a guarantee, dated 21 August 2006, based on which, in 2018, J&T FINANCE GROUP SE provided a guarantee to selected clients of the Bank, in exchange for adequate consideration.
— Agreement on accession to obligation, dated 11 July 2007, based on which, in 2018, J&T FINANCE GROUP SE shared the potential obligation of J & T BANKA, a.s. arising from Purchase agreement with the original assignees of the subordinated debt, in exchange for adequate consideration.
— General Agent agreement for the brokerage of purchase and sale of securities, dated 10 April 2008, as further amended based on which, in 2018, J & T BANKA, a.s. provided the related party with stock brokerage services based on the arm's length principle, in exchange for adequate consideration.
— Contract for the business lease of movable assets, dated 22 September 2010, as further amended, based on which, in 2018, J&T FINANCE GROUP SE leased fixtures and fittings to the Bank, in exchange for adequate consideration – lease payment.
— Contract for the business lease of movable assets and financial settlement, dated 30 May 2011, as further amended, based on which J&T FINANCE GROUP SE leased fixtures and fittings in the building at Dvořákovo nábřežie 8, Bratislava to the Bank in 2018, in exchange for adequate consideration – lease payment.

- Contract for the 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, in 2018, J & T BANKA, a.s. provided the related party with an advantageous package of services and participation rights in the loyalty scheme MAGNUS as an instrument of social policy, in exchange for adequate consideration.
- Contract for the business lease of movable assets and financial settlement, dated 1 December 2014, based on which J&T FINANCE GROUP SE leased fixtures and fittings in the River Park building complex in Bratislava to the Bank in 2018, in exchange for adequate consideration – lease payment.
- Contract for the provision of banking services, dated 22 January 2014, based on which J & T BANKA, a.s. undertook to provide services pursuant to this contract, in exchange for adequate consideration
- 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 – payment of the costs.
- Brokerage contract dated 6 November 2013, based on which J&T FINANCE GROUP SE mediated opportunities to conclude a contract with potential clients, in exchange for adequate consideration.
- Contract for the provision of services, dated 10 September 2015, based on which J & T BANKA, a.s. provided services in 2018 relating to debt securities of J&T FINANCE GROUP SE's client, in exchange for adequate consideration.
- General contract for the trading in financial markets, dated 2 January 2014, based on which J & T BANKA, a.s. negotiated currency derivative transactions, in exchange for adequate consideration.
- General contract for the trading in financial markets, dated 30 November 2015, based on which J & T BANKA, a.s, negotiated currency derivative transactions, in exchange for adequate consideration.
- Overdraft loan agreement No. EUR 6 1/KTK/2016, dated 11 November 2016, based on which J & T BANKA, a.s. undertook to provide funds (an overdraft loan) to the related party, and J&T FINANCE GROUP SE undertook to repay the loan, pay the interest and other fees in accordance with the agreed terms and conditions.
- Subordination agreement, dated 1 July 2016, concluded between J & T BANKA, a.s. and J&T FINANCE GROUP SE (the subordinated creditor) regarding to the loan provided to the third party.
- Administrator contract dated 17 March 2016, along with Special arrangement to this contract, based on which, in 2018, J&T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
- 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 2018, and J&T FINANCE GROUP SE undertook to provide adequate consideration.
- 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 2018, and J&T FINANCE GROUP SE undertook to provide adequate consideration.
- Agreement on the provision of services (outsourcing) dated 26 June 2018, based on which J&T FINANCE GROUP SE provided analytical function services pursuant to this agreement in 2018, and the Bank undertook to provide adequate consideration.

Contract on the assignment of receivable dated 21 December 2018, along with the announcement of the assignment of receivable, based on which J & T Banka, a.s. assigned the receivable to J&T FINANCE GROUP SE and the J&T FINANCE GROUP SE undertook to provide adequate consideration.

- Current account maintenance in accordance with the terms and conditions of the Bank.
- Issue of a charge card in accordance with the terms and conditions of the Bank.
- Provision of a safety deposit box in accordance with the terms and conditions of the Bank.
- Forward currency transactions in accordance with the terms and conditions of the Bank.

With Ing. Ivan Jakabovič:

Contracts in force entered into between related parties:
— Agent 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 2018:
— Agreement on private banking services, dated 24 November 2015, based on which J & T BANKA, a.s. provided services pursuant to this agreement in 2018, in exchange for adequate consideration
— Agreement on exercising the office of the Supervisory Board member, dated 30 December 2014, concluded under Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (the Act on Business Corporations).
— Current account maintenance in accordance with the terms and conditions of the Bank.
— Issue of a debit and charge card in accordance with the terms and conditions of the Bank.

With J & T Securities, s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2018:
— General contract for the provisions of banking services, dated 8 November 2018, based on which J & T BANKA, a.s. provided services pursuant to the contract in 2018, in exchange for adequate consideration.
— Current account maintenance in accordance with the terms and conditions of the Bank.

With Ing. Jozef Tkáč:

Contracts in force entered into between related parties:
— General agreement for the custody of financial instruments, dated 10 December 2009.

Contracts in force entered into between related parties based on which performance was provided in 2018
— Agreement on private banking services, dated 15 March 2012, based on which J & T BANKA, a.s. provided services pursuant to the agreement in 2018, in exchange for adequate consideration.
— Agreement on exercising the office of the Supervisory Board member, dated 30 December 2014, concluded under Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (the Act on Business Corporations).
— Current account maintenance in accordance with the terms and conditions of the Bank.
— Issue of a charge card in accordance with the terms and conditions of the Bank.

With Poštová banka, a.s.:

Contracts in force entered into between related parties:
— Agreement on the lease of non-residential premises, dated 5 October 2010, based on which Poštová banka, a.s. leased to the Bank non-residential premises and fixtures and fittings in the River Park building complex, Dvořákovo nábřeží, Bratislava.
— Contract for the 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 loyalty scheme MAGNUS as an instrument of social policy, in exchange for adequate consideration.

Contracts in force entered into between related parties based on which performance was provided in 2018:
— Agent agreement, dated 18 December 2008, based on which J & T BANKA, a.s. provided the related party with stock brokerage services in 2018, based on the arm's length principle, in exchange for adequate consideration.
— 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 and other fees 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 2018, in exchange for adequate consideration.
- Contract for the cooperation, dated 5 October 2010, based on which Poštová banka, a.s. provided the Bank with the possibility to use an ATM in the River Park centre at Dvořákovo nábřeží in Bratislava in 2018, in exchange for adequate consideration.
- Agreement on termination of cooperation dated 31 October 2018, by which the contract for the cooperation dated 5 October 2018 was terminated. A protocol of uninstalling and handing-over the ATM dated 26 October 2018.
- Contract for a loro account, dated 27 May 2014, based on which Poštová banka, a.s. provided services connected with keeping 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 keeping 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 J & T BANKA, a.s. negotiated mainly currency derivative transactions, in exchange for adequate consideration – payment of the transactions including commission.
- 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 of 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.
- Loan commitment of Poštová banky, a.s., dated 8 August 2018, together with Agreement on change of term, dated 25 October 2018.
- Forward currency transactions in accordance with the terms and conditions of the Bank.

With Poštová poisťovňa, a. s.:

Contracts in force entered into between related parties based on which performance was provided in 2018:
- General contract for the provision of services for corporate entities, dated 20 November 2017, based on which, in 2018, J & T BANKA, a.s. provided services pursuant to this contract, in exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.
- Deposit account maintenance in accordance with the terms and conditions of the Bank.

With Dôchodková správcovská spoločnosť Poštovej banky, d.s.s., a. s.:

Contracts in force entered into between related parties:
- Contract for the 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:
- Agent 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 2018:
- Contract for the cooperation, dated 13 July 2009, as further amended, based on which J & T BANKA, a.s., in 2018, provided the related party with services connected with collective investments under the laws is in force in the Czech Republic, in exchange for adequate consideration.
- Contract for the provision of the investment service consisting in acceptance and execution of client's instructions, dated 13 September 2013, as further amended, 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.

With PB Finančné služby, a. s.

Contracts in force entered into between related parties based on which performance was provided in 2018:
- Overdraft loan 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 loan) to the related party, and PB Finanční služby, a.s. undertook to repay the loan and pay interest and other fees in accordance with the agreed terms and conditions.
- Current account maintenance in accordance with the terms and conditions of the Bank.

With 365.fintech, a.s.:

Contracts in force entered into between related parties based on which performance was provided in 2018:
- General contract for the provision of services for corporate entities, dated 26 January 2018, based on which J & T BANKA, a.s. provided services pursuant to this contract in 2018, in exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank
- Issue of a charge card in accordance with the terms and conditions of the Bank.

With OSTRAVICE HOTEL, a.s.

- Current account maintenance in accordance with the terms and conditions of the Bank

With J&T SERVICES ČR, a.s.

Contracts in force entered into between related parties:
- Contract for the processing of personal data, dated 6 August 2014, by on which the parties thereto defined the rights and obligations in processing of personal data when carrying out activities under the Contract for the provision of expert support.
- Confidentiality agreement dated 24 February 2015, based on which the parties hereto are obliged to maintain confidentiality.
- Contract for the processing of personal data, dated 1 January 2018, by which the parties thereto defined the rights and obligations in processing of personal data when carrying out activities under the Lease of non-residential premises.
- Contract for the processing of personal data, dated 25 May 2018, by which the parties thereto defined the rights and obligations in processing of personal data when carrying out activities under the Contract for the provision of services.

Contracts in force entered into between related parties based on which performance was provided in 2018:
- Contract for the 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 2018 and J & T BANKA, a.s. undertook to provide adequate consideration for the services.
- Overdraft loan agreement No. CZK 95/KTK/2013, dated 11 December 2013, as further amended, based on which J & T BANKA, a.s undertook to provide funds (an overdraft loan), and J&T SERVICES ČR, a.s. undertook to repay the loan and pay 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 2018, J & T BANKA, a.s. issued a bank guarantee to the related party, in exchange for adequate consideration.
- Contract for the sublease of non-residential premises, dated 1 July 2008, as further amended, based on which, in 2018, 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 – lease payment.
- Contract for the provision of premises, dated 1 January 2014, based on which, in 2018, 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 ad-

equate consideration – 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 the 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 2018, and J & T BANKA, a.s. undertook to provide adequate consideration.
- Contract for the 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 2018, and J & T BANKA, a.s. undertook to provide adequate consideration.
- Contract for the provision of services, dated 31 January 2013, based on which, J&T SERVICES ČR, a.s. provided legal services pursuant to this contract in 2018, and J & T BANKA, a.s. undertook to provide adequate consideration.
- Contract for the business lease of movable assets, dated 1 July 2013, as further amended, based on which J&T SERVICES ČR, a.s. leased office furniture and equipment to the Bank in 2018, in exchange for adequate consideration.
- Contract for the cooperation, dated 31 August 2011, based on which J&T SERVICES ČR, a.s. provided services to related party J & T BANKA, a.s. pursuant to this contract in 2018, connected with the provision of concierge services for payment card holders, in exchange for adequate consideration.
- 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 the Quaestor banking information system in 2018, and J & T BANKA, a.s. undertook to provide adequate consideration.
- Contract for the cooperation in arranging social events, dated 1 January 2014, as further amended, based on which J&T SERVICES ČR, a.s. undertook to provide for 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 – proportionate part of the expenses.
- Contract for the sublease of a motor vehicle, dated 2 January 2014, based on which, in 2018, J&T SERVICES ČR, a.s. leased to the Bank motor vehicles, in exchange for adequate consideration – lease payment.
- Contract for the sublease of a motor vehicle, dated 23 January 2015, based on which, in 2018, J&T SERVICES ČR, a.s. provided the Bank with the lease of motor vehicles, in exchange for adequate consideration – lease payment.
- Contract for the 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 2018, and J & T BANKA, a.s. undertook to provide adequate consideration.
- Contract for the 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 2018, and J & T BANKA, a.s. undertook to provide adequate consideration.
- Contract for the provision of services, dated 18 December 2014, based on which, in 2018, 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.
- Contract for the sublease of business premises, dated 31 March 2015, based on which, in 2018, J & T BANKA, a.s. provided J&T SERVICES ČR, a.s. with premises in the Javor building, in exchange for adequate consideration.
- Contract for the delegation of activities and the provision of expert support, dated 1 January 2015, based on which, in 2018, J & T BANKA, a.s. provided risk management, internal audit, compliance and AML services, in exchange for adequate consideration for the services.
- Contract for the provision of services dated 1 January 2016, as amended, based on which J&T SERVICES ČR, a.s. provided concierge and related services to the Bank in 2018, in exchange for adequate consideration for the services.
- General contract for the provision of banking services for corporate entities dated 1 August 2018, based on which J & T BANKA, a.s. provided services pursuant to this contract in 2018, in exchange for adequate consideration.
- Contract for the provision of expert tax assistance and advice dated 1 January 2018, based on which J&T SERVICES ČR, a.s. provided tax advisory services in 2018, and J & T BANKA, a.s. undertook to pay consideration for the services. As of the effective date of the contract the Mandate contract for the provision of expert tax assistance and advisory dated 3 January 2011, as amended, terminated.

- Contract for the sale of movable assets, dated 22 August 2018, based on which J&T SERVICES ČR, a.s. sold computer and communication technology in 2018, in exchange for consideration – payment of purchase price.
- Contract for the sale of movable assets, dated 10 December 2018, based on which J&T BANKA, a.s. sold computer and communication technology in 2018, in exchange for consideration – payment of purchase price.
- Contract for the sale of movable assets, dated 10 December 2018, based on which J&T BANKA, a.s. sold computer technology in 2018, in exchange for consideration – payment of purchase price.
- Current account maintenance in accordance with the terms and conditions of the Bank.
- Issue of a charge card in accordance with the terms and conditions of the Bank.
- Provision of a safety deposit box in accordance with the terms and conditions of the Bank.

With J&T SERVICES SR, s.r.o.:

Contracts in force entered into between related parties:
- Overdraft loan 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 loan) 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 2018:
- Mandate contract for payroll and personnel services, dated 26 October 2012, as further amended, based on which, in 2018, J&T SERVICES SR, s.r.o. provided the Bank with personnel and payroll services, in exchange for adequate consideration.
- Contract for the lease of motor vehicles, dated 2 January 2013, based on which, in 2018, J&T SERVICES SR, s.r.o. leased motor vehicles to the Bank, in exchange for consideration – lease payment.
- Contract for the provision of services, dated 2 January 2013, as further amended, based on which, in 2018, J&T SERVICES SR, s.r.o. provided the Bank with operational and logistic services specified in the supplement of this contract, in exchange for adequate consideration.
- Agreement on setting the consideration for the provision of services beyond the common scope, dated 28 December 2018, relating to Contract for the provision of services dated 2 January 2013.
- Brokerage contract dated 3 April 2013, based on which, in 2018, J&T SERVICES SR, s.r.o. brokered banking products pursuant to this contract, in exchange for adequate consideration.
- Contract for the delegation of activities and the provision of expert support, dated 1 January 2015, based on which, in 2018, J & T BANKA, a.s. provided risk management and internal audit services, in exchange for adequate consideration for the services.
- Mandate contract for payroll and personnel services, dated 31 December 2014, as further amended, based on which, in 2018, J&T SERVICES SR, s.r.o. provided the Bank with personnel and payroll services, in exchange for adequate consideration.
- Contract for the lease of a motor vehicle, dated 2 January 2013, as further amended, based on which, , J&T SERVICES SR, s.r.o. leased motor vehicles to the Bank in 2018, in exchange for consideration – lease payment.
- Contract for the provision of services, dated 2 January 2013, as further amended, based on which, in 2018, 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.
- Contract for the 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, in 2018, J & T BANKA, a.s. provided the related party with an advantageous package of services and participation in the loyalty scheme MAGNUS as an instrument of social policy, in exchange for adequate consideration.
- Service Legal Agreement for providing services, dated 18 December 2014, as further amended, based on which, in 2018, J&T SERVICES SR, s.r.o. provided the Bank with IT and press services, in exchange for adequate consideration.
- Contract for the provision of services, dated 9 December 2015, as further amended, based on which, in 2018, J&T SERVICES SR, s.r.o. provided the Bank with concierge services and services specified in the supplement to this con-

tract, in exchange for adequate consideration.
- Contract for the cooperation in arranging sports and recreational events dated 15 March 2016, based on which J&T SERVICES SR, s.r.o. undertook to provide the organization and settlement of expenses for sport and recreational events for employees, in exchange for consideration for the services.
- General contract for the provision of banking services, dated 7 January 2013, based on which, in 2018, J & T BANKA, a.s. provided banking services, in exchange for consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.
- Issue of a charge card in accordance with the terms and conditions of the Bank.

With J&T FINANCE, LLC:

Contracts in force entered into between related parties based on which performance was provided in 2018:
- Brokerage contract No. 01-01/17, dated 30 June 2017, based on which J&T FINANCE, LLC mediated opportunities to conclude contracts with potential clients, in exchange for consideration. Acts on taking-over a service relate to this contract.

With OUTSIDER LIMITED:

Contracts in force entered into between related parties:
- General contract for the provision of services for corporate entities, dated 20 November 2017.
- Current account maintenance in accordance with the terms and conditions of the Bank.

With STE CIVILE D'EXPLOITATION DU CHATEAU TEYSSIER

Contracts in force entered into between related parties based on which performance was provided in 2018:
- Loan agreement of up to EUR 12,000,000.00 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:
- Agent agreement No. 18387 for the brokerage of purchase and sale of securities, dated 9 July 2009.
- General agreement for loan secured by transfer of securities dated 1 November 2006.

With PBI, a.s.:

Contracts in force entered into between related parties:
- Agent agreement, dated 18 December 2015, regarding the provisions of stock brokerage services.

Contracts in force entered into between related parties based on which performance was provided in 2018:
- Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Wine Holding SE:

Contracts in force entered into between related parties based on which performance was provided in 2018:
- Current account maintenance in accordance with the terms and conditions of the Bank.
- Escrow Account Agreement dated 22 August 2018, based on which J & T BANKA, a.s. has committed to establish and maintain an internal account, in exchange for consideration for the services provided.

— 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 consideration for the services provided.

With KOLBY, a.s.:

— Current account maintenance in accordance with the terms and conditions of the Bank.
— Issue of a charge card in accordance with the terms and conditions of the Bank.

With J&T INTEGRIS GROUP LIMITED:

— Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Bank & Trust Inc.:

Contracts in force entered into between related parties based on which performance was provided in 2018:
— Agent agreement for the brokerage of purchase and sale of investment instruments, dated 13 August 2012, based on which, in 2018, J & T BANKA, a.s. provided the related party with stock brokerage services based on the arm's length principle, in exchange for consideration for the services.
— Current account maintenance in accordance with the terms and conditions of the Bank.
— Issue of a charge card in accordance with the terms and conditions of the Bank.
— Forward currency transactions in accordance with the terms and conditions of the Bank.

With J&T MINORITIES PORTFOLIO LTD:

Contracts in force entered into between related parties:
— Agent 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 2018:
— Contract for the provision of banking services, dated 5 February 2015, based on which, in 2018, J & T BANKA, a.s. undertook to provide services pursuant to this contract, in exchange for adequate consideration.
— Current account maintenance in accordance with the terms and conditions of the Bank.

With Equity Holding, a.s.:

Contracts in force entered into between related parties:
— Agent agreement No. 17599, dated 15 December 2008, regarding the provisions of stock brokerage services.

Contracts in force entered into between related parties based on which performance was provided in 2018:
— Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Global Finance III., s. r. o.:

Contracts in force entered into between related parties:
— Bond placement agreement dated 13 May 2013, along with the Special arrangement to this agreement.

Contracts in force entered into between related parties based on which performance was provided in 2018:
— General contract for the provision of services for corporate entities, dated 10 February 2017, based on which J & T BANKA, a.s. provided services pursuant to this contract in 2018, in exchange for adequate consideration.
— Administration contract dated 21 June 2013, along with the Special arrangement to this contract, based on which, in

2018, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
— Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Global Finance IV., B.V.:

Contracts in force entered into between related parties:
— Agent agreement, dated 29 December 2014, regarding the provisions of investment services.

Contracts in force entered into between related parties based on which performance was provided in 2018:
— Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Global Finance V., s. r. o.:

Contracts in force entered into between related parties:
— Bond placement agreement dated 27 November 2014, along with the Special arrangement to this agreement.
— Agent 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 2018:
— General contract for the provision of services for corporate entities, dated 10 February 2017, based on which J & T BANKA, a.s. provided services pursuant to this contract in 2018, in exchange for adequate consideration.
— Administration contract dated 27 November 2014, along with the Special arrangement to this contract, based on which, in 2018, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
— Current account maintenance in accordance with the terms and conditions of the Bank.

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 the Special arrangement to this agreement.

Contracts in force entered into between related parties based on which performance was provided in 2018:
— Administration contract dated 20 April 2016, along with the Special arrangement to this contract, based on which, in 2018, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration
— General contract for the provision of services for corporate entities, dated 7 March 2016, based on which, in 2018, J & T BANKA, a.s. provided services pursuant to this contract, in exchange for adequate consideration.
— Current account maintenance in accordance with the terms and conditions of the Bank.

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 the Special arrangement to this agreement.

Contracts in force entered into between related parties based on which performance was provided in 2018:
— Administration contract dated 16 November 2016, along with the Special arrangement to this contract, based on which, in 2018, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
— Current account maintenance in accordance with the terms and conditions of the Bank.

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 the Special arrangement to this agreement.

Contracts in force entered into between related parties based on which performance was provided in 2018:
— Administration contract dated 21 June 2017, along with the Special arrangement to this contract, based on which, in 2018, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
— Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Global Finance IX., s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2018:
— General contract for the provision of services for corporate entities, dated 16 July 2018, based on which J & T BANKA, a.s. provided services pursuant to this contract in 2018, in exchange for adequate consideration.
— Bond placement agreement dated 10 September 2018, along with the Special arrangement to this agreement, based on which J & T BANKA arranged a bond issue in 2018, in exchange for adequate consideration.
— Administration contract dated 10 September 2018, along with the Special arrangement to this contract, based on which, in 2018, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
— Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Global Finance X., s.r.o.:

Contracts in force entered into between related parties:
— Bond placement agreement dated 14 November 2018, along with the Special arrangement to this agreement.
— Administration contract dated 14 November 2018, along with the Special arrangement to this contract.

Contracts in force entered into between related parties based on which performance was provided in 2018:
— Current account maintenance in accordance with the terms and conditions of the Bank.
— Maintenance of a bank account for depositing registered capital of a business cooperation, in accordance with the terms and conditions of the Bank.

With J&T Mezzanine, a.s.:

Contracts in force entered into between related parties based on which performance was provided in 2018:
— General contract for trading in financial markets dated 28 June 2018.
— Agreement on the provision of services (outsourcing) dated 26 June 2018, under which J&T BANKA, a.s. provided audit function (internal audit and compliance) services pursuant to this agreement in 2018, and J&T Mezzanine, a.s. undertook to provide adequate consideration.
— Agreement on the provision of services (outsourcing) dated 26 June 2018, under which J&T BANKA, a.s. provided reporting services pursuant to this agreement in 2018, and J&T Mezzanine, a.s. undertook to provide adequate consideration.
— Current account maintenance in accordance with the terms and conditions of the Bank.

IV. Assessment of whether the controlled entity incurred damage, and assessment of its settlement pursuant to Sections 71 and 72 of the Act on Business 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 Business 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 Business Corporations for the period from 1 January 2018 to 31 December 2018.

29 March 2019

Board of Directors
J & T BANKA, a.s.

INFORMATION ABOUT SECURITIES, RIGHTS AND OBLIGATIONS

Information on securities

In 2015 Česká národní banka approved and J & T BANKA, a.s., IČO: 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 2018 amounted to CZK 2 597 million (2017 – CZK 2 597 million).

As at 31 December 2018, 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'.

CORPORATE GOVERNANCE

Corporate governance and the Code

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 Issuer's business and financial performance its ability to disburse yields and meet obligations arising from the issued investment instruments.

Within the corporate governance, the Issuer shall apply the principles prescribed by the Banks Act and shall define the rules of procedure and internal organisation in accordance with the laws of the Czech Republic. 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 which is supervised by the Appointment Committee, which performs its activities at the level of the Issuer's parent company.
The Issuer accepted and complies with the main standards of the corporate governance as defined in the Code of Corporate Governance, based on the OECD principles, which is available at the website of the Ministry of Finance of the Czech Republic at www.mfcr.cz. 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. 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.

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. The Issuer also fulfils all the obligations to publish the relevant information and to keep the information transparent.

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 2018, the contribution amounted to CZK 25.7 million (2017: CZK 17.8 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 2018, the Issuer and the Group spent financial means for audit and other services in a volume as follows:

In thousands of CZK	2018 Charged to the Issuer	2017 Charged to the Issuer	2018 Charged to other companies in the Group	2017 Charged to other companies in the Group
Statutory audit	7,773	6,952	5,689	5,407
Other assurance services	7,572	7,155	–	–
Tax advisory	–	–	–	–
Other non-audit services	–	–	–	–
Total	**15,345**	**14,107**	**5,689**	**5,407**

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 persons responsible for deciding on the frequency of assessment of the individual employees are the employees performing the assessment.

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 (50% weight), the volume of client assets (25% 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 2018 amounted to CZK 113.83 million in total and was distributed among 12 recipients, members of the Board of Directors and other persons holding executive powers and 7 members of the Supervisory Board. For 2018, members of the Board of Directors received remuneration in the amount of CZK 55 million in the form of salaries and CZK 2.2 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 4.5 million. Other persons holding executive powers received remuneration in money in the form of salaries amounting to CZK 52 million. Furthermore, members of the Supervisory Board received remuneration for the discharge of their office in the amount of CZK 0.13 million. In 2018, 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 2018. No severance pay was paid or awarded and no remuneration exceeding EUR 1 million was paid in 2018. 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.

Powers of the General Meeting

The company 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 company is made in writing for the attention of any member of the Board of Directors or to the address of the company'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 company.

The powers of the general meeting (resp. the sole shareholder) are regulated in the company's valid Articles and Association and respective legal regulations, in particular Act No. 90/2012 Coll., the Business Corporations Act.

Real estate, machinery and equipment

As at 31 December 2018, the Issuer's total tangible assets amounted to CZK 35 million (as at 31 December 2017: CZK 38 million). As at 31 December 2018, total tangible assets and investment property of the Issuer's Group amounted to CZK 531 million (as at 31 December 2017: CZK 611 million).

The single largest item of the Group's assets is formed by a building in the Russian Federation owned by the subsidiary, Interznanie, OAO. The building consists of administrative premises and a hotel. The Issuer itself does not own any real property. It has hired premises for its registered office at Pobřežní 297/14, Prague 8 until 2021, premises in the OASIS building at Sokolovská 394/17, Prague 8 until 2020 and premises in the S9 FLORENC building at Sokolovská 9, Prague 8 until 2021.

The Issuer invests in the development of intangible assets from time to time, in particular in the development of its banking system, an internet portal and data services.

The Issuer confirms that it is not aware of any environmental impacts that might be caused by the Issuer's use of tangible fixed assets.

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 2018 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 2018.

At the date of preparation of the annual report, legal proceedings are held regarding the action of Radoslav Hajduch, trustee in bankruptcy of the insolvent company, DEVIN BANKA, a.s. being in bankruptcy, for the payment of CZK 340 million with accessions and CZK 70 million with accessions. After several hearings, the action was dismissed. The plaintiff filed the appellate review unsuccessfully. Subsequently, the plaintiff lodged an application for second appellate review. The Issuer believes that the plaintiff's chances of succeeding with this second appellate review are low.

As at 31 December 2018, the Issuer is not a party to any other ongoing or pending legal or arbitration proceedings.

Significant contracts

The Issuer's significant transactions made after 31 December 2018 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.

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