ANNUAL REPORT 2018

J&T FINANCE GROUP

10,9 billion EUR

REPORTED BALANCE SHEET FOR 2018 IS THE BEST RESULT EVER.

REPORT OF THE BOARD OF DIRECTORS

Dear clients, business partners, colleagues, and friends
The Group J&T FINANCE GROUP SE ("JTFG" or "the Group") in the past year strengthened its position in the Czech and Slovak markets as well as expanded the Group's activities in foreign markets within the EU region. Talking in figures, we generated a net profit for 2018 of EUR 104.3 million, one of the best in the Group's history, and reported balance sheet total of more than EUR 10.9 billion (compared with EUR 10.8 billion in 2017), the best result ever.

In the first half of 2018 the process of entry of CEFC into JTFG was stopped: the Chinese investor withdrew its application to increase its share in JTFG to 50% from the Czech National Bank. Consequently, due to the CEFC group's financial difficulties, its 9.9% share in JTFG was assumed by Rainbow Wisdom Investment Limited, controlled by a Chinese group, CITIC Group Corporation. At present, CITIC Group Corporation and JTFG are discussing possibilities for further cooperation, but without increasing CITIC Group Corporation's share on JTFG.

2018 was exceptional for J&T Banka in many aspects: first, it celebrated the 20th anniversary of its existence, and second, it managed to generate one of the highest-ever individual net profits of EUR 59.8 million (net profit for the consolidated J&T Banka group was EUR 81 million). Record-high was also the number and total volume of bond issues: a total of 24 bond issues in the nominal volume exceeding EUR 1.55 billion, which confirmed J&T Banka's leading position in the market with domestic corporate bonds in the Czech and Slovak Republic. From a total of 975 funds, J&T MONEY, was selected by both Fincentrum and Forbes as the Investment of the Year for 2018 and the best fund in the Czech market.

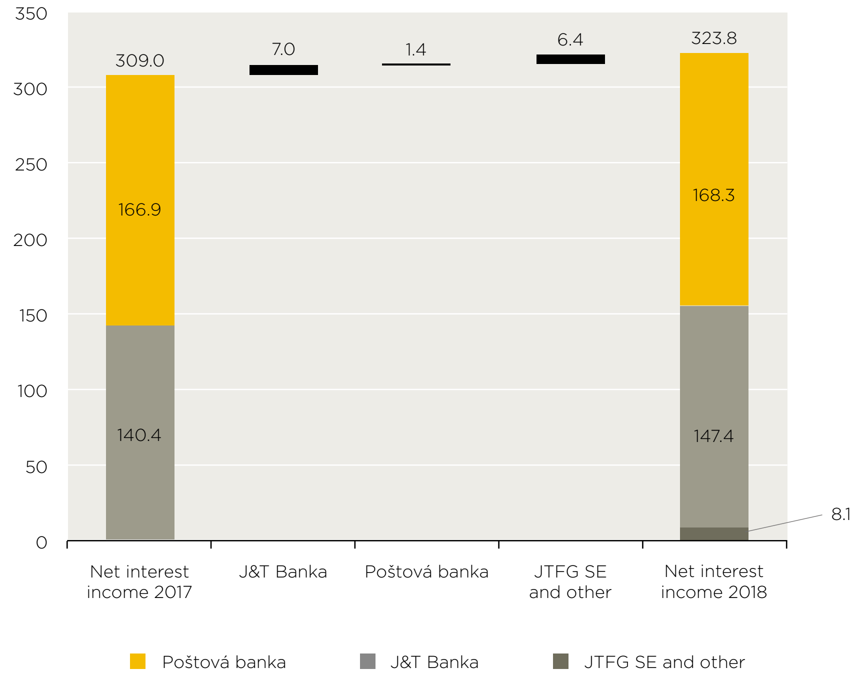
For Poštová banka, 2018 meant a number of significant changes, innovations, and continued investments in its development. The bank expanded its digital activities by launching 365.bank, thus becoming the first "mobile-first" bank not requiring actual personal contact with its clients. Simultaneously, through the acquisition of Amico Finance, Poštová banka became number four in the hire purchase market, in our opinion a market segment with a long-term potential. One of our key projects is the continuing repositioning of our brand which commenced in 2017, resulting in a flexible offer of retail banking products. Despite all changes currently in progress, Poštová banka was able to increase its net profit year-on-year by 13.4% to EUR 54.3 million, thus significantly contributing to the Group's overall performance.

Apart from developing its activities in the Czech and Slovak markets, the Group continues to search for new opportunities abroad. A long-term challenge is to expand our market share in Croatia and Russia, where the Group strives to utilize its know-how of corporate financing. In 2017, we successfully acquired Russian AKB Khovanskiy bank, and subsequently successfully integrated it into the Russian banking entity within the Group. In the first half of 2019, the acquisition of the Moscow based Bankhaus Erbe was completed.

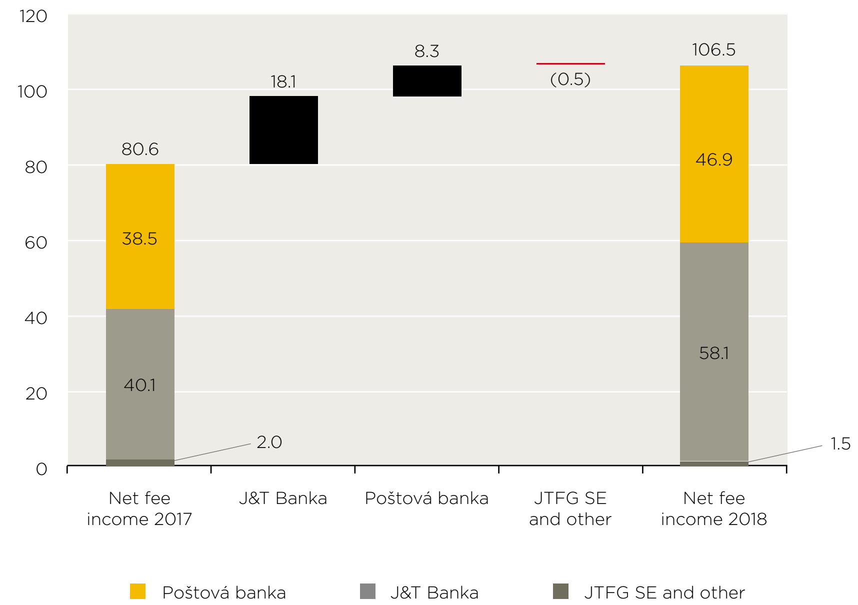
Our success naturally commits us to be socially responsible. As in previous years, we used part of our profit to support the arts as well as sports and cultural projects. This involved, in particular, support provided to Česká filharmonie, Galerie Rudolfinum and Moravská galerie; in sports, to the J&T Banka Prague Open tennis tournament and the J&T Banka CSI Olomouc prestigious show jumping competition. Via its foundation, Poštová banka also provided support to folk culture and educational projects which focus on enhancing the financial literacy in elementary and secondary schools through the Inspiration for Schools programme. Traditionally, we also provided support to children from socially disadvantaged families and to various organisations, such as the Union of Pensioners of the SR and the Radošina Naïve Theatre.

Overall, 2018 was a very successful year for the Group and our results show that we are heading in the right direction. We highly appreciate that our clients and business partners have again expressed confidence and growing interest in our services and we hope this will not change in the future. Finally, but most importantly, we would like to thank all our employees for their hard work. Without them we would be unable to turn our visions into reality.

Net interest income (mil. EUR)
2018 vs 2017



Net fee income (mil. EUR)
2018 vs 2017



Group's strategy and future development

As a banking holding, JTFG aims to strategically develop four main business activities and create synergies between them. The four pillars of the Group business are the management of assets, investment banking, corporate banking, and retail banking.

In the time of fast developing trends in the whole economy, we are aware, that we have to maintain key values on which the Group has built its success. These involve high demands, partnership, and courage. We work hard to maintain and develop our corporate culture based on these values while the number of employees and the areas of our operation keep expanding.

J&T Banka

J&T Banka's role is to effectively interconnect the individual needs of corporate financing clients with the ever-increasing needs of clients and co-investors for capital appreciation. In order to fulfil this role in the long-term, our team of private bankers must understand clients' needs in areas of investments and asset management while using their experience and expertise in corporate financing to fully understand and subsequently manage the risk associated with financed projects. Only if we manage to handle these two aspects will J&T Banka be able to continue to achieve an optimum balance of risks and returns associated with its portfolio in the future. Being aware of this, J&T Banka makes all its strategic decisions in this respect.

While last year, we managed to expand our offer of corporate financing instruments by establishing a new subsidiary, J&T Mezzanine a.s. providing mezzanine financing as an addition to bank loan products, our goal for 2019 is to extend the range of our services by private equity and venture capital instruments. Through establishing new funds, we will give our clients the opportunity to participate on the business and success of projects being financed not only through loans and bond issues, but also through capital.

In 2019, the J&T Banka group is planning to build on the historical success of its investment funds, which were repeatedly highly appreciated by the professional public and considering the growing volume of assets under management, these remain much sought-after investment opportunities for our clients. . In particular, we intend to expand the range of our funds by those combining the world of bonds and securities; thus, in the first quarter of 2019, we introduced new J&T RENTIER and J&T DIVIDEND funds.

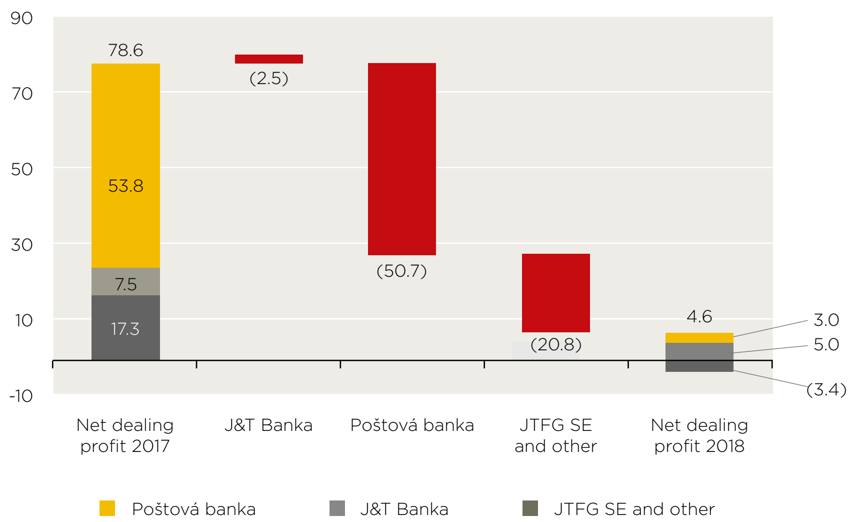
With the growing number of transactions and clients arises the need for the digitalisation of internal processes. Even though J&T Banka is planning to carry out a number of significant IS/IT projects in 2019, we are aware of the deficit the bank has towards its clients and partners in terms of its available digital channels, and towards private bankers in terms of provided digital support. After performing a number of changes to the IS/IT team, J&T Banka strengthened the role of business analysts in the sales departments and we believe that our clients will see the first improvements in this area this year.

Poštová banka

Through Poštová banka we understand our role to provide a comprehensive range of retail banking services. Poštová banka is a universal bank with a twenty-five-year history in the Slovak Republic, holding a stable position among major players in the Slovak market. In its nature, the retail banking segment shows heavy competition, driving the segment continuously towards a higher level of innovation. We are convinced that Poštová banka will be able to improve its market position in the long-term only through innovative and functional technologies combined with attractive products and effective marketing, which is reflected in Poštová banka's long-term strategy.

Historically, an important aspect of Poštová banka's success is the excellent accessibility of all its branches throughout Slovakia, due to long-term cooperation with the Slovak post office (Slovenská pošta). In connection with this, the bank is planning to further develop its Bank at the Post Office concept in 2019, while modernising and redesigning selected

Net dealing profit (mil. EUR)
2018 vs 2017



Total equity development (mil. EUR)
2018 vs 2017

branches at post offices in the process. This step is a reaction to the current trends in the branch-base strategy of the retail banking segment and we believe it will help us to strengthen client relationships and improve brand recognition.

In 2019, Poštová banka will continue with its overall modernisation, mainly targeting a younger generation of clients not only through rebranding, but more importantly throughand the new 365.bank. This innovative concept primarily aims to increase the number of clients and develop new products while reducing the need for personal contact with clients. Apart from that, Poštová banka sees the potential in small businesses, the micros segment, in which it is planning to expand its activities and acquire further market share.

Moreover, Poštová banka intends to strengthen its position within the asset management segment, in which Prvá penzijná správcovská spoločnosť holds a long time leading position , currently belonging to the top three Slovak asset management companies in terms of market share. By acquiring Amico Finance, Poštová banka entered the hire purchase market, currently holding the fourth position on the Slovak market. Poštová banka has a clear goal to utilize the segment's potential and become number two in the market in the short-term.

Report on Group Financial Activities

Consolidated Income Statement

The Group achieved a consolidated post-tax profit of EUR 104.3 million in 2018, whereas the consolidated net profit amounted to EUR 137.5 million in 2017. The year-in-year decrease is attributable to achieved FX exchange gains in 2017 resulting from interventions of the Czech National Bank against the CZK/EUR exchange rate and the subsequent appreciation of the Czech crown. Regarding all other income items, the Group shows an improvement compared to 2017.

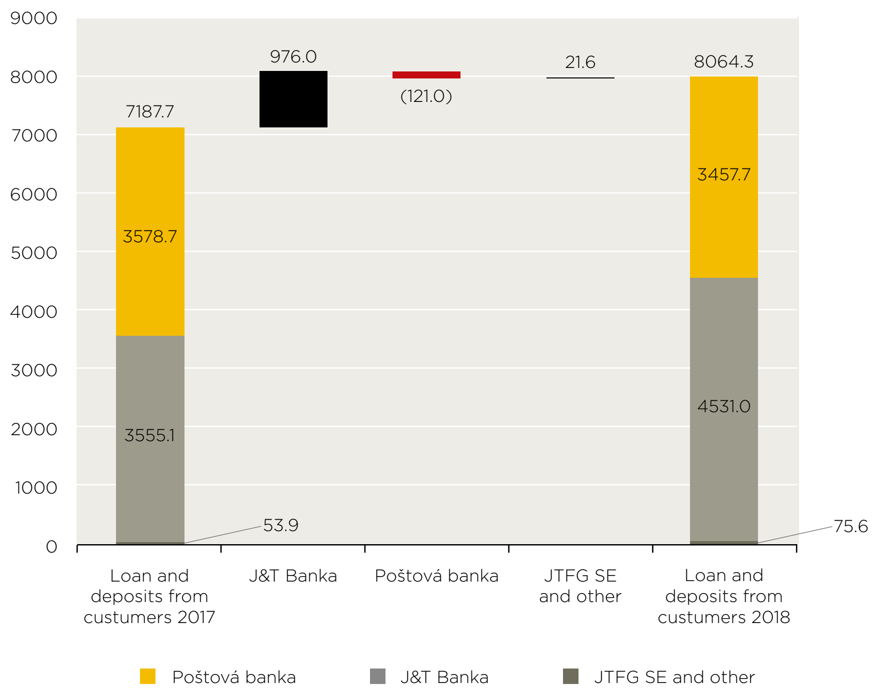
Net interest income increased by EUR 14.9 million (4.8%) to EUR 323.8 million. This result was driven by an increase in interest income by EUR 8.3 million, to the amount of EUR 413.3 million and simultaneously decrease in interest costs by EUR 6.6 million, to current EUR 89.5 million. In terms of absolute change, in spite of the rising interest costs the most significant year-on-year growth in net interest income (EUR 7 million) was recorded by J&T Banka Group.. In terms of the relative year-on-year change in net interest income, the best result was achieved by the parent company J&T FINANCE GROUP SE (primarily due to a reduction in interest costs) and its subsidiary J&T Mezzanine a.s.

The Group's net fee income amounted to EUR 106.5 million in 2018, which represents year-on-year increase of EUR 25.9 million. This improvement resulted from an increase in fee income of EUR 19.4 million and a decrease in fees and commissions costs of EUR 6.5 million. The largest contributor to this result was J&T Bank Group (EUR 18.1 million), primarily due to the record-breaking number of bond issues (24) prepared for its clients, which were introduced to the markets this year. On the contrary, the contribution of Poštová banka is primarily based on year-on-year reduction in fees and commissions.

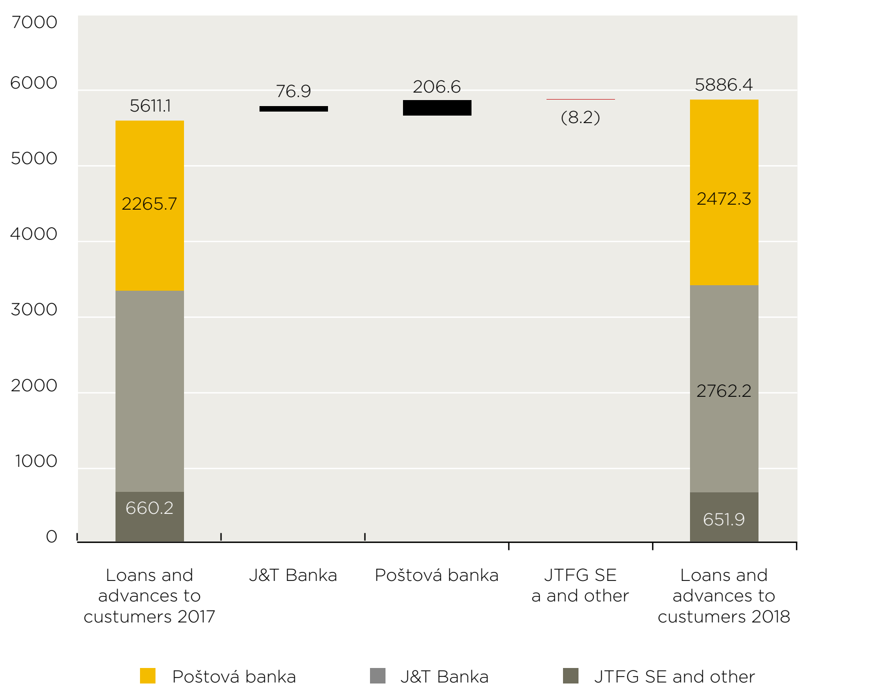
Net trading profit had a significantly lower impact on the Group's overall performance compared to 2017. While net trading income reached EUR 4.6 million in 2018, the prior year balance of EUR 78.6 million resulted primarily from exchange rate gains associated with Czech National Bank interventions against the CZK/EUR exchange rate and the subsequent appreciation of the Czech crown.

In terms of total costs excluding impairment on loans, the balance has increased to EUR 292.7 million, which represents a year-on-year change of EUR 41 million (16.5%). The biggest contribution to this increase were personal expenses, which rose by EUR 21 million (20.9%) year-on-year and were significantly affected by the fact that the number of employees in the Group increased by 16.7% compared to 2017. Creation of impairment and reserves, has improved significantly Year-on-year by EUR 19.4 million (-23%), as the Group improves the quality of its loan portfolio. The improvement was driven primarily by the Poštová banka Group.

Deposits and loans from custumers (mil. EUR)
2018 vs 2017



Loans and advances to custumers (mil. EUR)
2018 vs 2017



Balance Sheet

The Group's consolidated equity reached EUR 1,628.6 million at the end of 2018, which represents a year-on-year decrease of EUR 20.2 million. While the net profit of EUR 104.3 million recorded the greatest positive impact, the impact of implementation of IFRS 9 methodology caused the most significant negative impact on equity. Additional effects on equity were payment of interest from subordinated unsecured yield certificates, decrease of non-controlling interest and income from revaluation of assets. Total assets of the Group amounted to EUR 10.9 billion, representing the highest amount ever achieved.

Total client deposits increased by EUR 876.7 million and amounted to EUR 8,064.3 million at the end of 2018. The increase is attributable primarily to J&T Banka Group, which experienced a dynamic development of deposit base in the prior year.Total deposits and loans from banks decreased by EUR 697.8 million , which was almost entirely a decrease associated with REPO operations.

The Group continued to expand its loan portfolio. The total volume of loans and advances to customers increased to EUR 5,886.4 million in comparison with prior year's balance of EUR 5,611.1 million, which represents an year-on-year increase of 4.9%. Loans and advances to banks amounted to EUR 2,291.0 million at the end of 2018, whereas the year-on-year decrease amounted to EUR 105.9 million.

J&T Banka group's financial results[1]

On individual basis, J&T Banka managed to generate a record-high operating income and a net profit of EUR 59.8 million, showing a 2.5% year-on-year increase, while on the group level, J&T Banka group recognised a 5.5% year-on-year decrease of which resulted in a net profit of EUR 81.0 million for 2018.

J&T Banka group's total assets at year-end were EUR 5 834.9 million, representing a year-on-year increase of 4.5%. This was primarily a result of a significant 29.7% year-on-year increase in deposits from customers to EUR 4 625.8 million in 2018, attributable to a client-attractive structure of deposit products. On the asset side, additional funds acquired from client deposits were transformed into increases in loans and advances to customers of 3.5%, totalling EUR 2 780.5 million, and increases in receivables due from financial institutions of 13.3%, totalling EUR 2 103.6 million. Considering the ageing structure of receivables due from banks, we believe that the bank has sufficient liquidity potential for the planned growth of its loan portfolio in the upcoming periods.

J&T Banka group's net interest income increased year-on-year by 2.1% in 2018 to EUR 148.4 million (EUR 145.3 million for 2017), with comparable interest income and expense growth in both years.

The development of net profit from fees and commission was dynamic, showing a year-on-year increase of 39.8% to EUR 62 million, primarily as a result of an increase in the volume of fees collected by the bank from activities associated with the issues of corporate bonds and the sale of other investment products. Also worth mentioning is the fact that the total year-on-year increase in client investments reached 15.5% in 2018, and client investments amounted to EUR 5.64 billion at year-end.

J&T Banka group recognised an increase in operating expenses for 2018 of 14.9% to EUR 103.4 million, primarily as a result of an increase in personnel expenses. The cost-income ratio also deteriorated from 40.8% to 45.2%, which corresponds to the levels reported in 2015 and 2016. Net change in provisions to loans decreased by 10.8% to EUR 25.5 million, which shows that the quality of our loan portfolio has improved.

[1] J&T Banka group's balance sheet items were translated from CZK to EUR using the exchange rate announced by the Czech National Bank on 31 December 2018 of CZK 25.725/EUR; income statement items were translated using the average exchange rate for 2018 of CZK 25.643/EUR.

Total equity of J&T Banka group did not change significantly in 2018, decreasing by 1.2% compared to 2017. With respect to capital, J&T Banka group's current capital position is positive, reporting capital adequacy of 15.31% at the end of 2018 and providing the group with potential for further development in the following years.

Poštová banka group's financial results

Poštová banka group achieved a consolidated net profit of EUR 54.3 million for 2018 , showing a 13.4% increase compared with the result for 2017, primarily owing to an increase in net interest income, which increased by EUR 6 million to EUR 171.8 million as a result of a decrease in interest expenses relating to Poštová banka's deposit products. Whereas total interest income improved minimally year-on-year, we believe that crucial was the change to the structure of interest income compared with 2017: interest income from retail loan products significantly increased whereas interest income from corporate loans decreased.

Moreover, Poštová banka group improved its net income from fees and commission, increasing from EUR 33.1 million in 2017 to EUR 39.7 million in 2018, showing a year-on-year increase of 16.5%. This was primarily owing to the year-on-year increase in income from fees and commission of 8.3% to a total of EUR 61.7 million and, simultaneously, a decrease in expenses for fees and commission of 7.6% to a total of EUR 22 million.

Despite the fact that Poštová banka group reported a 13.8% increase in loans and advances to clients to EUR 2,493.3 million compared with 2017, total assets decreased year-on-year by 0.6% to EUR 4,315.4 million. The stable development of total assets primarily relates to the fact that liquid assets have been used to provide for the growth of the client loan portfolio, which resulted in an increase in return on assets from 1.1% in 2017 to 1.3% in 2018.

Poštová banka group's client loan portfolio volume increased primarily owing to mortgage loans that increased by EUR 217.8 million compared with 2017, totalling EUR 294.3 million as at 31 December 2018. Provided mortgage loans accounted for an 11.8% share in the portfolio of loans and advances provided to clients. In addition, the volume of consumer loans increased year-on-year by 7.25% to the net balance of EUR 799 million; development of this segment will also further be supported by the acquisition of Amico Finance, carried out in 2018. The overall increase in retail loans in 2018 confirms the effectiveness of Poštová banka group's repositioning, aimed to gradually increase the share of retail loans opposed to corporate loans in the bank's portfolio.

From the total amount of liabilities and equity, deposits from clients represent 80.2% , and have decreased year-on-year by 3.3% to EUR 3,460 million. Of total client deposits, 42.3% (EUR 1,462 million) represent current account balances.

Equity as at 31 December 2018 amounted to EUR 642 million, showing a slight decrease of EUR 3.4 million (0.5%) compared with 2017. Equity was positively affected by profit generated for the period and negatively by the initial application of IFRS 9 and dividends paid out to shareholders. Capital adequacy (Tier I capital adequacy ratio) decreased year-on-year from 16.99% to 16.53%, primarily as a result of growing capital requirements associated with an increase in the volume of loans provided to clients.

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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 FINANCE GROUP SE

Opinion

We have audited the accompanying consolidated financial statements of J&T FINANCE GROUP SE ("the Company") and its subsidiaries ("the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Group is set out in Note 1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the 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 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.

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 No. CZ699001996
ID data box: 8h3gtra

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 consolidated financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

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

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Consolidated Financial Statements

The statutory body is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the statutory body determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board and Audit Committee are responsible for the oversight of the Group's financial reporting process.

KPMG

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.

KPMG

Statutory Auditor Responsible for the Engagement

Jindřich Vašina is the statutory auditor responsible for the audit of the consolidated financial statements of J&T FINANCE GROUP SE as at 31 December 2018, based on which this independent auditor's report has been prepared.

Prague
22 May 2019

KPMG Česká republika Audit

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

Jindřich Vašina
Partner
Registration number 2059

104.3 million EUR

GENERATED NET PROFIT FOR 2018 IS ONE OF THE BEST IN THE GROUP'S HISTORY.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

in thousands of EUR	Note	2018	2017
Interest income calculated using effective interest rate	6	406,152	399,614
Other interest income	6	7,170	5,440
Interest expense	6	(89,500)	(96,097)
Net interest income		**323,822**	**308,957**
Fee and commission income	7	134,841	115,437
Fee and commission expense	7	(28,344)	(34,822)
Net fee and commission income		**106,497**	**80,615**
Net dealing profit	8	4,626	78,640
Total revenues		**434,945**	**468,212**
Gain on a bargain purchase	5.1	–	3,197
Other operating income	9	60,886	38,391
Total income		**495,831**	**509,800**
Personnel expenses	10	(121,547)	(100,572)
Depreciation and amortisation	27, 28	(32,229)	(28,263)
Goodwill impairment	27	–	(5)
Impairment of property, plant and equipment and intangible assets	27, 28	57	(280)
Net impairment losses on loans, loan commitments and financial guarantees	24	(65,151)	(84,563)
Other operating expenses	11	(138,975)	(122,168)
Total expenses		**(357,845)**	**(335,851)**
Profit from operations		**137,986**	**173,949**
Profit/(Loss) from equity accounted investees		1,441	(661)
Profit before tax		**139,427**	**173,288**
Income tax expense	12	(35,142)	(35,778)
Profit for the period		**104,285**	**137,510**
Attributable to:			
Equity holders of the parent		102,609	136,170
Non-controlling interests		1,676	1,340
Profit for the period		**104,285**	**137,510**

The notes presented on page 28 to page 131 form an integral part of the consolidated financial statements.

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

in thousands of EUR	2018	2017
Profit for the period	**104,285**	**137,510**
OTHER COMPREHENSIVE INCOME - ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS		
Foreign exchange translation differences	(20,157)	16,190
Net change in fair value of financial assets available for sale	–	2,513
Debt instruments measured at fair value through other comprehensive income - Net change in fair value	(1,939)	–
Debt instruments measured at fair value through other comprehensive income - Net amount transferred to profit or loss	13	–
Share of other comprehensive income of equity accounted investees	(7)	30
OTHER COMPREHENSIVE INCOME - ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS		
Equity instruments measured at fair value through other comprehensive income - Net change in fair value	946	–
Movement in liability credit reserve	–	–
Other comprehensive income for the period, net of income tax	**(21,144)**	**18,733**
Total comprehensive income for the period	**83,141**	**156,243**
Attributable to:		
Equity holders of the parent	81,938	152,501
Non-controlling interests	1,203	3,742
Total comprehensive income for the period	**83,141**	**156,243**

The notes presented on page 28 to page 131 form an integral part of the consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors on 22 May 2019.

Signed on behalf of the Board of Directors:

Dušan Palcr
Vice-chairman of the Board of Directors
J&T FINANCE GROUP SE

Gabriela Lachoutová
Member of the Board of Directors
J&T FINANCE GROUP SE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

in thousands of EUR	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash balances at central banks	13	497,168	560,766
Financial assets for trading	14.1	212,945	268,763
Hedging derivatives	15	28	317
Investment securities measured at fair value through profit or loss	16	227,608	10,877
Investment securities available for sale	17	—	1,021,178
Investment securities at fair value through other comprehensive income	17	767,095	—
Investment securities held to maturity	18	—	305,388
Investment securities at amortised cost	18	439,755	—
Disposal group held for sale	19	10,387	17,078
Loans and advances to banks	20	2,290,964	2,396,824
Loans and advances to customers	21, 22	5,886,444	5,611,146
FV changes of portfolio of hedged instruments - Loans and advances to customers		869	—
Trade receivables and other assets	23	121,288	176,282
Current tax assets		1,060	4,399
Investments in equity accounted investees	25	23,120	399
Investment property	26	144,670	149,194
Intangible assets	27	126,636	129,211
Property, plant and equipment	28	140,006	139,245
Deferred tax assets	35	21,178	9,213
Total assets		**10,911,221**	**10,800,280**
LIABILITIES			
Trading liabilities	14.2	9,248	26,878
Hedging derivatives	15	5,609	3,738
Deposits and loans from banks	29	236,755	934,519
Deposits and loans from customers	30	8,064,338	7,187,678
Debt securities issued	31	533,365	543,925
Subordinated debt	32	32,712	57,967
Other liabilities	33	351,750	357,776
Current tax liability		11,801	5,099
Provisions	34	31,812	22,812
Deferred tax liabilities	35	5,376	11,268
Total liabilities		**9,282,766**	**9,151,660**
EQUITY			
Share capital		574,138	574,138
Share premium		93,577	93,577
Retained earnings and other reserves		911,085	907,683
Equity attributable to equity holders of the parent	**36**	**1,578,800**	**1,575,398**
Non-controlling interests	37	49,655	73,222
Total equity		**1,628,455**	**1,648,620**
Total equity and liabilities		**10,911,221**	**10,800,280**

The notes presented on page 28 to page 131 form an integral part of the consolidated financial statements.

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

in thousands of EUR	Note	Share capital	Share premium
Balance at 31 December 2017		**574,138**	**93,577**
Impact of adopting IFRS 9 at 1 January 2018		–	–
Restated balance at 1 January 2018		**574,138**	**93,577**
Profit for the period			
Other comprehensive income for the period, net of tax - items that are or may be reclassified subsequently to profit or loss		–	–
Foreign exchange translation differences		–	–
Debt instruments measured at fair value through other comprehensive income - Net change in fair value		–	–
Debt instruments measured at fair value through other comprehensive income - Net amount transferred to profit or loss		–	–
Share of other comprehensive income of equity accounted investees		–	–
Other comprehensive income - items that will not be reclassified subsequently to profit or loss		–	–
Equity instruments measured at fair value through other comprehensive income - Net change in fair value		–	–
Movement in liability credit reserve		–	–
Other comprehensive income for the period, net of tax		**–**	**–**
Total comprehensive income for the period		**–**	**–**
Dividends		–	–
Change in non-controlling interests without a change in control	37	–	–
Total transaction with owners of the Company, recognised directly in equity		**–**	**–**
Effect of disposals of subsidiaries	5.2	–	–
Distributions related to other capital instruments	36	–	–
Transfer to legal reserve fund	36	–	–
Balance at 31 December 2018		**574,138**	**93,577**

Non-distributable reserves	Translation reserve	Other reserves and funds	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
28,505	**(33,257)**	**310,528**	**601,907**	**1,575,398**	**73,222**	**1,648,620**
—	—	(6,461)	(49,953)	(56,414)	(637)	(57,051)
28,505	**(33,257)**	**304,067**	**551,954**	**1,518,984**	**72,585**	**1,591,569**
			102,609	102,609	1,676	104,285
—	(19,728)	(1,887)	—	(21,615)	(475)	(22,090)
—	(19,721)	—	—	(19,721)	(436)	(20,157)
—	—	(1,900)	—	(1,900)	(39)	(1,939)
—	—	13	—	13	—	13
—	(7)	—	—	(7)	—	(7)
—	—	944	—	944	2	946
—	—	944	—	944	2	946
—	—	—	—	—	—	—
—	**(19,728)**	**(943)**	**—**	**(20,671)**	**(473)**	**(21,144)**
—	**(19,728)**	**(943)**	**102,609**	**81,938**	**1,203**	**83,141**
—	—	—	—	—	(772)	(772)
—	—	—	1,119	1,119	(23,361)	(22,242)
—	**—**	**—**	**1,119**	**1,119**	**(24,133)**	**(23,014)**
—	(140)	—	—	(140)	—	(140)
—	—	—	(23,101)	(23,101)	—	(23,101)
5,218	—	16	(5,234)	—	—	—
33,723	**(53,125)**	**303,140**	**627,347**	**1,578,800**	**49,655**	**1,628,455**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

in thousands of EUR	Note	Share capital	Share premium
Balance at 1 January 2017		**574,138**	**93,577**
Profit for the period		–	–
Other comprehensive income for the period, net of tax - items that are or may be reclassified subsequently to profit or loss		–	–
Foreign exchange translation differences		–	–
Net change in fair value of financial assets available for sale		–	–
Share of other comprehensive income of equity accounted investees		–	–
Total comprehensive income for the period		**–**	**–**
Distribution to shareholders			
Dividends		–	–
Acquisition and establishment of subsidiaries with non-controlling interests		–	–
Change in non-controlling interests without a change in control	37	–	–
Total transaction with owners of the Company, recognised directly in equity		**–**	**–**
Effect of disposals of subsidiaries	5.2	–	–
Distributions related to other capital instruments	36	–	–
Transfer to legal reserve fund	36	–	–
Balance at 31 December 2017		**574,138**	**93,577**

The notes presented on page 28 to page 131 form an integral part of the consolidated financial statements.

	Non-distributable reserves	Translation reserve	Other reserves and funds	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
	23,472	**(49,441)**	**307,961**	**495,399**	**1,445,106**	**43,129**	**1,488,235**
	—	—	—	136,170	136,170	1,340	137,510
	—	13,815	2,516	—	16,331	2,402	18,733
	—	13,785	—	—	13,785	2,405	16,190
	—	—	2,516	—	2,516	(3)	2,513
	—	30	—	—	30	—	30
	—	**13,815**	**2,516**	**136,170**	**152,501**	**3,742**	**156,243**
	—	—	—	—	—	(553)	(553)
	—	(310)	—	—	310	7,692	8,002
	(56)	975	—	621	1,540	19,224	20,764
	(56)	**1,285**	**—**	**621**	**1,850**	**26,363**	**28,213**
	—	1,084	—	—	1,084	(12)	1,072
	—	—	—	(25,143)	(25,143)	—	(25,143)
	5,089	—	51	(5,140)	—	—	—
	28,505	**(33,257)**	**310,528**	**601,907**	**1,575,398**	**73,222**	**1,648,620**

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

in thousands of EUR	Note	2018	2017
OPERATING ACTIVITIES			
Profit before tax		139,427	173,288
Adjustments for:			
Depreciation and amortisation	27, 28	32,229	28,263
Impairment losses of property, plant and equipment and intangible assets	27, 28	(57)	280
Change in fair value of investment property, net		2,797	–
(Gain) / Loss on disposal of property, plant and equipment,intangible assets and investment property		279	184
Amortisation of deferred acquisition costs for insurance and clients' contracts		11	1,797
(Profit) / loss on disposal of subsidiaries and non-controlling interests	9, 11	(51)	–
(Profit) on disposal of investment securities available for sale		–	(10,903)
(Profit) / loss on disposal of investment securities at fair value through other comprehensive income		(1,371)	–
Net interest income	6	(323,822)	(308,957)
Dividends income	8	(449)	(5,426)
Increase in allowance for impairment of loans	24	65,151	84,563
Change in impairment of trade receivables and other assets	11	7,331	14,026
(Profit) / loss from equity accounted investees		(1,441)	661
Changes in provisions	34	1,210	(228)
Receivables written-off	11	4,436	2,157
(Gain) on a bargain purchase, Goodwill impairment	5.1, 27	–	(3,192)
Unrealised foreign exchange (gains) / losses, net		(5,272)	(9,345)
Operating loss before changes in working capital		**(79,592)**	**(32,832)**
(Increase) / decrease in operating assets			
Change in financial assets for trading		(43,045)	(79,454)
Change in hedging derivative assets		288	(308)
Change in investment securities at fair value through profit or loss		14,302	(6,771)
Change in loans and advances to customers and banks		(500,805)	16,291
Change in trade receivables and other assets		29,497	10,286
Increase / (decrease) in operating liabilities			
Change in trading liabilities		(17,541)	16,038
Change in hedging derivative liabilities		1,871	(1,677)
Change in deposits and loans from banks and customers		181,513	444,788
Change in other liabilities		(10,714)	55,131
Cash generated from (used in) operations		**(424,226)**	**421,492**
Interest received		420,836	386,606
Interest paid		(83,905)	(99,488)
Income taxes paid		(34,886)	(36,569)
Cash flows generated from (used in) operating activities		**(122,181)**	**672,041**

in thousands of EUR	Note	2018	2017
INVESTING ACTIVITIES			
Purchase of financial instruments in available for sale portfolio		–	(285,095)
Proceeds from sale of financial instruments in available for sale portfolio		–	349,026
Purchase of financial instruments at fair value through other comprehensive income		(285,703)	–
Proceeds from sale of financial instruments at fair value through other comprehensive income		400,446	–
Purchase of financial instruments in held to maturity portfolio		–	(5,916)
Proceeds from financial instruments in held to maturity portfolio		–	100,316
Purchase of financial instruments at amortised cost		(58,203)	–
Proceeds from financial instruments at amortised cost		27,481	–
Acquisition of property, plant and equipment, investment property and intangible assets		(27,169)	(26,392)
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		4,647	2,360
Acquisition of subsidiaries, net of cash acquired	5.1	(6,990)	(689)
Acquisition of equity accounted investees		(21,284)	–
Proceeds from assets held for sale		4,345	–
Net cash (outflow) inflow from disposal of subsidiaries	5.2	(1)	(123)
Dividends received		–	2,643
Cash flows generated from investing activities		**37,569**	**136,130**
FINANCING ACTIVITIES			
Proceeds from issued debt securities	31	169,192	161,241
Payments for buy-back of issued debt securities	31	(178,685)	(229,459)
Acquisition of non-controlling interests	37	–	22,000
Disposal of non-controlling interests		(22,242)	(1,236)
Subordinated debt issued	32	–	3
Subordinated debt paid	32	(24,970)	(76)
Payment for finance lease		(29)	(27)
Bonus payments from other capital instruments		(23,101)	(25,143)
Dividends paid		(766)	(553)
Cash flows generated from / (used in) financing activities		**(80,601)**	**(73,250)**
Net decrease/increase in cash and cash equivalents		**(165,213)**	**734,921**
Cash and cash equivalents at beginning of the year	**13**	**2,955,185**	**2,133,003**
Effect of exchange rate fluctuations on cash held		(4,999)	87,261
Cash and cash equivalents at end of the year	**13**	**2,784,973**	**2,955,185**

The notes presented on page 28 to page 131 form an integral part of the consolidated financial statements.

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

1. GENERAL INFORMATION

J&T FINANCE GROUP SE (the “Parent Company” or “the Company”) is a European joint-stock company (Societas Europaea) having its legal seat and domicile at Pobřežní 297/14, 186 00 Praha 8.

The consolidated financial statements of the Company for the year ended 31 December 2018 comprise the Parent Company, its subsidiaries and interests in associates and joint ventures (together referred to as “the Group”). A list of the Group entities is provided in Note 46. Group entities.

The shareholders of the Company as at 31 December 2018 were as follows:

	Interest in share capital in thousands of EUR	Interest in share capital %	Voting rights (registered) mil. CZK	Voting rights (registered) %
Ing. Jozef Tkáč	258,649	45.05	7,109	45.05
Ing. Ivan Jakabovič	258,649	45.05	7,109	45.05
Rainbow Wisdom Investment Limited	56,840	9.90	1,563	9.90
Total	**574,138**	**100.00**	**15,780**	**100.00**

The shareholders of the Company as at 31 December 2017 were as follows:

	Interest in share capital in thousands of EUR	Interest in share capital %	Voting rights (registered) mil. CZK	Voting rights (registered) %
Ing. Jozef Tkáč	258,649	45.05	7,109	45.05
Ing. Ivan Jakabovič	258,649	45.05	7,109	45.05
CEFC Shanghai International Group Limited	31,004	5.40	852	5.40
CEFC Hainan International Holdings CO., Ltd	25,836	4.50	711	4.50
Total	**574,138**	**100.00**	**15,780**	**100.00**

In March 2016 the shareholders of the Group entered into several agreements with CEFC Shanghai International Group Limited and CEFC Hainan International Holdings CO., Ltd (further referred to as “CEFC”), with the original aim of CEFC to acquire a 50% share in the Group. The transaction was subject to regulatory approval both in China and countries where the Group operates. In March 2018, the application for regulatory approval was withdrawn by CEFC and the purchase of an additional share in the Group was abandoned. In May 2018 Rainbow Wisdom Investment Limited, a member of the CITIC Group, took over the shareholding of CEFC in the Company.

The Group, as a financial investor, actively takes positions in a diversified range of investment opportunities including investments in banks, investments in securities and structured investments, such as special project financing, acquisitions financing, restructuring and private equity funds. The Group also provides a comprehensive range of services to private individuals, financial institutions, privately-held and state companies, such as retail banking, credit cards, wholesale banking, investment banking, wealth management and investment management services. Investment banking services are represented by the areas of research, sales and trading, equity capital markets and debt capital markets. Asset management primarily consists of asset management in own funds, discretionary portfolio management services, as well as administration and custody. In the area of collective investment, client resources are managed through various types of investment funds representing a variety of investment approaches and strategies.

The members of the Board of Directors were as at 31 December 2018 and 31 December 2017 as follows:
Ing. Jozef Tkáč – chairman
Ing. Ivan Jakabovič – vice chairman
Ing. Patrik Tkáč – vice chairman

Ing. Dušan Palcr – vice chairman
Ing. Gabriela Lachoutová – member

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), as adopted by the European Union ("EU").

The consolidated financial statements were approved by the Board of Directors on 22 May 2019.

(b) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for investment property, derivative financial instruments, financial assets and liabilities at fair value through profit or loss and investment securities at fair value through other comprehensive income (under IAS 39 available for sale), which are at fair value.

The consolidated financial statements are presented in Euro, rounded to the nearest thousand. The accounting policies have been consistently applied by the Group enterprises and are consistent with those used in the previous year taking into account newly adopted IFRS (see below).

Financial statements prepared in compliance with International Financial Reporting Standards require various judgements, assumptions, and estimates to be exercised that affect the reported amounts of assets, liabilities, income and expenses. Actual results will likely differ from these estimates. Critical accounting estimates and judgements made by management with a significant risk of material adjustment in the next year are discussed in Note 4. Critical accounting estimates and assumptions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods, if the revision affects both current and future periods.

The following standards, amendments to standards and interpretations are effective for the first time for the year ended 31 December 2018, and have been applied in preparing the Group's consolidated financial statements.

— IFRS 9: Financial Instruments originally issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes new requirements for the classification and measurement of financial liabilities and for derecognition and amendments from November 2013 include a new hedge accounting model. The final version of the standard was issued in July 2014.

  IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard replaces the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Classification of financial liabilities remains unchanged.

  IFRS 9 replaces the incurred loss model in IAS 39 with a forward looking expected credit loss (ECL) model.

  The impact of adopting IFRS 9 is described in detail in Note 3. Significant accounting policies.

— IFRS 15 Revenue from contracts with customers and Clarifications to IFRS 15: Revenue from Contract with Customers The new standard substitutes all revenue standards including IAS 18 Revenue and IAS 11 Construction Contracts. The objective of the revenue standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an entity applies to determine the measurement of revenue and the timing of recognition. The underlying principle is that an entity recognizes revenue to depict the transfer of goods or services to customer at an amount that the entity expects to be entitled to in exchange for those goods and services.

  The entity follows a five-step approach to apply the standard:
  — identify the contract(s) with the customer;
  — identify the separate performance obligations in the contract;
  — determine the transaction price;
  — allocate the transaction price to separate performance obligations;
  — recognize revenue when (or as) each performance obligation is satisfied.

  Revenue from a transaction or event that does not arise from a contract with a customer is not within the scope of the revenue standard and should continue to be accounted for in accordance with other standards.

  The standard does not have any material impact on the Group.

— Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts provide two options for entities that issue insurance contracts within the scope of IFRS 4:
  — an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income and expenses arising from designated financial assets (so-called overlay approach);
  — an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (so-called deferral approach).

  The application of both approaches is optional and an entity is permited to stop applying them before the new insurance contracts standard is applied.

— IFRIC 22: Foreign Currency Transactions and Advance Consideration addresses foreign currency transactions or parts of transactions where:
  — there is consideration that is denominated or priced in a foreign currency;
  — the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
  — the prepayment asset or deferred income liability is non-monetary.

— Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

— Amendments to IAS 40: Transfers to Investment Property introduce minor amendments to the standard.

— Annual Improvements to IFRSs 2014-2016 introduce clarifications or minor amendments to IFRS 1 First-time Adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures.

These amendments, effective for the first time for the year ended 31 December 2018, did not have any material impact on the Group's consolidated financial statements unless stated otherwise above.

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 (effective for annual periods beginning on or after 1 January 2019). This standard specifies how an IFRS reporter will recognise, measure and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less containing no purchase option or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS´s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements. No significant impact is expected for leases in which the Group is a lessor. In terms of leases in which the Group is a lessee, the Group will recognise new assets and liabilities for its operating leases mainly of buildings, cars and office equipment that are not of low value. For these assets (right-of-use) the Group will recognise a depreciation charge and interest expense on lease liabilities since 1 January 2019. Previously, the Group recognised operating lease expenses on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. The right-of-use will be recognized at an amount equal to the lease liabilitity, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

— Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019) clarify how IFRS 9 classifies and measures particular financial assets that include contractural prepayment option and the accounting for financial liabilities following a modification.

— IFRS 17: Insurance contracts (effective for annual periods beginning on or after 1 January 2022, with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied; not yet endorsed in the EU) requires insurance liabilities to be measured at a current fulfillment value instead of historical costs and provides a more uniform measurement and presentation approach for all insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts as of 1 January 2022.

— IFRIC 23: Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019) addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

— Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019; not yet endorsed in the EU) clarify the accounting for financial instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

— Annual Improvements to IFRS Standards 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019; not yet endorsed in the EU) containing the amendments to the following IFRSs: IFRS 3: Business Combinations (clarification of remeasurement of previously held intrests in a joint operation upon obtaining control of it) and IFRS 11: Joint Arrangements (clarification of no remeasurement of previously held interests in a joint operation upon obtaining joint control of it), IAS 12: Income Taxes (clarification that all income tax consequences of dividends should be recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity), and IAS 23: Borrowing Costs (clarification that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings).

— Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019; not yet endorsed in the EU) are:
  — If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
  — In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

— Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020; not yet endorsed in the EU) contain amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

— Amendments to IAS 1 and IAS 8: Definition of Material (effective for annual periods beginning on or after 1 January 2020; not yet endorsed in the EU) clarify the definition of "material" and align the definition used in the Conceptual Framework and the standards.

— Amendments to IFRS 3: Definition of a Business (effective for annual periods beginning on or after 1 January 2020; not yet endorsed in the EU) change Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. In particular, they:
  — clarify an acquired set of activities and assets to be considered business;
  — narrow the definitions of a business and of outputs;
  — add guidance and illustrative examples regarding acquisition of substantive process;
  — remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
  — add an optional concentration test.

  The Group expects that these new standards amendments and interpretations, issued but not yet effective, will not have a material impact on the Group's consolidated financial statements unless stated otherwise above.

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. Management of the Group does not expect that these other new standards will have a significant effect on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(ii) Associates

Associates are those enterprises 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 respect of the associate.

(iii) Joint ventures

Joint ventures are arrangements in which the Group has joint control, established by contractual agreement, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. 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) Consolidation scope

There are 62 companies included in the consolidation as at 31 December 2018 (2017: 61). All fully consolidated companies prepared their annual financial statements at 31 December 2018. The companies are listed in Note 46. Group entities and this list is based on the ownership hierarchy.

(v) 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. Unrealised gains arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent of the recoverable amount.

(vi) Acquisition method of accounting

Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the recognition criteria under IFRS 3 are recognised at their fair value at the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Any non-controlling interest in an acquiree is measured as the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Goodwill arising in a business combination is recognised as an asset and is not amortised but is reviewed for impairment at least annually.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

(vii) Loss of control

Upon a 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, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as a fair value through other comprehensive income (FVOCI) asset (under IAS 39 available for sale) depending on the level of influence retained.

(viii) Tax effect of inclusion of the consolidated subsidiaries' reserves

The consolidated financial statements do not include the tax effects that might arise from transferring the consolidated subsidiaries' reserves to the accounts of the Parent Company, since no distribution of profits, not taxed at the source, is expected in the foreseeable future, and the Group considers that these reserves will be used as self-financing resources at each consolidated subsidiary.

(ix) 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) Foreign currency

(i) Foreign currency transactions

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the Group is EUR.

Transactions in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate valid as at the statement of financial position date.

Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into the functional currency using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at the foreign exchange rates ruling at the dates the fair values are determined.

(ii) Financial statements of foreign operations

The consolidated financial statements are presented in Euro, which is the Group's presentation currency.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into Euro at foreign exchange rates ruling at the statement of financial position date. The revenues and expenses of foreign operations are translated into Euro at the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in other comprehensive income.

(c) Financial instruments

The Group adopted IFRS 9 on 1 January 2018. The relevant policies applicable to financial instruments before and after this date are described below.

(i) Classification

I. Policy applicable from 1 January 2018

Financial assets

On initial recognition a financial asset is classified as measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is based on the business model in which the financial asset is managed and the contractual cash flow characteristics of the instrument.

Classification of debt instruments is determined based on:
a) The business model under which the asset is held, and
b) The contractual cash flow characteristics of the instrument.

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The Group considers information such as the stated policies and objectives for the portfolio and the operation of those policies, the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed, how managers of the business are compensated, or the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The assessment of the contractual cash flow characteristics means whether the financial instruments' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a lending arrangement, the SPPI test is not passed. When performing the SPPI test, the Group takes into consideration the following factors: 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.

The Group has more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. 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 as follows:
— "Hold and collect"
— "Hold, collect and sell"
— "Mandatorily at fair value"
— "Trading"
— "Fair value option"

The strategy "Hold and collect" has as an objective to hold financial assets in order to collect contractual cash flows of both principal and interest payments.

The strategy "Hold, collect and sell" has as an objective to both collect contractual cash flows and sell financial assets.

The 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 that have not passed the SPPI test and cannot be measured at AC or FVOCI.

The strategy "Trading" has active trading as its objective. Assets for which this strategy is used are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

The 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.

The assessment above being made, the financial assets are classified into one of the following measurement categories:

a) Financial assets at amortised cost

The relevant business model is to hold assets to collect contractual cash flows and the SPPI test is passed. Examples of such financial assets are loans, investment securities previously held to maturity or trade receivables. Expected credit losses ("ECL"; see below) are calculated and recognized in profit or loss for this category of financial assets. Foreign exchange ("FX") differences as well as interest revenues accrued using the effective interest rate ("EIR") method are also recognized in profit or loss.

b) Financial assets at fair value through other comprehensive income (FVOCI)

In order to be classified as FVOCI, the asset either i) meets the SPPI test and is held within the business model "Hold, collect and sell", which has the objective of both collecting contractual cash flows and selling the financial asset or ii) the asset is an equity instrument that does not meet the SPPI test but is not held for trading and the Group elected to measure such instrument at fair value through other comprehensive income.

Thus, there are two types of instruments that can be classified as FVOCI and the accounting treatment for these financial assets is different:

i) Debt instruments meeting the SPPI test within the business model "Hold, collect and sell"
   Under this accounting treatment ECL are recognized in profit or loss and the changes in the fair value of the instrument are recognized in OCI. FX differences in relation to the amortised cost, including impairment, are recognized in profit or loss. Interest revenues calculated using EIR are recognized in profit or loss.
   When the financial asset is derecognized, a gain or loss is recognized in profit loss as a result of reclassification of the gain or loss from OCI to profit or loss.
ii) Equity instruments not held for trading where the FVOCI option was elected
   Under this treatment ECL are not calculated, as these assets are already measured at fair value and changes in fair value are recognized in other comprehensive income (OCI) and will not be reclassified to profit or loss upon disposal.
   FX differences are recognized in OCI as part of the revaluation reserve.
   When the equity instrument is sold, the corresponding gain or loss remains in OCI.
   Dividends from these financial assets are recognized in profit or loss.

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

Financial assets that do not meet the conditions for being classified and measured under one of the two previous categories are classified and measured at fair value through profit or loss.

Financial assets that are acquired to be actively traded (trading business model) are also classified and measured at FVTPL.

Furthermore, an entity may at initial recognition irrevocably designate a financial asset to be measured at FVTPL in order to eliminate or significantly reduce a measurement or recognition inconsistency (also referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing gains and losses using different bases.

For this category of assets ECL are not calculated and recognized. Changes is fair value are recognized in profit or loss. FX differences are recognized in profit or loss as well.

Financial liabilities
The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

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 – designated at FVTPL.

In case of liabilities at FVTPL, the change in fair value resulting from a change in the Group's own credit risk is presented in OCI, while the remaining change in fair value is presented in profit or loss.

The following table provides a reconciliation between the line items in the statement of financial position and categories of financial instruments.

31 December 2018

in thousands of EUR	Ref. to Note	Mandatorily at FVTPL	Designated as at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
Cash and cash balances at central banks	13	—	—	—	—	497,168	497,168
Financial assets for trading	14.1	212,945	—	—	—	—	212,945
Investment securities measured at fair value through profit or loss	16	225,592	2,016	—	—	—	227,608
Investment securities measured at fair value through other comprehensive income	17	—	—	741,035	26,060	—	767,095
Investment securities at amortised cost	18	—	—	—	—	439,755	439,755
Loans and advances to banks	20	—	—	—	—	2,290,964	2,290,964
Loans and advances to customers	21	2,485	—	—	—	5,883,959	5,886,444
Trade receivables and other financial assets under risk management	23	—	—	—	—	77,069	77,069
Total financial assets		**441,022**	**2,016**	**741,035**	**26,060**	**9,188 915**	**10,399,048**
Trading liabilities	14.2	9,248	—	—	—	—	9,248
Deposits and loans from banks	29	—	—	—	—	236,755	236,755
Deposits and loans from customers	30	—	—	—	—	8,064,338	8,064,338
Debt securities issued	31	—	1,926	—	—	531,439	533,365
Subordinated debt	32	—	—	—	—	32,712	32,712
Other financial liabilities under risk management	33	—	—	—	—	347,543	347,543
Total financial liabilities		**9,248**	**1 ,926**	**—**	**—**	**9,212,787**	**9,223,961**

31 December 2017

in thousands of EUR	Ref. to Note	Mandatorily at FVTPL	Designated as at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount	Účetní hodnota celkem
Cash and cash balances at central banks	13	—	—	—	—	560,766	—	560,766
Financial assets for trading	14.1	268,763	—	—	—	—	—	268,763
Investment securities measured at fair value through profit or loss	16	—	10,877	—	—	—	—	10,877
Investment securities available for sale	17	—	—	1,021,178	—	—	—	1,021,178
Investment securities held to maturity	18	—	—	—	305,388	—	—	305,388
Loans and advances to banks	20	—	—	—	—	2,396,824	—	2,396,824
Loans and advances to customers	21	—	—	—	—	5,611,146	—	5,611,146
Trade receivables and other financial assets under risk management	23	—	—	—	—	140,054	—	140,054
Total financial assets		**268,763**	**10,877**	**1,021,178**	**305,388**	**8,708,790**	**—**	**10,314,996**
Trading liabilities	14.2	26,878	—	—	—	—	—	26,878
Deposits and loans from banks	29	—	—	—	—	—	934,519	934,519
Deposits and loans from customers	30	—	—	—	—	—	7,187,678	7,187,678
Debt securities issued	31	—	—	—	—	—	543,925	543,925
Subordinated debt	32	—	—	—	—	—	57,967	57,967
Other financial liabilities under risk management	33	—	—	—	—	—	350,438	350,438
Total financial liabilities		**26,878**	**—**	**—**	**—**	**—**	**9,074,527**	**9,101,405**

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018. The table also reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 at initial application of the standard on 1 January 2018. For impact on deferred tax balances refer to Note 12 (iii).

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

in thousands of EUR	Original classification under IAS 39	Original carrying amount under IAS 39	Reclassifica-tion	Remeasure-ment	New carrying amount under IFRS 9	New classification under IFRS 9
Cash and cash balances at central banks	Loans and receivables	560,766	—	(242)	560,524	Amortised cost
Financial assets for trading	FVTPL	268,763	(98,884)	—	169,879	FVTPL mandatorily
Financial assets for trading/ Investment securities at fair value[1]	FVTPL	—	98,884	—	98,884	FVOCI - debt instruments
Investment securities at fair value through profit or loss	FVTPL	10,877	—	—	10,877	FVTPL mandatorily
Investment securities at fair value	Available for sale	—	225,960	—	225,960	FVTPL mandatorily
Investment securities available for sale/ at FVOCI - debt	Available for sale	772,347	—	—	772,347	FVOCI - debt instruments
Investment securities available for sale/ at FVOCI - equity	Available for sale	248,831	(225 960)	—	22,871	FVOCI - equity instruments
Investment securities held to maturity/ at amortised cost	Held to maturity	305,388	109,536[2]	(1,333)	413,591	Amortised cost
Loans and advances to banks	Loans and receivables	2,396,824	—	(122)	2,396,702	Amortised cost
Loans and advances to customers	Loans and receivables	5,611,146	(117,578)	(54,631)	5,438,937	Amortised cost
Loans and advances to customers	Loans and receivables	—	8,042	—	8,042	FVTPL mandatorily
Trade receivables and other financial assets under risk management	Loans and receivables	140,054	—	(54)	140,000	Amortised cost
Total financial assets		**10,314,996**	**—**	**(56,382)**	**10,258,614**	
Trading liabilities	FVTPL	26,878	—	—	26,878	FVTPL mandatorily
Deposits and loans from banks	Amortised cost	934,519	—	—	934,519	Amortised cost
Deposits and loans from customers	Amortised cost	7,187,678	—	—	7,187,678	Amortised cost
Debt securities issued	Amortised cost	543,925	—	—	543,925	Amortised cost
Subordinated debt	Amortised cost	57,967	—	—	57,967	Amortised cost
Other liabilities	Amortised cost	350,438	—	—	350,438	Amortised cost
Total financial liabilities		**9,101,405**	**—**	**—**	**9,101,405**	

The vast majority of the loan portfolio meets the conditions of the SPPI test and is thus classified at amortized costs, 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 under the “Trading” business model and measured at FVTPL.

Financial assets available for sale under IAS 39 were analysed in detail and debt instruments that did pass the SPPI test together with the equity instruments from this category were classified as FVOCI under IFRS 9. Mostly allotment certificates were reclassified to the FVTPL mandatorily according to IFRS 9 as they do not meet the relevant criteria for classification as FVOCI.

[1] These are debt investment securities originally (under IAS 39) classified as held for trading; under IFRS 9 classified as at FVOCI.
[2] These are debt investment securities originally (under IAS 39) classified under Loans and receivables portfolio; under IFRS 9 classified Investment securities at amortised cost.

II. Policy applicable before 1 January 2018

Financial instruments for trading are those that the Group holds for trading that is, with the purpose of short-term profit taking. These include investments, derivative contracts and liabilities from short sales of financial instruments.

Hedging derivatives are derivative assets or liabilities that meet the criteria for hedge accounting as defined in IAS 39. Investment securities measured at fair value through profit and loss are instruments designed at FVTPL or to eliminate economic mismatch.

Loans and advances to banks and customers are non-derivative financial assets with fixed and determinable payments, not quoted in an active market, which are not classified as Investment securities available for sale or Investment securities held to maturity, Financial assets for trading or Investment securities measured at fair value through profit or loss.

Investment securities held to maturity 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.

Investment securities available for sale are those non-derivative financial assets that are not designated as fair value through profit or loss, loans and advances to banks and customers or as held to maturity.

(ii) Recognition
Financial instruments for trading, investment securities measured at fair value through profit and loss and investment securities measured at fair value through other comprehensive income (under IAS 39 available for sale) are recognised on the date the Group commits to purchase the assets. Regular way purchases and sales of other financial assets including investment securities at amortised cost (under IAS 39 held to maturity assets) are accounted for on the settlement date.

Loans and advances to banks and customers are recognised on the day they are provided by the Group.

(iii) Measurement
Financial instruments are measured upon initial recognition at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of the financial instrument.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Subsequent to initial recognition, financial assets are measured at their fair value, except for loans and advances to customers and investment securities at amortised cost (under IAS 39 held to maturity). After initial recognition, financial liabilities are measured at amortised cost, except for financial liabilities at fair value through profit or loss. In measuring amortised cost, any difference between cost and redemption value is recognised in the income statement over the period of the asset or liability on an effective interest rate basis.

(iv) Fair value measurement principles
The fair value of financial instruments 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 instrument is estimated by management 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.

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in Note 38. Fair value information.

Loans and advances: Fair value is calculated based on discounted expected future principal and interest cash flows using the appropriate yield curve and risk spread. Expected future cash flows are estimated considering credit risk and any indication of impairment. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

Deposit and loans from banks and customers: For demand deposits and deposits with no defined maturities, 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.

Trade receivables and other assets/ liabilities: For receivables/ payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. Other receivables/ payables are discounted to determine the fair value.

Investment securities at amortised cost (under IAS 39 held to maturity): Fair value is based on quoted market prices traded in active markets at the statement of financial position date. If not available, the fair value is calculated based on discounted expected future principal and interest cash flows using the appropriate yield curve and risk spread. Expected future cash flows are estimated considering credit risk and any indication of impairment. The estimated fair values of financial assets at amortised cost (under IAS 39 held to maturity) reflect changes in credit status since they were acquired and changes in interest rates in the case of fixed rate instruments.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in fair value are recognised in the income statement for instruments held for trading or measured at fair value through profit or loss and directly in other comprehensive income, apart from impairment gains and losses and foreign exchange gains and losses in case debt financial assets, as a revaluation difference for investment securities at fair value through other comprehensive income (under IAS 39 available for sale). The cumulative gain or loss of (under IAS 39 available for sale) debt financial assets at fair value through other comprehensive income previously recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment when the (under IAS 39 available for sale) asset at fair value through other comprehensive income is derecognised. In case of equity instruments the cumulative gain or loss from investment securities at fair value through other comprehensive income remains in the revaluation reserve under IFRS 9 and is not reclassified to to profit or loss anymore (under IAS 39 such gains/losses were reclassified to profit or loss upon derecognition of the asset). Interest income and expense from debt financial assets at fair value through other comprehensive income (under IAS 39 available for sale) are recorded in the income statement by applying the effective interest rate method. Dividends from equity instruments at fair value through other comprehensive income are recognized in profit or loss. Refer to accounting policy (c) vii for accounting for gains and losses on subsequent measurement of hedges.

(vi) 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 the Group's obligations specified in the contract expire or are discharged or cancelled.

Investment securities at fair value through other comprehensive income (under IAS 39 available for sale), financial assets for trading and investment securities measured at fair value through profit or loss that are sold are derecognised and the corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets.

Investment securities at amortised cost (under IAS 39 held to maturity) and loans and advances to banks and customers are derecognised on the day they are disposed of by the Group. If loans and advances do not meet the policy to be held up to maturity any more and the control is passed to third parties, the carrying amount of disposed receivable is first adjusted through creation or reversal of impairment in the income statement to the lower of selling price and gross value. Therefore, a gain from derecognition of a receivable could be displayed if and only if the selling price is higher than gross value of the related receivable. This statement does not apply to securities.

(vii) Hedge accounting

Upon initial application of IFRS 9 the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

Hedging instruments that consist of derivatives associated with a currency risk are classified either as cash-flow hedges or fair value hedges.

From the inception of the hedge, the Group maintains a formal documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. The Group also periodically assesses the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.The Group considers hedging as highly effective, if the changes in fair value relating to the hedged risk during the period covered, compensate changes in the fair value of the hedging instrument in the range of 80% to 125%.

In case of a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

In case of a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value is recognised in profit or loss together with the changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line as the hedged item).

The Group uses fair value hedge to cover the foreign currency exposure to changes in the fair value of investment securities available for sale and investment in equity accounted investees over the hedging period. The Group uses currency forwards as hedging instruments.

Furthermore, the Group uses hedging derivatives to hedge the fair value of recognized assets (bonds with fixed income denominated in Euros). The Group entered into interest rate swaps to hedge the changes in fair value caused by changes in interest rates. The Group hedges the interest rate risk faced by a portfolio of fixed rate loans by the use of interest rate swaps.

(viii) Embedded derivatives

Hybrid financial instruments are a combination of non-derivative host contracts and derivative financial instruments (embedded derivatives). Subject to certain conditions, IAS 39 Financial Instruments: Recognition and Measurement requires that embedded derivative components be separated from the host contracts and separately carried at fair value with changes recorded in the income statement. Under IFRS 9 such separation applies only to liabilities.

(d) Cash and cash balances at central banks and cash equivalents

Cash and cash balances at central banks comprise cash balances on hand and and cash deposited with central banks. This item also includes obligatory minimum reserves. The Group can freely transact with the amount of these reserves under the assumption that average obligatory minimum reserves are maintained within the given maintenance period established by the relevant central banks.

For the purposes of preparing the Consolidated statement of cash flows, the Group includes into Cash and cash equivalents also other short term highly liquid investments with original maturities of three months or less, such as Loans from reverse repurchase agreements with maturities of less than three months, Current account with banks and Loans and advances with original maturities of three months or less (all presented in caption Loans and advances to banks in the Consolidated statement of financial position).

(e) Loans and advances to banks and customers
Loans and advances originated by the Group are classified and measured according to the criteria described in section (c). Loans and advances are reported net of impairment allowance (refer to accounting policy (h)).

The Group classifies all its receivables from clients into categories performing or non-performing laid down by Regulation (EU) No 575/2013 of the European Parliament and Council Regulation (CRR) of 26 June 2013 and complementary legislation in the respective countries: exposures which are more than 90 days past due; exposures where the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of days past due or exposures that have been found credit-impaired (Stage 3), including purchased or originated credit-impaired assets as non-performing. Exposures are classified as performing when they are not classified as non-performing.

Forbearance
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 financial institutions prepared in accordance with IFRS.

Forbearance is an exposure where the Group decides, due to the debtor's financial problems, to grant a concession which in other circumstances would not be granted. The concession may consist in the modification of the terms and conditions of the contract or in debt refinancing. The modification of the 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 a result of the debtor's financial problems cannot be interpreted as forbearance. Concessions may result in better interest risk management and mitigation of potential future loan losses.

Modifications of the contractual terms may result in derecognition of the original asset when the changes to the terms of the loans are considered substantial. In such case, the original financial asset is derecognized and new financial asset is recognized at its fair value. The difference between the carrying amount of the derecognized asset and the fair value of the new asset is recognized in the consolidated income statement.

For all loans, where the modification of terms did not result in the derecognition of the loan, the gross carrying amount of the modified loan is recalculated based on the present value of the modified cash flows discounted at the original effective interest rate and any gain or loss from the modification is recorded in Net impairment losses on loans in the consolidated income statement.

Details regarding the structure and quality of the credit portfolio are given in Note 41. Risk management policies and disclosures.

I. Policy applicable after 1 January 2018

Individually assessed allowances
Based on regular reviews of the outstanding balances, specific allowances for loan expected credit losses are made for the carrying amount of loans and advances that are identified as individually significant.

The Group mainly uses the financial statements of the client and the Group's own analysis as the basis for assessment of the loan's collectibility.

Collectively assessed allowances
Allowances are assessed collectively for expected credit losses on loans that are not individually significant.

II. Policy applicable before 1 January 2018

Individually assessed allowances
Based on regular reviews of the outstanding balances, specific allowances for loan losses are made for the carrying amount of loans and advances that are identified as being impaired to reduce these loans and advances to the amounts recoverable.

The Group mainly uses the financial statements of the client and the Group's own analysis as the basis for assessment of the loan's collectibility.

Allowances made, less amounts released during the reporting period, are charged to the statement of comprehensive income. Outstanding loan exposures are written off only when there is no realistic prospect of recovery. If in a subsequent period the amount of an allowance for loan losses decreases and the decrease can be linked objectively to an event occurring after the allowance was booked, the allowance is reversed through the statement of comprehensive income.

Collectively assessed allowances
Allowances are assessed collectively for losses on loans that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired.

Allowances are evaluated separately on a regularly basis within each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loan assessments.

In estimating the amount of allowances necessary, management evaluates the likelihood of repayment of individual loans and takes into account the value of collateral and the ability of the Group to realize the collateral.

(f) Sale and repurchase agreements
Where securities are sold under a commitment to repurchase at a predetermined price (repos), 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 repos) 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 the purchase 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.

(g) 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 set off the recognised amounts and the transactions are intended to be settled on a net basis or to realise the asset and settle the liability simultaneously.

(h) Impairment

The carrying amounts of the Group's assets, other than deferred tax assets (refer to accounting policy (v)) are reviewed at each statement of financial position date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation, but are tested annually for impairment as part of the cash generating unit to which they belong.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss no longer exists and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

I. Policy applicable from 1 January 2018

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. It also applies to loan commitments measured at amortised cost and financial guarantees measured at amortised cost (refer to accounting policy (p)). Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For the purposes of ECL calculation, financial assets are categorized into three stages (Stage 1, 2 ,3). Financial assets that are impaired at the date of the initial recognition represent a separate category - 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 occurance of a significant increase in credit risk (Stage 2) or impairment (default) of the asset (Stage 3).

Stage 1 (12-month ECL)

Financial assets for which there has not been a significant increase in credit risk (SICR) since initial recognition remain classified in Stage 1. For financial assets in Stage 1 12-months expected credit losses are recognized. The expected 12-month credit losses result from the default events that are possible within 12 months after the reporting date. Interest revenue from these assets is calculated from the gross carrying amounts ("GCA"). An entity may determine that a financial asset's credit risk has not increased significantly if the asset has a low credit risk at the reporting date (further described in section below).

Stage 2 (lifetime ECL not credit-impaired)

This stage is applicable when the credit risk has increased significantly since initial recognition of the financial asset, but the asset is not credit-impaired. Lifetime ECLs are calculated for this stage, i.e. ECLs that result from all possible default events over the expected life of a financial instrument. Interest revenue from these assets is calculated from the GCA.

Stage 3 (lifetime ECL credit-impaired)
In Stage 3, the credit quality of a financial asset has significantly deteriorated (financial instruments that are considered to be in default). Lifetime expected credit losses are recorded for Stage 3, however, the interest revenue is calculated from the net amortised cost. Impairment for Stage 3 is calculated in a similar way as previsouly under IAS 39.

For trade receivables and contract assets without a significant financing component lifetime ECL measurement is used instead of the approach described above.

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 the reporting period. As of that date, 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 of the instrument.

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.

Determining a significant increase in credit risk (SICR) from initial recognition
At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group considers the change in the risk of default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information (available without undue cost or effort) that is indicative of significant increases in credit risk since initial recognition.

If there has been a significant increase in credit risk since initial recognition, the exposure is included in Stage 2 and the lifetime ECL is estimated. If there has been no significant increase in credit risk since initial recognition, the exposure remains in Stage 1 (12-months ECL). If the exposure is in default, it is classified to Stage 3.

The assessment of significant increase in credit risk is based on an analysis of qualitative and quantitative factors (see below).

Qualitative factors considered in the assessment:
— The Group was forced to pay for the debtor's obligation (guarantee payment),
— There is an 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,
— When financial assets become more than 30 days past due, the Group assesses the repayment pattern of the particular debtor in the context of the payment morale in the particular country. In case there is reasonable expectation that the loan will be repaid supported by historical pattern of payments, it is not considered as significant increase in credit risk since initial recognition.

Quantitative factors considered in the assessment:

Credit risk deterioration is 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. In its major subsidiaries the Group uses its own internal rating models and a transition matrix in order to determine a significant increase in credit risk (based on movements between the grades, i.e. rating deterioration). The Group uses an internal rating system with 12 rating 13th grade being referred to as default:

		Current rating											
		1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
Rating at initial recognition	1	1	1	1	2	2	2	2	2	2	2	2	2
	2	1	1	1	1	2	2	2	2	2	2	2	2
	3	1	1	1	1	2	2	2	2	2	2	2	2
	4	1	1	1	1	1	2	2	2	2	2	2	2
	5	1	1	1	1	1	1	2	2	2	2	2	2
	6	1	1	1	1	1	1	1	2	2	2	2	2
	7	1	1	1	1	1	1	1	1	2	2	2	2
	8	1	1	1	1	1	1	1	1	2	2	2	2
	9	1	1	1	1	1	1	1	1	1	2	2	2
	10	1	1	1	1	1	1	1	1	1	1	2	2
	11	1	1	1	1	1	1	1	1	1	1	1	2
	12	1	1	1	1	1	1	1	1	1	1	1	1

Signs of default

To determine whether a financial asset is in default, the Group assesses the common signs of default 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 to sell the debtor's assets or execute the debtor's assets,
— The situation when the debtor`s liability (or a significant portion) is overdue for more than 90 days,
— The situation when the receivable 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 another purpose than stated in the contract.

Purchased or originated credit-impaired financial assets (POCI)

All purchased loans are initially measured at fair value on the date of acquisition. As a result no allowances for credit losses would be recorded on the date of acquisition. Purchased loans may fit into either of the categories – performing loans or POCI. For assessment whether assests are credit impaired similar criteria to those described above are used (signs of default). Purchased performing loans follow the same accounting as originated performing loans and are reflected in Stage 1 on the date of acquisition. On the other hand, POCI loans are reflected in Stage 3. Any changes in the expected cash flows since the date of acquisition are recorded as a change in Net impairment losses on loans at the end of the reporting period.

In addition to defaulted loans being purchased, POCI may arise as a result of the restructuring of a borrower in financial difficulties that lead to substantial changes to the loan conditions, resulting into derecognition of the original assets and (new) recognition of the modified asset. For those financial assets, the Group applies the credit-adjusted effective interest rate from initial recognition. The credit-adjusted effective interest rate represents the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset.

Modifications of financial assets are described in the section Forbearance in more detail.

ECL for commitments and guarantees

For financial commitments and financial guarantees the initial ECL is recognized as provision. Changes in ECL in subsequent periods (while holding commitments and guarantees and the expected cash flows from the financial asset has changed) are recorded as gain or loss in profit or loss.

Determination of expected credit losses

ECLs are in fact the outcome from multiplication of the following parameters: probability of default (PD), expected loss given default (LGD) and exposure at default (EAD).

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 an annualized migration matrix. The result is a multi-year (based on the choice of horizon) probability of defaults for a given rating.

The main assumption used by the Group for the PD calculation is the fact that the portfolio of exposures shows the same behavior as the one from the external rating agency.

Each internal rating grade was linked to an external rating, so that the corresponding external PD fits into the PD interval for the relevant internal rating grade. If no such external PD exists, the rating closest to the middle of the internal rating interval was used. The following table documents the external ratings to which they correspond:

Internal rating	External rating	Internal rating	External rating
1	A	8	B
2	BBB	9	B-
3	BBB-	10	CCC+
4	BB+	11	CCC
5	BB	12	CCC-
6	BB-	13	D
7	B+		

Employees of the local risk management department are responsible for calculating and updating the relevant PDs and they consider the specific characteristics of the local market, which lead to development of a country specific approach. The entities in the Group primarily determine scoring for non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Furthermore, the entities determine scoring for the 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 are 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).

Determination of loss given default (LGD)

LGD is an estimate of the loss arising when default occurs at a given time (expressed as a 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 the calculation of LGDs the Group uses discounting of expected future cash flows.

For exposures above a given threshold, LGD is calculated on an individual basis in the form of scenario analyses, for exposures below a given threshold, LGDs can be calculated on a portfolio basis unless the Group entity already has individualized LGD calculations, e.g. from credit analysis or previous credit ratings.

The individual LGD is determined as the 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 (first and main scenario), significant decrease in financial performance (i.e. significantly below the thresholds for immediately full repayment of the contract, usually cash flow on 50% level of the first scenario), realization of collateral or severe drop in performance parameters (usually cash flow on 10% level of the first scenario).

In determining the LGD value, the entity takes into account collateral of the receivable, when the entity has a legal right, so that in the event of default of the borrower, the collateral can be realized within a reasonable time. For collateralized receivables, the calculation of the present value of the expected future cash flows also takes into account the expenses associated with the realization of the 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. the 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, LGDs can be determined from historical data or from the average of historical LGDs published by a local national bank (e. g. Czech national bank) in the Financial Stability Report. Nonetheless, regular calibration of these parameters is performed at least once a year on the basis of current data.

Determination of Exposure at default (EAD)

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

For off-balance sheet exposures, the EAD represents the approved undrawn commitment adjusted by a credit conversion factor ("CCF"). The CCF is determined on the basis of the historical experience or regulatory parameters.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:
- For financial assets measured at amortised cost as a deduction from the gross carrying amount 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 revalution reserve in OCI, instead.

Write off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion threof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write off. This assessment is carried out at the individual asset level.

In case of write off, the Group directly reduces the gross carrying amount of a financial asset. Write-offs do not have an impact on profit or loss, because the amounts written off are already reflected in the loss allowance. A write-off constitutes a derecognition event. Nonetheless, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Impact quantification

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

in thousands of EUR	IAS 39/IAS 37 31 December 2017	Reclassification	Remeasurement	IFRS 9 1 January 2018
Financial assets (for details refer to note (c) (i) I.)	(290,605)	–	(56,382)	(346,987)
	(290,605)	**–**	**(56,382)**	**(346,987)**
Investment securities available for sale under IAS 39/ investment securities at FVOCI under IFRS 9	–	–	(3,801)	(3,801)
Loan commitments and financial guarantee contracts issued	–	–	(8,850)	(8,850)
Total	**(290,605)**	**–**	**(69,033)**	**(359,638)**

The following tables provide a summary of the impact of initial application of IFRS 9 on retained earnings and reserves of the Group:

in thousands of EUR	1 January 2018
Change in impairment allowance due to transition to IFRS 9 – impact to retained earnings	(69,033)
Change in impairment allowance due to transition to IFRS 9 – impact to OCI	3,801
Deferred tax asset recognized	8,181
Total impact on total equity	**(57,051)**
Non-controlling insterests	637
Total impact on equity attributable to equity holders of the parent	**(56,414)**
The impact on reserves results from:	
Remeasurement of impairment allowance	3 801
Reclassification from FVOCI to FVTPL	(10,726)
Reclassification from FVTPL to FVOCI	464
Total impact on OCI attributable to equity holders of the parent	**(6,461)**
The impact on retained earnings results from:	
Remeasurement of impairment allowance	(60,215)
Reclassification from FVOCI to FVTPL	10,726
Reclassification from FVTPL to FVOCI	(464)
Total impact on retained earnings attributable to equity holders of the parent	**(49,953)**

II. Policy applicable before 1 January 2018

The Group regularly assesses 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 such a 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.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and advances are presented net of impairment allowances. Allowances for impairment are determined based on the credit standing, performance of the borrower and expected cash flow and take into account the value of any collateral or third-party guarantee. The allowances are proportionally allocated to the total outstanding amount of the receivables, i.e. principal, interest accrual and penalty interest, if any.

The recoverable amount of the Group's investment in held to maturity assets and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed upon initial recognition of these financial assets).

The recoverable amount of other assets is the greater of their fair value less costs of diposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of a held to maturity asset or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through the income statement. If the fair value of a debt instrument classified as available for sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in the income statement, then the impairment loss is reversed, with the amount of the reversal recognised in the income statement.

(i) Assets held for sale and discontinued operations
Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Immediately before classification as held-for-sale, the assets, or components of a disposal group, are remeasured in accordance with the Group´s relevant accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax, employee benefits, investment property, which continue to be measured in accordance with the Group´s other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Once classified as held-for-sale, intangible assets and property, plant end equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

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

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

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

When an asset (or disposal group) previously classified as held for sale no longer meets the criteria for such classification, the Group ceases to classify such asset (or disposal group) as held for sale. Thus, the entity remeasures a non-current asset (or disposal group) at the lower of its carrying amount before the asset was classified as held for sale (adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset not been classified as held for sale) and its recoverable amount at the date of the subsequent decision not to sell.

(j) Property, plant and equipment

(i) Owned assets
Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (refer to accounting policy (h)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent expenditure
Subsequent expenditure is capitalised if it is probable that the future economic benefits embodied in the part of property, plant and equipment will flow to the Group and its cost can be measured reliably. All other expenditures including the costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as an expense as incurred.

(iii) Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings	40 years
Equipment	3 — 8 years
Fixtures, fittings and others	3 — 8 years

Depreciation methods and useful lives, as well as residual values, are reassessed annually at the reporting date.

(k) Intangible assets

(i) 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. Gain on bargain purchase arising on an acquisition is reassessed and any excess remaining after the reassessment is recognised in the income statement.

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.

(ii) Software and other intangible assets

Software and other intangible assets acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (refer to accounting policy (h)).

The useful lives are usually finite. Those intangible assets that have an indefinite useful life are not amortised and are tested annually for impairment. Their useful life is reviewed at each period-end to assess whether events and circumstances continue to support an indefinite useful life.

(iii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets other than goodwill, from the date the asset is available for use. The estimated useful lives are as follows:

Software	4 years
Other intangible assets	
Customers relationships	3 — 20 years

(l) Investment property

Investment property is initially measured at cost and subsequently at fair value with any change therein recognized in profit or loss.

Fair values of investment property are determined either by independent registered valuers or by management, in both cases based on current market values in an active market for similar properties in the same location and conditions.

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.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss for the period in which it arises. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

(m) Provisions

A provision is recognised in the statement of financial position when the Group has a present 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 and a reliable estimate of the amount can be made.

The Group recognizes a provision related to a customer loyalty programme run by J&T BANKA, a.s. The provision decreases interest revenue when the first points are credited to the customer upon setting up a new bank account. The provision is then furt built up as further points are credited to the customer depending on the use of services offered by the Group and other partners of the loyalty programme.

(n) Insurance contracts

A contract, under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder, is classified as an insurance contract. Insurance premium is earned from the day of the acceptance of the risks and is recognized as revenue. For unearned premium, a provision is created. Insurance claims expenses are represented by claims for the events that have occurred during the accounting period and adjustment of provision for the insurance claims for previous and current accounting period.

Provision for insurance claims and benefits

The provision for outstanding claims and benefits represents an estimate of total costs for settling all claims from insured events that have occurred up to the end of the accounting period. Outstanding insurance claims are recognised by assessing individual events and creating provisions for claims reported but not settled (RBNS) and a provision for claims incurred but not reported (IBNR). Such provisions are created for both life and non-life insurance.

Provision for life insurance

The provision for life insurance is an actuarial estimate of the Group's liability from life insurance contracts. The provision is calculated separately for each insurance contract and considering all guaranteed insurance benefits and bonuses, applying the actuarial estimates used to calculate the insurance tariffs. Any adjustment to the provision is recognised in profit or loss in the period in which it arises.

(o) Employee benefits

For termination employee benefits, a provision is recognised for the amount expected to be paid under long or short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The benefit is classified as short term, if and only if the whole benefit category will be settled within one year; otherwise, it is disclosed as long term.

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.

(p) Financial guarantees and loan commitments

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Initial ECL is recognized as provision in the case of commitments and guarantees (refer to Note 24. Amounts arising from expected credit losses (ECL)). The change in ECL in the subsequent periods (while holding commitments and guarantees and the expected cash flows from the financial asset has changed) will be recorded as expense/revenue through off-balance sheet provisions. At the end of the reporting period after ECL for off balance sheet is recorded, the total net exposure value is compared with the value of the acceptable collateral and the amount of acceptable collateral is adjusted to be equal or not to exceed the value of exposure to the client.

The Group has issued no loan commitment that are issued below-market interest rate or measured at FVTPL.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Before 1 January 2018 the Group used to recognize a provision in accordance with IAS 37.

Since 1 January 2018 provisions for financial guarantees and loan commitments represent the ECL to the related off-balance sheet liabilities. When it is probable that the Group will have to satisfy its contractual commitments, the ECL is transferred from Stage 1 or Stage 2 to Stage 3 and the amount is appropriately adjusted. When the Group makes the commited payments to the eligible parties, a loan asset is recognized and ECL to this asset is recognized as well, while the provision for financial guarantees and loan commitments (ECL to the off-balance sheet asset) is released. Release as well as creation of the ECL are recognized in profit or loss under Net impairment losses on loans, loan commitments and financial guarantees.

(q) Trade liabilities and other liabilities
Trade and other liabilities are stated at amortised cost.

(r) Interest income and expense
Interest income and expense is recognised in the income statement as it accrues. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis. All borrowing costs (except for those that qualify for capitalization) are recognised in the income statement.

(s) Fee and commission income and expense
Fee and commission income arises on financial services provided by the Group, including cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions, and asset management services. Assets under management comprising all client assets managed or held for investment purposes by the Group in its own name, but for the account of third parties, are not reported in its consolidated statement of financial position (refer to Note 42. Assets under management). Commissions received from such business are shown in fee and commission income.

Fee and commission income and expense are recognised when the corresponding services are provided or received.

(t) Dealing profits, net
Dealing profits, net include gains and losses arising from disposals and changes in the fair value of financial assets and liabilities at fair value through profit or loss and at fair value through other comprehensive income (under IAS 39 available for sale), gains and losses from foreign exchange trading, as well as realized and unrealized foreign exchange gains and losses.

(u) Rental income
Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

(v) Income tax
Income tax on the profit for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities, in a transaction that is not a business combination, that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future since the parent is able to control the reversal of the temporary difference. No taxable temporary differences are recognised on the initial recognition of goodwill. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred income taxes are calculated using currently enacted tax rates expected to apply when the asset is realized or the liability settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(w) Operating and finance lease

(i) Group as a lessee
Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments for finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Operating leases with an option to terminate the contract earlier than at the end of the agreed period are considered as non-cancellable for the time of the contracted notice period.

On the other hand, in case of operating leasing, the assets are not recognized on the Group's statement of financial position.

(ii) Group as a lessor
Leases under which the Group transfers substantially all the risks and rewards of ownership are classified as finance leases. A finance lease receivable is recognized over the leasing period in an amount equal to the net investment in the lease and presented within loans and advances to customers in the consolidated statement of financial position. Net investment in the lease is calculated as the present value of the minimum lease payments and any unguaranteed residual value, discounted at the interest rate implicit in the lease.

Finance income recognition is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Gains and losses on disposal of assets owned by the Group that were previously subject to finance lease agreements are presented net in Other opering income or expense.

(x) Revenue from goods sold and services rendered
Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the statement of financial position date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods.

(y) Dividends
Dividends are recognised in the statement of changes in equity and recorded as liabilities in the period in which they are declared

(z) Changes in accounting policies

The Group has adopted IFRS 9 Financial Instruments with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. For a detailed description of accounting policies applied by the Group before and after 1 January 2018 refer to Note 3 (c) and (h), where the impact of initial application of IFRS 9 can also be found.

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39. The Group did not restate comparative information, complying with the transition requirements stipulated in IFRS 9.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with International Financial Reporting Standards requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1. Financial instruments

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices of similar instruments) or indirectly (i.e. derived from such prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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.

Level 2 fair values are based on market values, but adjusted mainly by credit risk taking into account the credit risk of the Group and counterparty when appropriate.

If fair values had been higher or lower by 10% than quoted prices, the net carrying amount of financial instruments on Level 1 and Level 2, would have been EUR 104,723 thousand higher or lower than as disclosed as at 31 December 2018 (2017: EUR 114,398 thousand).

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

In the vast majority of cases, the fair value of Level 3 investments was estimated using comparative valuation methods and discounted cash flow ("DCF") models. The discount rates were based on the specificities of the industries and countries in which the investments operate and ranged from 1.00% to 14.10% as at 31 December 2018 (2017: from 2.00% to 14.13%). The key assumptions used in the valuations were the expected cash flows and the discount rates used.

For more information, refer to the following notes:
— Note 14. Financial assets for trading
— Note 15. Hedging derivatives
— Note 16. Investment securities measured at fair value through profit or loss
— Note 17. Investment securities at fair value through other comprehensive income (under IAS 39 available for sale)
— Note 26. Investment property

4.2. Business combinations and purchase price allocations
In a business combination (see also Note 5.1. Acquisition and establishment of subsidiaries), the acquiree's identifiable assets, liabilities and contingent liabilities are recognised and measured at their fair values at the acquisition date. Allocation of the total purchase price among the net assets acquired for financial statement reporting purposes is performed with the support of professional advisors.

The valuation analysis is based on historical and prospective information available as at 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 analyses are used as well for determining the amortisation and depreciation periods of the values allocated to specific intangible and tangible fixed assets.

There were the following business combinations throughout the year 2018:
On 27 February 2018 J&T Bank, a.o. merged with AKB «Khovanskiy» a.o.
On 17 August 2018 J&T MINORITIES PORTFOLIO LIMITED bought a 30% share in Butcher313, s.r.o.
On 26 October 2018 Poštová banka, a.s. bought a 100% share in Amico Finance, a.s.
On 18 December 2018 J&T Wine Holding SE acquired a 100% share in the Czech winery Reisten, s.r.o.

There were several business combinations throughout the year 2017:
On 15 February 2017 the Group bought a 100% share in Health Care Financing, a.s. through its subsidiary J&T BANKA, a.s (on 8 August 2017 Health Care Financing, a.s. changed its name to J&T Leasingová společnost, a.s). The purpose of this transactions is to further increase the Group's leasing activities.

On 11 August 2017 J&T FINANCE GROUP SE acquired an 80% share in the French winery Chateau Teyssier (Société civile) and its distribution network through the purchase of a 100% share in Outsider LLC and an 80% share in Saxonworld Ltd. Subsequently, J&T FINANCE GROUP SE established J&T Wine Holding SE on 26 August 2017 and acquired a 100% share in the Czech winery KOLBY a.s. Such investments into wine production and distribution sites in major geoprahical regions represent new investment opportunities for the Group. The Group recognized goodwill in the amount of EUR 3,606 thousand in connection with this acquisition.

On 4 October 2017 J&T Bank, a.o. purchased the Russian bank AKB "Khovanskiy" a.o. at a discount from its original shareholders with the aim to optimize and expand its business activities. The transaction resulted into recognition of a gain on bargain purchase of EUR 3,197 thousand in the financial statements of the Group.

On 21 December 2017 and 14 December 2017 the Group gained control over NOVA Hotels otevřený podílový fond REDSIDE investiční společnost, a.s. and Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s., respectively (see also Note 4.4. Determination of control over investment funds). The transaction did not lead to recognition of goodwill as the identifiable assets were already measured at fair value before control was gained.

4.3. 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 5.1. Acquisitions and establishment of subsidiaries and Note 27. 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.

Poštová banka, a.s.

Upon acquisition of Poštová banka, a.s. and its subsidiaries (Poštová banka Group) goodwill in amount of EUR 20,033 thousand was recognized. The recoverable amount of the Poštová banka Group cash generating unit, with a carrying amount of EUR 694,314 thousand (share controlled by the Group) as at 31 December 2018 and of EUR 709,089 thousand as at 31 December 2017, was determined on the basis of value in use and the full amount of goodwill recognized upon acquisition was allocated to the Poštová banka Group cash generating unit. The cash flows were derived from Poštová banka Group's long-term business plan, the key assumptions being the forecast of net interest income and loans provided to customers, and these were applied over a specific ten-year forecast period. The growth rate used to extrapolate cash flows beyond this period was 2.0% (2017: 2.0%-2.2%). Expected future cash flows were discounted using a WACC of 5.76% (2017: 6.51%-6.71%).

There was no impairment loss identified as a result of this impairment test. Should forecast net interest income decrease by 10%, the value in use would decrease and an impairment of EUR 277,162 thousand would have to be recognized (2017: EUR 128,560 thousand).

Wine activities

The acquisition of the French winery Chateau Teyssier (Société civile) and its distribution network through the purchase of a 100% share in OUTSIDER LIMITED and an 80% share in SAXONWORLD LIMITED resulted into recognition of goodwill in the amount of EUR 3,606 thousand. The goodwill relates to the cash generating unit represented by OUTSIDER LIMITED, Chateau Teyssier (Société civile), CT Domaines, SAXONWORLD LIMITED and World's End[3]. As at 31 December 2018 the recoverable amount of this cash generating unit exceeds its carrying amount of EUR 33,856 thousand for the share controlled by the Group (2017: EUR 34,300 thousand). There was no impairment loss identified as a result of the impairment test.

Amico Finance, a.s.

On 26 October 2018 Poštová banka, a.s. bought a 100% share in Amico Finance, a.s. The business activities of Amico Finance, a.s. focus primarily on consumer loan financing. The Group recognized goodwill in the amount of EUR 2,788 thousand in connection with this acquisition. The carrying amount of goodwill was tested for impairment at the statement of financial position date as part of the cash generating unit represented by the entity Amico Finance, a.s. There was no impairment loss identified as a result of the impairment test.

[3] The Czech winery KOLBY a.s. is not part of this cash generating unit.

4.4. Determination of control over investment funds

Management applies its judgement to determine whether the control indicators set out in Note 3 (a) indicate that the Group controls an investment fund. The Group acts as fund manager for a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove the fund manager. As a result, the Group has concluded that it acts as agent for the investors in all cases, except for J&T REALITY otevřený podílový fond and the fonds further described below.

In 2018 the Group established J&T LOAN FUND that is being administered by J&T INVESTIČNÍ SPOLEČNOST, a.s. Due to the fact that J&T FINANCE GROUP SE holds a call option over the founders' shares of the fund that gives the holder the right to participate in shareholders' meetings and to pass resolutions, the Group concluded that it has control over the fund.

In 2017 after a change in the statutes of NOVA Hotels otevřený podílový fond REDSIDE investiční společnost, a.s., which newly gave the investors the right to participate in shareholders' meetings and to pass resolutions with a majority of 75% of the voting rights, J&T FINANCE GROUP SE gained control over the fund. Furthermore, in 2017 J&T FINANCE GROUP SE bought the founders' shares of Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s. with the attached voting rights, thus the Group gained control over the fund (please refer to Note 46. Group entities for detailed overview of the scope of consolidation).

5. ACQUISITIONS AND DISPOSALS

5.1. Acquisition and establishment of subsidiaries

(a) Acquisition of subsidiaries

In 2018 the Group acquired the following subsidiaries:

in thousands of EUR	Date of acquisition	Cost	Cash outflow	Group's interest after acquisition (%)
Amico Finance, a.s.	26.10.2018	2,710	2,710	98.46[4]
Reisten, s.r.o.	18.12.2018	4,282	4,282	100.00
Total	**–**	**6,992**	**6,992**	**–**

In 2017 the Group acquired the following subsidiaries:

in thousands of EUR	Date of acquisition	Cost	Cash outflow	Group's interest after acquisition (%)
Health Care Financing, a.s.[5]	15.2.2017	—	—	100.00
OUTSIDER LIMITED	11.8.2017			100.00
Chateau Teyssier (Société civile)	11.8.2017			80.00
CT Domaines	11.8.2017	34,358	34,358	80.00
SAXONWOLD LIMITED	11.8.2017			80.00
World's End	11.8.2017			80.00
KOLBY a.s.	13.9.2017	3,297	3,297	100.00
AKB "Khovanskiy" a.o.	4.10.2017	13,719	13,719	100.00
NOVA Hotels otevřený podílový fond REDSIDE investiční společnost, a.s.	21.12.2017	35,706	—	99.20
DIAMOND HOTELS SLOVAKIA, s.r.o.	21.12.2017			99.20
BHP Tatry, s.r.o.	21.12.2017			99.20
Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.	14.12.2017	156,345	—	99.16
FORESPO SOLISKO a.s.	14.12.2017			99.16
FORESPO HELIOS 1 a.s.	14.12.2017			99.16
FORESPO HELIOS 2 a.s.	14.12.2017			99.16
FORESPO HOREC a SASANKA a.s.	14.12.2017			99.16
FORESPO PÁLENICA a.s.	14.12.2017			99.16
INVEST-GROUND a.s.	14.12.2017			99.16
FORESPO-RENTAL 1 a.s.	14.12.2017			99.16
FORESPO-RENTAL 2 a.s.	14.12.2017			99.16
FORESPO BDS a.s.	14.12.2017			99.16
DEVEL PASSAGE s.r.o.	14.12.2017			99.16
FORESPO DUNAJ 6 a.s.	14.12.2017			99.16
Total	**—**	**243,425**	**51,374**	**—**

(b) Establishment of subsidiaries

In 2018 the Group established the following:

in thousands of EUR	Date of establishment	Group's interest after establishment (%)
365.fintech, a.s.	23.1.2018	98.46
J&T Global Finance IX., s. r. o.	24.7.2018	100.00
J&T Global Finance X., s.r.o.	27.8.2018	100.00
J&T LOAN FUND	1.9.2018	99.23

[4] The Group initially acquired the (effective) share of 98.46% and subsequently sold the share of 4.93%
[5] The acquisition price of Health Care Financing, a.s. was 1 CZK.

In 2017 the Group established the following:

in thousands of EUR	Date of establishment	Group's interest after establishment (%)
J&T Global Finance VIII., s.r.o.	1.5.2017	100.00
J&T Wine Holding SE	23.8.2017	100.00
J&T Mezzanine, a.s.	15.11.2017	100.00

(c) Effect of acquisitions

The acquisitions of new subsidiaries in 2018 had the following effect on the Group's assets and liabilities (refer also to Note 4.2 Business combinations and purchase price allocations):

in thousands of EUR	Amico Finance, a.s.	Reisten, s.r.o.	Total
Cash and cash balances at central banks	2	–	2
Loans and advances to customers	10 771	1 811	12,582
Trade receivables and other assets	56	–	56
Intangible assets	118	–	118
Property, plant and equipment	–	2,471	2,471
Deposits and loans from banks	(10,355)	–	(10,355)
Other liabilities	(633)	–	(633)
Provisions	(37)	–	(37)
Net identifiable assets and liabilities	(78)	4,282	4,204
Goodwill on acquisition of new subsidiaries	2,788	–	2,788
Cost of acquisition	2,710	4,282	6,992
Consideration paid, satisfied in cash	(2,710)	(4,282)	(6,992)
Cash acquired	2	–	2
Net cash inflow (outflow)	**(2,708)**	**(4,282)**	**(6,990)**
Profit (loss) since acquisition date	(2,550)	–	(2,550)
Profit (loss) of the acquired entity for all of 2018	(3,861)	(29)	(3,890)
Revenues of the acquired entity for all of 2018	652	631	1,283

The acquisitions of new subsidiaries in 2017 had the following effect on the Group's assets and liabilities (refer also to Note 4.2 Business combinations and purchase price allocations):

in thousands of EUR	Wine activities[7]	Compact Property Fund[8]	NOVA Hotels otevřený podílový fond[8]	Other entities	Total
Cash and cash balances at central banks	–	10	81	22,532	22,623
Investment securities available for sale	3,297	83	–	–	3,380
Loans and advances to banks	–	6,352	5,132	17,138	28,622
Loans and advances to customers	–	10,359	419	8,686	19,464
Trade receivables and other assets	6,520	4,944	1,523	1,967	14,954
Current tax assets	–	140	–	–	140
Investment property	–	141,620	–	–	141,620
Intangible assets	–	3	21	45	69
Property, plant and equipment	45,026	7,343	42,605	7	94,981
Deferred tax assets	–	153	3,357	731	4,241
Deposits and loans from banks	(8,500)	–	(12,504)	(186)	(21,190)
Deposits and loans from customers	–	(10,358)	(25,736)	(24,390)	(60,484)
Debt securities issued	–	–	–	(721)	(721)
Subordinated debt	–	–	–	(6,938)	(6,938)
Other liabilities	(4,602)	(4,196)	(3,085)	(2,071)	(13,954)
Current tax liability	–	(11)	(6)	–	(17)
Provisions	–	(97)	(52)	(3)	(152)
Deferred tax liabilities	–	–	(1,785)	–	(1,785)
Non-controlling interests	(7,692)	–	–	–	(7,692)
Net identifiable assets and liabilities	34,049	156,345	35,706	16,797	242,897
Goodwill on acquisition of new subsidiaries	3,606	–	–	119	3,725
Gain on a bargain purchase	–	–	–	(3,197)	(3,197)
Cost of acquisition	37,655	156,345	35,706	13,719	243,425
Consideration paid, satisfied in cash	(37,655)	–	–	(13,719)	(51,374)
Cash and cash equivalents acquired	–	6,362	5,213	39,110	50,685
Net cash inflow (outflow)	**(37,655)**	**6,362**	**5,213**	**25,391**	**(689)**
Profit (loss) since acquisition date	(59)	–	–	(19)	(78)
Profit (loss) of the acquired entity for all of 2017	(13)	(7,406)	956	762	(5,701)
Revenues of the acquired entity for all of 2017	–	(7,328)	(13)	3,051	(4,290)

[6] The acquired companies engaging in wine activities are OUTSIDER LIMITED, Chateau Teyssier (Societe civile), CT Domaines, SAXONWOLD LIMITED, World's End and KOLBY a.s.
[7] Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s. subgroup comprise the following companies: Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s., FORESPO SOLISKO a.s., FORESPO HELIOS 1 a.s., FORESPO HELIOS 2 a.s., FORESPO HOREC a SASANKA a.s., FORESPO PÁLENICA a.s., INVEST-GROUND a.s., FORESPO-RENTAL 1 a.s., FORESPO-RENTAL 2 a.s., FORESPO BDS a.s., DEVEL PASSAGE s.r.o. and FORESPO DUNAJ 6 a.s.
[8] NOVA Hotels otevřený podílový fond REDSIDE investiční společnost, a.s. subgroup comprise the following companies: NOVA Hotels otevřený podílový fond REDSIDE investiční společnost, a.s., DIAMOND HOTELS SLOVAKIA, s.r.o. and BHP Tatry, s.r.o.

5.2. Disposals

(a) Disposals of subsidiaries

The following disposals occurred in 2018 and in 2017:

31 December 2018

in thousands of EUR	Date of disposal	Other assets disposed of	Cash inflow	Gain (loss) on disposal/liquidation
J&T Global Finance IV, B.V.	14.5.2018	–	–	140
J&T Global Finance III, s. r. o. v likvidácii	31.8.2018	–	–	(89)
Total		**–**	**–**	**51**

31 December 2017

in thousands of EUR	Date of disposal	Other assets disposed of	Cash inflow	Gain (loss) on disposal/liquidation
PB IT, a.s. v likvidácii	1.1.2017	183	–	–
Total		**183**	**–**	**–**

On 1 January 2017 PB IT, a.s. v likvidácii entered into liquidation, which was completed in February 2018 by selling of the remaining assets of this company.

(b) Effect of disposals

The disposals of subsidiaries had the following effect on the Group's assets and liabilities:

Effect of disposals in 2018

in thousands of EUR	J&T Global Finance IV, B.V. i. l.	J&T Global Finance III, s. r. o. v likvidácii	Total
Cash and cash balances at central banks	1	–	1
Loans and advances to banks	–	93	93
Current tax assets	1	–	1
Trade payables and other liabilities	(2)	(4)	(6)
Net assets and liabilities	**–**	**89**	**89**
Sales price	–	–	–
Other values disposed	–	–	–
Cumulative income and expense included in other comprehensive income reclassified to profit or loss	140	–	140
Gain (loss) on disposal	**140**	**(89)**	**51**
Consideration received, satisfied in cash	–	–	–
Cash disposed of	(1)	–	(1)
Net cash outflow	**(1)**	**–**	**(1)**

Effect of disposals in 2017

in thousands of EUR	PB IT, a.s. v likvidácii
Cash and cash balances at central banks	123
Current tax assets	77
Other liabilities	(5)
Non-controlling interests	(12)
Net assets and liabilities	**183**
Receivables sold in related transaction	**–**
Sales price	–
Other values disposed	183
Gain on disposal	**–**
Consideration received, satisfied in cash	–
Cash disposed of	(123)
Net cash outflow	**(123)**

6. NET INTEREST INCOME

in thousands of EUR	31 December 2018	31 December 2017
INTEREST INCOME CALCULATED USING EFFECTIVE INTEREST RATE		
Loans and advances to banks and customers	333,888	344,188
Bonds and other securities	33,074	31,172
Repo transactions	5,186	6,636
Bills of exchange	494	2,288
Receivables from central banks	29,239	4,430
Other	4,271	10,900
Total interest income using effective interest rate	**406,152**	**399,614**
Interest income according to classes of instruments:		
Financial instruments measured at amortised cost	385,941	383,184
Financial instruments measured at FVOCI	20,211	16,430
Total interest income using effective interest rate	**406,152**	**399,614**
Financial assets for trading	6,746	4,914
Investment securities measured at fair value through profit or loss	424	526
Total other interest income	**7,170**	**5,440**
Total interest income	**413,322**	**405,054**
INTEREST EXPENSE		
Deposits and loans from banks and customers	(66,955)	(68,123)
Bonds and other securities	(16,118)	(22,517)
Hedging derivatives	(1,272)	(1,122)
Bills of exchange	(990)	(1,001)
Repo transactions	(894)	(741)
Other	(3,271)	(2,593)
Total interest expense	**(89,500)**	**(96,097)**
Interest expense according to classes of instruments:		
Financial instruments measured at amortised cost	(88,181)	(94,975)
Financial instruments measured at FVTPL	(47)	–
Hedging derivatives	(1,272)	(1,122)
Total interest expense	**(89,500)**	**(96,097)**
Total net interest income	**323,822**	**308,957**

Interest expense from hedging derivatives includes accrued interest from interest rate derivatives used to hedge interest rate risk.

Other interest income of EUR 4,271 thousand includes a negative interest on Deposits and loans from banks of EUR 1,481 thousand (2017: EUR 2,150 thousand).

7. NET FEE AND COMMISSION INCOME

in thousands of EUR	2018	2017
FEE AND COMMISSION INCOME		
Fees on administration and payment transactions	33,162	32,390
Fees on assets under management	32,171	28,592
Fees on bond issues	26,472	12,016
Fees on financial instrument operations	11,292	11,758
Fees on custody, administration and depositing of valuables	3,990	4,611
Fees on promises and guarantees	3,028	3,847
Fees on payment cards	2,729	2,756
Fees on foreign exchange operations	2,360	2,491
Intermediation fees	868	1,297
Other fees and commission income	18,769	15,679
Total fee and commission income	**134,841**	**115,437**
FEE AND COMMISSION EXPENSE		
Intermediation fees	(8,010)	(11,407)
Fees on payment transactions	(7,628)	(7,604)
Fees on financial instrument operations	(4,377)	(7,809)
Other fees and commission expenses	(8,329)	(8,002)
Total fee and commission expense	**(28,344)**	**(34,822)**
Total net fee and commission income	**106,497**	**80,615**

Other fees and commission income and expenses include a large number of sundry items that are not significant on an individual basis.

8. NET DEALING PROFIT

in thousands of EUR	2018	2017
Net gains (losses) from financial instruments held for trading	(19,196)	(14,340)
— derivatives	(22,315)	(19,338)
— equity instruments	3,429	4,864
— debt instruments	(310)	134
Net gains (losses) from non-trading financial assets mandatorily measured at FVTPL	6,039	—
Net gains (losses) from financial instruments designated at FVTPL	1,672	329
Net gains (losses) from financial instruments measured at FVOCI	1,820	14,946
— dividend income (on available-for-sale equity instruments)	—	4,043
— dividend income from equity instruments measured at FVOCI	449	—
— other gains (losses)	1,371	10,903
Realised and unrealised gains (losses) from receivables	—	19,220
Net gains (losses) resulting from hedge accounting	(6)	128
— hedged items	1,797	(11,468)
— hedging items	(1,803)	11,596
Exchange rate gains (losses)	14,297	58,357
Total net dealing profit	**4,626**	**78,640**

(i) Gains (losses) arising from derecognition of financial assets measured at amortised cost

in thousands of EUR	2018 Carrying amount of financial assets sold	2018 Gains from derecognition
Investment instruments	26,113	–

The Group sold certain investment instruments measured at amortised cost, because these assets no longer met the Group's investment policy.

9. OTHER OPERATING INCOME

in thousands of EUR	2018	2017
Revenues from services and consulting	28,075	10,802
Revenues (premium) of insurance companies	9,435	8,782
Goods sold	5,414	1,105
Income from operating leases	4,598	584
Change in provisions	1,902	4,438
Other rental income	1,620	357
Rental income from investment property	936	719
Gain on the disposal of subsidiaries, joint ventures and associates (Note 5.2)	51	6,844
Other income	8,855	4,760
Total other operating income	**60,886**	**38,391**

In 2017 gain on the disposal of subsidiaries, joint ventures and associates in the amount of EUR 6,844 thousand resulted from the sale of two entities, PGJT B.V. and PROFIREAL OOO. Disposal of subsidiaries includes only deconsolidation of "PB IT, a.s. v likvidácii", which did not have any impact on the profit for the year 2017 as described in note 5.2 Disposals.

Other income includes a large number of sundry items that are not significant on an individual basis.

10. PERSONNEL EXPENSES

in thousands of EUR	2018	2017
Wages and salaries	(92,919)	(76,416)
Compulsory social security contributions	(24,542)	(22,274)
Other social expenses	(4,086)	(1,882)
Total personnel expenses	**(121,547)**	**(100,572)**

The weighted average number of employees during 2018 was 2,852 (2017: 2,443), out of which executives represent 188 employees (2017: 159).

11. OTHER OPERATING EXPENSES

in thousands of EUR	2018	2017
Rent expenses	(20,318)	(17,201)
Advertising expenses	(15,452)	(16,125)
Repairs and maintenance expenses	(11,070)	(9,412)
Special fee paid by financial institutions (bank levy)	(8,983)	(9,149)
Administrative expenses	(8,869)	(7,100)
Change in impairment of receivables and other assets	(7,331)	(14,026)
Consulting expenses	(7,211)	(7,915)
Insurance technical provisions and claims	(6,596)	(5,351)
Communication expenses	(6,068)	(6,608)
Materials	(5,884)	(3,486)
Mandatory fees paid by financial institutions	(5,822)	(7,070)
Receivables written-off, net	(4,436)	(2,157)
Property and other taxes	(3,448)	(2,245)
Change in fair value of investment property, net	(2,797)	–
Sponsoring and gifts	(2,752)	(2,842)
Transport and accommodation, travel expenses	(2,282)	(2,279)
Energy	(1,583)	(378)
Training, courses and conferences	(1,359)	(1,160)
Outsourcing	(1,318)	(1,086)
Contractual penalties	(83)	(151)
Other operating expenses	(15,313)	(6,243)
Total other operating expenses	**(138,975)**	**(122,168)**

Other operating expenses include a large number of sundry items that are not significant on an individual basis.

12. INCOME TAX

in thousands of EUR	2018	2017
CURRENT TAX EXPENSE		
Current year	(45,009)	(36,641)
Adjustments for prior periods	705	185
Withheld on interest	(638)	(37)
DEFERRED TAX INCOME (EXPENSE)		
Origination and reversal of temporary differences	9,800	819
Change in tax rate	–	(104)
	9,800	**715**
Total income tax expense	**(35,142)**	**(35,778)**

The corporate income tax rate in the Czech Republic for 2018 and 2017 is 19%. The corporate income tax rate in Slovakia for 2018 and 2017 is 21%. The corporate income tax rate in Russia for 2018 and 2017 is 20%.

(i) Reconciliation of the effective tax rate

in thousands of EUR		2018		2017
Profit before tax	%	**139,427**	%	**173,288**
Income tax at 19% (2017: 19%)	(19.0)	(26,491)	(19.0)	(32,925)
Effect of tax rates in foreign jurisdictions	(1.0)	(1,331)	(2.0)	(1,935)
Non-deductible expenses	(21.1)	(29,363)	(15.3)	(14,758)
Non-taxable income	15.8	21,988	14.6	14,054
Tax withheld on interest	(0.5)	(638)	(0.0)	(37)
Recognition of previously unrecognised tax losses	0.5	645	0.2	212
Current year tax losses for which no deferred tax asset was recognised	(0.2)	(305)	(0.5)	(482)
Deffered tax – current period adjustment for DT recognized in prior period	(0.3)	(352)	(0.0)	12
Tax charges over provided in prior years	0.5	705	0.2	185
Change in tax rate	0.0	—	(0.1)	(104)
Total income tax expense	**(25.2)**	**(35,142)**	**(20.6)**	**(35,778)**

(ii) Income tax recognized in other comprehensive income

in thousands of EUR	2018 Before tax	2018 Tax benefit	2018 Net of tax	2017 Before tax	2017 Tax benefit	2017 Net of tax
OTHER COMPREHENSIVE INCOME - ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS						
Foreign exchange translation differences	(20,157)	—	(20,157)	16,190	—	16,190
Change in fair value of financial assets available for sale	—	—	—	2,616	(103)	2,513
Debt instruments measured at fair value through other comprehensive income - Net change in fair value[9]	(167)	(25)	(142)	—	—	—
Debt instruments measured at fair value through other comprehensive income - Net amount transferred to profit or loss	17	(4)	13	—	—	—
Share of other comprehensive income of equity accounted investees	(7)	—	(7)	30	—	30
OTHER COMPREHENSIVE INCOME - ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS						
Equity instruments measured at fair value through other comprehensive income - Net change in fair value	1,277	(331)	946	—	—	—
Total	**(19,037)**	**(360)**	**(19,347)**	**18,836**	**(103)**	**18,733**

[9] The difference between the consolidated statement of comprehensive income and net of tax amounts of debt instruments measured at FVOCI is caused by ECL for which deferred tax is recognized in profit or loss.

(iii) Movements in deferred tax balances during the year

in thousands of EUR	Balance at 1 January 2018	Recognised in profit or loss
Property, plant and equipment	1,444	192
Intangible assets	(14,612)	2,363
Investment property	(2,632)	32
Impairment of trade receivables and other assets	61	9
Investment securities available for sale	(4,035)	—
Investment securities at fair value through other comprehensive income	—	1,739
Investment securities held to maturity	(2,882)	—
Investment securities at amortised cost	—	913
Employee benefits (IAS 19)	1,026	63
Unpaid interest, net	(48)	(20)
Financial assets at fair value through profit or loss	(141)	886
Loans and advances	9,589	1,924
Provisions	870	(859)
Derivatives	144	29
Tax losses	1,245	226
Other temporary differences	7,916	2,303
Total	**(2,055)**	**9,800**

Recognised in other comprehensive income	Acquired in business combinations	Foreign exchange translation differences	Impact of IFRS 9 - Reclassification	Impact of IFRS 9 - Remeasurement	Balance at 31 December 2018
–	–	(4)	–	–	1,632
–	–	170	–	–	(12,079)
–	–	352	–	–	(2,248)
–	–	–	–	–	70
–	–	–	4,035	–	–
(360)	–	(109)	(4,035)	1,149	(1,616)
–	–	–	2,882	–	–
–	–	–	(2,882)	–	(1,969)
–	–	(6)	–	–	1,083
–	–	–	–	–	(68)
–	–	32	–	(1,079)	(302)
–	–	228	–	6,329	18,070
–	–	(16)	–	1,782	1,777
–	–	(20)	–	–	153
–	–	(152)	–	–	1,319
–	–	(239)	–	–	9,980
(360)	**–**	**236**	**–**	**8,181**	**15,802**

in thousands of EUR	Balance at 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	Acquired in business combinations	Foreign exchange translation differences	Disposals	Transfer to/ from disposal group held for sale	Balance at 31 December 2017
Property, plant and equipment	(290)	279	–	1,449	6	–	–	1,444
Intangible assets	(17,192)	2,723	–	34	(177)	–	–	(14,612)
Investment property	(2,985)	28	–	109	216	–	–	(2,632)
Impairment of trade receivables and other assets	73	(10)	–	3	–	–	(5)	61
Investment securities available for sale	(2,927)	(1,001)	(103)	1	(5)	–	–	(4,035)
Investment securities held to maturity	(3,785)	903	–	–	–	–	–	(2,882)
Employee benefits (IAS 19)	935	92	–	–	(1)	–	–	1,026
Unpaid interest, net	(25)	(22)	–	–	(1)	–	–	(48)
Financial assets at fair value through profit or loss	(35)	(113)	–	–	7	–	–	(141)
Loans and advances	8,992	448	–	–	149	–	–	9,589
Provisions	1,028	(175)	–	–	12	–	5	870
Derivatives	129	26	–	–	(11)	–	–	144
Tax losses	4,219	(3,535)	–	635	(74)	–	–	1,245
Other temporary differences	6,431	1,072	–	225	188	–	–	7,916
Total	**(5,432)**	**715**	**(103)**	**2,456**	**309**	**–**	**–**	**(2,055)**

13. CASH AND CASH BALANCES AT CENTRAL BANKS

in thousands of EUR	31 December 2018	31 December 2017
CASH AND CASH BALANCES AT CENTRAL BANKS AT AMORTISED COST		
Cash on hand	71,476	65,780
Current accounts at central banks	57,793	45,696
Obligatory minimum reserves deposited at central banks	331,868	88,489
Loans and advances to central banks	36,348	360,801
Less impairment loss allowance (refer to Note 24)	(317)	–
Total cash and cash balances at central banks	**497,168**	**560,766**

Obligatory minimum reserves represent the obligatory minimum reserves maintained by J&T BANKA, a.s., J&T Bank, a.o., Poštová banka, a.s. and J&T Banka d.d. under regulations of the relevant regulatory authorities.

The obligatory minimum reserve for J&T BANKA, a.s. is calculated as 2% of primary deposits with a maturity of less than two years. These obligatory minimum reserves are interest earning.

The obligatory minimum reserve for J&T Bank, a.o. is calculated as 5% of nonresidents' corporate deposits denominated in RUB; as 8% of nonresidents' corporate deposits denominated in foreign currency; as 5% of residents' individual deposits denominated in RUB; as 7% of residents' individual deposits denominated in foreign currency; as 5% of other liabilities in RUB and as 8% of other liabilities in foreign currency minus average balances of deposits and accrued interest multiplied by 0.8. In the case of J&T Bank, a.o., the obligatory minimum reserve is not bearing any interest.

The amount of set reserve of Poštová banka, a.s. depends on the amount of received deposits and is calculated by multiplying particular items using the valid rate defined for the calculation of the compulsory minimum reserve.

The obligatory minimum reserve for J&T Banka d.d. is calculated on average daily balances of deposits and loans, issued debt securities, subordinated instruments and financial liabilites excluding balances with specified banks. The obligatory reserve is calculated as 12% of the above and is not bearing any interest.

The table below shows the composition of Cash and cash equivalents as presented in the Consolidated statement of cash flow:

in thousands of EUR	31 December 2018	31 December 2017
CASH AND CASH EQUIVALENTS		
Cash on hand	71,476	65,780
Current accounts at central banks	57,793	45,696
Obligatory minimum reserves deposited at central banks	331,868	88,489
Loans and advances to central banks	36,348	360,801
Current accounts at banks	55,503	77,238
Loans and advances to banks with original maturities of three months or less (refer to Note 20)	30,932	48,111
Loans in reverse repurchase agreements (refer to Note 20, 22)	2,201,053	2,269,070
Less impairment loss allowance	(386)	–
Total cash and cash equivalents	**2,784,587**	**2,955,185**

14. FINANCIAL ASSETS FOR TRADING AND TRADING LIABILITIES

14.1. Financial assets for trading

in thousands of EUR	31 December 2018	31 December 2017
NON-DERIVATIVE FINANCIAL ASSETS FOR TRADING		
Bonds	149,504	222,493
Shares	23,887	18,686
Investment funds units	299	9
Other financial assets	18,310	1,688
Total non-derivative financial assets for trading	**192,000**	**242,876**
TRADING DERIVATIVES		
Currency contracts	20,942	19,608
Option contracts for commodity purchase	3	–
Option contracts for share purchase	–	6,279
Total trading derivatives	**20,945**	**25,887**
Total financial assets for trading	**212,945**	**268,763**

Bonds for trading as at 31 December 2018 comprise mainly government bonds, which represent 61% of the balance (31 December 2017: 37%).

Income from debt and other fixed-rate instruments is recognised in interest income.

No financial assets for trading were subject to pledge (31 December 2017: nil).

(i) Fair value measurement of financial assets for trading

K 31. prosinci 2018

in thousands of EUR	Shares	Bonds	Investment funds units	Other financial assets	Total
FAIR VALUE OF NON-DERIVATIVE FINANCIAL ASSETS FOR TRADING					
Level 1 – quoted market prices	23,785	101,990	–	18,310	144,085
Level 2 – derived from quoted prices	3	45,966	299	–	46,268
Level 3 – calculated using valuation techniques	99	1,548	–	–	1,647
	23,887	**149,504**	**299**	**18,310**	**192,000**
FAIR VALUE OF TRADING DERIVATIVES					
Level 2 – derived from quoted prices	–	–	–	–	20,945
	–	–	–	–	**20,945**
Total financial assets for trading	–	–	–	–	**212,945**

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in thousands of EUR	Shares	Bonds	Investment funds units	Other financial assets	Total
FAIR VALUE OF NON-DERIVATIVE FINANCIAL ASSETS FOR TRADING					
Level 1 – quoted market prices	17,930	139,588	–	1,099	158,617
Level 2 – derived from quoted prices	680	81,585	9	589	82,863
Level 3 – calculated using valuation techniques	76	1,320	–	–	1,396
	18,686	**222,493**	**9**	**1,688**	**242,876**
FAIR VALUE OF TRADING DERIVATIVES					
Level 2 – derived from quoted prices	–	–	–	–	25,887
	–	–	–	–	**25,887**
Total financial assets for trading	–	–	–	–	**268,763**

(ii) Detail of fair value measurement in Level 3

The following table shows a reconciliation from the opening balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

in thousands of EUR	Shares	Bonds	Total
Balance at 1 January 2018	76	1,320	1,396
Total gains (losses) recognized in profit or loss	22	(145)	(123)
Additions	1	8	9
Disposals	–	(654)	(654)
Transfer to Level 1	–	(660)	(660)
Transfer from Level 2	–	1,680	1,680
Interest income less interest received	–	9	9
Effect of movements in foreign exchange	–	(10)	(10)
Balance at 31 December 2018	**99**	**1,548**	**1,647**
Balance at 1 January 2017	270	1,710	1,980
Total gains (losses) recognized in profit or loss	(20)	(2)	(22)
Additions	3	1,304	1,307
Disposals	–	(29)	(29)
Transfer to Level 2	(192)	(1 755)	(1 947)
Transfer from Level 1	–	1	1
Interest income less interest received	–	6	6
Effect of movements in foreign exchange	15	85	100
Balance at 31 December 2017	**76**	**1,320**	**1,396**

Based on changes in market conditions for some financial instruments, derived market prices for these instruments became available as at 31 December 2018. Bonds amounting to EUR 660 thousand (31 December 2017: nil) were therefore transferred from Level 3 to Level 1. As sufficient information for measuring the fair values based on observable market inputs were not available in 2018, bonds amounting to EUR 1,680 thousand (31 December 2017: nil) were transfered from Level 2 to Level 3.

On the other hand, for bonds amounting to EUR 871 thousand, for shares amounting to EUR 508 thousand and other financial assets amounting to EUR 390 thousand derived market prices became available and thus were transferred from Level 2 to Level 1 (31 December 2017: nil). Derived market prices for some financial instruments were not available as at 31 December 2018, and thus bonds amounting to EUR 608 thousand were transfered from Level 1 to Level 2 (31 December 2017: nil).

14.2. Trading liabilities

in thousands of EUR	31 December 2018	31 December 2017
NON-DERIVATIVE TRADING LIABILITIES		
Other trading liabilities	9	5,184
Total non-derivative trading liabilities	**9**	**5,184**
TRADING DERIVATIVES		
Forward currency contracts	7,415	21,555
Cross currency swaps	1,624	28
Put share options	180	–
Commodity derivatives	20	111
Total trading derivatives	**9,239**	**21,694**
Fair value measurement of trading liabilities	**9,248**	**26,878**

Fair value measurement of trading liabilities

in thousands of EUR	31 December 2018	31 December 2017
FAIR VALUE OF NON-DERIVATIVE TRADING LIABILITIES		
Level 1 – quoted market prices	9	265
Level 2 – derived from quoted prices	–	4,919
	9	**5,184**
FAIR VALUE OF TRADING DERIVATIVES		
Level 2 – derived from quoted prices	9,239	21,694
	9,239	**21,694**
Total trading liabilities	**9,248**	**26,878**

There were no transfers of trading liabilities between Level 1, Level 2 or Level 3 of the fair value hierarchy for the years ended 31 December 2018 and 2017.

15. HEDGING DERIVATIVES

in thousands of EUR	31 December 2018	31 December 2017
HEDGING DERIVATIVES (ASSETS)		
Forward currency contracts	28	317
Total hedging derivatives (assets)	**28**	**317**
HEDGING DERIVATIVES (LIABILITIES)		
Interest rate swaps	4,656	3,738
Portfolio fair value hedges of interest rate risk	951	–
Forward currency contracts	2	–
Total hedging derivatives (liabilities)	**5,609**	**3,738**

The Group uses hedging derivatives to hedge the fair value of recognized assets (bonds with fixed income denominated in euros). The Group entered into interest rate swaps to hedge the changes in fair value caused by changes in risk-free interest rates. The Group hedges the interest rate risk faced by a portfolio of fixed rate loans by the use of interest rate swaps.

Fair value measurement of hedging derivative assets and liabilities

in thousands of EUR	31 December 2018	31 December 2017
FAIR VALUE OF HEDGING DERIVATIVE ASSETS		
Level 2 – derived from quoted prices	28	317
	28	**317**
FAIR VALUE OF HEDGING DERIVATIVE LIABILITIES		
Level 2 – derived from quoted prices	5,609	3,738
	5,609	**3,738**

There were no transfers of hedging derivatives between Level 1, Level 2 or Level 3 of the fair value hierarchy for the years ended 31 December 2018 and 2017.

16. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

in thousands of EUR	31 December 2018 (IFRS 9)
Shares	6,993
Investment funds units	218,599
Investment securities mandatorily at fair value through profit or loss	**225,592**
Bonds	2,016
Investment securities designated at fair value through profit or loss	**2,016**
Total investment securities measured at fair value through profit or loss (IFRS 9)	**227,608**

Investment securities mandatorily at fair value through profit or loss comprise primarily shares and investment fund units as at 31 December 2018. Investment fund units as at 31 December 2018 comprise primarily funds that focus on real estate development and investments into a mix of shares and debt instruments of global firms and exchange traded funds.

As at 31 December 2018 there are no pledged investment securities at FVTPL.

in thousands of EUR	31 December 2017 (IAS 39)
Shares	6,603
Other financial assets	4,274
Total investment securities measured at fair value through profit or loss (IAS 39)	**10,877**

As at 31 December 2017 there were no pledged investment securities at FVTPL.

(i) Fair value measurement of investment securities measured at fair value through profit or loss
Investment securities mandatorily at fair value through profit or loss

As at 31 December 2018

in thousands of EUR	Shares	Investment funds units	Total
Level 1 – quoted market prices	—	2,477	2,477
Level 2 – derived from quoted prices	5,084	186,324	191,408
Level 3 – calculated using valuation techniques	1,909	29,798	31,707
	6,993	**218,599**	**225,592**

Investment securities designated at fair value through profit or loss

As at 31 December 2018

in thousands of EUR	Bonds
Level 1 – quoted market prices	2,016
	2,016

As at 31 December 2017 (IAS 39)

in thousands of EUR	Shares	Investment funds units	Total
Level 1 – quoted market prices	–	2,435	2,435
Level 2 – derived from quoted prices	4,694	567	5,261
Level 3 – calculated using valuation techniques	1,909	1,272	3,181
	6,603	**4,274**	**10,877**

(ii) Detail of fair value measurement in Level 3

The following table shows a reconciliation from the opening balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

Investment securities mandatorily at fair value through profit or loss

in thousands of EUR	Shares	Investment funds unit	Total
Balance at 31 December 2017 – IAS 39	1,909	1,272	3,181
Reclassification on initial application of IFRS 9	–	23,645	23,645
Balance at 1 January 2018 – IFRS 9	**1,909**	**24,917**	**26,826**
Total gains recognized in profit or loss	–	1,103	1,103
Additions	–	4,962	4,962
Disposals	–	(1,017)	(1,017)
Effect of movements in foreign exchange	–	(167)	(167)
Balance at 31 December 2018	**1,909**	**29,798**	**31,707**

There were no transfers of investment securities mandatorily at fair value through profit or loss between the levels of the fair value hierarchy during 2018.

Investment securities designated at fair value through profit or loss

In 2018 there were no investments securities designated at FVTPL in Level 3 of the fair value hierarchy.

Based on changes in market conditions for some financial instruments, market prices for these instruments become available as at 31 December 2018. Bonds designated at FVTPL amounting to EUR 2,016 thousand were therefore transferred from Level 2 to Level 1 as at that date.

in thousands of EUR	Shares	Investment funds unit	Total
Balance at 1 January 2017 – IAS 39	**437**	**1,087**	**1,524**
Total gains recognized in profit or loss	1,096	102	1,198
Additions	35,788	177	35,965
Disposals	(30,718)	(5)	(30,723)
Transfer to Level 2	(4,694)	—	(4,694)
Effect of movements in foreign exchange	—	(89)	(89)
Balance at 31 December 2017 – IAS 39	**1,909**	**1,272**	**3,181**

During 2017 sufficient information for measuring the fair values based on observable market inputs became available for some securities and thus shares amounting EUR 4,694 thousand were transfered from Level 3 to Level 2.

17. INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (PREVIOUSLY AVAILABLE FOR SALE)

in thousands of EUR	31 December 2018 (IFRS 9)
Shares	26,057
Investments funds units	3
Bonds (for impairment details refer to Note 24 (f))	741,035
Total investment securities at fair value through other comprehensive income – IFRS 9	**767,095**

Investment securities at fair value through other comprehensive income comprise primarily bonds, out of which the majority is represented by government bonds (48%) and corporate bonds (36%) as at 31 December 2018.

The maturity of the bonds is between 2019 and 2047. Bonds with maturity in 2047 are in amount of EUR 422 thousand. Shares as at 31 December 2018 comprise primarily corporate shares (78%), the remainder are the shares of financial institutions.

Since initial application of IFRS 9 the vast majority of investment fund units has been measured at fair value through profit or loss, refer to Note 16 Investment securities at fair value through profit or loss.

The FVOCI designation was made because the investments are expected to be held for the long term for strategic purposes.

As at 31 December 2018 pledged investment securities at FVOCI amount to EUR 118,510 thousand.

in thousands of EUR	31. prosinec 2017 (IAS 39)
Shares	26,187
Investments funds units	222,644
Bonds	772,347
Total investment securities available for sale – IAS 39	**1,021,178**

Investment securities available for sale comprised primarily bonds (particularly government bonds representing 60%) and investment fund units (mainly of banking entities representing 49% of investment funds units).

The maturity of the bonds is between 2018 and 2047. Bonds with maturity in 2047 are in amount of EUR 444 thousand. Shares as at 31 December 2017 comprised primarily corporate shares (67%).

As at 31 December 2017 pledged investment securities available for sale amounted to EUR 191,963 thousand.

(i) Fair value measurement of investment securities at fair value through other comprehensive income (IAS 39 - available for sale)

31 December 2018 (IFRS 9)

in thousands of EUR	Shares	Investment funds units	Bonds	Total
Level 1 – quoted market prices	6,888	–	542,761	549,649
Level 2 – derived from quoted prices	12,651	–	91,290	103,941
Level 3 – calculated using valuation techniques	6,518	3	106,984	113,505
	26,057	**3**	**741,035**	**767,095**

31 December 2017 (IAS 39: Available for sale)

in thousands of EUR	Shares	Investment funds units	Bonds	Total
Level 1 – quoted market prices	11,768	–	586,587	598,355
Level 2 – derived from quoted prices	10,359	198,999	84,025	293,383
Level 3 – calculated using valuation techniques	4,060	23,645	101,735	129,440
	26,187	**222,644**	**772,347**	**1,021,178**

(ii) Detail of fair value measurement in Level 3

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy:

in thousands of EUR	Akcie	Podílové listy investičních fondů	Dluhopisy	Celkem
Balance at 31 December 2017 – IAS 39	4,060	23,645	101,735	129,440
Reclassification to FVTPL on initial application of IFRS 9	–	(23,645)	–	(23,645)
Balance at 1 January 2018 – IFRS 9	**4,060**	**–**	**101,735**	**105,795**
Total gains (losses) recognized in other comprehensive income	(1)	–	881	880
Total gains for the period recognised in profit or loss	–	–	–	–
Additions	2,373	3	13,462	15,838
Disposals	(83)	–	(8,920)	(9,003)
Interest income less interest received	–	–	(303)	(303)
Effect of movements in foreign exchange	169	–	129	298
Balance at 31 December 2018 – IFRS 9	**6,518**	**3**	**106,984**	**113,505**

During 2018, there were no transfers into or out of Level 3 of the fair value hierarchy. However, as for some financial instruments market prices were not available as at 31 December 2018, shares amounting EUR 1,494 thousand were transferred from Level 1 to Level 2. On the other hand, due to changes in market conditions for some instruments, market prices from the active market became available and bonds amounting to EUR 53,011 thousand were therefore transferred from Level 2 to Level 1. There were no other transfers between levels in 2018.

The majority (63%) of the bonds presented under Level 3 comprise bonds of an issuer owning real estate properties (mainly land), for which comparative valuation methods based on current land market prices were used.

in thousands of EUR	Shares	Investment funds units	Bonds	Total
Balance at 1 January 2017 – IAS 39	5,104	227	82,686	88,017
Total gains (losses) recognized in other comprehensive income	–	1,198	(1,442)	(244)
Total gains (losses) for the period recognised in profit or loss	(7)	(595)	(3,781)	(4,383)
Additions	3,688	3,887	18,613	26,188
Disposals	(123)	(1,083)	–	(1,206)
Transfer from Level 2	–	19,332	–	19,332
Transfer to Level 2	(4,810)	–	–	(4,810)
Interest income less interest received	–	–	592	592
Effect of movements in foreign exchange	208	679	5,067	5,954
Balance at 31 December 2017 – IAS 39	**4,060**	**23,645**	**101,735**	**129,440**

Based on changes in market conditions for some financial instruments, derived market prices for these instruments were not available as at 31 December 2017 and thus investment funds units available for sale amounting to EUR 19,332 thousand were transferred from Level 2 to Level 3. On the other hand, sufficient information for measuring the fair values based on observable market inputs became availabe in 2017 for some securities and thus shares amounting EUR 4,810 thousand were transferred from Level 3 to Level 2. There were no other transfers between levels in 2017.

As at 31 December 2017 the majority (66%) of the bonds presented under Level 3 comprise bonds of an issuer owning real estate properties (mainly land), for which comparative valuation methods based on current land market prices were used.

18. INVESTMENT SECURITIES AT AMORTISED COST (PREVIOUSLY HELD TO MATURITY)

in thousands of EUR	31 December 2018 (IFRS 9)
Slovak government bonds	280,586
Government bonds of other European Union countries	22,801
Financial institution and corporate bonds	128,456
Bills of exchange	10,357
Less impairment loss allowance (refer to Note 24)	(2,445)
Total investment securities at amortised cost – IFRS 9	**439,755**

Government bonds represent 70% of the total of bonds at amortised cost as at 31 December 2018. A further 25% of the bond portfolio are coporate bonds.

The maturity of the bonds is between 2019 and 2046. Bonds with maturity in 2046 are of EUR 988 thousand.

Pledged investment securities at amortised cost total EUR 168,525 thousand as at 31 December 2018.

For expected credit losses relating to investment securities at amortised cost refer to Note 24.

in thousands of EUR	31 December 2017 (IAS 39)
Slovak government bonds	270,319
Government bonds of other European Union countries	7,476
Financial institution and corporate bonds	27,595
Bills of exchange	–
Less impairment loss allowance	(2)
Total investment securities held to maturity – IAS 39	**305,388**

Government bonds represented 91% of the total of bonds at amortised cost as at 31 December 2017. Corporate bonds represented only 2% of the bond portfolio as at that date.

The maturity of the bonds was between 2018 and 2046. Bonds with maturity in 2046 were of EUR 1,000 thousand.

Pledged investment securities held to maturity totaled EUR 168,385 thousand as at 31 December 2017.

19. DISPOSAL GROUP HELD FOR SALE

in thousands of EUR	31 December 2018	31 December 2017
Disposal group held for sale	2,507	4,210
Property, plant and equipment	7,880	12,868
Total assets	10,387	17,078

The Group did not recognize any cumulative income or expense accumulated in other comprehensive income relating to the disposal group held for sale as at 31 December 2018 nor 31 December 2017.

Property, plant and equipment is represented by collateralized assets provided to secure loan receivables. Such assets are expected to be sold within one year to satisfy receivables from the defaulted loans.

In 2018 and 2017 the disposal group held for sale stands for J&T Ostravice Active Life UPF, which was acquired exclusively with a view to its subsequent disposal. The sale of J&T Ostravice Active Life UPF was delayed by the approval process of the land plan, which is out of the Group's control. Approving of the land plan is an inevitable condition to run the entity's activities and commence the sale.

20. LOANS AND ADVANCES TO BANKS

in thousands of EUR	31 December 2018	31 December 2017
Loans in reverse repurchase agreements (refer to Note 22.2)	2,201,053	2,269,070
Current accounts with banks	59,014	77,238
Loans and advances with original maturities of three months or less	30,932	48,111
Term deposits	63	2,388
Other	18	17
Less impairment loss allowance (refer to Note 24)	(116)	–
Net loans and advances to banks at amortised cost	**2,290,964**	**2,396,824**

21. LOANS AND ADVANCES TO CUSTOMERS

in thousands of EUR	31 December 2018	31 December 2017
Loans and advances to customers	5,697,365	5,139,184
Overdrafts	401,404	479,577
Debt securities	3,875	122,731
Loans in reverse repurchase agreements (Note 22.2)	98,953	64,391
Other loans and advances	46,213	83,866
Less allowance for impairment of loans (refer to Note 24)	(363,850)	(278,603)
Net loans and advances to customers at amortised cost	**5,883,959**	**5,611,146**
Loans and advances to customers at FVTPL mandatorily	2,485	—
Loans and advances to customers at FVTPL	**2,485**	**—**
Total net loans and advances to customers	**5,886,444**	**5,611,146**

In 2018 the Group had loans to four customers with an aggregated balance of EUR 873,304 thousand (2017: four customers with an aggregated balance of EUR 846,852 thousand).

A significant part of the loans provided to customers relates to financing of projects and, as such, the repayment is dependent on realisation of the assets acquired by the customers financed by these loans as part of the projects. The assets are, in many cases, pledged in favour of the Group. Management believes that these receivables will be repaid in full.

The amount of non-interest bearing loans as at 31 December 2018 totaled EUR 3,955 thousand (2017: EUR 4,140 thousand). Receivables from these loans are fully provided for.

The loans and advances from finance leases are analyzed in Note 40.2. Finance lease.

22. REPURCHASE AND RESALE AGREEMENTS

22.1. Repurchase agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price, plus interest at a predetermined rate. At 31 December 2018 and 2017, total assets sold under repurchase agreement were as follows:

31 December 2018

in thousands of EUR	Fair value of underlying asset	Carrying amount of liability	Repurchase price
Loans and advances from customers (Note 30)	**559**	**584**	**584**
— maturity up to 1 month	472	473	473
— maturity 6-12 months	87	111	111
Loans and advances from banks (Note 29)	**106,662**	**99,710**	**97,719**
— maturity up to 1 month	106,662	99,710	97,719
Total	**107,221**	**100,294**	**100,303**

31 December 2017

in thousands of EUR	Fair value of underlying asset	Carrying amount of liability	Repurchase price
Loans and advances from customers (Note 30)	**2,139**	**2,163**	**2,171**
— maturity up to 1 month	1,466	1,490	1,491
— maturity 6-12 months	673	673	680
Loans and advances from banks (Note 29)	**814,022**	**804,418**	**803,527**
— maturity up to 1 month	419,321	413,272	412,861
— maturity 6-12 months	394,701	391,146	390,666
Total	**816,161**	**806,581**	**805,698**

22.2. Reverse repurchase agreements

The Group also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). Reverse repurchases are entered into as a facility to provide funds to customers. At 31 December 2018 and 2017, total assets purchased subject to agreements to resell them were as follows:

31 December 2018

in thousands of EUR	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase price
Loans and advances to customers (Note 21)	**147,102**	**98,953**	**99,326**
— maturity up to 1 month	42,774	29,480	29,538
— maturity 1-6 months	104,328	69,473	69,788
Loans and advances to banks (Note 20)	**2,179,123**	**2,201,053**	**2,201,879**
— maturity up to 1 month	2,179,123	2,201,053	2,201,879
Total	**2,326,225**	**2,300,005**	**2,301,205**

31 December 2017

in thousands of EUR	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase price
Loans and advances to customers (Note 21)	**101,459**	**64,391**	**61,493**
— maturity up to 1 month	4,987	4,361	1,278
— maturity 1-6 months	96,472	60,030	60,215
Loans and advances to banks (Note 20)	**2,236,574**	**2,269,070**	**2,234,971**
— maturity up to 1 month	2,235,777	2,267,955	2,233,856
— maturity 1-6 months	797	1,115	1,115
Total	**2,338,033**	**2,333,461**	**2,296,464**

Loans and advances to banks with an original maturity up to three months are disclosed as cash and cash balances at central banks.

23. TRADE RECEIVABLES AND OTHER ASSETS

in thousands of EUR	31 December 2018	31 December 2017
Purchased receivables	21,365	34,775
— brutto	21,822	35,333
— allowance	(457)	(558)
Trade receivables	25,122	27,354
— brutto	33,818	34,460
— allowance	(8,696)	(7,106)
Securities settlement balances	14,023	28,643
Expected proceeds from liquidation	—	5,892
— brutto	9,207	8,952
— allowance	(9,207)	(3,060)
Receivables from insurance and reinsurance	678	751
— brutto	1,013	1,059
— allowance	(335)	(308)
Other tax receivables	572	1,836
Other receivables	15,310	40,803
— brutto	16,390	41,702
— allowance	(1,080)	(899)
Total receivables presented under risk management at amortised cost (refer to Note 41)	**77,069**	**140,054**
Prepayments	15,589	16,673
Advance payments	13,701	4,340
— gross	13,701	4,340
— allowance	—	—
Inventories	7,954	7,146
Other	6,975	8,069
— brutto	7,081	8,138
— allowance	(106)	(69)
Total non-financial receivables and other assets	**44,219**	**36,228**
Total trade receivables and other assets	**121,288**	**176,282**

Other receivables as at 31 December 2018 include other individually insignificant items, such as collateral received for the purposes of derivative trading.

For details on ECL refer to Note 24.

24. AMOUNTS ARISING FROM EXPECTED CREDIT LOSSES (ECL)

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3 (h). Comparative amounts for 2017 represent the allowance account for incurred credit losses and reflect the measurement basis under IAS 39. The difference between the balances as at 31 December 2017 and 1 January 2018 represents the impact of initial application of IFRS 9 as at 1 January 2018.

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

in thousands of EUR	2018 12-month ECL	2017 Total
Balance at 1 January	**242**	**–**
Net remeasurement of loss allowance	65	–
New financial assets originated or purchased	32	
Net decrease in cash and cash balances	(23)	–
Foreign exchange and other movements	1	–
Balance at 31 December (refer to Note 13)	**317**	**–**

(b) Investment securities at amortised cost

in thousands of EUR	2018 12-month ECL	2018 Lifetime ECL not credit-impaired	2018 Total	2017 Total
Balance at 1 January	**1,335**	**–**	**1,335**	**11**
Net remeasurement of loss allowance	1,012	–	1,012	(9)
New financial assets originated or purchased	174	–	174	–
Derecognition	(73)	–	(73)	–
Foreign exchange and other movements	(3)	–	(3)	–
Balance at 31 December (refer to Note 18)	**2,445**	**–**	**2,445**	**2**

(c) Loans and advances to banks at amortised cost

in thousands of EUR	2018 12-month ECL	2018 Lifetime ECL not credit-impaired	2018 Lifetime ECL credit-impaired	2018 Total	2017 Total
Balance at 1 January	**122**	**–**	**–**	**122**	**–**
Net remeasurement of loss allowance	(18)	–	–	(18)	–
New financial assets originated or purchased	147	–	–	147	–
Derecognition	(131)	–	–	(131)	–
Effect of movements in foreign exchange	(4)	–	–	(4)	–
Balance at 31 December (refer to Note 20)	**116**	**–**	**–**	**116**	**–**

(d) Loans and advances to customers at amortised cost

in thousands of EUR	2018 12-month ECL	2018 Lifetime ECL not credit-impaired	2018 Lifetime ECL credit-impaired	2018 Purchased credit-impaired	2018 Total	2017 Individual	2017 Collective	2017 Total
Balance at 1 January	**49,069**	**18,883**	**262,643**	**2,639**	**333,234**	**153,896**	**91,870**	**245,766**
Transfer to 12-month ECL	9,978	(9,159)	(819)	–	–	–	–	–
Transfer to lifetime ECL not credit-impaired	(14,292)	14,873	(581)	–	–	–	–	–
Transfer to lifetime ECL credit-impaired	(48)	(11,896)	11,944	–	–	–	–	–
Net remeasurement of loss allowance	(6,823)	17,763	72,275	(580)	82,635	–	–	–
New financial assets originated or purchased	20,932	2,038	17,168	–	40,138	–	–	–
Creation	–	–	–	–	–	70,388	36,186	106,574
Release	–	–	–	–	–	(21,975)	(36)	(22,011)
Use	–	–	–	–	–	(23,515)	(31,147)	(54,662)
Derecognition	(13,141)	(2,670)	(71,900)	(683)	(88,394)	–	–	–
Write-offs	–	–	(490)	(8)	(498)	–	–	–
Changes due to modification without derecognition (netto)	(10)	20	(2,230)	–	(2,220)	–	–	–
Effect of movements in foreign exchange	(89)	169	(973)	(152)	(1,045)	2,935	1	2,936
Balance at 31 December (refer to Note 21)	**45,576**	**30,021**	**287,037**	**1,216**	**363,850**	**181,729**	**96,874**	**278,603**

The changes in the loss allowance are represented mainly by decrease due to derecognition in the amount of EUR 88,394 thousand (primarily due to settlement of financial instruments with gross carrying amount of EUR 2,049,831 thousand). On the other hand, new loans and advances to customers at amortised cost were raised with gross carrying amount of EUR 2,738,011 thousand causing the increase in loss allowance by EUR 40,138 thousand.

Increases in credit risk are reflected in both the Net remeasurement amount and Transfers to stages with higher probability of default. These transfers decreased the gross carrying amount in Stage 1 by EUR 113,386 thousand, and increased the gross amount in Lifetime ECL not credit-impaired by EUR 78,814 thousand and in Lifetime ECL credit-impaired by EUR 34,572 thousand.

(e) Trade receivables presented under risk management at amortised cost

in thousands of EUR	2018 12-month ECL	2018 Lifetime ECL not credit -impaired	2018 Lifetime ECL credit-impaired	2018 Total	2017 Total
Balance at 1 January	**–**	**320**	**11,665**	**11,985**	**7,802**
Transfer to 12-month ECL	–	–	–	–	–
Transfer to lifetime ECL credit-impaired	–	(18)	18	–	–
Net remeasurement of loss allowance	–	(29)	5,979	5,950	–
New financial assets originated or purchased	–	1,316	930	2,246	–
Creation					6,444
Release	–	–	–	–	(1 782)
Use	–	–	–	–	(453)
Derecognition	–	(36)	(234)	(270)	–
Write-offs	–	(13)	(131)	(144)	–
Effect of movements in foreign exchange	–	(77)	85	8	(80)
Balance at 31 December (refer to Note 23)	**–**	**1,463**	**18,312**	**19,775**	**11,931**

(f) Debt investment securities at FVOCI

in thousands of EUR	2018 12-month ECL	2018 Lifetime ECL not credit -impaired	2018 Lifetime ECL credit-impaired	2018 Total	2017 Total
Balance at 1 January	**3,801**	**–**	**–**	**3,801**	**–**
Net remeasurement of loss allowance	(1,892)	–	–	(1,892)	–
New financial assets originated or purchased	620	–	–	620	–
Derecognition	(538)	–	–	(538)	–
Write-offs	–	–	–	–	–
Effect of movements in foreign exchange	12	–	–	12	–
Balance at 31 December	**2,003**	**–**	**–**	**2,003**	**–**

(g) Loan commitments and financial guarantee contracts

in thousands of EUR	2018 12-month ECL	2018 Lifetime ECL not credit-impaired	2018 Lifetime ECL credit-impaired	2018 Total	2017 Total
Balance at 1 January	**2,642**	**2,305**	**5,838**	**10,785**	**6,554**
Transfer to 12-month ECL	383	(382)	(1)	–	–
Transfer to lifetime ECL not credit-impaired	(2)	2	–	–	–
Net remeasurement of loss allowance	(1,979)	(1,021)	1,798	(1,202)	–
New commitments and financial quarantees issued	3,896	1,629	139	5,664	–
Commitments and financial guarantees derecognized	(2,016)	(1,724)	(2,515)	(6,255)	–
Provisions recorded during the period	–	–	–	–	1,653
Provisions used during the period	–	–	–	–	(64)
Provisions reversed during the period	–	–	–	–	(6,207)
Changes due to modification	(51)	63	–	12	–
Other movements	(236)	–	–	(236)	–
Foreign exchange and other movements	(30)	2	(23)	(51)	(1)
Balance at 31 December	**2,607**	**874**	**5,236**	**8,717**	**1,935**

25. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

in thousands of EUR	31 December 2018	31 December 2017
Interest in associate	23,120	399
Total interests in equity accounted investees	**23,120**	**399**

Joint ventures

As at 31 December 2018 the Group has no investments in joint ventures.

During 2017, the Group had interest in two individually immaterial joint ventures established by contractual agreement that were sold by the end of 2017.

The table analyses, in aggregate, the share of profit and other comprehensive income of these joint ventures:

in thousands of EUR	31 December 2017
Carying amount of interests in joint ventures	–
Group's share of:	
Loss from continuing operations	(661)
Other comprehensive income	17
Total share of comprehensive income from joint ventures	**(644)**

Reconciliation of summarised financial information:

in thousands of EUR	2017
Opening net assets value (100%)	**1,288**
Loss for the period	(1,322)
Other comprehensive income	34
Closing net assets value (100%)	**–**
Interests in joint ventures (50%)	**–**

Associates

The table below analyses the share of profit and other comprehensive income from associates:

in thousands of EUR	31 December 2018	31 December 2017
Carying amount of interests in associates	23,120	399
Group´s share of:		
Profit from continuing operations	1,441[10]	–
Other comprehensive income	(7)	30
Total share of comprehensive income from associates	**1,434**	**30**

In 2018 the Group acquired a 45% interest in URE HOLDING LIMITED for USD 23,946 thousand. URE HOLDING LIMITED is a company organized and existing under the law of the Republic of Cyprus and is not publicly traded. The interest is accounted for using the equity method.

The following table summarises the financial information of URE HOLDING LIMITED as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in URE HOLDING LIMITED.

in thousands of EUR	2018
Percentage of ownership interest	**45%**
Non-current assets	119,019
Current assets	3,939
Non-current liabilities	(71,823)
Current liabilities	(644)
Net assets (100%)	**50,491**
Group's share of net assets (45%)	22,721
Carrying amount of interest in associate	**22,721**
Revenue	–
Profit from continuing operations (100%)	–
Other comprehensive income (100%)	4
Total comprehensive income (100%)	4
Total comprehensive income (45%)	**2**
Group's share of total comprehensive income (45%)	**2**

[10] Profit from continuing operations also includes a gain on a bargain purchase resulting from the acquisiton of URE HOLDING LIMITED. The gain on the bargain purchase has been already reflected in the amount of interest in the associate at acquisition.

26. INVESTMENT PROPERTY

in thousands of EUR	2018	2017
Balance at 1 January	149,194	7,656
Additions	531	854
Change in fair value (refer to Note 11)	(2,797)	–
Transfer to property, plant and equipment	–	(360)
Disposals	(1,315)	–
Incoming entities	–	141,620
Effect of movement in foreign exchange	(943)	(576)
Balance at 31 December	**144,670**	**149,194**

Investment property as at 31 December 2018 includes buildings in amount of EUR 105,552 thousand (2017: buildings in amount of EUR 110,168 thousand) and lands in amount of EUR 39,118 thousand (2017: lands in amount of EUR 39,026 thousand).

No investment property was subject to pledges as at 31 December 2018 and 2017.

Investment property was insured up to an amount of EUR 70,310 thousand as at 31 December 2018 (2017: EUR 67,031 thousand).

27. INTANGIBLE ASSETS

in thousands of EUR	Goodwill	Contracts and brand	Customer relationships	Software and other intangible assets	Total
PURCHASE PRICE					
Balance at 1 January 2017	21,468	66,160	15,412	29,206	132,246
Additions	–	–	–	16,498	16,498
Acquisitions through business combinations	3,725	–	–	69	3,794
Amortization charge for the year	–	(6,616)	(5,640)	(8,869)	(21,125)
Impairment	(5)	–	(806)	–	(811)
Transfers from tangible assets	–	–	–	15	15
Disposals	–	–	–	(1,875)	(1,875)
Effect of movements in foreign exchange	68	–	13	388	469
Balance at 31 December 2017	**25,256**	**59,544**	**8,979**	**35,432**	**129,211**
Balance at 1 January 2018	25,256	59,544	8,979	35,432	129,211
Additions	–	164	253	16,182	16,599
Acquisitions through business combinations	2,788	–	–	118	2,906
Amortization charge for the year	–	(6,619)	(4,461)	(11,077)	(22,157)
Disposals	–	–	–	(204)	(204)
Effect of movements in foreign exchange	(23)	–	(1)	305	281
Balance at 31 December 2018	**28,021**	**53,089**	**4,770**	**40,756**	**126,636**

Assets under development and borrowing costs

As at 31 December 2018 the cost of intangible assets under development (included in Other intangible assets) was EUR 1,177 thousand (2017: EUR 1,495 thousand).

There were no capitalised borrowing costs related to the acquisition of intangible assets during the year (2017: nil).

28. PROPERTY, PLANT AND EQUIPMENT

in thousands of EUR	Land and buildings	Fixtures, fittings and equipment	Total
Balance at 1 January 2017	30,716	13,235	43,951
Additions	2,917	6,123	9,040
Acquisitions through business combinations	94,011	970	94,981
Depreciation charge for the year	(2,292)	(4,846)	(7,138)
Impairment	(21)	552	531
Transfers from investment property	360	–	360
Transfer (to)/from intangible assets	–	(15)	(15)
Disposals	(576)	(549)	(1,125)
Effect of movements in foreign exchange	(891)	(449)	(1,340)
Balance at 31 December 2017	**124,224**	**15,021**	**139,245**
Balance at 1 January 2018	124,224	15,021	139,245
Additions	2,750	7,289	10,039
Acquisitions through business combinations	2,471	–	2,471
Depreciation charge for the year	(4,997)	(5,075)	(10,072)
Impairment	35	22	57
Disposals	(321)	180	(141)
Effect of movements in foreign exchange	(1,523)	(70)	(1,593)
Balance at 31 December 2018	**122,639**	**17,367**	**140,006**

As at 31 December 2018 the Group's property, plant and equipment in the amount of EUR 35,912 thousand is subject to pledges (2017: EUR 41,973 thousand).

As at 31 December 2018 the Group's property, plant and equipment was insured up to an amount of EUR 162,609 thousand (2017: EUR 142,525 thousand).

Assets under construction and borrowing costs

As at 31 December 2018 the cost of property, plant and equipment under construction (included in Fixtures, fittings and equipment) was EUR 3,700 thousand (2017: EUR 824 thousand).

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the years 2018 and 2017.

Idle assets

As at 31 December 2018 and 2017 the Group had no material idle assets.

29. DEPOSITS AND LOANS FROM BANKS

in thousands of EUR	31 December 2018	31 December 2017
Term deposits from banks	9,999	22,585
Received loans from repurchase agreements (refer to Note 22.1)	99,710	804,418
Other received loans	127,046	107,516
Deposits and loans from banks at amortised cost	**236,755**	**934,519**
Total deposits and loans from banks	**236,755**	**934,519**

For more information about repurchase agreements see Note 22. Repurchase and resale agreements.

30. DEPOSITS AND LOANS FROM CUSTOMERS

in thousands of EUR	31 December 2018	31 December 2017
Term and escrow deposits	4,880,479	4,250,108
Deposits payable on demand	3,169,894	2,906,094
Received loans from repurchase agreements (refer to Note 22)	584	2,163
Other received loans	13,381	29,313
Deposits and loans from customers at amortised cost	**8,064,338**	**7,187,678**
Total deposits and loans from customers	**8,064,338**	**7,187,678**

For more information about repurchase agreements see Note 22. Repurchase and resale agreements.

31. DEBT SECURITIES ISSUED

in thousands of EUR	31 December 2018	31 December 2017
At amortised cost	531,440	543,925
At FVTPL designated	1,925	–
Total debt securities issued	**533,365**	**543,925**

The following table shows the detail for debt securities issued at amortised cost:

in thousands of EUR	Original currency	Interest rate	Maturity date	31 December 2018	31 December 2017
Bonds listed on Bratislava Stock Exchange	EUR	6.00 %	21.6.2016	–	26
Bonds listed on Bratislava Stock Exchange	EUR	5.25 %	12.12.2018	–	147,423
Bonds listed on Bratislava Stock Exchange	EUR	3.80 %	29.10.2019	97,052	73,534
Bonds listed on Prague Stock Exchange	CZK	3.00 %	25.11.2019	116,378	116,606
Bonds listed on Prague Stock Exchange	CZK	4.00 %	18.7.2022	126,765	126,698
Bonds listed on Bratislava Stock Exchange	EUR	4.00 %	26.10.2023	137,174	–
Total issued bonds				**477,369**	**464,287**
Issued bills of exchange and loan notes				54,071	79,638
Total other debt securities issued				**54,071**	**79,638**
Total debt securities issued at amortised cost				**531 440**	**543 925**

In June 2013 the Group issued 100,000 pieces of bonds with a nominal value of EUR 1,000 per piece. The bonds were listed and traded on the Bratislava Stock Exchange. These bonds were repaid in June 2016, the remaining amount of EUR 26 thousand comprises unclaimed amount of bonds.

In December 2014 the Group issued another 150,000 pieces of bonds with a nominal value of EUR 1,000 per piece that were traded on the Bratislava Stock Exchange. These bonds were fully repaid by 12 December 2018.

In April 2016 the Group issued another 100,000 pieces of bonds with a nominal value of EUR 1,000 per piece that are traded on the Bratislava Stock Exchange and in November 2016 another 1,000 pieces of bonds with a nominal value of CZK 3,000 thousand per piece, that are traded on the Prague Stock Exchange.

In July 2017 the Group issued another 1,080 pieces of bonds with a nominal value of CZK 3,000,000 per piece that are traded on the Prague Stock Exchange.

In August 2018 the Group issued another 150,000 pieces of bonds with a nominal value of EUR 1,000 per piece that are traded on the Bratislava Stock Exchange.

The interest from all issues is paid regularly twice a year.

The Group has not had any defaults of principal or interest or other breaches with respect to its debt securities during the years ended 31 December 2018 and 2017.

The total carrying amount of the bonds issued does not include the amount of the bonds held by companies within the Group.

Reconciliation of movements of liabilities to cash flows arising from financing activities

		Liablities			Equity	
in thousands of EUR	Finance lease liabilities[1]	Debt securities issued	Subordinated debt	Retained earnings and other reserves	Non-controlling interests	Total
Balance as at 1 January 2018	**31**	**543,925**	**57,967**	**907,683**	**73,222**	**1,582,828**
Changes from financing cash flows						
Distribution from share capital to shareholders	–	–	–	–	–	–
Proceeds from issued debt securities	–	169,192	–	–	–	169,192
Payments for buy-back	–	(178,685)	–	–	–	(178,685)
Acquisition of non-controlling interests	–	–	–	(377)	377	–
Disposal of non-controlling interests	–	–	–	1,496	(23,738)	(22,242)
Subordinated debt issued	–	–	–	–	–	–
Subordinated debt paid	–	–	(24,970)	–	–	(24,970)
Payments for finance lease	(29)	–	–	–	–	(29)
Bonus payments from issued other capital instruments	–	–	–	(23,101)	–	(23,101)
Dividends paid	–	–	–	–	(766)	(766)
Total changes from financing cash flows	**(29)**	**(9,493)**	**(24,970)**	**(21,982)**	**(24,127)**	**(80,601)**
The effect of changes in foreign exchange rates	–	(2,235)	(304)	–	–	(2,539)
OTHER CHANGES						
Liablitiy-related						
Interest expense	–	21,220	2,672	–	–	23,99892
Interest paid	–	(20,052)	(2,653)	–	–	(22,705)
Total liability-related other changes	**–**	**1,168**	**19**	**–**	**–**	**1 187**
Total equity-related other changes	**–**	**–**	**–**	**25,384**	**560**	**25,944**
Balance at 31 December 2018	**2**	**533,365**	**32,712**	**911,085**	**49,655**	**1,526,819**

		Liablities			Equity	
in thousands of EUR	Finance lease liabilities[12]	Debt securities issued	Subordinated debt	Retained earnings and other reserves	Non-controlling interests	Total
Balance as at 1 January 2017	**58**	**596,774**	**56,402**	**777,391**	**43,129**	**1,473,754**
Changes from financing cash flows						
Distribution from share capital to shareholders	–	–	–	–	–	–
Proceeds from issued debt securities	–	161,241	–	–	–	161,241
Payments for buy-back	–	(229,459)	–	–	–	(229,459)
Acquisition of non-controlling interests	–	–	–	(370)	22,370	22,000
Disposal of non-controlling interests	–	–	–	1,910	(3,146)	(1,236)
Subordinated debt issued	–	–	3	–	–	3
Subordinated debt paid	–	–	(76)	–	–	(76)
Payments for finance lease	(27)	–	–	–	–	(27)
Bonus payments from issued other capital instruments	–	–	–	(25,143)	–	(25,143)
Dividends paid	–	–	–	–	(553)	(553)
Total changes from financing cash flows	**(27)**	**(68,218)**	**(73)**	**(23,603)**	**18,671**	**(73,250)**
The effect of changes in foreign exchange rates	**–**	**15,529**	**1,505**	**–**	**–**	**17,034**
OTHER CHANGES						
Liablitiy-related						
Interest expense	–	24,200	2,827	–	–	27,027
Interest paid	–	(24,360)	(2,694)	–	–	(27,054)
Total liability-related other changes	**–**	**(160)**	**133**	**–**	**–**	**(27)**
Total equity-related other changes	**–**	**–**	**–**	**153,895**	**11,422**	**165,317**
Balance at 31 December 2017	**31**	**543,925**	**57,967**	**907,683**	**73,222**	**1,582,828**

32. SUBORDINATED DEBT

in thousands of EUR	31 December 2018	31 December 2017
Subordinated debt at amortised cost	32,712	57,967

As at 31 December 2018 subordinated debt includes floating rate subordinated notes issued by J&T FINANCE GROUP SE with an initial amount of EUR 3,001 thousand (2017: EUR 3,002 thousand) with maturity in 2022. Floating rate subordinated notes of J&T BANKA, a.s. were prematurely repaid in 2018 (2017: EUR 25,071 thousand).

Other subordinated debt as at 31 December 2018 includes fixed interest subordinated term deposits in total initial amount of EUR 29,711 thousand (2017: EUR 29,894 thousand) with maturity between 2019 - 2025 (2017: 2018 - 2025).

Floating rate subordinated notes are based on 3 months EURIBOR.

[11] Finance lease liabilities are included under Deposits and loans from customers in the financial statements and thus do not constitute a separate financial statements caption.
[12] Finance lease liabilities are included under Deposits and loans from customers in the financial statements and thus do not constitute a separate financial statements caption.

33. OTHER LIABILITIES

in thousands of EUR	31 December 2018	31 December 2017
Payables to clients from securities trading	220,633	218,025
Employee benefits	50,543	38,787
Securities settlement balances	17,996	13,645
Trade payables	14,563	16,134
Uninvoiced supplies	8,698	10,420
Other liabilities	35,110	53,427
Total other liabilities under risk management (refer to Note 41)	**347,543**	**350,438**
Advance payments received	1,412	4,938
Deferred income	2,795	2,400
Total non-financial other liabilities	**4,207**	**7,338**
Total	**351,750**	**357,776**

Other liabilities include a large number of sundry items that are not significant on an individual basis.

34. PROVISIONS

in thousands of EUR	31 December 2018	31 December 2017
Financial guarantee contracts issued (refer to Note 24)	1,291	–
Loan commitments issued (refer to Note 24)	7,426	1,935
Provisions recognised under IAS 37	23,095	20,877
Total provisions	**31,812**	**22,812**

The Group has issued no loan commitment nor financial guarantee contracts that are measured at fair value throught profit or loss.

in thousands of EUR	Pojistné smlouvy	Jiné	Celkem
Balance at 1 January 2017	13,798	3,212	17,010
Additions through business combinations	–	152	152
Provisions recorded during the period	3,120	1,660	4,780
Provisions used during the period	–	(738)	(738)
Provisions reversed during the period	–	(454)	(454)
Foreign exchange gain	–	127	127
Balance at 31 December 2017	**16,918**	**3,959**	**20,877**
Balance at 1 January 2018	16,918	3,959	20,877
Additions through business combinations	–	37	37
Provisions recorded during the period	3,112	1,426	4,538
Provisions used during the period	–	(823)	(823)
Provisions reversed during the period	–	(1,547)	(1,547)
Foreign exchange gain	–	13	13
Balance at 31 December 2018	**20,030**	**3,065**	**23,095**

As at 31 December 2018 provisions in amount of EUR 18,487 thousand (2017: EUR 16,184 thousand) are expected to be used later than 12 months after the reporting date. These include mainly provision for life insurance in amount of EUR 17,903 thousand (2017: EUR 15,124 thousand) and provision for unearned premiums of EUR 545 thousand (2017: EUR 521 thousand).

Current provisions of EUR 4,608 thousand include provision for a clients benefit programme (Magnus) of EUR 1,094 thousand (2017: EUR 1,133 thousand).

35. DEFERRED TAX ASSETS AND LIABILITIES

35.1. Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following item:

in thousands of EUR	31 December 2018	31 December 2017
Tax losses carried forward	8,991	5,255

An estimation of the expiry of unrecognized tax losses is as follows:

in thousands of EUR	2019	2020	2021	2022	After 2022
Tax losses	1,790	754	670	3,086	2,691

A deferred tax asset is recognised for the carry forward of unused tax losses only to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Tax losses expire over a period of five years for losses arisen after 1 January 2004 in the Czech Republic. In Slovakia, tax losses arisen after 1 January 2010 can be amortised in the next four years equally each year. Some deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because, due to the varying nature of the sources of these assets, it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

35.2. Recognised deferred tax assets and liabilities

The following deferred tax assets and liabilities have been recognised:

in thousands of EUR	31 December 2018 Assets	31 December 2018 Liabilities	31 December 2017 Assets	31 December 2017 Liabilities
Property, plant and equipment	4,083	2,451	3,752	2,308
Intangible assets	164	12,243	69	14,681
Investment property	108	2,356	109	2,741
Impairment of trade receivables and other assets	70	–	61	–
Investment securities at fair value through other comprehensive income (previously Available for sale)	1,525	3,141	287	4,322
Investment securities at amortised cost (previously Held to maturity)	8	1,977	–	2,882
Employee benefits (IAS 19)	1,083	–	1,026	–
Unpaid interest, net	–	68	1	49
Investment securities at fair value through profit or loss	–	302	–	141
Loans and advances	19,565	1,495	11,733	2,144
Provisions	1,777	–	870	–
Derivatives	181	28	144	–
Tax losses	1,319	–	1,245	–
Other temporary differences	9,983	3	7,942	26
	39,866	24,064	27,239	29,294
Netting[1]	(18 688)	(18 688)	(18 026)	(18 026)
Total	**21,178**	**5,376**	**9,213**	**11,268**

[1] Netting - gross deferred tax assets and liabilities were netted for each individual subsidiary of the Group when applicable.

Many parts of Slovak, Czech and Russian tax legislation remain untested and there is uncertainty about the interpretation that the financial authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available.

36. SHAREHOLDERS' EQUITY

(i) Share capital and share premium

The authorized, issued and fully paid share capital of J&T FINANCE GROUP SE as at 31 December 2018 consists of 10 ordinary shares with a par value of CZK 200 thousand, 13,778,752 ordinary shares with a par value of CZK 1 thousand and 1,999,556,188 ordinary shares with a par value of CZK 1. The shareholders are entitled to receive dividends and to one vote per share at meetings of the Company's shareholders.

(ii) Non-distributable reserves

Non-distributable reserves include the legal reserve fund of the Parent Company and post-acquisition increases in subsidiaries' legal reserves. The legal reserve fund can only be used to cover losses of the Company and it may not be distributed as a dividend. The calculation of the legal reserve is based on local statutory regulations.

Since 1 January 2014, the creation of a legal reserve fund in the Czech Republic is not required.
In Slovakia creation of a legal reserve fund is required at a minimum of 10% of net profit (annually) and up to a minimum of 20% of the registered share capital (cumulative balance).

In Russia creation of a legal reserve fund is required at a minimum of 5% of net profit (annually) up to a minimum of 5% of the registered share capital.

In Croatia creation of a legal reserve fund is required at a minimum of 5% of net profit (annually) and up to a minimum of 5% of the registered share capital.

(iii) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Parent Company. .

(iv) Other reserves and funds

Other reserves comprise changes in the fair value of investment securities at fair value through other comprehensive income (before 1 January 2018 classified as available for sale in accordance with IAS 39).

In 2016 J&T BANKA, a.s. sold to its investors subordinated unsecured certificates with a nominal value of EUR 5 thousand and CZK 100 thousand and no maturity date in the amount of EUR 20,595 thousand. These instruments were disclosed as Other capital instruments in the condensed consolidated statement of changes in equity. These certificates bear a 9% or 10% annual yield, subject to approval, distributed quarterly from retained earnings, and are listed on the Prague Stock Exchange.

The issuance of this instrument, which combines characteristics of equity and debt instruments, was approved by the Czech National Bank ("CNB"). CNB stipulated that these instruments are equity instruments in line with IFRS and that they comply with the regulatory requirements to be recognised as additional capital AT1, part of regulatory capital tier 1 (see also Note 41.5. Capital management).

In 2016 J&T FINANCE GROUP SE also issued and sold subordinated unsecured certificates with a nominal value of EUR 100 thousand and no maturity date in the amount of EUR 200,000 thousand. The whole emission was purchased by CEFC Hainan International Holdings CO., Ltd. These certificates bear a 9% (first two years) and 5% (subsequently) annual yield, subject to approval, distributed semi-annually from retained earnings. Following the approval by the Czech National Bank (CNB) on 21 April 2016, these instruments also comply with the requirements to be recognized as additional capital AT1.

In 2014, a special purpose capital fund (Perpetuity fund) for distribution of yield from certificates described above was established by J&T FINANCE GROUP SE (similar capital fund was established by J&T BANKA in 2014). Both funds are part of retained earnings and distribution of income from the funds complies with the prospectus of the capital instruments. The total amount of yield paid in 2018 was EUR 23,101 thousand (2017: EUR 25,143 thousand) and is presented as distribution of retained earnings in the consolidated statement of changes in equity.

37. NON-CONTROLLING INTEREST

in thousands of EUR	31 December 2018	31 December 2017
Equity Holding, a.s.	21,676	31,931
Poštová banka, a.s.	9,408	9,635
Chateau Teyssier (Société civile)	7,553	7,673
J&T REALITY otevřený podílový fond	4,828	4,947
Poštová poisťovňa, a. s.	3,201	3,144
J&T Banka d.d. (VABA d.d. banka Varaždin)	2,390	2,835
J&T MINORITIES PORTFOLIO LIMITED	–	12,711
Other	599	346
Total non-controlling interests	**49,655**	**73,222**

The following table summarizes the information relating to Equity Holding, a.s., Poštová banka, a.s. and other Group's subsidiaries that have material non-controlling interests before any intra-group eliminations:

31 December 2018

in thousands of EUR	Equity Holding, a.s.	Poštová banka, a.s.	Other individually immaterial subsidiaries	Total
Assets	58,063	4,280,966	–	–
Liabilities	45	3,649,948	–	–
Goodwill attributable to the Group	–	20,033	–	–
Net assets excluding Goodwill attributable to the Group	**58,018**	**610,985**	–	–
Non-controlling interest's percentage	37.36%	1.54%	–	–
Non-controlling interest	**21,676**	**9,408**	–	–
Carrying amount of non-controlling interest	**21,676**	**9,408**	**18,571**	**49,655**
Revenue	2,866	200,604	–	–
Profit	2,283	32,372	–	–
Other comprehensive income	(429)	(891)	–	–
Total comprehensive income	1,854	31,481	–	–
Non-controlling interest's percentage	37.36-62.04%	1.54%	–	–
Profit (loss) allocated to non-controlling interest	**844**	**499**	**333**	**1,676**
Other comprehensive income allocated to non-controlling interest	**(341)**	**(14)**	**(118)**	**(473)**
Cash flows from operating activities	2	44,527	–	–
Cash flows used in investing activities	–	(20,484)	–	–
Cash flows used in financing activities	–	(24,364)	–	–
Net increase (decrease) in cash and cash equivalents	**2**	**(321)**	–	–

31 December 2017

in thousands of EUR	Equity Holding, a.s.	J&T MINOR. PORT. LIMITED	Poštová banka, a.s.	Other individually immaterial subsidiaries	Total
Assets	57,588	22,758	4,350,728	–	–
Liabilities	73	16	3,688,588	–	–
Goodwill attributable to the Group	–	–	20,033	–	–
Net assets excluding Goodwill attributable to the Group	**57,515**	**22,742**	**642,107**	–	–
Non-controlling interest's percentage	62.04 %	39.40 %	1.54 %	–	–
Non-controlling interest	**35,682**	**8,960**	**9,635**	–	–
Indirect non-controlling interest[13]	**(3,751)**	**3,751**	**–**	–	–
Carrying amount of non-controlling interest	**31,931**	**12,711**	**9,635**	**18,945**	**73,222**
Assets	2,622	149	222,170	–	–
Liabilities	2,076	(482)	34,134	–	–
Goodwill attributable to the Group	3,110	–	(13,518)	–	–
Net assets excluding Goodwill attributable to the Group	5,186	(482)	20,616	–	–
Non-controlling interest's percentage[14]	37.36 %	0.00 %	3.28 %	–	–
Non-controlling interest	**776**	**–**	**1,120**	**(556)**	**1,340**
Indirect non-controlling interest	**1,162**	**–**	**(443)**	**1,683**	**2,402**
Cash flows from (used in) operating activities	(7)	(8)	388,293	–	–
Cash flows from investing activities	7	–	70,952	–	–
Cash flows used in financing activities	–	–	(15,097)	–	–
Net increase (decrease) in cash and cash equivalents	**–**	**(8)**	**444,148**	–	–

Changes in non-controlling interests without a change in control

In April 2018 J&T Banka d.d. (VABA d.d. banka Varaždin) bought some of its own shares, which resulted in an increase of the stake held by the Group by 1.41%.

In October 2018, the shares of J&T MINORITIES PORTFOLIO LIMITED previously held by Mr. Ivan Jakabovič and Josef Tkáč were cancelled. As a result, the effective ownership share of the Group in J&T MINORITIES PORTFOLIO LIMITED increased from 60.60% to 100%. J&T MINORITIES PORTFOLIO LIMITED further holds a 62.64% share in Equity Holding, a.s. In October 2018 Poštová banka, a.s. bought a 100% share in Amico Finance, a.s. A share of 5% was subsequently sold in December 2018.

In November 2018 Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s. issued new shares subscribed by J&T Banka, thus the effective ownership of the fund increased from 99.16% to 99.17%.

In July 2017 J&T Banka d.d. (VABA d.d. banka Varaždin) bought some of its own shares, which resulted in increase of the stake held by the Group by 0.21%.

[13] In 2017 the Group owned a 60.60% share in J&T MINORITIES PORTFOLIO LIMITED. J&T MINORITIES PORTFOLIO LIMITED further held a 62.64% share in Equity Holding, a.s. Part of J&T MINORITIES PORTFOLIO LIMITED's investment into Equity Holding, a.s. (39.40%) was thus held by its non-controlling interests.

[14] The non-controlling interest's percentage in J&T MINORITIES PORTFOLIO LIMITED (thus also in its subsidiary Equity Holding, a.s.) and Poštová banka, a.s. changed at the end of the year 2017, therefore the profit allocated to non-controlling interest and Other comprehensive income allocated to non-controlling interest was calculated using the average percentage which was very similar to the percentage prior to the transaction.

In December 2017 J&T MINORITIES PORTFOLIO LIMITED issued new shares that were subscribed by Ivan Jakabovič and Jozef Tkáč for EUR 22,000 thousand. As a result, the ownership share of the Group decreased from 100.00% as at 31 December 2016 to 60.60% as at 31 Decembeer 2017.

J&T MINORITIES PORTFOLIO LIMITED further holds a 62.64% share in Equity Holding, a.s. and the Group's ownership in Equity Holding, a.s. in connection with the transaction described in the previous sentence decreased to 37.96%.

In December 2017 the Group purchased back a share of 5.12% in PBI, a.s. for EUR 1,200 thousand and increased its ownership interest in Poštová banka, a.s. to 98.46%.

The table below summarizes changes in non-controlling interests in those companies where no change in control occurred and does not include effect from disposed, newly purchased or established entities with non-controlling interests.

31 December 2018

in thousands of EUR	Equity Holding, a.s.	J&T MINOR. PORT. LIMITED	Other immaterial	Total
Non-controlling interest at 1 January 2018	31,931	12,711	x	x
Change in Company's ownership interest	(10,758)	(12,711)	108	(23,361)
Share of comprehensive income	503	–	(225)	278
Non-controlling interest at 31 December 2018	**21,676**	**–**	**x**	**x**

31 December 2017

in thousands of EUR	Equity Holding, a.s.	J&T MINOR. PORT. LIMITED	Poštová banka, a.s.	Other immaterial	Total
Non-controlling interest at 1 January 2017	19,568	–	9,740	x	x
Change in Company's ownership interest	10,425	12,711	(554)	(3,358)	19,224
Dividends	–	–	(228)	(325)	(553)
Share of comprehensive income	1,938	–	677	1,127	3,742
Non-controlling interest at 31 December 2017	**31,931**	**12,711**	**9,635**	**x**	**x**

38. FAIR VALUE INFORMATION

The following table is a comparison of the carrying amounts and fair values of the Group's financial assets and liabilities that are not carried at fair value:

31 December 2018

in thousands of EUR	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3	Fair value Total
FINANCIAL ASSETS					
Cash and cash balances at central banks	497,168	–	497,168	–	497,168
Investment securities at amortised cost	439,755	318,936	17,619	117,614	454,169
Loans and advances to banks	2,290,964	–	2,288,170	–	2,288,170
Loans and advances to customers	5,883,959	–	–	6,099,752	6,099,752
Trade receivables and other financial assets under risk management	78,129	–	–	78,129	78,129
FINANCIAL LIABILITIES					
Deposits and loans from banks	236,755	–	237,019	–	237,019
Deposits and loans from customers	8,064,338	–	8,051,353	–	8,051,353
Debt securities issued	531,440	469,273	61,011	–	530,284
Subordinated debt	32,712	–	33,395	–	33,395
Other financial liabilities under risk management	359,344	–	359,344	–	359,344

31 December 2017

in thousands of EUR	Carrying amount	Fair value Level 1	Fair value Level 2	Fair value Level 3	Fair value Total
FINANCIAL ASSETS					
Cash and cash balances at central banks	560,766	–	560,766	–	560,766
Investment securities held to maturity	305,388	297,330	25,874	518	323,722
Loans and advances to banks	2,396,824	–	2,396,299	–	2,396,299
Loans and advances to customers	5,611,146	–	–	5,796,702	5,796,702
Trade receivables and other financial assets under risk management	144,453	–	137,534	6,919	144,453
FINANCIAL LIABILITIES					
Deposits and loans from banks	934,519	–	933,027	–	933,027
Deposits and loans from customers	7,187,678	–	7,188,698	–	7,188,698
Debt securities issued	543,925	462,214	87,313	–	549,527
Subordinated debt	57,967	–	54,107	–	54,107
Other financial liabilities under risk management	355,538	–	355,538	–	355,538

39. FINANCIAL COMMITMENTS AND CONTINGENCIES

in thousands of EUR	31 December 2018	31 December 2017
Loan commitments	599,769	561,565
Financial guarantee contracts	194,762	179,421
Pledged assets	372,788	205,756
Total financial commitments and contingencies	**1,167,319**	**946,742**

Loan commitments relate to loan facilities granted by the banks of the Group. Financial guarantee contracts mostly represent various guarantees issued in relation to loans, bills of exchange issued by other parties, lease contracts and other liabilities of third parties. These guarantees are disclosed in the table above at the amount of the possible obligation in the future. The maximum amount for guarantees given by the Group as at 31 December 2018 is EUR 265,102 thousand (2017: EUR 188,877 thousand). Pledged assets are used as collateral for loan financing.

40. LEASES

40.1. Operating lease

(a) Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

in thousands of EUR	31 December 2018	31 December 2017
Less than one year	9,777	5,629
Between one and five years	12,114	15,825
More than five years	2,998	2,798
Total	**24,889**	**24,252**

The Group leases a number of cars and administration space under operating leases. The administration space leases typically run for an initial period of five to fifteen years, with an option to renew after that date. During the year ended 31 December 2018, EUR 17,018 thousand was recognized as an expense in the income statement in respect of operating leases (2017: EUR 14,258 thousand).

(b) Leases as lessor

The Group leases out its property under operating leases. Non-cancellable operating lease rentals are receivable as follows:

in thousands of EUR	31 December 2018	31 December 2017
Less than one year	720	535
Between one and five years	74	318
Total	**794**	**853**

During the year ended 31 December 2018, EUR 7,154 thousand was recognized as rental income (2017: EUR 1,660 thousand).

40.2. Finance lease

Leases as lessor

The Group offers to its clients finance lease for various assets (e.g. cars, machinery and equipments). The minimum lease payments under finance lease are as follows:

in thousands of EUR	31 December 2018	31 December 2017
GROSS RECEIVABLES FROM FINANCE LEASING		
less than 1 year	5,385	3,351
more than 1 year but less than 5 years	5,943	6,037
more than 5 years	37	1,378
	11,365	**10,766**
Deduction of future financial income	(553)	(1 490)
Present value of future leasing payments	**10,812**	**9,276**
PRESENT VALUE OF RECEIVABLES FROM FINANCE LEASING		
up to 1 year	5,067	3,663
more than 1 year but less than 5 years	5,713	5,341
more than 5 years	32	272
Present value of future leasing payments	**10,812**	**9,276**
Impairment loss allowances	(328)	(370)

41. RISK MANAGEMENT POLICIES AND DISCLOSURES

The Group has exposure to the following risks:
— credit risk
— liquidity risk
— market risk
— operational risks

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

For the purpose of this note, current tax assets are presented within trade receivables and other financial assets under risk management and current tax liability is presented within other financial liabilities under risk management.

41.1. Credit risk

The Group's primary exposure to credit risk arises through its loans and advances provided. The maximum amount of credit exposure is represented by the respective carrying amounts in the statement of financial position. In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credit and financial guarantees (refer to Note 39. Financial commitments and contingencies). Most loans and advances are to corporates (companies from the non-financial sector, retail and various manufacturing companies). Further loans and advances are to banks and other financial institutions.

The carrying amount of loans and advances and the off-balance sheet amounts represent the maximum accounting loss that would be recognised on these items at the statement of financial position date if counterparties failed to perform completely as contracted and any collateral or security proved to be of no value. The Group's policy is to require suitable collateral to be provided by customers prior to the disbursement of loans by the Group.

The assessment of credit risk in respect of a counter-party or an issued debt is based on the Group's internal rating system, covering both external credit assessments and the Group's internal scoring system.

Credit risk in the banking entities of the Group is managed based on credit analysis and the Internal Rating Based (IRB) methodology.

The Group monitors concentrations of credit risk by sector and by geographic location.

(i) Concentration of credit risk by sector

31 December 2018

in thousands of EUR	Corporate	State, government	Financial institutions	Individuals	Other	Carrying amount
ASSETS						
Cash and cash balances at central banks	—	—	425,692	—	71,476	497,168
Financial assets for trading	86,597	91,170	34,881	35	262	212,945
Hedging derrivatives	—	—	—	28	—	28
Investment securities at fair value through profit or loss	35,040	—	192,568	—	—	227,608
Investment securities at fair value through other comprehensive income	284,472	357,749	124,874	—	—	767,095
Investment securities at amortised cost	117,273	299,642	22,840	—	—	439,755
Loans and advances to banks	—	—	2,290,964	—	—	2,290,964
Loans and advances to customers	3,774,542	3	924,839	1,186,629	431	5,886,444
FV changes of portfolio of hedged instruments - Loans and advances to customers	—	—	—	869	—	869
Trade receivables and other financial assets under risk management	53,863	2,356	20,182	1,728	—	78,129
	4,351,787	**750,920**	**4,036,840**	**1,189,289**	**72,169**	**10,401,005**
AMOUNT COMMITTED/GUARANTEED[15]						
Loan commitments	322,958	—	163,565	144,412	15	(7,394)
Financial guarantee contracts	246,227	—	18,875	—	—	(1 323)
	569,185	**—**	**182,440**	**144,412**	**15**	**(8 717)**
Total	**4,920,972**	**750,920**	**4,219,280**	**1,333,701**	**72,184**	**10,392,288**

[15] Amounts committed/guaranteed – credit risk monitoring of loan commitments and financial guarantees is based on maximum credit risk exposure.

31 December 2017

in thousands of EUR	Corporate	State, government	Financial institutions	Individuals	Other	Carrying amount
ASSETS						
Cash and cash balances at central banks	—	—	494,987	—	65,779	560,766
Financial assets for trading	115,786	87,279	65,430	268	—	268,763
Hedging derrivatives	—	—	317	—	—	317
Investment securities at fair value through profit or loss	5,613	—	5,264	—	—	10,877
Investment securities available for sale	259,363	463,517	298,298	—	—	1,021,178
Investment securities held to maturity	5,591	278,795	21,002	—	—	305,388
Loans and advances to banks	—	—	2,396,824	—	—	2,396,824
Loans and advances to customers	3,503,752	9	1,206,931	893,188	7,266	5,611,146
Trade receivables and other financial assets under risk management	104,863	6,955	25,165	7,113	356	144,452
	3,994,968	**836,555**	**4,514,218**	**900,569**	**73,401**	**10,319,711**
AMOUNT COMMITTED/GUARANTEED						
Loan commitments	460,008	—	90,888	144,107	69	(1,935)
Financial guarantee contracts	184,150	—	4,007	720	—	—
	644,158	**—**	**94,895**	**144,827**	**69**	**(1,935)**
Total	**4,639,126**	**836,555**	**4,609,113**	**1,045,396**	**73,470**	**10,317,776**

(ii) Concentration of credit risk by location

31 December 2018

in thousands of EUR	Slovakia	Czech Republic	Cyprus	Croatia	Russia	Other	Carrying amount
ASSETS							
Cash and cash balances at central banks	359,236	95,600	—	32,226	10,102	4	497,168
Financial assets for trading	28,772	109,194	5,567	—	16,294	53,118	212,945
Hedging derivatives	—	28	—	—	—	—	28
Investment securities measured at fair value through profit or loss	37,194	38,887	—	1,387	—	150,140	227,608
Investment securities at fair value through other comprehensive income	330,516	92,670	753	20,187	52,134	270,835	767,095
Investment securities at amortised cost	376,493	41,704	—	—	1,154	20,404	439,755
Loans and advances to banks	10,473	2,224,797	—	1,419	10,296	43,979	2,290,964
Loans and advances to customers	2,327,186	1,118,316	1,233,614	134,392	110,063	962,873	5,886,444
FV changes of portfolio of hedged instruments - Loans and advances to customers	869	—	—	—	—	—	869
Trade receivables and other financial assets under risk management	26,422	22,040	2,226	57	1,471	25,913	78,129
	3,497,161	**3,743,236**	**1,242,160**	**189,668**	**201,514**	**1,527,266**	**10,401,005**
AMOUNT COMMITTED/GUARANTEED							
Loan commitments	283,213	247,860	13,806	33,237	883	51,951	(7,394)
Financial quarantee contracts	88,637	28,084	—	861	9,777	137,743	(1,323)
	371,850	**275,944**	**13,806**	**34,098**	**10,660**	**189,694**	**(8,717)**
Total	**3,869,011**	**4,019,180**	**1,255,9666**	**223,766**	**212,174**	**1,716,960**	**10,392,288**

31 December 2017

in thousands of EUR	Slovakia	Czech Republic	Cyprus	Croatia	Russia	Other	Carrying amount
ASSETS							
Cash and cash balances at central banks	108,570	413,220	–	29,909	9,067	–	560,766
Financial assets for trading	91,361	90,349	1,659	–	45,310	40,084	268,763
Hedging derivatives	–	–	–	–	–	317	317
Investment securities measured at fair value through profit or loss	8,584	–	–	–	–	2,293	10,877
Investment securities available for sale	370,765	138,799	716	19,604	10,139	481,155	1,021,178
Investment securities held to maturity	291,320	–	–	–	–	14,068	305,388
Loans and advances to banks	15,994	2,266,086	–	987	49,178	64,579	2,396,824
Loans and advances to customers	2,226,323	1,221,059	1,272,157	112,749	100,067	678,791	5,611,146
Trade receivables and other financial assets under risk management	71,665	38,797	14,683	102	970	18,235	144,452
	3,184,582	**4,168,310**	**1,289,215**	**163,351**	**214,731**	**1,299,522**	**10,319,711**
AMOUNT COMMITTED/GUARANTEED							
Loan commitments	342,522	198,646	111,149	1,220	4,197	37,338	(1,935)
Financial quarantee contracts	129,126	13,571	–	1,080	23,941	21,159	–
	471,648	**212,217**	**111,149**	**2,300**	**28,138**	**58,497**	**(1,935)**
Total	**3,656,230**	**4,380,527**	**1,400,364**	**165,651**	**242,869**	**1,358,019**	**10,317,776**

The above table displays the credit risk by the country of incorporation of the debtor or issuer of the securities.

Investment securities measured at fair value through profit or loss in the location Other included as at 31 December 2018 investments of EUR 148,365 thousand in investment funds incorporated in Malta.

Investment securities at fair value through other comprehensive income in the location Other include investments of EUR 80,822 thousand in Polish government bonds and EUR 65,550 thousand in French Government bonds. As at 31 December 2017 securities available for sale in the location Other included an investment of EUR 99,659 thousand in Polish government bonds and an investment of EUR 142,669 thousand in investment funds incorporated in Malta.

Investment securities at amortised cost (under IAS 39 held to maturity) in the location Other include as at 31 December 2018 an investment of EUR 5,036 thousand in Italian goverment bonds (2017: EUR 5,070 thousand in Italian goverment bonds) and of 15,378 in Polish government bond (2017: EUR 667 thousand).

In 2018 loans and advances to customers in the location Other primarily relates to companies and customers incorporated in Luxembourg, in the Netherlands and in Germany (2017: companies and customers incorporated in Luxembourg, in the Netherlands, in Switzerland and in Malta).

(iii) Credit risk - impairment of financial assets (Comparative information under IAS 39 to Note 24. Amounts arising from expected credit losses (ECL))

31 December 2017

in thousands of EUR	Financial asets for trading	Hedging derivatives	Investment securities measured at fair value through profit or loss	Financial assets available for sale	Investment securities held to maturity	Loans and advances to banks	Loans and advances to customers	Trade receivables and other financial assets under risk management
Maximum exposure to credit risk	**268,763**	**317**	**10,877**	**1,021,178**	**305,388**	**2,396,824**	**5,611,146**	**152,522**
CARRYING AMOUNT								
A) Assets for which a provision has been created								
— Gross	—	—	—	—	513	—	680,878	18,935
— Provision individual	—	—	—	—	(2)	—	(170,893)	(11,181)
— Provision collective	—	—	—	—	—	—	(107,710)	(819)
Impaired total (net)	**—**	**—**	**—**	**—**	**511**	**—**	**402,275**	**6,935**
B) Overdue Assets for which a provision has not been created								
— <30 days	—	—	—	—	—	—	7,529	4,501
— 31-180 days	—	—	—	—	—	—	3,049	1,768
— 181-365 days	—	—	—	—	—	—	32	172
— >365 days	—	—	—	—	—	—	1,934	668
Total	**—**	**—**	**—**	**—**	**—**	**—**	**12,544**	**7,109**

(iv) Credit risk - collaterals

The Group holds collateral against loans and advances to customers mainly in the form of pledges, securities and acceptances of bills of exchange. Collaterals are used as assets that can be realized in the event of failure of the primary source of repayment of debts.

Loans and advances to customers are secured by collateral with the fair values below

in thousands of EUR	31 December 2018 Fair value	31 December 2018 Carrying amount	31 December 2017 Fair value	31 December 2017 Carrying amount
Securities	3,207,650	2,986,408	4,206,774	3,923,378
Real estate	1,346,815	1,078,344	1,012,518	708,875
Bills of exchange	201,224	80,049	144,599	123,206
Cash deposits	129,161	128,914	86,004	85,609
Other	594,346	386,753	716,341	423,239
Total	**5,479,196**	**4,660,468**	**6,166,236**	**5,264,307**

As at 31 December 2018 no collateral received by the Group was further used within repurchase operations (2017: EUR 1,278,003 thousand).

The carrying amount of financial assets for which no loss allowance was recognized because of the collateral is nil as at 31 December 2018.

In 2018 the Group has taken possession of EUR 101 thousand collateral held previously as security (2017: nil).

(v) Credit risk – forbearance

Exposure forbearance

in thousands of EUR	31 December 2018	31 December 2017
Performing exposure	5,635,111	5,147,439
— performing exposure forbearance	84,383	127,698
Non-performing exposure	251,333	463,707
— non-performing exposure forbearance	160,433	175,296
Total	**5,886,444**	**5,611,146**

The share of loan exposure forbearance on total loans and advances to customers is 4.16% (2017: 5.40%).

Concentration of loans and advances to customers by economic sector

in thousands of EUR	31 December 2018	31 December 2017
NOT FORBORNE		
Non-financial organisations	3,561,937	3,238,316
Financial organisations	921,051	1,202,476
Households	1,158,372	860,215
Other	268	7,145
Total	**5,641,628**	**5,308,152**
FORBORNE		
Non-financial organisations	212,605	265,438
Financial organisations	3,954	4,584
Households	28,257	32,972
Other	—	—
Total	**244,816**	**302,994**

41.2. Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of not being able to meet the Group's obligations when they fall due, as well as the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Various methods of managing liquidity risks are used by individual companies in the Group, including individual monitoring of large deposits. The individual banks in the Group manage their liquidity risk through their financial market divisions, which receive information from other departements regarding the liquidity profile of their financial assets and liabilities and details about other projected cash flows arising from expected future projects.

The Group's management focuses on methods used by financial institutions, that is, diversification of sources of funds. This diversification makes the Group flexible and limits its dependency on one financing source. Liquidity risk is evaluated in particular by monitoring changes in the structure of financing and comparing these changes with the Group's liquidity risk management strategy. The responsible risk managers then maintain portfolio of short-term liquid assets, made up of loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The Group also holds, as part of its liquidity risk management strategy, a portion of its assets in highly liquid funds. Furthermore, the Group has at its disposal a sufficient amount of bonds that are, if necessary, acceptable for acquiring additional resources through refinancing operations organized by some of the central banks in the countries where the Group operates.

In managing liquidity risk the Group promotes a conservative and prudent approach to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation.

The measures used by the Group for managing liquidity risk are e.g. the ratio of highly liquid assets or liquidity coverage ratio.

The table below provides an analysis of assets and liabilities into relevant contractual maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. Expected maturities differ from contracted ones as historical evidence shows that most short-term loans and deposits are prolonged. The analysis is presented under the most prudent consideration of maturity dates, where options or repayment schedules allow for early repayment possibilities. Therefore, in the case of liabilities, the earliest possible repayment date is shown while for assets the latest possible repayment date is disclosed.

(i) Contractual maturities of financial assets and liabilities

31 December 2018

in thousands of EUR	Less than 1 year	More than 1 year	Undefined	Total
FINANCIAL ASSETS				
Cash and cash balances at central banks	165,300	–	331,868	497,168
Financial assets for trading	36,920	151,839	24,186	212,945
Hedging derivatives	28	–	–	28
Investment securities measured at fair value through profit or loss	4	2,012	225,592	227,608
Investment securities at fair value through other comprehensive income	133,726	607,309	26,060	767,095
Investment securities at amortised cost	97,615	342,140	–	439,755
Loans and advances to banks	2,290,964	–	–	2,290,964
Loans and advances to customers	1,799,954	4,086,490	–	5,886,444
FV changes of portfolio of hedged instruments - Loans and advances to customers	869	–	–	869
Trade receivables and other financial assets under risk management	76,101	2,028	–	78,129
Total	**4,601,480**	**5,193,205**	**606,320**	**10,401,005**

in thousands of EUR	Less than 1 year	More than 1 year	Undefined	Total
FINANCIAL LIABILITIES				
Trading liabilities	(7,882)	(1,366)	–	(9,248)
Hedging derivatives	(1,232)	(4,377)	–	(5,609)
Deposits and loans from banks	(186,256)	(50,499)	–	(236,755)
Deposits and loans from customers	(6,766,532)	(1,297,806)	–	(8,064,338)
Debt securities issued	(223,515)	(309,850)	–	(533,365)
Subordinated debt	(5,681)	(27,031)	–	(32,712)
Other financial liabilities under risk management	(357,223)	(2,121)	–	(359,344)
Provision for insurance contracts	(2,320)	(17,710)	–	(20,030)
Total	**(7,550,641)**	**(1,710,760)**	**–**	**(9,261,401)**

31 December 2017

in thousands of EUR	Less than 1 year	More than 1 year	Undefined	Total
FINANCIAL ASSETS				
Cash and cash balances at central banks	472,277	–	88,489	560,766
Financial assets for trading	61,252	188,825	18,686	268,763
Hedging derivatives	317	–	–	317
Investment securities measured at fair value through profit or loss	–	–	10,877	10,877
Investment securities available for sale	179,957	592,390	248,831	1,021,178
Investment securities held to maturity	22,210	283,178	–	305,388
Loans and advances to banks	2,396,824	–	–	2,396,824
Loans and advances to customers	1,705,834	3,905,312	–	5,611,146
Trade receivables and other financial assets under risk management	143,352	1,100	–	144,452
Total	**4,982,023**	**4,970,805**	**366,883**	**10,319,711**

in thousands of EUR	Less than 1 year	More than 1 year	Undefined	Total
FINANCIAL LIABILITIES				
Trading liabilities	(26,425)	(453)	–	(26,878)
Hedging derivatives	(1,138)	(2,600)	–	(3,738)
Deposits and loans from banks	(899,320)	(35,199)	–	(934,519)
Deposits and loans from customers	(6,541,254)	(646,424)	–	(7,187,678)
Debt securities issued	(183,832)	(360,093)	–	(543,925)
Subordinated debt	(988)	(56,979)	–	(57,967)
Other financial liabilities under risk management	(354,824)	(714)	–	(355,538)
Provision for insurance contracts	(1,227)	(15,691)	–	(16,918)
Total	**(8,009,008)**	**(1,118,153)**	**–**	**(9,127,161)**

(ii)Contractual maturities of financial liabilities, including estimated interest payments (undiscounted cash flow)

31 December 2018

in thousands of EUR	Carrying amount	Contractual cash flows	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined maturity
NON-DERIVATIVE FINANCIAL LIABILITIES							
Trading liabilities	9	(9)	(9)	—	—	—	—
Deposits and loans from banks	236,755	(242,562)	(180,784)	(7,727)	(53,007)	(1,044)	—
Deposits and loans from customers	8,064,338	(8,128,906)	(5,705,826)	(1,073,699)	(1,294,321)	(55,060)	—
Debt securities issued	533,365	(594,377)	(8,748)	(230,121)	(355,508)	—	—
Subordinated debt	32,712	(42,832)	(524)	(7,360)	(30,691)	(4,257)	—
Other financial liabilities under risk management	359,344	(359,344)	(323,510)	(33,713)	(2,091)	(30)	—
Provision for insurance contracts	20,030	(20,030)	(1,758)	(562)	(2,592)	(15,118)	—
	9,246,553	**(9,388,060)**	**(6,221,159)**	**(1,353,182)**	**(1,738,210)**	**(75,509)**	**—**
AMOUNT COMMITTED/GUARANTEED							
Loan commitments	7,394	(630,950)	(630,950)	—	—	—	—
Financial guarantee contracts	1,323	(265,102)	(50,204)	(39,251)	(36,910)	(32,733)	(106,004)
	8,717	(883,566)	(668,668)	(39,251)	(36,910)	(32,733)	(106,004)
Total	**9,255,313**	**(10,271,626)**	**(6,889,827)**	**(1,392,433)**	**(1,775,120)**	**(108,242)**	**(106,004)**
DERIVATIVE FINANCIAL LIABILITIES							
Forward currency contracts							
— outflow	9,041	(146,531)	(9,774)	(4,229)	(132,528)	—	—
— inflow	—	138,904	7,742	—	131,162	—	—
OTHER DERIVATIVES							
— outflow	5,807	(5,807)	(339)	(1,450)	(4,018)	—	—
— inflow	—	—	—	—	—	—	—
	14,848	**(13,434)**	**(2,371)**	**(5,679)**	**(5,384)**	**—**	**—**

31 December 2017

in thousands of EUR	Carrying amount	Contractual cash flows	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined maturity
NON-DERIVATIVE FINANCIAL LIABILITIES							
Trading liabilities	5,184	(5,184)	(5,184)	–	–	–	–
Hedging derivatives	–	–	–	–	–	–	–
Deposits and loans from banks	934,519	(939,514)	(832,524)	(69,451)	(36,314)	(1,225)	–
Deposits and loans from customers	7,187,678	(7,226,820)	(5,201,953)	(1,354,178)	(634,025)	(36,664)	–
Debt securities issued	543,925	(579,083)	(8,325)	(191,168)	(379,590)	,–	–
Subordinated debt	57,967	(71,332)	(800)	(2,617)	(62,040)	(5,875)	–
Other financial liabilities under risk management	355,538	(355,521)	(329,830)	(24,969)	(579)	(143)	–
Provision for insurance contracts	16,918	(16,918)	(535)	(692)	(2,835)	(12,856)	–
	9,101,729	**(9,194,372)**	**(6,379,151)**	**(1,643,075)**	**(1,115,383)**	**(56,763)**	**–**
AMOUNT COMMITTED/GUARANTEED							
Loan commitments	1,935	(695,072)	(401,834)	(94,233)	(189,718)	(6,614)	(2,673)
Financial guarantee contracts	–	(188,877)	(81,946)	(17,182)	(73,587)	(15,833)	(329)
	1,935	(883,949)	(483,780)	(111,415)	(263,305)	(22,447)	(3,002)
Total	**9,103,664**	**(10,078,321)**	**(6,862,931)**	**(1,754,490)**	**(1,378,688)**	**(79,210)**	**(3,002)**
DERIVATIVE FINANCIAL LIABILITIES							
Forward currency contracts							
– outflow	21,583	(520,462)	(228,366)	(291,642)	(452)	(2)	–
– inflow	–	498,879	223,333	275,546	–	–	–
OTHER DERIVATIVES							
– outflow	3,849	(3,850)	(233)	(1,018)	(2,562)	(37)	,–
– inflow	–	–	–	–	–	–	–
	25,432	**(25,433)**	**(5,266)**	**(17,114)**	**(3,014)**	**(39)**	**–**

41.3. Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group separates its exposure to market risk between the trading and non-trading portfolios. Trading portfolios include positions arising from market making and position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Group uses the Value at Risk ("VaR") methodology to evaluate market risk on its trading portfolio as a whole using a confidence level of 99% and a horizon of 10 business days. A historical simulation method is implemented for VaR calculation. The Group performs backtesting for market risk associated with its trading portfolio, by applying a method of hypothetical backtesting, on a quarterly basis.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

— A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
— A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
— VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
— The VaR measure is dependent on the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

in thousands of EUR	31 December 2018	31 December 2017
VaR market risk overall	14,613	18,295
VaR interest risk	9,637	12,646
VaR FX risk	7,371	9,109
VaR stock risk	1,457	567

(i) Interest rate risk

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk.

The Group uses various methods for management of interest rate risk. The Group continuously uses asset-liability management in its interest risk management. When purchasing bonds, the current interest position of the Group is taken into account which then serves as a basis for the purchase of fixed or variable bonds. The Group uses interest swaps to hedge interest rates in fixed bonds in its available-for-sale portfolio.

The priorities of the Group for interest rate risk management of liabilities comprise:

— Stability of deposits, especially over longer time periods,
— Fast and flexible reactions to significant changes in inter-bank interest rates through adjustments to interest rates on deposit products,
— Continuously evaluating interest rate levels offered to clients compared to competitors and actual and expected development of interest rates on the local market,
— Managing the structure of liabilities in compliance with the expected development of money market rates in order to optimize interest revenues and minimize 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 reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity date or are non interest-bearing are grouped together in the "maturity undefined" category.

The VaR statistics for the trading portfolio is as follows:

in thousands of EUR	31 December 2018	31 December 2017
VaR interest rate risk	9,637	12,646

A summary of the Group´s interest rate gap position as per the carrying amounts is as follows:

31 December 2018

in thousands of EUR	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
ASSETS						
Cash and cash balances at central banks	360,441	–	–	–	136,727	497,168
Financial assets for trading	13,802	15,125	86,837	68,272	28,909	212,945
Hedging derivatives	28	–	–	–	–	28
Investment securities measured at fair value through profit or loss	4	–	3,399	–	224,205	227,608
Investment securities at fair value through other comprehensive income	30,468	174,981	491,096	46,583	23,967	767,095
Investment securities at amortised cost	58,150	106,692	199,606	77,693	(2 386)	439,755
Loans and advances to banks	2,277,282	951	–	–	12,731	2,290,964
Loans and advances to customers	1,784,236	1,091,602	1,732,801	1,005,264	272,541	5,886,444
FV changes of portfolio of hedged instruments - Loans and advances to customers	–	–	–	–	869	869
Trade receivables and other financial assets under risk management	25,658	958	3,900	–	47,613	78,129
Total	**4,550,069**	**1,390,309**	**2,517,639**	**1,197,812**	**745,176**	**10,401,005**
LIABILITIES						
Trading liabilities	2,062	4,226	2,780	–	180	9,248
Hedging derivatives	138	1,452	4,019	–	–	5,609
Deposits and loans from banks	208,616	4,899	22,098	912	230	236,755
Deposits and loans from customers	4,787,739	1,046,054	1,480,781	46,933	702,831	8,064,338
Debt securities issued	7,759	215,760	309,846	–	–	533,365
Subordinated debt	2,104	5,046	24,737	825	–	32,712
Other financial liabilities under risk management	8,226	1,617	–	–	349,501	359,344
Provision for insurance contracts	–	1,579	545	–	17,906	20,030
Total	**5,016,644**	**1,280,633**	**1,844,806**	**48,670**	**1,070,648**	**9,261,401**

31 December 2017

in thousands of EUR	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
ASSETS						
Cash and cash balances at central banks	434,668	—	—	—	126,098	560,766
Financial assets for trading	34,030	29,317	101,637	81,822	21,957	268,763
Hedging derivatives	—	317	—	—	—	317
Investment securities measured at fair value through profit or loss	—	—	—	—	10,877	10,877
Investment securities available for sale	38,946	225,745	469,105	35,056	252,326	1,021,178
Investment securities held to maturity	21,001	12,149	191,999	66,575	13,664	305,388
Loans and advances to banks	2,373,581	2,341	—	—	20,902	2,396,824
Loans and advances to customers	587,450	1,644,184	1,968,724	753,550	657,239	5,611,146
Trade receivables and other financial assets under risk management	41,676	3,375	549	—	98,852	144,452
Total	**3,531,352**	**1,917,428**	**2,732,014**	**937,003**	**1,201,915**	**10,319,711**
LIABILITIES						
Trading liabilities	5,144	7,579	453	—	13,702	26,878
Hedging derivatives	122	1,016	2,562	37	1	3,738
Deposits and loans from banks	844,546	62,322	21,108	1,411	5,132	934,519
Deposits and loans from customers	4,924,469	1,211,419	610,007	31,742	410,041	7,187,678
Debt securities issued	7,537	176,218	360,144	—	26	543,925
Subordinated debt	27,588	242	29,311	826	—	57,967
Other financial liabilities under risk management	14,570	2,153	204	—	338,611	355,538
Provision for insurance contracts	—	2,094	1,966	12,858	—	16,918
Total	**5,823,976**	**1,463,043**	**1,025,755**	**46,874**	**767,513**	**9,127,161**

An analysis of the Group's sensitivity to an increase or decrease in market interest rates on the non-trading portfolio, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

in thousands of EUR	Impact on Profit or Loss 31. prosinec 2018	Impact on Profit or Loss 31. prosinec 2017	Impact on Other Comprehensive Income 31. prosinec 2018	Impact on Other Comprehensive Income 31. prosinec 2017
decrease in interest rates by 100 bp	51,614	55,723	12,985	12,219
increase in interest rates by 100 bp	(51,614)	(55,723)	(12,985)	(12,219)

in thousands of EUR	Total impact on Equity 31 December 2018	Total impact on Equity 31 December 2017
decrease in interest rates by 100 bp	64,599	67,942
increase in interest rates by 100 bp	(64,599)	(67,942)

(ii) Foreign exchange risk

The breakdown of the carrying amounts by currency translated to thousands of EUR is as follows:

31 December 2018

in thousands of EUR	EUR	CZK	USD	HRK	Other	Total
ASSETS						
Cash and cash balances at central banks	368,216	94,741	2,534	22,640	9,037	497,168
Financial assets for trading	35,176	144,176	17,735	–	15,858	212,945
Hedging derivatives	–	28	–	–	–	28
Investment securities measured at fair value through profit or loss	186,948	38,337	936	1,387	–	227,608
Investment securities at fair value through other comprehensive income	603,360	53,407	52,346	11,925	46,057	767,095
Investment securities at amortised cost	438,601	–	–	–	1,154	439,755
Loans and advances to banks	59,451	2,205,897	16,205	132	9,279	2,290,964
Loans and advances to customers	4,295,416	1,057,165	308,886	18,229	206,748	5,886,444
FV changes of portfolio of hedged instruments - Loans and advances to customers	869	–	–	–	–	869
Trade receivables and other financial assets under risk management	48,467	18,249	9,981	15	1,417	78,129
	6,036,504	**3,612,000**	**408,623**	**54,328**	**289,550**	**10,401,005**
Off balance sheet assets	2,574,638	2,553,925	39,636	4,577	184,213	5,356,989
LIABILITIES						
Trading liabilities	346	8,770	–	–	132	9,248
Hedging derivatives	5,607	2	–	–	–	5,609
Deposits and loans from banks	126,489	110,088	71	107	–	236,755
Deposits and loans from customers	5,256,269	2,539,940	120,683	38,965	108,481	8,064,338
Debt securities issued	281,276	252,089	–	–	–	533,365
Subordinated debt	5,829	26,883	–	–	–	32,712
Other financial liabilities under risk management	110,109	212,665	20,817	1,613	14,140	359,344
Provision for insurance contracts	20,030	–	–	–	–	20,030
	5,805,955	**3,150,437**	**141,571**	**40,685**	**122,753**	**9,261,401**
Off balance sheet liabilities	2,456,607	1,557,024	326,949	31,940	309,040	4,701,560
Net position (including Off balance sheet)	348,580	1,438,464	(20 261)	(13 720)	41,970	1,795,033

31 December 2017

in thousands of EUR	EUR	CZK	USD	HRK	Other	Total
ASSETS						
Cash and cash balances at central banks	113,826	413,297	1,430	23,768	8,445	560,766
Financial assets for trading	94,298	104,655	15,419	–	54,391	268,763
Hedging derivatives	–	317	–	–	–	317
Investment securities measured at fair value through profit or loss	8,261	–	2,616	–	–	10,877
Investment securities available for sale	869,617	61,525	63,064	11,951	15,021	1,021,178
Investment securities held to maturity	305,388	–	–	–	–	305,388
Loans and advances to banks	80,547	2,251,399	13,745	75	51,058	2,396,824
Loans and advances to customers	4,058,298	1,371,373	87,091	24,471	69,913	5,611,146
Trade receivables and other financial assets under risk management	95,177	34,888	20,463	382	1,612	152,522
	5,625,412	**4,237,454**	**203,828**	**60,647**	**200,440**	**10,327,781**
Off balance sheet assets	2,584,739	2,416,989	60,909	2,167	125,090	5,189,894
LIABILITIES						
Trading liabilities	4,226	22,624	–	–	28	26,878
Hedging derivatives	3,738	–	–	–	–	3,738
Deposits and loans from banks	137,742	794,477	69	2,225	6	934,519
Deposits and loans from customers	4,816,086	2,054,363	129,723	39,763	147,743	7,187,678
Issued bonds	268,033	275,892	–	–	–	543,925
Subordinated debt	30,905	27,062	–	–	–	57,967
Other financial liabilities under risk management	100,681	211,757	33,413	860	8,826	355,537
Provision for insurance contracts	16,918	–	–	–	–	16,918
	5,378,329	**3,386,175**	**163,205**	**42,848**	**156,603**	**9,127,160**
Off balance sheet liabilities	2,580,353	1,774,727	79,539	34,334	67,065	4,536,018
Net position (including Off balance sheet)	251,469	1,493,541	21,993	(14 368)	101,862	1,854,497

Off balance sheet items mostly relate to derivative operations and granted and received guarantees.

The VaR statistic is as follows:

in thousands of EUR	31 December 2018	31 December 2017
VaR foreign exchange risk	7,371	9,109

An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates is presented in the table below.

Translation risk arising from translating the financial statements of a foreign operation into the presentation currency of the Group, does not meet the definition of currency risk. Consequently, translation risk should not be included in the sensitivity analysis. However, foreign currency denominated inter-company receivables and payables that do not form part of a net investment in a foreign operation are included in the sensitivity analysis for foreign currency risks, because even though the balances eliminate in the consolidated balance sheet, the effect on profit or loss of their revaluation is not fully eliminated.

A one percent strengthening in foreign currencies would have had the following effects on profit or loss and other comprehensive income

in thousands of EUR	Impact on Profit or Loss 31 December 2018	Impact on Profit or Loss 31 December 2017	Impact on Other Comprehensive Income 31 December 2018	Impact on Other Comprehensive Income 31 December 2017
EUR	1,320	(3,812)	(57)	(957)
CZK	(4,861)	(8,262)	(1)	–
USD	415	(116)	(19)	(16)
HRK	586	120	–	–

(iii) Equity price risk

Equity price risk arises from the quoted financial instruments held by the Group, further to changes in perception by the markets of the expected financial performance of the investments concerned. Equity price risk is essentially managed through diversification of the investment portfolio of available for sale and fair value through profit or loss equity securities.

The VaR statistics is as follows:

in thousands of EUR	31 December 2018	31 December 2017
VaR stock risk (trading book)	1,457	567

A 100 bp increase in the price of non-derivative financial assets at fair value through profit or loss would have had a positive effect on profit or loss as set out below. A 100 bp increase in the price of financial assets available for sale would have had a positive effect on other comprehensive income as set out below. A 100 bp decrease in price would have had an equal but opposite effect on profit or loss and other comprehensive income.

in thousands of EUR	Impact on Profit or Loss 31 December 2018	Impact on Profit or Loss 31 December 2017	Impact on Other Comprehensive Income 31 December 2018	Impact on Other Comprehensive Income 31 December 2017
Level 1 – quoted market prices	249	204	69	118
Level 2 – derived from quoted prices	1,930	13	127	2,127
Level 3 – calculated using valuation techniques	305	80	65	244
Total	**2,484**	**297**	**261**	**2,489**

in thousands of EUR	Total impact on Equity 31 December 2018	Total impact on Equity 31 December 2017
Level 1 – quoted market prices	318	322
Level 2 – derived from quoted prices	2,057	2,140
Level 3 – calculated using valuation techniques	370	324
Total	**2,745**	**2,786**

41.4. Operational risk

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency or system failure. It arises from all the Group's activities and is a risk faced by all business organisations. Operational risk includes legal risk. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and avoid control procedures that would restrict initiative and creativity.

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 Department and which cover the following areas:

- Requirements for the reconciliation and monitoring of transactions.
- 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 Regulated Consolidated Group's database of operational risk events (see Note 41.5. Capital management section regarding the definition of the Regulated Consolidated Group).
- 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.

41.5. Capital management

The Group's policy is to hold a strong capital base so as to maintain creditor and market confidence and to sustain future development of its business.

Consolidated capital adequacy is calculated in accordance with Regulation (EU) No 575/2013 of the European Parliament and Council Regulation (CRR) of 23 June 2013 as from 1 January 2014. Until 31 December 2013 it was calculated in accordance with regulation of the Central Bank of the Czech Republic Decree No. 123/2007 Coll.

The Consolidated Group's capital is analysed into two tiers:

- Tier 1 capital, which is divided into:
  1. Common Equity Tier 1 capital (CET1), which includes paid-up ordinary share capital, share premium, retained earnings (profit of current year is excluded), accumulated other comprehensive income and non-controlling interests after deduction of goodwill and intangible assets and additional value adjustments;
  2. Additional Tier 1 capital (AT1), which can include qualifying perpetual instruments issued in accordance with CRR (see Note 36. Shareholders' equity)
- The Regulated Consolidated Group (RCG) is defined for the purposes of the prudential rules on a consolidated basis by the Czech Act on Banks No. 21/1992, Decree No. 163/2014 Coll. and CRR. According to this regulations, the financial holding group of the ultimate shareholders of J&T FINANCE GROUP SE as from 1 January 2014 is defined as the RCG. Different consolidation rules are applicable for RCG's purposes – only companies which have the status of financial institutions as defined by CRR are fully consolidated.

Regulatory Capital

in thousands of EUR	31 December 2018	31 December 2017
Common Equity Tier 1 capital (CET1)	1,128,217	1,066,952
Additional Tier 1 capital (AT1)	275,708	275,901
Total Tier 1 capital	**1,403,925**	**1,342,853**
Tier 2 capital	18,172	35,598
Total regulatory capital	**1,422,097**	**1,378,451**

Risk Weighted Assets (RWA)

in thousands of EUR	31 December 2018	31 December 2017
Credit risk of investment portfolio	7,796,242	7,391,307
Operational risk (BIA)	815,075	813,576
Credit risk of trading portfolio	562,535	588,783
General and specific interest risk	147,000	179,991
General and specific equity risk	48,511	44,492
Currency risk	367,024	364,300
Commodity risk	–	–
Risk exposure amount for credit valuation adjustment	18,066	13,183
Total amount of capital requirements	**9,191,918**	**8,806,849**

The capital adequacy ratio is calculated for CET 1 capital, Tier 1 capital and total Own Funds as a portion of the relevant capital to risk weighted assets (RWA).The regulatory capital is calculated as the sum of the Common Equity Tier 1 capital (CET1), additional Tier 1 capital (AT1) and Tier 2 capital reduced by deductible items. CET1 capital comprises paid-up share capital, the statutory reserve fund, other equity funds, retained earnings and additional value adjustments. Tier 2 capital comprises subordinated debt approved by the Czech National Bank in an amount of EUR 18,172 thousand (31 December 2017: EUR 35,598 thousand). The deductible items include intangible assets at net book value and net deferred tax liabilities related to these intangible assets.

Capital adequacy ratios

Requirements for capital adequacy ratios are as follows:

%	Minimum requirements	Capital conservation buffer	Countercyclical capital buffer	Total requirements
CET1 ratio	4.5	2.5	0.73	7.73
Tier 1 ratio	6.0	2.5	0.73	9.23
Total regulatory capital ratio	**8.0**	**2.5**	**0.73**	**11.23**

An additional Capital conservation buffer of 2.5% for CET1 was imposed by the Czech National bank. 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 in 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.

The capital adequacy ratios of the RCG as at 31 December 2018 and 2017 were as follows:

%	31 December 2018	31 December 2017
Common equity tier 1 (CET1)	12.27	12.12
Tier 1 capital	15.27	15.25
Total regulatory capital ratio	**15.47**	**15.65**

42. ASSETS UNDER MANAGEMENT

in thousands of EUR	31 December 2018	31 December 2017
Assets in own-managed funds	2,612,188	2,511,611
Assets with discretionary mandates	171,899	235,491
Other assets under management	2,240,497	2,550,834
Total assets under management	**5,024,584**	**5,297,936**

(a) Calculation method
Assets under management comprise all client assets managed or held for investment purposes only. In summary, these include all balances due to customers, fiduciary term deposits and all valued portfolio assets. Custodial assets (assets held solely for transaction and safe-keeping purposes) are not included in assets under management. Assets under management are measured at fair value for quoted financial instruments. If these are not quoted, debt and equity financial instruments are valued at amortized cost or using common valuation techniques (e.g. pricing models with market inputs as available), respectively.

(b) Assets in own-managed funds
This comprises assets of all the Group's investment funds.

(c) Assets with discretionary mandates
Securities, value rights, precious metals, the market value of fiduciary investments with third parties and customer deposits are included in the calculation of assets with discretionary mandates. The figures comprise both assets deposited with Group companies and assets deposited with third parties, for which the Group companies hold a discretionary mandate.

(d) Other assets under management
Securities, value rights, precious metals, the market value of fiduciary investments with third parties and customer deposits are included in the calculation of other assets under management. The figures comprise assets for which an administration or advisory mandate is exercised.

43. RELATED PARTIES

Identity of related parties
The Group has, or had, related party relationships as identified in the following table, either at 31 December 2018 and 2017 or during the years with:
(1) Ultimate shareholders and companies they control
(2) Entities with joint control or significant influence over the Company and its subsidiaries or associates
(3) Associates
(4) Joint ventures in which the Group is a venturer
(5) Key management personnel of the Company or parent of the Company and companies they control or jointly control

"Ultimate shareholders and companies they control" includes the following: Jakabovič Ivan, Tkáč Jozef, DANILLA EQUITY LIMITED, J&T Securities, s.r.o., KOLIBA REAL a.s., KPRHT 3, s.r.o., KPRHT 14 s.r.o. and KPRHT 19, s.r.o. None of these produce publicly available consolidated financial statements which include the Group.

The summary of transactions with related parties during 2018 and 2017 is as follows:

in thousands of EUR	31 December 2018 Accounts receivable	31 December 2018 Accounts payable	31 December 2017 Accounts receivable	31 December 2017 Accounts payable
Ultimate shareholders and companies they control	24	5,287	48	4,821
Associates and joint ventures	70,968	5,908	88	2,584
Key management personnel of the entity or its parent and companies they control or jointly control	27,956	16,891	75,956	14,264
Total	**98,949**	**28,086**	**76,092**	**21,669**

There was no provision for doubtful debts due from the "Ultimate shareholders and companies they control" as at 31 December 2018 (2017: nil).

The summary of transactions with related parties during 2018 and 2017 is as follows:

in thousands of EUR	2018 Revenues	2018 Expenses	2017 Revenues	2017 Expenses
Ultimate shareholders and companies they control	27	2	449	1
Associates and joint ventures	2,034	13	1,696	83
Key management personnel of the entity or its parent and companies they control or jointly control	18,140	1,045	13,412	6,190
Total	**20,201**	**1,060**	**15,557**	**6,274**

The summary of guarantees with related parties at year-end is as follows:

in thousands of EUR	31 December 2018 Guarantees received	31 December 2018 Guarantees granted	31 December 2017 Guarantees received	31 December 2017 Guarantees granted
Koneční vlastníci a společnosti, které ovládají	–	–	–	5
Klíčoví zaměstnanci účetní jednotky nebo její mateřské společnosti a společnosti, které ovládají nebo spoluovládají	–	194	–	150
Celkem	**–**	**194**	**–**	**155**

Transactions with directors and key management

Total remuneration included in "personnel expenses" and loans to directors and key management are as follows:

in thousands of EUR	31 December 2018	31 December 2017
Remuneration	520	171
Loans	148	242

Of the loans to directors and key management, new loans of EUR 27 thousand were granted during 2018 (2017: EUR 122 thousand) and EUR 121 thousand was repaid (2017: EUR 170 thousand).

44. 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 a dominant factor in deciding who controls the entity.

A structured entity often has 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.

The maximum exposure to loans is reflected by their carrying amounts in the consolidated balance sheet as at 31 December 2018 in amount of EUR 230,212 thousand (2017: EUR 328,193 thousand). These exposures are classified into stage 1 for the puposes of ECL calculation. There are no additional contractual arrangements with these entities regarding providing any further funding or guarantees. Liabilities of the unconsolidated structured entities due to other entities are subordinated to liabilities due to the Group.

The total assets value for four unconsolidated structured entities, as indication of their size, is EUR 416,854 thousand (2017: EUR 699,785 thousand).

45. SUBSEQUENT EVENTS

On April 4, 2019 J&T Bank, a.o. acquired small Russian bank Bankhaus Erbe, a.o.

On April 10, 2019 an action has been filed with the United States District Court, Southern District of New York, USA, listing J&T BANKA, a.s. and Poštová banka, a.s. among the Defendants. The Claimants[16] state that J&T BANKA, a.s. and Poštová banka, a.s. knowingly assisted Radovan Vítek in secretly assuming control over ORCO Property Group, S.A. (ORCO), and thereby caused damage to the Claimants.

J&T BANKA, a.s. and Poštová banka, a.s. categorically refuse the Claimant's allegation, as they believe that they have proceeded fully in compliance with all applicable regulatory requirements. J&T BANKA, a.s. and Poštová banka, a.s. further believe that the action has been purposefully filed with a court in New York in order to apply US laws and infer a breach thereof, despite insufficient subject-matter and venue connection of the dispute with New York. The decision of the first-instance court in this matter can be expected in about six months. However, if an appeal is filed, this phase of the process may last significantly longer.

[16] The Claimants are: KINGSTOWN CAPITAL MANAGEMENT, L.P., KINGSTOWN PARTNERS MASTER LTD., KINGSTOWN PARTNERS II, L.P., KTOWN, LP; KINGSTOWN CAPITAL PARTNERS LLC; INVESTHOLD LTD and VERALI LIMITED.

46. GROUP ENTITIES

The list of the Group entities as at 31 December 2018 and 2017 is set out below:

Company name	Country of incorporation	December 2018 Conso-lidated %	December 2018 Ownership interestl	December 2018 Consolidation method	December 2017 Conso-lidated %	December 2017 Ownership interest
J&T FINANCE GROUP SE	Czech Republic	parent company			parent company	
J&T BANKA, a.s.	Czech Republic	100.00	direct	full	100.00	direct
ATLANTIK finanční trhy, a.s.	Czech Republic	100.00	direct	full	100.00	direct
J&T INVESTIČNÍ SPOLEČNOST, a.s.	Czech Republic	100.00	direct	full	100.00	direct
J&T IB and Capital Markets, a.s.	Czech Republic	100.00	direct	full	100.00	direct
XT-Card a,s,	Czech Republic	32.00	direct	equity	32.00	direct
J&T Bank, a.o. (J&T Bank ZAO)[1]	Russia	100.00	direct	full	100.00	direct
AKB «Khovanskiy» a.o.	Russia	–	–	–	100.00	direct
TERCES MANAGEMENT LIMITED[2]	Cyprus	100.00	direct	full	100.00	direct
Interznanie OAO[3]	Russia	100.00	direct	full	100.00	direct
J&T REALITY otevřený podílový fond[4]	Czech Republic	88.88	direct	full	88.88	direct
J&T Banka d.d. (VABA d.d. banka Varaždin)	Croatia	84.17	direct	full	82.76	direct
J&T Leasingová společnost, a.s.	Czech Republic	100.00	direct	full	100.00	direct
J&T INTEGRIS GROUP LIMITED	Cyprus	100.00	direct	full	100.00	direct
Bayshore Merchant Services Inc.	British Virgin Islands	100.00	direct	full	100.00	direct
J&T Bank and Trust Inc,	Barbados	100.00	direct	full	100.00	direct
J and T Capital, Sociedad Anonima de Capital Variable	Mexico	100.00	direct	full	100.00	direct
J&T MINORITIES PORTFOLIO LIMITED	Cyprus	100.00	direct	full	60.60	direct
Equity Holding, a.s.	Czech Republic	62.64	direct	full	37.96	direct
Butcher313, s.r.o.	Czech Republic	30.00	direct	equity	–	–
J&T Global Finance III, s.r.o.	Slovakia	–	–	–	100.00	direct
J&T Global Finance IV., B.V.	Netherlands	–	–	–	100.00	direct
J&T Global Finance V., s.r.o.	Slovakia	100.00	direct	full	100.00	direct
J&T Global Finance VI, s.r.o.	Slovakia	100.00	direct	full	100.00	direct
J&T Global Finance VII., s.r.o.	Czech Republic	100.00	direct	full	100.00	direct
J&T Global Finance VIII., s.r.o.	Czech Republic	100.00	direct	full	100.00	direct
J&T Global Finance IX., s.r.o.	Slovakia	100.00	direct	full	–	–
J&T Global Finance X., s.r.o.	Czech Republic	100.00	direct	full	–	–
J&T SERVICES ČR, a.s.	Czech Republic	100.00	direct	full	100.00	direct
J&T SERVICES SR, s.r.o.	Slovakia	100.00	direct	full	100.00	direct
J&T Finance, LLC	Russia	99.90	direct	full	99.90	direct
Hotel Kadashevskaya, LLC	Russia	99.90	direct	full	99.90	direct
PBI, a.s.	Czech Republic	100.00	direct	full	100.00	direct
Poštová banka, a.s.[5]	Slovakia	98.46	direct	full	98.46	direct
Poštová poisťovňa, a.s. (Poisťovňa Poštovej banky, a.s.)	Slovakia	78.77	direct	full	78.77	direct
Dôchodková správcovská spoločnosť Poštovej Banky, d.s.s., a.s.	Slovakia	98.46	direct	full	98.46	direct
PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ.spol., a.s.	Slovakia	98.46	direct	full	98.46	direct

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PB Servis, a.s. (POBA Servis, a. s.)	Slovakia	98.46	direct	full	98.46	direct
PB PARTNER, a.s.	Slovakia	98.46	direct	full	98.46	direct
PB Finančné služby, a.s.	Slovakia	98.46	direct	full	98.46	direct
SPPS, a.s.	Slovakia	39.38	direct	equity	39.38	direct
365.fintech, a.s.	Slovakia	98.46	direct	full	—	—
Amico Finance, a.s.	Slovakia	93.53	direct	full	—	—
NOVA Hotels otevřený podílový fond REDSIDE investiční společnost, a.s.[6]	Czech Republic	99.20	direct	full	99.20	direct
DIAMOND HOTELS SLOVAKIA, s.r.o.	Slovakia	99.20	direct	full	99.20	direct
BHP Tatry, s.r.o.	Slovakia	99.20	direct	full	99.20	direct
Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.[7]	Czech Republic	99.17	direct	full	99.16	direct
FORESPO SOLISKO a.s.	Slovakia	99.17	direct	full	99.16	direct
FORESPO HELIOS 1 a.s.	Slovakia	99.17	direct	full	99.16	direct
FORESPO HELIOS 2 a.s.	Slovakia	99.17	direct	full	99.16	direct
FORESPO HOREC a SASANKA a.s.	Slovakia	99.17	direct	full	99.16	direct
FORESPO PÁLENICA a.s.	Slovakia	99.17	direct	full	99.16	direct
INVEST-GROUND a.s.	Slovakia	99.17	direct	full	99.16	direct
FORESPO-RENTAL 1 a.s.	Slovakia	99.17	direct	full	99.16	direct
FORESPO-RENTAL 2 a.s.	Slovakia	99.17	direct	full	99.16	direct
FORESPO BDS a.s.	Czech Republic	99.17	direct	full	99.16	direct
DEVEL PASSAGE s.r.o.	Slovakia	99.17	direct	full	99.16	direct
FORESPO DUNAJ 6 a.s.	Slovakia	99.17	direct	full	99.16	direct
J&T LOAN FUND[8]	Malta	99.23	direct	full	—	—
J&T Wine Holding SE	Czech Republic	100.00	direct	full	100.00	direct
OUTSIDER LIMITED	Cyprus	100.00	direct	full	100.00	direct
Chateau Teyssier (Societe civile)	France	80.00	direct	full	80.00	direct
CT Domaines	France	80.00	direct	full	80.00	direct
SAXONWOLD LIMITED	Ireland	80.00	direct	full	80.00	direct
World's End	U.S.A.	80.00	direct	full	80.00	direct
KOLBY a.s.	Czech Republic	100.00	direct	full	100.00	direct
Reisten, s.r.o.	Czech Republic	100.00	direct	full	—	—
J&T Mezzanine, a.s.	Czech Republic	100.00	direct	full	100.00	direct
URE HOLDING LIMITED	Cyprus	45.00	direct	equity	—	—

The structure above is listed by ownership of companies at the different levels within the Group.

[1] The Group owns a 99.945% share in J&T Bank, a.o. through the subsidiary J&T BANKA, a.s. and another 0.055% share through J&T FINANCE GROUP SE. On 27 February 2018 J&T Bank, a.o. merged with AKB «Khovanskiy» a.o.
[2] The Group owns a 99% share in TERCES MANAGEMENT LIMITED through the subsidiary J&T BANKA, a.s. and another 1% share through the subsidiary J&T Finance, LLC.
[3] The Group owns a 50% share in Interznanie OAO through the subsidiary TERCES MANAGEMENT LIMITED and another 50% share through the subsidiary J&T Bank, a.o.
[4] The Group owns a 53.08% share in J&T REALITY otevřený podílový fond through the subsidiary J&T BANKA, a.s. and another 35.80% share through the subsidiary Poštová banka, a.s. (2017: 53.08% and 35.80%).
[5] The Group owns a 64.46% share in Poštová banka., a.s. through J&T FINANCE GROUP SE and another 34% share through the subsidiary PBI, a.s. (2017: 64.46% through J&T FINANCE GROUP SE and 34% through the subsidiary PBI, a.s.).
[6] The Group owns a 48.35% share in NOVA Hotels otevřený podílový fond REDSIDE investiční společnost, a.s. through J&T BANKA, a.s. and effectively another 50.85% share through the subsidiary Poštová banka, a.s.
[7] The Group owns a 46.51% share in Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s. through J&T BANKA, a.s. and effectively another 52.66% share through the subsidiary Poštová banka, a.s.
[8] The Group owns a 49.99% share in J&T LOAN FUND through J&T BANKA, a.s. and another 49.24% share through the subsidiary Poštová banka, a.s.

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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 FINANCE GROUP SE

Opinion

We have audited the accompanying financial statements of J&T FINANCE GROUP SE ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2018, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the 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 financial statements.

In our opinion, the accompanying 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 Czech accounting legislation.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 No. CZ699001996
ID data box: 8h3gtra

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

J&T FINANCE GROUP SE has not prepared an annual report as at 31 December 2018, as it plans to include the respective information in a 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 Financial Statements

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

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

The Supervisory Board and Audit Committee are responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness

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of accounting estimates and related disclosures made by the statutory body.

- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statutory Auditor Responsible for the Engagement

Jindřich Vašina is the statutory auditor responsible for the audit of the financial statements of J&T FINANCE GROUP SE as at 31 December 2018, based on which this independent auditor's report has been prepared.

Prague
22 May 2019

KPMG Česká republika Audit

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

Jindřich Vašina
Partner
Registration number 2059

59,6 mil. EUR

IN 2018 J&T BANKA MANAGED TO GENERATE ONE OF THE HIGHEST-EVER INDIVIDUAL NET PROFITS.

BALANCE SHEET IN FULL FORMAT AS AT 31 DECEMBER 2018

in thousands of CZK		line	Current period Gross	Current period Adjust.	Prior period Net	Prior period Net
	TOTAL ASSETS	**1**	**58,643,549**	**(3,922,761)**	**54,720,788**	**54,819,409**
B.	**Fixed assets**	**2**	**47,514,552**	**(3,016,760)**	**44,497,792**	**39,832,038**
B.I.	Intangible fixed assets	3	463	(365)	98	163
B.I.2.	Intellectual property rights	4	71	(71)	—	—
B.I.2.1.	Software	5	71	(71)	—	—
B.I.4.	Other intangible fixed assets	6	392	(294)	98	163
B.II.	Tangible fixed assets	7	232,242	(93,037)	139,205	150,954
B.II.1.	Land and buildings	8	159,936	(44,766)	115,170	123,567
B.II.1.2.	Buildings	9	159,936	(44,766)	115,170	123,567
B.II.2.	Plant and equipment	10	66,194	(48,271)	17,923	24,469
B.II.4.	Other tangible fixed assets	11	5,837	5,837	2,918	—
B.II.4.3.	Other tangible fixed assets	12	5,837	5,837	2,918	—
B.II.5.	Advance payments for tangible fixed assets and tangible fixed assets under construction	13	275	—	275	—
B.II.5.1.	Advance payments for tangible fixed assets	14	275	—	275	—
B.III.	Long-term investments	15	47,281,847	(2,923,358)	44,358,489	39,680,921
B.III.1.	Equity investments - group undertakings	16	39,648,990	(2,923,358)	36,725,632	35,457,806
B.III.2.	Loans - group undertakings	17	6,699,219	6,699,219	2,615,473	—
B.III.5.	Other long-term securities and equity investments	18	635,366	635,366	1,309,370	—
B.III.7.	Other long-term investments	19	298,272	298,272	298,272	—
B.III.7.1.	Other long-term investments	20	298,272	298,272	298,272	—

in thousands of CZK		line	Current period Gross	Current period Adjust.	Prior period Net	Prior period Net
C.	**Current assets**	**21**	**11,039,719**	**(906,001)**	**10,133,718**	**14,966,575**
C.I.	Inventories	22	57	—	57	60
C.I.1.	Raw materials	23	57	—	57	60
C.II.	Receivables	24	9,141,558	(906,001)	8,235,557	14,095,883
C.II.1.	Long-term receivables	25	6,726,018	—	6,726,018	9,945,090
C.II.1.5.	Receivables - other	26	6,726,018	—	6,726,018	9,945,090
C.II.1.5.4.	Other receivables	27	6,726,018	—	6,726,018	9,945,090
C.II.2.	Short-term receivables	28	2,415,540	(906,001)	1,509,539	4,150,793
C.II.2.1.	Trade receivables	29	228,482	(184,707)	43,775	48,983
C.II.2.2.	Receivables - group undertakings	30	88,254	—	88,254	137,463
C.II.2.4.	Receivables - other	31	2,098,804	(721,294)	1,377,510	3,964,347
C.II.2.4.3.	Tax receivables	32	—	—	—	2,172
C.II.2.4.4.	Short-term advances paid	33	3,578	—	3,578	10,362
C.II.2.4.5.	Estimated receivables	34	5,544	—	5,544	10,673
C.II.2.4.6.	Other receivables	35	2,089,682	(721,294)	1,368,388	3,941,140
C.III.	Short-term financial assets	36	207,292	—	207,292	168,648
C.III.2.	Other short-term financial assets	37	207,292	—	207,292	168,648
C.IV.	Cash	38	1,690,812	—	1,690,812	701,984
C.IV.1.	Cash in hand	39	265	—	265	312
C.IV.2.	Bank accounts	40	1,690,547	—	1,690,547	701,672
D.	**Deferrals**	**41**	**89,278**	**—**	**89,278**	**20,796**
D.1.	Prepaid expenses	42	89,027	—	89,027	20,750
D.3.	Accrued revenues	43	251	—	251	46

in thousands of CZK		line	Current period	Prior period
	TOTAL LIABILITIES AND EQUITY	**44**	**54,720,788**	**54,819,409**
A.	**Equity**	**45**	**32,271,498**	**31,178,945**
A.I.	Registered capital	46	15,780,308	15,780,308
A.I.1.	Registered capital	47	15,780,308	15,780,308
A.II.	Premium and capital contributions	48	7,394,825	7,328,853
A.II.1.	Premium	49	2,551,766	2,551,766
A.II.2.	Capital contributions	50	4,843,059	4,777,087
A.II.2.1.	Other capital contributions	51	5,615,882	5,615,882
A.II.2.2.	Revaluation of assets and liabilities (+/-)	52	(772,823)	(838,795)
A.III.	Funds from profit	53	367,942	455,127
A.III.1.	Other reserve funds	54	200,082	200,082
A.III.2.	Statutory and other funds	55	167,860	255,045
A.IV.	Retained earnings (+/-)	56	7,344,657	5,455,089
A.IV.1.	Retained profits	57	7,344,657	5,455,089
A.V.	Profit (loss) for the current period (+/-)	58	1,383,766	2,159,568
B. + C.	**Liabilities**	**59**	**22,352,163**	**23,627,576**
B.	**Provisions**	**60**	**13,201**	**7,727**
B.2.	Income tax provision	61	9,520	2,680
B.4.	Other provisions	62	3,681	5,047
C.	**Liabilities**	**63**	**22,338,962**	**23,619,849**
C.I.	Long-term liabilities	64	14,976,122	15,684,082
C.I.1.	Debentures and bonds issued	65	1,287,592	1,278,328
C.I.1.2.	Other debentures and bonds	66	1,287,592	1,278,328
C.I.2.	Liabilities to credit institutions	67	262,400	306,200
C.I.4.	Trade payables	68	78	71
C.I.6.	Liabilities - group undertakings	69	13,426,014	14,096,229
C.I.8.	Deferred tax liability	70	38	3,254

in thousands of CZK		line	Current period	Prior period
	LIABILITIES TOTAL			
C.II.	Short-term liabilities	71	7,362,840	7,935,767
C.II.2.	Liabilities to credit institutions	72	1,520,432	1,509,654
C.II.4.	Trade payables	73	10,305	3,691
C.II.5.	Short-term bills of exchange payable	74	180,587	832,137
C.II.6.	Liabilities - group undertakings	75	5,595,136	5,303,343
C.II.8.	Liabilities - other	76	56,380	286,942
C.II.8.1.	Liabilities to shareholders/members	77	40,398	40,107
C.II.8.3.	Payables to employees	78	747	923
C.II.8.4.	Social security and health insurance liabilities	79	617	697
C.II.8.5.	Tax liabilities and subsidies	80	5,012	1,038
C.II.8.6.	Estimated payables	81	7,963	15,791
C.II.8.7.	Other payables	82	1,643	228,386
D.	**Accruals**	**83**	**97,127**	**12,888**
D.1.	Accrued expenses	84	96,547	12,888
D.2.	Deferred revenues	85	580	–

INCOME STATEMENT CLASSIFICATION BY NATURE FOR THE YEAR ENDED 31 DECEMBER 2018

in thousands of CZK		line	Current period	Prior period
	INCOME STATEMENT			
I.	Revenue from products and services	1	15,690	15,045
A.	Cost of sales	2	112,850	122,805
A.2.	Materials and consumables	3	1,871	1,346
A.3.	Services	4	110,979	121,459
D.	Personnel expenses	5	20,518	19,992
D.1.	Wages and salaries	6	15,506	15,238
D.2.	Social security, health insurance and other expenses	7	5,012	4,754
D.2.1.	Social security and health insurance expenses	8	4,591	4,576
D.2.2.	Other expenses	9	421	178
E.	Adjustments relating to operating activities	10	33,450	21,514
E.1.	Adjustments to intangible and tangible fixed assets	11	15,254	15,778
E.1.1.	Depreciation and amortisation of intangible and tangible fixed assets	12	15,254	15,778
E.3.	Adjustments to receivables	13	18,196	5,736
III.	Other operating revenues	14	10,644	10,567
III.1.	Proceeds from disposals of fixed assets	15		22
III.2.	Proceeds from disposals of raw materials	16	62	65
III.3.	Miscellaneous operating revenues	17	10,582	10,480
F.	Other operating expenses	18	33,280	(55,194)
F.2.	Net book value of raw materials sold	19	58	61
F.3.	Taxes and charges	20	241	112
F.4.	Provisions relating to operating activity and complex prepaid expenses	21	(1,436)	(68,024)
F.5.	Miscellaneous operating expenses	22	34,417	12,657
*	**Operating profit (loss) (+/-)**	**23**	**(173,764)**	**(83,505)**

in thousands of CZK		line	Current period	Prior period
	INCOME STATEMENT			
IV.	Revenue from long-term investments - equity investments	24	3,073,609	2,643,804
IV.1.	Revenue from equity investments - group undertakings	25	1,862,368	1,746,897
IV.2.	Other revenue from equity investments	26	1,211,241	896,907
G.	Cost of equity investments sold	27	1,076,867	896,735
V.	Revenue from other long-term investments	28	170,775	6,473,291
V.1.	Revenue from other long-term investments – group undertakings	29	—	2,419,071
V.2.	Other revenue from other long-term investments	30	170,775	4,054,220
H.	Expenses related to other long-term investments	31	172,033	6,471,822
VI.	Interest revenue and similar revenue	32	791,835	833,698
VI.1.	Interest revenue and similar revenue - group undertakings	33	322,861	77,236
VI.2.	Other interest revenue and similar revenue	34	468,974	756,462
I.	Adjustments and provisions relating to financial activity	35	246,366	(234,930)
J.	Interest expense and similar expense	36	962,700	1,070,552
J.1.	Interest expense and similar expense - group undertakings	37	768,355	897,705
J.2.	Other interest expense and similar expense	38	194,345	172,847
VII.	Other financial revenues	39	418,659	1,658,967
K.	Other financial expenses	40	428,891	1,151,088
*	**Profit (loss) from financial operations**	**41**	**1,568,021**	**2,254,493**
**	**Profit (loss) before tax (+/-)**	**42**	**1,394,257**	**2,170,988**
L.	Income tax	43	10,491	11,420
L.1.	Current tax	44	13,163	14,619
L.2.	Deferred tax (+/-)	45	(2,672)	(3,199)
**	**Profit (loss) after tax (+/-)**	**46**	**1,383,766**	**2,159,568**
***	**Profit (loss) for the accounting period (+/-)**	**47**	**1,383,766**	**2,159,568**
*	**Net turnover for the accounting period = I. + II. + III. + IV. + V. + VI. + VII.**	**48**	**4,481,212**	**11,635,372**

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

in thousands of CZK		Current period	Prior period
P.	**Cash and cash equivalents, beginning of period**	**701,984**	**85,975**
	NET OPERATING CASH FLOW		
Z:	Operating profit (loss) before tax	(173,764)	(83,505)
A.1.	Non-cash transactions	278,446	(7,776)
A.1.1.	Depreciation and amortisation of fixed assets	15,254	15,778
A.1.2.	Change in:	263,192	(66,383)
A.1.2.2.	provisions and adjustments relating to operating activity	263,192	(66,383)
A.1.3.	Profit(-) Loss(+) on sale of fixed assets		(22)
A.1.4.	Other non-cash transactions		42,851
A*.	**Net operating cash flow before taxation, financial items, changes in working capital and extraordinary items**	**104,682**	**(91,281)**
A.2.	Changes in working capital	3,712,737	5,122,291
A.2.1.	Change in receivables from operating activities, estimated receivables and deferrals	3,847,689	3,732,603
A.2.2.	Change in short-term liabilities from operating activities, estimated payables and accruals	(126,178)	(744,524)
A.2.3.	Change in inventories	3	67
A.2.4.	Change in short-term financial assets, other than cash and cash equivalents	(8,777)	2,134,145
A.**	**Net operating cash flow before taxation, financial balances, and extraordinary items**	**3,817,419**	**5,031,010**
A.3.	Interest paid excluding amounts capitalised	(943,511)	(1,003,436)
A.4.	Interest received	1,504,509	1,018,256
A.5.	Income tax paid on ordinary income and income tax relating to prior periods	(6,867)	(11,939)
A.6.	Other financial receipts and disbursement	14,489	(224,280)
A.7.	Dividends received	1,882,932	1,746,897
A.***	**Net operating cash flow**	**6,268,971**	**6,556,508**
	INVESTING ACTIVITIES		
B.1.	Acquisition of fixed assets	(1,747,782)	(2,701,112)
B.1.1.	Acquisition of tangible fixed assets	(3,438)	(85)
B.1.3.	Acquisition of long-term investments	(1,744,344)	(2,701,027)
B.2.	Proceeds from sales of fixed assets	1,211,241	1,022,194
B.2.1.	Proceeds from sales of tangible and intangible fixed assets		22
B.2.2.	Proceeds from sale of long-term investments	1,211,241	1,022,172
B.3.	Advances and loans to related parties	(3,965,346)	(2,600,953)
B.***	**Net cash flow from investing activities**	**(4,501,887)**	**(4,279,871)**
	FINANCING ACTIVITIES		
C.1.	Change in long-term resp. short-term liabilities from financing	(421,071)	(1,183,853)
C.2.	Increase and decrease in equity from cash transactions	(357,185)	(476,775)
C.2.5.	Payments from funds created from net profit	(357,185)	(476,775)
C.***	**Net cash flow from financing activities**	**(778,256)**	**(1,660,628)**
F.	**Net increase or decrease in cash balance**	**988,828**	**616,009**
R.	**Cash and cash equivalents, end of period**	**1,690,812**	**701,984**

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

in thousands of CZK	Registered capital	Premium	Other capital contributions
Balance as at 1.1.2018	15,780,308	2,551,766	5,615,882
Transfer of the profit (loss) of prior year period	–	–	–
Payment of investment certificates interest	–	–	–
Change in revaluation	–	–	–
Change in fair value of hedging instruments	–	–	–
Profit (loss) for the current period	–	–	–
Balance as at 31.12.2018	**15,780,308**	**2,551,766**	**5,615,882**

in thousands of CZK	Registered capital	Premium	Other capital contributions
Balance as at 1.1.2017	15,780,308	2,551,766	5,615,882
Transfer of the profit (loss) of prior year period	–	–	–
Settlement of accumulated losses	–	–	–
Payment of investment certificates interest	–	–	–
Change in revaluation	–	–	–
Change in fair value of hedging instruments	–	–	–
Profit (loss) for the current period	–	–	–
Balance as at 31.12.2017	**15,780,308**	**2,551,766**	**5,615,882**

Revaluation of assets and liabilities	Other reserve funds	Statutory and other funds	Retained profits	Profit (loss) for the current period	Total
(838,795)	200,082	255,045	5,455,089	2,159,568	31,178,945
—	—	270,000	1,889,568	(2,159,568)	—
—	—	(357,185)	—	—	(357,185)
176,972	—	—	—	—	176,972
(111,000)	—	—	—	—	(111,000)
—	—	—	—	1,383,766	1,383,766
(772,823)	**200,082**	**167,860**	**7,344,657**	**1,383,766**	**32,271,498**

Revaluation of assets and liabilities	Other reserve funds	Statutory and other funds	Retained profits	Profit (loss) for the current period	Total
(97,766)	200,082	246,820	6,014,803	(74,713)	30,237,182
—	—	485,000	(485,000)	—	—
—	—	—	(74,714)	74,713	(1)
—	—	(476,775)	—	—	(476,775)
(1,179,029)	—	—	—	—	(1,179,029)
438,000	—	—	—	—	438,000
—	—	—	—	2,159,568	2,159,568
(838,795)	**200,082**	**255,045**	**5,455,089**	**2,159,568**	**31,178,945**

NOTES TO FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2018

1. DESCRIPTION AND PRINCIPAL ACTIVITIES

Establishment and description of the Company
J&T FINANCE GROUP SE ("the Company") was registered on 24 August 2006. The subject of the company's business is production, trade and services not listed in appendices 1 to 3 of the Trade Act.

Ownership structure
The shareholders of the Company as at 31 December 2018 were:

Ing. Jozef Tkáč	45.05%
Ing. Ivan Jakabovič	45.05%
Rainbow Wisdom Investments Limited	9.90%

During the accounting period the following changes to shareholders have occurred:
24 May 2018 CEFC Hainan International Holdings Co, Ltd. ceased to be a shareholder (4.50%)
24 May 2018 CEFC Shanghai International Group Limited ceased to be a shareholder (5.40%)
24 May 2018 Rainbow Wisdom Investments Limited became a shareholder (9.90%)

Registered office
J&T FINANCE GROUP SE
Pobřežní 297/14
186 00 Praha 8 - Karlín
Czech Republic

Identification number
275 92 502

Members of the board of directors and supervisory board as at 31 December 2018

ČMembers of the board of directors
Jozef Tkáč (předseda)
Patrik Tkáč (místopředseda)
Ivan Jakabovič (místopředseda)
Dušan Palcr (místopředseda)
Gabriela Lachoutová

Members of the supervisory board
Marta Tkáčová (předseda)
Ivan Jakabovič st.
Jana Šuterová

During the accounting period members of the board of directors and the supervisory board did not change.

The Company prepares consolidated financial statements.

Changes in the Commercial Register
In 2018 no changes in the Commercial Register were made.

Administrative branch
J&T FINANCE GROUP SE, organizačná zložka ("administrative branch") was established in Slovakia based on the decision of the board of directors of J&T FINANCE, a.s. (legal predecessor of the Company) dated 6 November 2013 and on 15 November 2013 it was recorded in the Commercial Register maintained by the District Court in Bratislava I, section Po, insert 2332/B as an administrative branch of a foreign entity.

Basic information about the branch
Company name: J&T FINANCE GROUP SE, organizačná zložka
Place of business: Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic
Identification number: 47 251 735

The principal activities are as follows:
- mediation of providing loans and borrowings from funds solely acquired without a public invitation and without a public offer of property values
- lease of real estate without providing other than basic services associated with the lease
- mediation services in the field of trade, services and manufacture
- business, organisational and economic advisory
- advertising and marketing services

Head of the administrative branch:

Function	Name
Head of the administrative branch	Beáta Ondušková Bratislava, Miletičova 54, post code 821 09, Slovak Republic

As at 31 December 2018 the administrative branch had 7 employees (2017 - 10 employees).

2. GENERAL ACCOUNTING PRINCIPLES, ACCOUNTING POLICIES AND THEIR CHANGES AND DEVIATIONS

These financial statements have been prepared in compliance with Act No. 563/1991 Coll., on Accounting, as amended, ("the Act on Accounting") and Decree of the Czech Ministry of Finance No. 500/2002 Coll., implementing certain provisions of the Act on Accounting, as amended, for business entities using double-entry bookkeeping, ("the Decree").

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

a) Tangible and intangible fixed assets

Tangible and intangible fixed assets are stated at acquisition cost. Tangible fixed assets costing up to TCZK 40 and intangible fixed assets costing up to TCZK 60 are not recognised in the balance sheet and are expensed in the year that they are acquired.

The cost of internally produced fixed assets includes direct materials, direct wages and overheads directly related to the creation of the asset until it is put into use.

Tangible fixed assets acquired free of charge are measured at replacement cost and credited to other capital contributions (in the case of non-depreciable assets)/accumulated depreciation (in the case of depreciable assets). An asset's replacement cost is the cost at which the asset would be acquired at the time of its recognition. The replacement cost of the respective assets has been determined based on an expert appraisal.

Land is not depreciated.

Assets are depreciated using the following methods over the following periods:

Assets	Method	Period
Buildings	Straight-line	30 years
Machinery and equipment	Straight-line	8 years
Motor vehicles	Declining balance	4 years
Patents and other intangibles	Straight-line	5 years
Software	Declining balance	3 years
Adjustments to acquired fixed assets	Straight-line	15 years

In the income statement, depreciation is presented in “Depreciation and amortisation of intangible and tangible fixed assets”.

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term and their estimated useful lives.

b) Long-term investments

Long-term investments comprise equity investments in subsidiaries and associated companies, debt securities that the Company has the intent and ability to hold to maturity, and other long-term securities for which the Company’s intent is not known upon acquisition. Long-term investments also include long-term loans provided to group undertakings and associated companies and other long-term loans granted.

Long-term investments are stated at cost initially, which includes expenses directly incurred in connection with the acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges.

Securities, except held-to-maturity securities and securities comprising equity investments in subsidiaries and associated companies, are measured at fair value as at the balance sheet date. Gains/losses arising from the change in fair value are not included in the net profit or loss for the period until they are realised, and are recorded as changes in “Revaluation of assets and liabilities” in equity.

Where the fair value cannot be reliably determined the investments are recognised at acquisition cost, and if a particular investment has been impaired, an adjustment is established.

As at the balance sheet date, investments are recognised at acquisition cost, and if a particular investment has been impaired, an adjustment is established. The Company establishes the adjustments as at the last date of accounting period. Adjustments are recorded in the currency of recognized equity interest. FX changes to adjustments are recognized in the profit and loss on the same account as the impairment. FX differences of non-current securities and interests that arise as at balance sheet date are recorded within the equity in “Gains or losses from revaluation of assets and liabilities”. As at the balance sheet date unrealised foreign exchange gains and losses from long-term securities and ownership interests are included in the revaluation of assets and liabilities at fair value.

The value of debt securities as at the balance sheet date also includes the proportionate part of interest revenue that is recognised in the income statement. Where the value of held-to-maturity debt securities has been impaired adjustments are established.

c) Short-term securities and ownership interests

On acquisition, securities held for trading and held-to-maturity debt securities due within one year are recorded at acquisition cost.

As at the balance sheet date short-term securities held for trading are measured at fair value. Any change in valuation in the accounting period is recorded in revenues (expenses) from revaluation of securities and derivatives. Where fair value cannot be reliably determined, short-term securities held for trading are recognised at cost. Adjustments are established if the net realisable value of these assets has been impaired.

The value of debt securities as at the balance sheet date also includes the proportionate part of interest revenue that is recognised in the income statement. Adjustments are established where the value of held-to-maturity debt securities has been impaired.

d) Inventories
Raw materials are stated at cost, which includes the purchase price of the materials and related customs duties and in-transit storage and freight costs incurred in delivering the materials to the manufacturing facility. Cost is determined using the first-in, first-out method.

Goods for resale are stated at cost, which includes the purchase price of the goods and related customs duties and in-transit storage and freight costs incurred in delivering the goods to the warehouse. Cost is determined using the first-in, first-out method.

e) Establishment of adjustments and provisions

Receivables
The Company establishes adjustments for doubtful receivables based on an analysis of the credit status of customers and the ageing structure of receivables. In the income statement, the establishment and release of adjustments is presented in “Adjustments to receivables”.

Investments
Adjustments for investments are established where the book value is temporarily higher than the net realisable value of an investment, represented by the value of equity or a qualified estimate.

Provisions
As at the balance sheet date, a provision for untaken holidays is established based on an analysis of untaken holidays in the accounting period and average payroll expenses, including social security and health insurance expenses per employee.

An income tax provision is established as the financial statements are prepared before the tax liability is determined. In the subsequent accounting period, the Company releases or uses this provision and records the actual tax liability determined.

In the balance sheet, the income tax provision is reduced by income tax prepayments, and the net receivable (if any) is recorded in tax receivables.

Other provisions are established for warranties. These provisions are established based on an analysis of the Company’s management where provisions are established for risk guarantees.

f) Foreign currency translation
The Company applies the Czech National Bank official rate to foreign currency transactions. During the year foreign exchange gains and losses are only recognised when realised at the time of settlement. As at the balance sheet date, foreign currency monetary assets and liabilities are translated at the prevailing Czech National Bank official rates. Unrealised foreign exchange gains and losses are recognised in profit or loss

g) Derivatives

A derivative is a financial instrument that meets all of the following conditions.

— Its fair value changes in response to the change in a specified interest rate, price of a security, commodity price, foreign exchange rate, price index, credit rating or credit index, or other variable ("the underlying asset").
— It requires a small or no initial net investment compared with other types of contract based on a similar response to changes in market factors.
— It is settled at a future date, with the period from the trade date to the settlement date exceeding that of a spot transaction.

Derivatives are recognised in the balance sheet at fair value. Positive fair values of derivatives are recognised in assets under "Other receivables". Negative fair values of derivatives are recognised in liabilities under "Other payables". The fair value of financial derivatives is the present value of expected cash flows from these transactions.

Trading derivatives

Derivatives held for trading are recognised in the balance sheet at fair value. Gains/losses from changes in fair value are recorded in the income statement under "Other financial revenues"/"Other financial expenses".

Hedging derivatives

The Company uses hedging derivatives (currency forwards, currency swaps) to mitigate foreign exchange risks relating to the holding of foreign currency investment. Hedging derivatives are recognised in the balance sheet at fair value. The method of recognising changes in fair value depends on the model of hedge accounting applied.

In accordance with accounting policies, the Company has decided to apply hedge accounting for recognising of effects resulting from hedging of foreign exchange risks. Hedge accounting is applied if:

— hedging is in line with the company's management strategy
— the hedging relationship is formally documented at the time of the hedging transaction,
— the hedging relationship is expected to be effective for its duration,
— the effectiveness of the hedging relationship is objectively measurable,
— the hedging relationship is effective during the accounting period, which means that changes in fair values or cash flows of hedging instruments are offset by changes in cash flows of the hedging instruments which correspond to hedged risk,
— in the case of cash flow hedges, the expected transaction is highly probable and there is a risk that there will be changes in cash flows that will affect profit or loss.

The Company applies the hedging model of net investment in foreign currencies. If the Company hedges foreign exchange risk arising from investments in foreign currency with controlling or significant influence, the effective part of the hedging (ie, the change in the fair value of the hedging instrument in terms of hedged risk) is recognized as part of equity in "Gains or losses from revaluation of assets and liabilities". The ineffective part is recognized in the income statement.

Embedded derivatives

In some instances, a derivative may be part of a compound financial instrument, which includes both the host instrument and the derivative (embedded derivative) that influences the cash flow or otherwise modifies the characteristics of the host instrument. Pursuant to Section 52 (7) of Decree No. 500/2002 Coll., the Company does not account for embedded derivatives.

h) Leased assets
Lease payments are expensed on a straight-line basis over the lease term. Where an asset is purchased at the end of the lease, it is recorded at its purchase price.

i) Recognition of revenues and expenses
Revenues and expenses are recognised on an accrual basis, i.e. in the period to which they relate in terms of substance and timing.

j) Income tax
Income tax for the period comprises current tax and the change in deferred tax.

Current tax comprises an estimate of tax payable calculated based on the taxable income, using the tax rate valid as at the first day of the accounting period, and any adjustments to taxes payable for previous periods.

Deferred tax is based on all temporary differences between the carrying and tax value of assets and liabilities, and other temporary differences (tax losses carried forward, if any), multiplied by the tax rate expected to be valid for the period in which the tax asset/liability is utilised.

A deferred tax asset is recognised only if it is probable that it will be utilised in future accounting periods.

k) Classification of liabilities and receivables
The Company classifies as short-term any part of long-term liabilities, receivables, received bank loans and received and granted overdrafts that is due within one year of the balance sheet date.

l) Consolidation
The Company is the parent entity that prepares consolidated financial statements in accordance with the provisions of 22aa of Act No. 563/1991 Coll., On Accounting. The consolidated financial statements will be published in accordance with Sections 22a (2c) and 21a of Act No. 563/1991 Coll., on Accounting. The Company prepares consolidated financial statements in accordance with International Accounting Standards (IFRS), as adopted by the European Union.

m) Accounting of the organisational unit
The accounting of the organisational unit is kept in EUR and separately in Slovakia. The turnover on all accounts is recalculated once a month at the daily exchange rate of the Czech National Bank. Assets and liabilities in EUR are translated at the balance sheet date using the exchange rate announced by the CNB. Any exchange differences arising from the translation of the balance sheet and the income statement at the balance sheet date are recognized in the income statement.

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3. FIXED ASSETS

a) Intangible fixed assets

2018

in thousands of CZK	Intellectual property rights	Software	Total
ACQUISITION COST			
Balance at 1/1/2018	392	71	463
Balance at 31/12/2018	392	71	463
ACCUMULATED DEPRECIATION			
Balance at 1/1/2018	229	71	300
Depreciation expense	65	–	65
Balance at 31/12/2018	294	71	365
Net book value 1/1/2018	**163**	**–**	**163**
Net book value 31/12/2018	**98**	**–**	**98**

2017

in thousands of CZK	Intellectual property rights	Software	Total
ACQUISITION COST			
Balance at 1/1/2017	392	71	463
Balance at 31/12/2017	392	71	463
ACCUMULATED DEPRECIATION			
Balance at 1/1/2017	163	71	234
Depreciation expense	66	–	66
Balance at 31/12/2017	229	71	300
Net book value 1/1/2017	**229**	**–**	**229**
Net book value 31/12/2017	**163**	**–**	**163**

b) Tangible fixed assets

2018

in thousands of CZK	Buildings	Machin. and equipment	Motor vehicles	Office equipment	Low-value assets	Valuable items	Total
ACQUISITION COST							
Balance at 1/1/2018	159,735	251	1,796	32,860	31,660	2,918	229,220
Additions	201	43	–	275	–	2,919	3,438
Disposals	–	–	–	–	416	–	416
Balance at 31/12/2018	159,936	294	1,796	33,135	31,244	5,837	232,242
ACCUMULATED DEPRECIATION							
Balance at 1/1/2018	36,168	194	1,646	25,718	14,540	–	78,266
Depreciation expense	8,598	33	89	3,832	2,635	–	15,187
Accumulated depreciation disposals	–	–	–	–	416	–	416
Balance at 31/12/2018	44,766	227	1,735	29,550	16,759	–	93,037
ADJUSTMENTS							
Balance at 1/1/2018	–	–	–	–	–	–	–
Balance at 31/12/2018	–	–	–	–	–	–	–
Net book value 1/1/2018	**123,567**	**57**	**150**	**7,142**	**17,120**	**2,918**	**150,954**
Net book value 31/12/2018	**115,170**	**67**	**61**	**3,585**	**14,485**	**5,837**	**139,205**

2017

in thousands of CZK	Buildings	Machin. and equipment	Motor vehicles	Office equipment	Low-value assets	Valuable items	Total
ACQUISITION COST							
Balance at 1/1/2017	159,735	251	1,784	32,860	31,687	2,918	229,235
Additions	–	–	86	–	–	–	86
Disposals	–	–	73	–	27	–	100
Balance at 31/12/2017	159,735	251	1,795	32,860	31,660	2,918	229,219
ACCUMULATED DEPRECIATION							
Balance at 1/1/2017	27,366	165	1,630	21,608	11,884	–	62,653
Depreciation expense	8,802	29	88	4,110	2,683	–	15,712
Accumulated depreciation disposals	–	–	73	–	27	–	100
Balance at 31/12/2017	36,168	194	1,645	25,718	14,540	–	78,265
ADJUSTMENTS							
Net book value 1/1/2017	**132,369**	**86**	**154**	**11,252**	**19,803**	**2,918**	**166,582**
Net book value 31/12/2017	**123,567**	**57**	**150**	**7,142**	**17,120**	**2,918**	**150,954**

The assets are mainly assets of an administrative branch.

4. INVESTMENTS

a) Long-term investments

Overview of movements of long-term investments.

2018

in thousands of CZK	Equity investments – group undertakings	Loans – group undertakings	Other long-term securities and equity investments	Other long-term investments	Total
Balance at 1/1/2018	35,453,546	2,615,473	1,313,630	298,272	39,680,921
Additions	1,341,164	7,768,658	403,180	—	9,513,002
Disposals	—	(3,136,977)	(1,124,297)	—	(4,261,274)
Transfers	—	(622,341)	(4,260)	—	(626,601)
Revaluation	(69,078)	74,406	47,113	—	52,441
Balance at 31/12/2018	**36,725,632**	**6,699,219**	**635,366**	**298,272**	**44,358,489**

2017

in thousands of CZK	Equity investments – group undertakings	Loans – group undertakings	Other long-term securities and equity investments	Other long-term investments	Total
Balance at 1/1/2017	34,661,856	—	477,270	298,272	35,437,398
Additions	1,751,504	2,615,473	1,203,123	—	5,570,100
Disposals	—	—	(378,864)	—	(378,864)
Revaluation	(959 814)	—	12,101	—	(947,713)
Balance at 31/12/2017	**35,453,546**	**2,615,473**	**1,313,630**	**298,272**	**39,680,921**

Controlled and controlling entities and entities under significant influence

2018

in thousands of CZK	Ownership	Shares held	Nominal share value in CZK	Total profit (+) loss (-) for 2018	Equity at 31/12/2018	Acquisition cost	Carrying value
PBI, a.s.	100 %	5,777	1,000,000	(1,447)	6,019,963	6,220,287	6,220,287
J&T INTEGRIS GROUP LIMITED	100 %	4,000	25,725	28,671	5,252,895	7,671,566	5,868,010
	—	700,000	—	—	—	—	—
	—	10,637	1,43	—	—	—	—
J&T BANKA, a.s.	100 %	126	1,000	1,534,279	18,605,983	11,142,805	11,142,805
J&T Bank (Schweiz) AG in Liquidation	100 %	200,000	2,283	—	—	1,089,957	0
Poštová banka, a.s.	64.46 %	213,288	28,478	1,690,004	16,305,457	10,321,470	10,321,470
	—	20	156,480	—	—	—	—
J&T Wine Holding SE	100 %	5,730	156,630	(868)	1,109,169	1,123,476	1,123,476
J&T Mezzanine, a.s.	100%	2	1,000,000	77,535	2,005,610	1,934,211	1,934,211
	—	10	200,000	—	—	—	—
J&T SERVICES ČR, a.s.	100 %	139,134	1,000	12,642	178,430	140,958	111,113
Compact Property Fund	100%	35	100,000	6,920	4,125,571	4,260	4,260
Total ownership interests	**—**	**—**	**—**	**—**	**—**	**39,648,990**	**36,725,632**

Loans – group undertakings

2018

in thousands of CZK	Principal	% p.a.	Accrued interest	Maturity	Carrying value
J&T Mezzanine, a.s.	6,443,322	3% - 6%	56,843	2022 - 2023	6,500,165
JOINT-STOCK COMMERCIAL BANK "KHOVANSKIY"	172,988	8.0%	38	27.12.2023	173,026
J&T Minorities Portfolio Limited	25,982	1%	46	31.12.2020	26,028
Total loans – group undertakings	**–**	**–**	**–**	**–**	**6,699,219**

Available-for-sale securities

2018

in thousands of CZK	Ownership	Shares held	Nominal share value in CZK	Total Profit (+) loss (-) for 2018	Acquisition cost	Carrying value
Steel Assets Management Limited B.V.	9.9%	1,797	25.725	–	46	46
J&T Bank, a.o.	0.1%	70,000	62.44	–	4,371	4,371
SANDBERG INVESTMENT FUND SICAV P.L.C	0%	20,000	n/a	–	51,080	61,687
NOVA Real Estate, investiční fond s proměnným základním kapitálem, a.s.	0%	146,070,698	n/a	–	149,547	156,617
NOVA Real Estate, investiční fond s proměnným základním kapitálem, a.s.	0%	2,965,871	n/a	–	383,067	412,645
Total available-for-sale securities	**–**	**–**	**–**	**–**	**588,111**	**635,366**

Other long-term investments

2018

in thousands of CZK	Number of pieces	Nominal piece value in CZK	% p.a.	Acquisition cost	Carrying value
J&T BANKA, a.s. – Investment certificates	2,220	135,100	9%	298,272	298,272
Total other long-term investments	–	–	–	298,272	298,272
Total long-term investments	**–**	**–**	**–**	**–**	**44,358,489**

Financial information on the above companies were taken from preliminary, unaudited financial statement of individual companies.

The statutory financial statements of PBI, a.s. are prepared on the basis of the fiscal year from 1 July 2018 to 30 June 2019. For this reason, the stated values (total profit and equity) are for a period of 6 months (from 1 July 2018 to 31 December 2018).

As at 31 December 2017 the registered capital of PBI, a.s. consists of 5,777 shares of the following types: ordinary shares of type A (605), priority shares of type B (4,842), and priority shares of type C (330). During 2018, J&T FINANCE GROUP SE decided to register all above mentioned shares as ordinary name shares in certificated form.

Compact Property Fund was in 2018 transferred to account Group undertakings and associated companies.

During 2018 JTFG Company provided another loans to its subsidiary J&T Mezzanine. As at 31 December 2018 total amount of these long-term investments was 5, partially provided in CZK, partially in EUR.

Controlled and controlling entities and entities under significant influence

2017

in thousands of CZK	Ownership	Shares held	Nominal share value in CZK	Total profit (+) loss (-) for 2017	Equity at 31/12/2017	Acquisition cost	Carrying value
PBI, a.s.	100%	5,777	1,000,000	(3,026)	6,060,857	6,220,287	6,220,287
J&T INTEGRIS GROUP LIMITED	100%	4,000	25,54	355,425	5,186,654	7,616,396	5,825,810
	—	700,000	1,43	—	—	—	—
J&T BANKA, a.s.	100%	10,637,126	1,000	1,495,597	18,997,915	11,142,805	11,142,805
J&T Bank (Schweiz) AG in Liquidation	100%	200,000	2,517	—	—	1,042,065	185,504
Poštová banka, a.s.	64.46%	213,288	29,911	1,223,034	16,415,426	10,247,244	10,247,244
J&T Wine Holding SE	100%	5,750	156,630	(470)	880,905	900,702	900,702
J&T Mezzanine, a.s.	100%	2	1,000,000	1,720	821,800	820,081	820,081
	—	10	200,000	—	—	—	—
J&T SERVICES ČR, a.s.	100%	139,134	1,000	21,306	177,794	140,958	111,113
Total ownership interests	**—**	**—**	**—**	**—**	**—**	**38,130,538**	**35,453,546**

Loans – group undertakings

2017

in thousands of CZK	Principal	% p.a.	Accrued interest	Maturity	Carrying value
J&T Mezzanine, a.s.	2,439,070	5.75%	12,426	20.11.2022	2,451,496
JOINT-STOCK COMMERCIAL BANK "KHOVANSKIY"	163,941	8.0%	36	27.12.2023	163,977
Total loans – group undertakings	**—**	**—**	**—**	**—**	**2,615,473**

Available-for-sale securities

2017

in thousands of CZK	Vlastnický podíl	Počet akcií	Nominální hodnota akcie v Kč	Celkový zisk (+) ztráta (-) za rok 2016	Pořizovací cena	Účetní hodnota
Steel Assets Management Limited B.V.	9.9%	1,797	25.54	—	46	46
J&T Bank, a.o.	0.1%	70,000	62.44	—	4,371	4,371
SANDBERG INVESTMENT FUND SICAV P.L.C	0%	20,000	n/a	—	51,080	61,244
Compact Property Fund	—	35	—	—	4,260	4,260
NOVA Real Estate, investiční fond s proměnným základním kapitálem, a.s.	0%	9,782,739	n/a	—	1,201,614	1,243,709
Total available-for-sale securities	**—**	**—**	**—**	**—**	**1,261,371**	**1,313,630**

Other long-term investments

2017

in thousands of CZK	Number of pieces	Nominal piece value in CZK	% p.a.	Acquisition cost	Carrying value
J&T BANKA, a.s. – Investiční certifikáty	2,220	135,100	9 %	298,272	298,272
Celkem jiný dlouhodobý finanční majetek		298,272			
Total other long-term investments					**39,680,921**

During 2018, the Company had revenue from long-term investments relating to dividends received from PBI, a.s. of TCZK 210,450, from Poštová banka, a.s. of TCZK 398,025, from J&T BANKA, a.s. of TCZK 1,253,819 and from J&T Bank a.o. of TCZK 75. The Company also had revenue of TCZK 21,794 from holding the Investment certificates of J&T BANKA, a.s.

The registered offices of the subsidiaries are as follows:

Poštová banka, a.s.
Dvořákovo nábrežie 4
811 02 Bratislava 186 00
Slovak Republic

PBI, a.s.
Sokolovská 394/17
Praha 8
Czech Republic

J&T INTEGRIS GROUP LTD
Klimentos 41-43,
Klimentos Tower 2nd floor, flat/office 21
1016 Nicosia
Cyprus

J&T BANKA, a.s.
Pobřežní 297/14
186 00 Praha 8
Czech Republic

J&T Wine Holding SE
Pobřežní 297/14
186 00 Praha 8
Czech Republic

J&T Bank (Schweiz) AG in Liquidation
Talacker 50
CH-8001 Zurich
Schweiz

J&T SERVICES ČR, a.s.
Pobřežní 297/14
186 00 Praha 8
Czech Republic

J&T Mezzanine, a.s.
Pobřežní 297/14
186 00 Praha 8
Czech Republic

Compact Property Fund, i.f.
s proměnnným základním kapitálem
Na Příkopě 393/11
110 00 Praha – Staré Město
Czech Republic

b) Short-term investments

Securities held for trading

in thousands of CZK	Ownership	Shares held	Nominal share value in CZK	Acquisition cost	Received shares on profit	31/12/2018 Fair value	31/12/2017 Fair value
Best Hotel Properties a.s.	6.57 %	2,300,000	25,725	767,653	—	65,084	48,756
Tatry mountain resort, a.s.	2.64 %	197,076	180,075	147,011	—	142,208	119,892
Total securities held for trading	**—**	**—**	**—**	**904,656**	**—**	**207,292**	**168,648**

5. ADJUSTMENTS FOR LONG-TERM INVESTMENTS

in thousands of CZK	Adjustment for ownership interests	Adjustment for other long-term securities	Total
Balance at 1/1/2018	2,676,992	—	2,676,992
Additions	246,366	—	246,366
Release/utilization	—	—	—
Balance at 31/12/2018	**2,923,358**	**—**	**2,923,358**

in thousands of CZK	Adjustment for ownership interests	Adjustment for other long-term securities	Total
Balance at 1/1/2017	2,911,922	—	2,911,922
Additions	(234,930)	—	(234,930)
Release/utilization	—	—	—
Balance at 31/12/2017	**2,676,992**	**—**	**2,676,992**

J&T Bank Switzerland entered into liquidation in 2012. As at 31 December 2018 was J&T Bank Switzerland using allowance revaluated to zero value, total adjustment was TCZK 1,089,957 (2017 – TCZK 856 561).

For the investment in J&T INTEGRIS GROUP LIMITED only foreign exchange revaluation was carried out as at 31 December 2018. Adjustment totalling TCZK 1,803,556 was established (2017 – TCZK 1 790 586).

J&T FINANCE GROUP, a.s. established an adjustment of TCZK 29,845 for an investment in J&T SERVICES ČR, a.s (2017 – TCZK 29 845).

6. INVENTORIES

Inventories of material comprise access cards to the building that will be subsequently handed over to the lessees, and amount to TCZK 57 (2017 – TCZK 60).

7. TRADE RECEIVABLES AND PAYABLES

a) Short-term trade receivables total TCZK 228,482 (2017 – TCZK 220,685), of which TCZK 207,337 (2017 – TCZK 194,701) is overdue. An allowance of TCZK 184,707 (2017 – TCZK 171,702) was created for these receivables.
b) The value of short-term receivables to the controlled or controlling person or the person with substantial influence represents borrowings amounting to TCZK 88,254 (2017 – TCZK 137,463).

c) Other short-term trade receivables as at 31 December 2018 of TCZK 1,220,630 (2017 – TCZK 3,492,955) also comprise loans and borrowings provided by the Company. The remaining part of other short-term receivables of TCZK 869,052 (2017 - TCZK 1,164,291) consists mainly of receivables from one company. An allowance of TCZK 721,294 (2017 – TCZK 716,107) was created for these receivables.
d) Other long-term receivables of TCZK 6,726,018 (2017 – TCZK 9,945,090) are due in more than one year. These receivables represent loans and borrowings provided by the Company. One loan totalling TCZK 66,245 will mature in more than 5 years. A decrease in long-term receivables was due to loans and borrowings repaid by the Company in total amount of TCZK 3,650, 839. The rest of the decrease is represented by the reclassification of loans and borrowings to short-term receivables due to short-term maturity. There was also reclassification of two receivables from other short-term receivables to other long-term receivables totalling TCZK 307,110 due to change of its parameters, the receivables began to bear the interest.

Summary of loans and borrowings:

in thousands of CZK	31/12/2018	31/12/2017
Loans and borrowing provided – short-term	1,308,884	3,630,418
Loans and borrowing provided – long-term	13,425,237	9,945,090
Total	**14,734,121**	**13,575,508**

Short-term loans and borrowing were provided to the controlled persons of TCZK 88,254 (2017 – TCZK 137,463) and to third parties of TCZK 1,220,630 (2017 – TCZK 3,492,955) recognized as Other receivables as described in Note 7c.

In the current period the Company registered loans and borrowings provided to its clients with a total of 10 short-term loans and borrowings and 19 long-term loans (contracted in the current period or in the previous years). In the prior period (2017) this concerned 12 short-term loans and borrowings and 20 long-term loans.

None of the above short-term loans/borrowings were overdue.

The company does not have any other long-term receivables due in more than 5 years, except those mentioned in Note 7 d).

The companies whose loans were due by the end of 2018 prolonged the maturity of the particular loans by one calendar year, in minimum.

e) Short-term trade payables total TCZK 10,305 (2017 – TCZK 3,691), of which TCZK 0 (2017 – TCZK 0) is overdue.
f) Short-term bills of exchange payable consist of bills of exchange below:

in thousands of CZK	31/12/2018	31/12/2017
Bills of exchange provided – due within 1 year	177,173	828,823
Bills of exchange provided – due upon presentation	3,414	3,314
Total	**180,587**	**832,137**

J&T FINANCE GROUP SE as at 31 December 2018 has bills of exchange provided by 4 creditors (contracted in 2018 or in the previous years). In the prior accounting period there were 6 creditors.

None of these bills of exchange are past their due date.

g) Payables to partners of TCZK 40,398 (2017 – TCZK 40,107) relate to dividends.
h) Other short-term payables as at 31 December 2018 of TCZK 1,643 (2017 – TCZK 228,386) primarily relate VAT payment in terms of group identification number (TCZK 382) and remuneration to the Board of Directors (TCZK 640) (in 2017 related to currency forwards).

8. SHORT-TERM ADVANCES PROVIDED AND RECEIVED

Short-term advances provided as at 31 December 2018 of TCZK 3,578 (2017 – TCZK 10,362) consist of advances provided for services of TCZK 69 (2017 – TCZK 6,478), advances provided to a securities trader of TCZK 451 (2017 – TCZK 393) and advances provided for purchase of securities of TCZK 3,058 (2017 – TCZK 3,491).

9. SHORT-TERM OVERDRAFTS

in thousands of CZK	31/12/2018	31/12/2017
Loans and borrowings received – short-term	–	–
Loans and borrowings received – short-term – group undertakings	5,595,136	5,303,343
Total	**5,595,136**	**5,303,343**

As at 31 December 2018 J&T FINANCE GROUP SE received loans and borrowings from 3 creditors (contracted in 2018 or in the previous years). In the prior accounting period there were 3 creditors.

None of these loans are past their due date.

10. LONG-TERM OVERDRAFTS AND BONDS

in thousands of CZK	31/12/2018	31/12/2017
BROKEN DOWN ACCORDING TO MATURITY		
1 – 2 years	6,417,996	10,859,791
2 - 5 years	4,537,592	4,514,766
More than 5 years	3,758,019	0
Total	**14,713,606**	**15,374,557**

As at 31 December 2018 J&T FINANCE GROUP SE records long-term loans and borrowings received due within 1 – 2 years from 2 creditors (contracted in 2018 or in the previous years); in the prior accounting period there were 4 creditors. Loans and borrowings due within 2 – 5 years were from 5 creditors; in the prior accounting period there were 4 creditors; these liabilities represented in 2018 issued bonds and long-term loans and in 2017 also issued bonds and long-term loans. Long-term loans and borrowings received due within more than 5 years from 1 creditor (no creditor in previous accounting period).

Paragraph Long-term borrowings and bonds follows on the lines Other bonds and Payables - controlled or controlling entity in the balance sheet.

The Company also recognises a long-term loan to a credit institution as at 31 December 2018. This loan is described in Note 17.

None of these loans are past their due date.

Other long-term payables consist of retention of TCZK 78 (2017 – TCZK 71).

11. PREPAID EXPENSES

Prepaid expenses of TCZK 89,027 (2017 – TCZK 20,751) are primarily related to fees related to bonds issuance of TCZK 87,758 (2017 – TCZK 20,056) and prepaid expenses of the administrative branch for property insurance and rent of TCZK 480 (2017 – TCZK 682).

In 2018 prepaid expenses of TCZK 96,547 (2017 – TCZK 12,888) consist of accrued expenses related to reimbursement of expenses for usual services of TCZK 21,814 (2017 – TCZK 12,888) and also of re-invoiced fees related to issue of bonds by a related company – TCZK 74,603.

12. DERIVATIVES

The fair value of financial derivatives is reported in other receivables (if positive) or other payables (if negative).

The Company held the following financial derivatives for trading:

31.12.2018

in thousands of CZK	Due date (expiry)	Nominal value at 31/12/2018	Fair value at 31/12/2018
TERM TRANSACTION REPORTED IN OTHER RECEIVABLES			
Forward sale RUB/CZK	2019	35,000 TRUB	355
Forward sale EUR/CZK	2019	27,000 TEUR	2,656
Forward sale EUR/CZK	2019	30,000 TEUR	(465)
Total swaps and forwards at 31/12/2018	**–**	**–**	**2,546**
Purchased equity options	–	–	1
Total equity options as at 31/12/2018	**–**	**–**	**1**

31.12.2017

in thousands of CZK	Due date (expiry)	Nominal value at 31/12/2017	Fair value at 31/12/2017
TERM TRANSACTION REPORTED IN OTHER RECEIVABLES			
Forward sale RUB/CZK	2018	96,000 TRUB	(752)
Forward sale EUR/CZK	2018	45,000 TEUR	(6,250)
Total swaps and forwards at 31/12/2017	**–**	**–**	**(7,002)**
Purchased equity options	–	–	84,155
Total equity options as at 31/12/2017	**–**	**–**	**84,155**

As at 27 June 2017, the Company has decided to hedge part of its net foreign currency investments and opened a hedging derivative for part of its foreign currency investments in Poštová banka, a.s. and J&T INTEGRIS GROUP LIMITED in value of TEUR 600,000. The nominal value of this derivative is TEUR 600,000.The derivative will reach the maturity as at 16 January 2019. The derivative is made for a period of six months and it is regularly extended for this time period. As at 31 December 2018 the revaluation of this derivative of TCZK 119,978 (2017 – 258,000) was recorded in account 414 - revaluation of ownership interest.

As at the balance sheet date the Company held the following derivatives for hedging of assets and liabilities:

2018

Hedging instrument	Hedged asset/liability	Change in value of the hedging instrument	Foreing Exchange difference from hedged asset/liability	Accounting value of hedging instrument at 31/12/2018
Forward sale EUR/CZK TEUR 600,000	Part of foreign currency invest-ments in associates in Poštová banka, a.s. and J&T INTEGIRS GROUP LIMITED in total value of TEUR 600,000	+93,000	-93,000	119,978

2017

Hedging instrument	Hedged asset/liability	Change in value of the hedging instrument	Foreing Exchange difference from hedged asset/liability	Accounting value of hedging instrument at 31/12/2018
Forward sale EUR/CZK TEUR 600,000	Part of foreign currency invest-ments in associates in Poštová banka, a.s. and J&T INTEGIRS GROUP LIMITED in total value of TEUR 600,000	+180 000	-180 000	2 216

13. ALLOWANCES TO RECEIVABLES

in thousands of CZK	Allowances to receivables
Balance at 1/1/2018	887,809
Additions	18,192
Balance at 31/12/2018	**906,001**

14. REGISTERED CAPITAL

in thousands of CZK	Registered capital
Balance at 1/1/2018	15,780,308
Balance at 31/12/2018	**15,780,308**

in thousands of CZK

REGISTERED CAPITAL AT 31/12/2018 CONSISTS OF FOLLOWING:	
10 bearer shares at CZK 200,000 per share	2,000
1 999 556 188 bearer shares at CZK 1 per share	1,999,556
13 778 752 bearer shares at CZK 1,000 per share	13,778,752
Total	**15,780,308**

15. EQUITY

a) Planned distribution of the current year's profit:

in thousands of CZK	
Current year profit	**1,383,766**
Transfer to capital funds	(260,000)
Transfer to retained profits and dividend payout	(1 123,766)
Retained earnings	**0**

b) Movements in the "Capital funds" account:

in thousands of CZK	
Balance at 1/1/2018	**4,777,087**
Change in valuation of an ownership interest	176,972
Change in valuation from hedging derivatives	(111,000)
Balance at 31/12/2018	**4,843,059**

c) Movements in the funds from profit account (statutory and other funds):

in thousands of CZK	
Balance at 1/1/2018	**455,127**
Transfer of profit for the previous period to Investment certificates fund	270,000
Yield payout from Investment certificates	(357,185)
Balance at 31/12/2018	**367,942**

d) "Share premium" and "Capital funds" comprises:

in thousands of CZK	
Share premium	2,551,766
Contribution to registered capital (in the dissolved company TECHNO PLUS)	208,882
Certificates*	5,407,000
Revaluation of ownership interest in J&T INTEGRIS GROUP LTD	(506,964)
Revaluation of ownership interest in J&T Bank (Schweiz) AG in Liquidation**	23,063
Revaluation of Poštová banka, a.s. shares	(660,619)
Hedging derivative for investment in J&T Bank (Schweiz) AG	29,485
Hedging derivative for investment in Poštová banka, a.s.	327,000
Revaluation Steel Assets Management Limited B.V. shares	(2)
Revaluation SANDBERG INVESTMENTZ FUND SICAV P.L.C. shares	7,648
Revaluation of NOVA Real Estate, investiční fond s proměnlivým základem shares	7,566
Balance at 31/12/2018	**7,394,825**

* In 2016, J&T FINANCE GROUP SE issued and sold to its shareholders subordinated unsecured income certificates without a maturity date ("Investment certificates") with a nominal value of TCZK 5,407,000 and with a yield of 9% p.a. for the first four six-month yield periods and a yield of 5% p.a. for the following yield periods, depending on the fulfilment of conditions specified in the certificate leaflet.
** As at 14 February 2008 the Company terminated a hedging derivative for a foreign exchange investment in Swiss francs. The nominal value of a derivative was TCHF 24,950. The revaluation of this derivative of TCZK 29,485 was recorded in account 414 – revaluation of ownership interest, when this balance will be held until the liquidation of this investment.

e) Movements in retained earnings

in thousands of CZK	
Balance at 1/1/2018	**5,455,089**
Transfer of profit/loss for the previous period	1,889,568
Balance at 31/12/2018	**7,344,657**

16. REZERVY

in thousands of CZK	Rezerva na DPPO	Ostatní rezervy	Celkem
Balance at 1/1/2018	**2,680**	**5,047**	**7,727**
Additions	9,520	3,023	12,535
Utilization	2,680	163	2,909
Release	—	4,226	4,152
Balance at 31/12/2018	**9,520**	**3,681**	**13,201**

Company recognises provision for income tax of TCZK 15,405 (2017 – TCZK 14,019) lowered by paid advances on income tax of TCZK 5,885 (2017 – TCZK 11,339) under the section State – tax receivables). The resulting provision amounts to TCZK 9,520 (2017 – liability of TCZK 2,680).

Other provisions mainly consist of provisions for salary bonuses.

17. LIABILITIES TO CREDIT INSTITUTIONS

31.12.2018

in thousands of CZK	Currency	Principal	Percentages*	Interests at 31/12/2018	Due date of principal	Due date of interest	Translation to TCZK
Prima banka	EUR	59,000,000	4.75%	101,201	19.3.2019	1x in 3 months	1,520,378
Privatbanka	CZK	262,400,000	4.75%	0	29.12.2021	1x in 3 months	262,400
Total							**1,782,778**

As at 31 December 2018, the interest on overdrafts from J&T BANKA, a. s. of EUR 2,078, equivalent to TCZK 54 is recorded under liabilities to credit institutions.

The short-term loan was extended by three months in December 2018.

31.12.2017

in thousands of CZK	Currency	Principal	Percentages*	Interests at 31/12/2018	Due date of principal	Due date of interest	Translation to TCZK
Prima banka	EUR	59,000,000	4.75%	101.201	19.12.2018	1x in 3 months	1.509.445
Privatbanka	CZK	306,200,000	4.75%	0	29.12.2021	1x in 3 months	306.200
Total							**1.815.645**

As at 31 December 2017, the interest on overdrafts from J&T BANKA, a. s. of EUR 8,215, equivalent to TCZK 210 is recorded under liabilities to credit institutions.

The short-term loan was extended by one year in December 2017..

18. REVENUES

Selected items of revenues are summarised below:

in thousands of CZK	Year	Domestic sales	Europe	Total
Interest revenue	2018	331,615	460,220	791,835
Interest revenue	2017	77,901	755,797	833,698
Guarantees and warranties	2018	29,409	33,116	62,525
Guarantees and warranties	2017	31,674	54,817	86,491
Other financial revenues	2018	306,543	49,591	356,134
Other financial revenues	2017	684,242	888,234	1,572,476
Revenues from shares	2018	1,464,269	398,099	1,862,368
Revenues from shares	2017	1,496,437	250,460	1,746 897
Other revenues from long-term financial assets	2018	192,569	1,189,447	1,382,016
Other revenues from long-term financial assets	2017	2,799,655	4,570,543	7,370,198
Total 2018	**2018**	**2,324,405**	**2,130,473**	**4,454,878**
Total 2017	**2017**	**5,089,909**	**6,519,851**	**11,609,760**

19. SERVICES

in thousands of CZK	2018	2017
Repairs and maintenance	2,194	1,415
Travel expenses	5,695	7,209
Representation costs	2,479	3,060
Rent and administration of buildings	4,145	4,208
Telecommunication services	271	1,334
Advisory services, audit and accounting	47,321	53,188
Other	48,874	51,045
Total	**110,979**	**121,459**

20. FEES PAYABLE TO STATUTORY AUDITORS

in thousands of CZK	2018	2017
Statutory audit	7,574	6,248
Other non-audit services	21	–
Total	**7,595**	**6,248**

21. EMPLOYEES AND MEMBERS OF MANAGEMENT, CONTROL AND ADMINISTRATIVE BODIES

in thousands of CZK	Average recalculated number 2018	Average recalculated number2017	Wage costs* 2018	Wage costs* 2017
Employees	14	14	14,820	14,552
Members of management	5	5	86	86
Members of the supervisory authorities	3	3	600	600
Total	**22**	**22**	**15,506**	**15,238**

* The wage costs of members of management, supervisory and administrative bodies represent remuneration to members of these bodies for the performance of their function.

As at 31 December 2018, no pension liabilities were incurred in respect of former members of the management, supervisory and administrative bodies.

22. INCOME TAX

a) Current tax

Current income tax includes estimate of income tax for the tax period 2018 amounting to TCZK 13,163 (2017 – TCZK 14,619).

b) Deferred tax

in thousands of CZK	Assets 2018	Assets 2017	Liabilities 2018	Liabilities 2017	Net 2018	Net 2017
Tangible fixed assets	–	–	(38)	(3,238)	(38)	(3,238)
Intangible fixed assets	–	–	–	(16)	–	(16)
Deferred tax asset/(liability)	**–**	**–**	**(38)**	**(3,254)**	**(38)**	**(3,254)**

In accordance with the accounting policy described in note 2j), a tax rate of 19% was used to calculate deferred tax (2017 – 19%).

23. RELATED PARTIES

a) Transactions with related parties

in thousands of CZK	Volume of mutual transactions 2018	Volume of mutual transactions 2017	Receivables/Payables at 31 December .2018	Receivables/Payables at 31 December 2017
SALE OF GOODS AND SERVICES				
Other companies in the group	126,633	683,696	119,363	51,657
PURCHASE OF GOODS AND SERVICES				
Other companies in the group	100,748	57,134	139,826	27,855
LOANS GRANTED				
Shareholders of the Company	–	–	–	–
Other companies in the group	315,071	66,766	6,786,769	2,779,770
LOANS RECEIVED				
Shareholders of the Company	–	–	40,398	40,107
Other companies in the group	768,451	897,782	19,021,204	19,399,782

Loans received are included in the long-term and short-term payables and are described in notes 9 and 10. Loans granted are described in note 7.

The Company purchases materials, utilises services and sells products to related parties as part of its regular business activities. All material transactions with related parties were carried out based on the arm's length principle.

In the course of 2018, the Company reported a dividend income of TCZK 1,862,368 as stated in note 4.

b) In 2018 and 2017, members of management, supervisory and administrative bodies received no advances, loans, guarantees granted nor any other benefits and did not own any shares in the Company.

24. LEASED PROPERTY

Operating leases

The Company leases four cars under operating leases. The related expenses for 2018 amount to TCZK 1,318 (2017 – TCZK 1,245).

25. RECEIVABLES AND PAYABLES NOT RECOGNIZED IN THE BALANCE SHEET

a) The Company has receivables of TCZK 1,889,803 (2017 – TCZK 2,354,165) and payables from equity options of TCZK 1,887,139 (2017 – TCZK 2,348,115).
b) The Company provides guarantees for loans totalling TCZK 17,278,343 (2017 – TCZK 15,091,295).
c) The Company received pledges to provided loans totalling TCZK 404,675 (2017 – TCZK 1,966,607).
d) The Company received the credit facilities and various guarantees of TCZK 5,966,723 (2017 – TCZK 3,638,502).
e) The Company received bills of exchange pledges for the loans received totalling TCZK 0 (2017 – TCZK 1,815,645).
f) As at 31 December 2018 the Company had currency forwards, receivables of TCZK 17,047,094 (2017 – TCZK 16,525,980) and payables of TCZK 16,912,620 (2017 – TCZK 16,508,599) recorded off-balance sheet.

26. CASH FLOW STATEMENT

For the compilation of the cash flow statement, cash and cash equivalents are defined to include cash on hand, cash in transit, cash on bank accounts, and other financial assets whose value can be reliably determined and can be easily transferred to cash. The balance of cash and cash equivalents is as follows:

in thousands of CZK	31/12/2018	31/12/2017
Cash in hand	265	312
Cash in current accounts	1,690,547	701,672
Cash and cash equivalents	1,690,812	701,984

Cash flows from operating, investing or financing activities are reported in the cash flow statement uncompensated.

27. MATERIAL SUBSEQUENT EVENT

At the balance sheet date, no other significant subsequent events affecting the financial statements as at 31 December 2018 were known to management.

Prepared on: 22 May 2019

Dušan Palcr
Vice-chairman of the Board of Directors
J&T FINANCE GROUP SE

Gabriela Lachoutová
Member of the Board of Directors
J&T FINANCE GROUP SE

54,3 mil EUR

POŠTOVÁ
BANKA WAS ABLE
TO INCREASE ITS
NET PROFIT
YEAR-ON-YEAR
BY 13,4%.

TEXT PART OF THE ANNUAL REPORT

Description of the Company:
Company name: J&T FINANCE GROUP SE
Registered office: Pobřežní 297/14, 186 00 Prague 8
Identification number: 275 92 502
Legal form: european society
Registered in: the Commercial Register maintained by the Metropolitan Court in Prague, section H, insert 1317
Principal business activities: manufacturing, trade and services not listed in appendices 1 to 3 of the Trades Licensing Act
Principal activities: the acquisition and holding interests in legal entities

Board of Directors of the Company as at 31 December 2018:
Chairman of the Board of Directors: Jozef Tkáč
Vice-Chairman of the Board of Directors: Patrik Tkáč
Vice-Chairman of the Board of Directors: Ivan Jakabovič
Vice-Chairman of the Board of Directors: Dušan Palcr
Member of the Board of Directors: Gabriela Lachoutová

Supervisory Board of the Company as at 31 December 2018:
Chairman of the Supervisory Board: Marta Tkáčová
Member of the Supervisory Board: Ivan Jakabovič
Member of the Supervisory Board: Jana Šuterová

Information about the activities of the Company:
The nature of the Company's business activities has not changed compared to the previous accounting period. The Company administers its assets and enlarges its volume.

Financial results of the Company:
The Company has a long history as a strong and stable institution. As at 31 December 2018, the Company recorded assets of CZK 54.7 billion, equity of CZK 32.3 billion and the registered capital of CZK 15.8 billion. In the accounting period, the Company achieved profit of CZK 1.4 billion.

The balance of Company's assets and its financial position is disclosed in the financial statements as at 31 December 2018, which are attached as an independent appendix to the annual report. Detailed information on the balance of Company's assets is included in the financial section of the Company's annual report.

Information about expected economic development in 2019:
In 2019, the Company will continue to focus all its activities on the administration of own assets by means of ownership shares in subsidiaries, provision of guarantees; and the fulfilment of obligation arising thereof.

Information about the administrative branches of the Company:
Company has an administrative branch which was established in Slovakia. It was recorded in the Commercial Register under name J&T FINANCE GROUP SE, organizačná zložka, ID: 47 251 735, registered office Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak republic.

Research and development expenditures:
In the reporting period, the Company did not incur any research and development expenditures.

Environmental protection:
In the period from 1 January 2018 to 31 December 2018, the Company realised no environmental protection activities.

Declaration:
The Board of Directors of the Company declares that all information and disclosures in this annual report are true and free of any material omission.

Prague, 22 May 2019

Dušan Palcr
Vice-Chairman of the Board of Directors
J&T FINANCE GROUP SE

Gabriela Lachoutová
Member of the Board of Directors
J&T FINANCE GROUP SE

REPORT ON RELATIONS BETWEEN THE CONTROLLING ENTITY AND THE CONTROLLED ENTITY, AND BETWEEN THE CONTROLLED ENTITY AND OTHER ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY FOR THE REPORTING PERIOD 2018

This report has been prepared by the Board of Directors of J&T FINANCE GROUP SE, with its registered office at Pobřežní 297/14, 186 00 Prague 8, ID: 275 92 502, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section H, insert 1317 („the Company“), based on data available. The period covered by the report: from 1 January 2018 to 31 December 2018 (hereinafter referred to as the “2018 accounting period”).

I. The 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.

1.1 The Board of Directors of the Company is aware that during the period from 1 January 2018 to 31 December 2018, the Company was directly controlled by the following persons:

Ivan Jakabovič
Date of birth: 8 October 1972, residing at 32 rue COMTE FELIX GASTALDI, 98000 Monaco, Principality of Monaco, who, along with Jozef Tkáč (see below), controls J&T FINANCE GROUP SE (hereinafter „Ivan Jakabovič“ or also „Controlling entity“)

In addition, Ivan Jakabovič owns shares in the following companies:

J & T Securities, s.r.o.
ID: 31 366 431, with its registered office at Bratislava, Dvořákovo nábrežie 8, P.C. 811 02 Bratislava, Slovak Republic

KOLIBA REAL a.s.
ID: 35 725 745, with its registered office Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic,

KPRHT 3, s.r.o.
ID: 36 864 781, with its registered office Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic,

KPRHT 19, s.r.o.
ID: 36 864 889, with its registered office Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic,

KPRHT 14, s.r.o.
ID: 36 864 765, s with its registered office Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic,

J&T MINORITIES PORTFOLIO LIMITED
ID: HE 290754, with its registered office at Kyriakou Matsi, NIKIS CENTER, 3rd Floor, office 301, P. C. 2012 Nicosia, the Republic of Cyprus, Ivan Jakabovič has 19.7% share in this company (till 25 October 2018)

Jozef Tkáč
Date of birth: 16 June 1950, residing at Bratislava, Júlová 10941/32, P.C. 831 01 Bratislava, Slovak Republic, who, along with Ivan Jakabovič (see above), controls J&T FINANCE GROUP SE (hereinafter „Jozef Tkáč“ or also „Controlling entity“)

In addition, Jozef Tkáč owns shares in the following company:

J&T MINORITIES PORTFOLIO LIMITED
ID: HE 290754, with its registered office at Kyriakou Matsi, NIKIS CENTER, 3rd Floor, office 301, P. C. 2012 Nicosia, the Republic of Cyprus, Jozef Tkáč has 19.7% share in this company (till 25 October 2018)

1.2 The Board of Directors of the Company is aware that during the accounting period 2018 the Company was part of the following structure:

J&T FINANCE GROUP SE controls below mentioned entities:

J&T INTEGRIS GROUP LIMITED
ID: HE 207436, with its registered office at 11 Kyriakou Matsi, NIKIS CENTER, 3rd Floor, Office 301 P.C. 1082, Nicosia, the Republic of Cyprus

In addition, this company controls:

Bayshore Merchant Services Inc.
ID: 01005740, with its registered office at TMF Place, Road Town, Tortola, British Virgin Islands

In addition, this company controls:

J&T Bank & Trust Inc.
ID: 00011908, with its registered office at Lauriston House, Lower Collymore Rock, St. Michael, Barbados

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

J&T MINORITIES PORTFOLIO LIMITED
ID: HE 260754, with its registered office at registered office at Kyriakou Matsi, NIKIS CENTER, 3rd Floor, office 301, P. C. 2012 Nicosia, the Republic of Cyprus

In addition, this company controls:

Equity Holding, a.s.
ID: 100 05 005, with its registered office at Pobřežní 297/14, Karlín, 186 00 Prague 8, Czech Republic, J & T MINORITIES PORTFOLIO LIMITED has 62.64% share in this company.

J&T Global Finance III, s.r.o. in liquidation
ID: 47 101 181, with its registered office at Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic (till 4 February 2019)

J&T Global Finance V., s.r.o. in liquidation
ID: 47 916 036, with its registered office at Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic (since 1 March 2019)

J&T Global Finance VI., s.r.o.
ID: 50 195 131, with its registered office at Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic

J&T Global Finance VII., s.r.o.
ID: 052 43 441, with its registered office at Pobřežní 297/14, Karlín, 186 00 Prague 8, Czech Republic

J&T Global Finance VIII., s.r.o.
ID: 060 62 831, with its registered office at Pobřežní 297/14, Karlín, 186 00 Prague 8, Czech Republic

J&T Global Finance IX., s.r.o.
ID: 51 836 301, with its registered office at Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic (since 24 July 2018)

J&T Global Finance X., s.r.o.
ID: 074 02 520, with its registered office at Pobřežní 297/14, Karlín, 186 00 Prague 8, Czech Republic (since 27 August 2018)

J&T SERVICES ČR, a.s.
ID: 281 68 305, with its registered office at Pobřežní 297/14, Karlín, 186 00 Prague 8, Czech Republic

In addition, this company controls:

J&T SERVICES SR, s.r.o.
ID: 46 293 329, with its registered office at Dvořákovo nábrežie 8, 811 02 Bratislava, Slovak Republic

J & T FINANCE, LLC
ID: 1067746577326, with its registered office at Kadashevskava embankment, 26, Moscow, Russian Federation,
J&T SERVICES ČR, a.s. has 99.9% share in this company

In addition, this company controls::

Hotel Kadashevskaya, LLC
ID: 1087746708642, with its registered office at Kadashevskaya Nabereznaya 26, 115035 Moscow, Russian Federation

J&T Bank Switzerland Ltd. in liquidation
ID: CH02030069721, with its registered office at Talacker 50, 12th floor, P.C. 8001, Zürich, Swiss Confederation

PBI, a.s.
ID: 036 33 527, with its registered office at Sokolovská 394/17, Karlín, 186 00 Prague 8, Czech Republic

In addition, this company controls:

Poštová banka, a.s.
ID: 31 340 890, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic, PBI, a.s. has 34% share in this company

J&T Mezzanine, a.s.
ID: 066 05 991, with its registered office at Pobřežní 297/14, Karlín, 186 00 Prague 8, Czech Republic

In addition, this company controls:

URE HOLDING LIMITED
ID: HE 379721, with its registered office at Poseidonos, 1, LEDRA BUSINESS CENTRE, Egkomi, 2406, Nicosia, the Republic of Cyprus, J&T Mezzanine, a.s. has 45% share in this company (since 1 November 2018)

J&T Wine Holding SE
ID: 063 77 149, with its registered office at Pobřežní 297/14, Karlín, 186 00 Prague 8, Czech Republic

In addition, this company controls:

KOLBY, a.s.
ID: 255 12 919, with its registered office at Česká 51, 691 26 Pouzdřany, Czech Republic

OUTSIDER LIMITED
ID: HE 372202, with its registered office at Klimentos, 41-43, KLIMENTOS TOWER, 2nd floor, Office 21, P.C. 1061, Nicosia, the Republic of Cyprus

In addition, this company controls:

SOCIETE CIVILE D'EXPLOITATION AGRICOLE DU CHATEAU TEYSSIER
ID: 316 809 391, with its registered office at Château Teyssier, Vignonet, 33330, Saint Emilion, France

In addition, this company controls:

CT Domaines SARL
ID: 507 402 386, with its registered office at Château Teyssier, Vignonet, 33330, Saint Emilion, France

Reisten, s.r.o.
ID: 255 33 924, with its registered office at Zahradní 288, 692 01 Pavlov, Czech Republic (since 18 December 2018)

SAXONWOLD LIMITED
ID: 508611, with its registered office at Cam Lodge, Kilquaide, The Russian Village, Co. Wicklow, A63 FK24, Ireland, J&T Wine Holding SE has 80% share in this company

In addition, this company controls:

WORLD´S END LLC
ID: 200807010154, with its registered office at 5 Financial Plaza, 116, Cnr Trancas & Big Ranch Road, Nap, California, 94558, United States of America

J&T Bank, a.o. (J&T Bank ZAO)
ID: 1027739121651, with its registered office at Kadashevskaya Embankment 26, Moscow, Russian Federation,
J&T FINANCE GROUP SE, a.s. has 0,055% share in this company

J & T BANKA, a.s.
ID: 471 15 378, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic

In addition, this company controls:

J&T Bank, a.o. (J&T Bank ZAO)
ID: 1027739121651, with its registered office at Kadashevskaya Embankment 26, Moscow, Russian Federation,
J & T BANKA, a.s. has 99,945% share in this company

In addition, this company controls:

Interznanie OAO
ID: 1037700110414, with its registered office at Kadashevskaya Embankment 26, 115035 Moscow, Russian Federation, J&T Bank, a.o. has 50% share in this company

ATLANTIK finanční trhy, a.s.
ID: 262 18 062, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic

J&T banka d.d. (VABA d.d. banka Varaždin)
ID: 0675539, with its registered office at Aleja kralja Zvonimira 1, 42000, Varaždin, Republic of Croatia, J&T Bank, a.s. has 84,17% share in this company

J&T INVESTIČNÍ SPOLEČNOST, a.s.
ID: 476 72 684, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic

J&T IB and Capital Markets, a.s.
ID: 247 66 259, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic

In addition, this company controls:

Skytoll CZ, s.r.o.
ID: 033 44 584, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic

TERCES MANAGEMENT LIMITED
ID: HE 201003, with its registered office at Akropoleos 59-61, SAVVIDES CENTER, P.C. 2012, Nicosia, the Republic of Cyprus

In addition, this company controls:

Interznanie OAO
ID: 1037700110414, with its registered office at Kadashevskaya Embankment 26, 113035 Moscow, Russian Federation, TERCES MANAGEMENT LIMITED has 50% share in this company

J&T Leasingová společnost, a.s.
ID: 284 27 980, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic

NOVA Hotels otevřený podílový fond REDSIDE investiční společnost, a.s.
ID: 242 44 601, with its registered office at V Celnici 1031/4, Staré Město, 110 00 Prague 1, Czech Republic,
(since 31 December 2017)

The Company owns 48.35% allotment certificates indirectly through the company J & T BANKA, a.s. and further 51.65% allotment certificates through the company Poštová banka, a.s.

In addition, this company controls:

DIAMOND HOTELS SLOVAKIA, s.r.o.
ID: 35 838 833, with its registered office at Hodžovo nám.2, 816 25 Bratislava, Slovak Republic

BHP Tatry s. r. o.
ID: 45 948 879, with its registered office at Dvořákovo nábrežie 6, 811 02 Bratislava, Slovak Republic

J&T REALITY otevřený podílový fond, J&T INVESTIČNÍ SPOLEČNOST, a.s.
ID: 476 72 684, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic. The Company owns 53.08% allotment certificates indirectly through the company J & T BANKA, a.s. and further 36.36% allotment certificates through the company Poštová banka, a.s.

J&T LOAN FUND, podfond J&T AIF Fund SICAV PLC
ID: SV 472, with its registered office at TG Complex, Suite 2, Level 3, Brewery Street, Imriehel, BKR 3000, Republic of Malta. The Company owns 49.99% investment shares indirectly through the company J & T BANKA, a.s. and further 51.01% investment shares through the company Poštová banka, a.s. and the company has option to acquire founding shares from Mr. Roman Hajda.

Poštová banka, a.s.
ID: 31 340 890, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic
J&T FINANCE GROUP SE has 64.46% share in this company

In addition, this company controls:

Poštová poisťovňa, a.s. (Poisťovňa Poštovej banky, a. s.)
ID: 31 405 410, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic. Poštová banka, a.s. has 80% share in this company.

Dôchodková správcovská spoločnosť Poštovej banky, d.s.s., a. s.
ID: 35 904 305, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic

PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s.
ID: 31 621 317, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic

PB Servis, a. s.
ID: 47 234 571, with its registered office at Karloveská 34, 841 04 Bratislava, Slovak Republic

PB PARTNER, a. s.
ID: 36 864 013, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic

PB Finančné služby, a. s.
ID: 35 817 453, with its registered office at Hattalova 12, 831 03 Bratislava, Slovak Republic

365.fintech, a.s.
ID: 51 301 547, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava – Old Town, Slovak Republic (since 23 January 2018)

Amico Finance, a.s.
IČO: 48 113 671, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak republic, Poštová banka, a.s. has 95% share in this company (since 13 November 2018)

NOVA Hotels otevřený podílový fond REDSIDE investiční společnost, a.s.
ID: 242 44 601, with its registered office at V Celnici 1031/4, Staré Město, 110 00 Prague 1, Czech Republic, (since 31 December 2017)

The Company owns 48.35% allotment certificates indirectly through the company J & T BANKA, a.s. and further 51.65% allotment certificates through the company Poštová banka, a.s.

In addition, this company controls:

DIAMOND HOTELS SLOVAKIA, s.r.o.
ID: 35 838 833, with its registered office at Hodžovo nám.2, 816 25 Bratislava, Slovak Republic

BHP Tatry s. r. o.
ID: 45 948 879, with its registered office at Dvořákovo nábrežie 6, 811 02 Bratislava, Slovak Republic

J&T REALITY otevřený podílový fond, J&T INVESTIČNÍ SPOLEČNOST, a.s.
ID: 476 72 684, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic. The Company owns 53.08% allotment certificates indirectly through the company J & T BANKA, a.s. and further 36.36% allotment certificates through the company Poštová banka, a.s.

J&T LOAN FUND, podfond J&T AIF Fund SICAV PLC
ID: SV 472, with its registered office at TG Complex, Suite 2, Level 3, Brewery Street, Imriehel, BKR 3000, Republic of Malta. The Company owns 49.99% investment shares indirectly through the company J & T BANKA, a.s. and further 50.01% investment shares through the company Poštová banka, a.s. and the company has option to acquire founding shares from Mr. Roman Hajda.

In addition, this company controls:

SPPS, a. s.
ID: 46 552 723, with its registered office at Nám. SNP 35, 811 01 Bratislava, Slovak Republic, Poštová Banka, a.s. has 40% share in this company.

Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.
ID: 034 51 488, with its registered office at Na příkopě 393/11, Staré Město, 110 00 Prague 1, Czech Republic. The Company owns 100% founders' shares of the investment fund. The Company owns 46.51% allotment certificates indirectly through the company J & T BANKA, a.s. and further 53.49% allotment certificates through the company Poštová banka, a.s.

In addition, this company controls:

FORESPO SOLISKO a. s.
ID: 47 232 935, with its registered office at Karloveská 34, 841 04 Bratislava, Slovak Republic

FORESPO HELIOS 1 a. s.
ID: 47 234 032, with its registered office at Karloveská 34, 841 04 Bratislava, Slovak Republic

FORESPO HELIOS 2 a. s.
ID: 47 234 024, with its registered office at Karloveská 34, 841 04 Bratislava, Slovak Republic

FORESPO HOREC A SASANKA a. s.
ID: 47 232 994, with its registered office at Karloveská 34, 841 04 Bratislava, Slovak Republic

FORESPO PÁLENICA a. s.
ID: 47 232 978, with its registered office at Karloveská 34, 841 04 Bratislava, Slovak Republic

INVEST-GROUND a. s.
ID: 36 858 137, with its registered office at Karloveská 34, 841 04 Bratislava, Slovak Republic

FORESPO - RENTAL 1 a.s.
ID: 36 782 653, with its registered office at Karloveská 34, 841 04 Bratislava, Slovak Republic

FORESPO - RENTAL 2 a. s.
ID: 36 781 487, with its registered office at Karloveská 34, 841 04 Bratislava, Slovak Republic

FORESPO BDS a.s.
ID: 272 09 938, with its registered office at Janáčkovo nábřeží 478/39, Smíchov, 150 00 Prague 5, Czech Republic

Devel Passage s. r. o.
ID: 43 853 765, with its registered office at Karloveská 34, 841 04 Bratislava, Slovak Republic

FORESPO DUNAJ 6 a. s.
ID: 47 235 608, with its registered office at Karloveská 34, 841 04 Bratislava, Slovak Republic

OSTRAVICE HOTEL, a.s.
ID: 275 74 911, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic

1.3 The Board of Directors of the Company is aware that during the accounting period 2018 the Company was controlled by the same entities as the following other controlled entities, which, however, were no longer related parties as at 31 December 2018.

AKB "Khovanskiy"a.o.
ID: 1025000002411, with its registered office at Pushkino, 141207 Pushkinskiy, Pushkinskiy proezd 7, Russian Federation (till 27 February 2018)

PB IT, a. s. in liquidation
IČ: 60411740, with its registered office at La Fontainestraat 7, 1902CW, Castricum, The Kingdom of the Netherlands (till 14 May 2018)

J&T Global Finance IV., B.V. in liquidation
IČ: 60411740, se sídlem La Fontainestraat 7, 1902CW, Castricum, Nizozemské království (do 14. května 2018)

Together with the Company, the above mentioned parties are in this report further referred to as „related parties".

1.4 The role of the Company
The Company acts as a holding company with shares in other legal entities.

1.5 Manner and means of control
The controlling entities control the Company by holding Company's shares of 90.1 % of the voting rights. Therefore, the exercise of the voting rights is the principal means of control. In the accounting period from 1 January 2018 to 31 December 2018, no particular contracts between the controlling entities and the Company in respect of manner and means of control.

II. Summary of acts made in the accounting period 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.

In the accounting period, the Company performed no acts at the instigation or in the interest of the controlling entity or the entities controlled by the controlling entity in respect of assets the value of which exceeds 10% of Company's equity.

III. Summary of contracts entered into between the controlled entity and the controlling entity or between controlled entities.

In the accounting period 2018, the following contracts were entered into between the Company and the controlling entity or between the entities controlled by the same controlling entities:

Contracts between the Company and Jozef Tkáč:
— Performance contract
Scope: chairman of the Board of Directors

Contracts between the Company and Ivan Jakabovič:
— Performance contract
Scope: vice chairman of the Board of Directors

Contracts between the Company and J&T BANKA, a.s.:
— Guarantee Agreement
Scope: performance of guarantees of a certain minimum value of the client's portfolio yield
— Contract on the provision of warranty
Scope: providing warranty to selected bank's clients
— Contract on sharing the liability
Scope: sharing the potential liability arising from a Purchase agreement with the original assignees of the subordinated debt
— Contract on the business lease of movable property
Scope: inventory lease
— Contract on the lease of movable property and financial settlement
Scope: inventory lease in the building at Dvořákovo nábrežie 8, Bratislava
— Contract on cooperation in the provision of J & T Family and Friends banking services and participation in the Magnus loyalty programme
Scope: provision of J & T Family and Friends and Magnus loyalty system programme
— Contract on financial settlement
Scope: settlement of receivables and liabilities resulting from value added tax as they are members of one VAT group
— Contract on mediation
Scope: concluding contracts with potential clients
— Cost allocation contract
Scope: cost distribution in relation to the entry of the strategic investor
— Contract on the lease of movable property and financial settlement
Scope: inventory lease in the building River Park, Bratislava
— Agreement on cost distribution
Scope: distribution of cost of consolidation package audit
— Contract on the provision of services
Scope: provision of services related to debt securities
— Framework agreement on trading on the financial market
Scope: negotiation of currency derivative transactions
— Agreement on deposit of securities
Scope: ensuring deposit of securities
— Contract on the provision of services
Scope: maintenance of current account in accordance with bank's Terms and Conditions
— Contract on the provision of services:
Scope: issue of debit cards in accordance with bank's Terms and Conditions

- Contract on the lease of a safe deposit boxes
  Scope: lease of a safe deposit box in accordance with bank's Terms and Conditions
- Contract on the provision of services
  Scope: fixed term transactions with currency instruments in accordance with bank's Terms and Conditions
- Contract on the provision of Internet banking services
  Scope: provision of Internet banking services
- Contract with the administrator and Special arrangement to the contract with the administrator
  Scope: the perpetuity issue
- Contract on subordination
  Scope: subordination of relations with a related party
- Overdraft contract
  Scope: lending Company's funds
- Contract on cession of receivables
  Scope: cession of receivables of J&T Global Finance IX, s.r.o.
- Contract on the provision of services (outsourcing)
  Scope: provision of services related to controlling function (internal audit and compliance)
- Contract on the provision of services (outsourcing)
  Scope: provision of services related to risk management
- Contract on the provision of services (outsourcing)
  Scope: provision of services related to analytical functions

Contracts between the Company and J&T BANK, a.o.:
- Cession agreement
  Scope: providing funding to AKB „Khovanskiy“ a.o. for funding subordinated liabilities purpose

Contracts between the Company and J&T SERVICES ČR, a.s.:
- Contract of mandate on the provision of expert tax assistance and advisory
  Scope: tax advisory services
- Contract on personal data processing
  Scope: personal data processing in HR and payroll
- Contract on the provision of professional assistance
  Scope: personnel and payroll administration
- Contract on the provision of services (outsourcing)
  Scope: preparation of consolidated financial statements under IFRS for selected consolidated entities
- Contract on the provision of services - OLAS
  Scope: provision of logistics services
- Contract on the lease of non-residential premises
  Scope: lease of non-residential premises
- Contract on the provision of services
  Scope: provision of services - KIS application
- Contract on the provision of professional assistance
  Scope: bookkeeping
- Contract on the provision of administration assistance
  Scope: administration
- Contract on the lease of movable assets
  Scope: lease of movable assets
- Contract on the lease of motor vehicle
  Scope: lease of a vehicle
- Contract on the provision of services Legal Managements

Scope: Legal Management services
- Contract on the lease of motor vehicle
  Scope: lease of a vehicle
- Contract on personal data processing
  Scope: processing of personal data according to GDPR

Contracts between the Company and J&T SERVICES SR, s.r.o.:
- Contract of mandate on the provision of professional assistance and agency contract
  Scope: provision of all acts necessary to ensure Company's existence
- Contract on the lease of movable assets and financial settlement
  Scope: office space
- Contract on provision of service
  Scope: provision of all services necessary for the operation of the company

Contracts between the Company and Equity Holding, a.s.:
- Loan agreement
  Scope: lending Company's funds

Contracts between the Company and DANILLA EQUITY LIMITED:
- Contract on the claim assignments
  Scope: assignment of a related party claims
- Loan agreement
  Scope: lending Company's funds to a related party

Contracts between the Company and J&T MINORITIES PORTFOLIO LIMITED:
- Loan agreement
  Scope: lending funds to a related party

Contracts between the Company and J&T INTEGRIS GROUP LIMITED:
- Contract on debt assignment
  Scope: lending Company's funds

Contracts between the Company and J&T Global Finance V., s.r.o. in liquidation:
- Loan agreement
  Scope: lending Company's funds
- Contract on provision of guarantee
  Scope: provision of guarantee to a related party

Contracts between the Company and J&T Global Finance VI., s.r.o.:
- Loan agreement
  Scope: lending Company's funds
- Contract on provision of guarantee
  Scope: provision of guarantee to a related party

Contracts between the Company and J&T Global Finance VII., s.r.o.:
- Loan agreement
  Scope: lending Company's funds
- Contract on provision of guarantee
  Scope: provision of guarantee to a related party

Contracts between the Company and J&T Global Finance VIII., s.r.o.:

— Loan agreement
  Scope: lending Company's funds
— Contract on provision of guarantee
  Scope: provision of guarantee to a related party

Contracts between the Company and J&T Global Finance IX., s.r.o.:

— Loan agreement
  Scope: lending Company's funds
— Contract on provision of guarantee
  Scope: provision of guarantee to a related party

Contracts between the Company and J&T Global Finance X., s.r.o.:

— Contract on provision of guarantee
  Scope: provision of guarantee to a related party

Contracts between the Company and J&T Mezzanine, a.s.:

— Agreement on provision additional payment outside the registered capital
  Scope: provision additional payment outside the registered capital
— Loan agreement no. 01/JTFG SE/2017
  Scope: lending Company's funds
— Loan agreement no. 02/JTFG SE/2018
  Scope: lending Company's funds
— Loan agreement no. 03/JTFG SE/2018
  Scope: lending Company's funds
— Loan agreement no. 04/JTFG SE/2018
  Scope: lending Company's funds
— Loan agreement no. 05/JTFG SE/2018
  Scope: lending Company's funds
— Loan agreement no. 06/JTFG SE/2018
  Scope: lending Company's funds
— Loan agreement no. 07/JTFG SE/2018
  Scope: lending Company's funds
— Agreement on mutual offset of cash receivables
  Scope: mutual offset of cash receivables

Contracts between the Company and J&T Wine Holding SE:

— Loan agreement
  Scope: lending Company's funds
— Agreement on provision additional payment outside the registered capital
  Scope: provision additional payment outside the registered capital of CZK 22,200,000
— Agreement on provision additional payment outside the registered capital
  Scope: provision additional payment outside the registered capital of CZK 100,000,000
— Agreement on provision additional payment outside the registered capital
  Scope: provision additional payment outside the registered capital of CZK 90,573,287.68
— Agreement on inclusion of receiceivables
  Scope: inclusion of receiceivables towards additional payment outside the registered capital

Contracts between the Company and Poštová Banka, a.s.:

— Overdraft contract
  Scope: lending Company's funds
— Agreement on future cession´s contract
  Scope: interest regarding future cession of receivables including attachments

IV. Assessment of whether the controlled entity incurred a loss and judgment of its settlement under Sections 71 and 72 of the Act on Business Corporations.

All contracts listed under Section III of this report on relations were concluded in accordance with the arm's length principle. All performances received or rendered based on these contracts were also realised in accordance with the arm's length principle. Thus, the Company incurred no loss in relation to these transactions that would require to be settled in accordance with Sections 71 and 72 of the Act on Business Corporations.

During the accounting period 2018, no other legal acts except those listed in this report were adopted, no other measures were made, no performances were rendered or received in the interest or at the instigation of controlling entities or controlled entities on which the Company would incur a loss that would require to be settled in accordance with 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.

Having reviewed the relations between the Company and the controlling entity and the entities controlled by the same controlling entity, the Board of Directors declares that the Company did not gain any advantages or suffer any disadvantages arising on the relations between the Company and the controlling entity and/or entities controlled by the same controlling entity. The Company incurred no loss that would require to be settled in accordance with Sections 71 and 72 of the Act on Business Corporations.

VI. The Board of Directors declares that it has collated and reviewed the information for the purpose of this report on relations with due diligence. The conclusions made were drawn upon a thorough review of collated available information, and the Board of Directors considers all information disclosed in this report on relations as true and complete.

Prague, 27 March 2019

Dušan Palcr
Vice-Chairman of the Board of Directors
J&T FINANCE GROUP SE

Gabriela Lachoutová
Member of the Board of Directors
J&T FINANCE GROUP SE

REPORT OF THE BOARD OF DIRECTORS OF J&T FINANCE GROUP SE ON BUSINESS ACTIVITIES OF THE COMPANY AND THE BALANCE OF ITS ASSETS FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

This report has been prepared by the Board of Directors of J&T FINANCE GROUP SE, with its registered office at Pobřežní 297/14, 186 00 Prague 8, ID: 275 92 502, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section H, insert 1317 („the Company“), in accordance with Section 436 of Act No. 90/2012 Coll., on Commercial Companies and Cooperatives („The Act on Business Corporation”)

I. The composition of Company's statutory bodies in the period from 1 January 2018 to 31 December 2018 was as follows:

Board of Directors of the Company:
Chairman of the Board of Directors: Jozef Tkáč
Vice-Chairman of the Board of Directors: Patrik Tkáč
Vice-Chairman of the Board of Directors: Ivan Jakabovič
Vice-Chairman of the Board of Directors: Dušan Palcr
Member of the Board of Directors: Gabriela Lachoutová

Supervisory Board of the Company:
Chairman of the Supervisory Board: Marta Tkáčová
Member of the Supervisory Board: Ivan Jakabovič
Member of the Supervisory Board: Jana Šuterová

II. Business activities of the Company and the balance of its assets
The nature of the Company's business activities has not changed compared to the previous accounting period. The Company administers its assets and enlarges its volume.

During the period from 1 January 2018 to 31 December 2018, the Company continued to hold and administer own assets, consisting of

A) 100% share in the companies:

J&T BANKA, a.s.,
ID: 471 15 378, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section B, insert 1731,

J&T Bank Switzerland Ltd. in liquidation,
ID: CH02030069721, with its registered office at Talacker 50, P.C. 8001 Zürich, Swiss Confederation,

J&T INTEGRIS GROUP LIMITED,
ID: HE 207436, with its registered office at Kyriakou Matsi 11, NIKIS CENTER, 3rd Floor, office 301, Nicosia, Cyprus,

J&T Mezzanine, a.s.,
ID: 066 05 991, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section B, insert 23005,

J&T SERVICES ČR, a.s.,
ID: 281 68 305, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section B, insert 12445,

J&T Wine Holding SE,
ID: 063 77 149, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section H, insert 2007,

PBI, a.s.,
ID: 036 33 527, with its registered office at Pobřežní 297/14, 186 00 Prague 8, Czech Republic, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section B, insert 20280,

Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.
ID: 034 51 488, with its registered office at Na příkopě 393/11, Staré Město, 110 00 Prague 1, Czech Republic, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section B, insert 20065,

B) 64.46% share in the company:

Poštová banka, a.s.,
ID: 31 340 890, with its registered office at Dvořákovo nábrežie 4, 811 02 Bratislava, Slovak Republic, registered in the Commercial Register maintained by the District Court in Bratislava I, section Sa, insert 501/B.

The Company has a long history as a strong and stable institution. As at 31 December 2018, the Company recorded assets of CZK 54.7 billion, equity of CZK 32.3 billion and the registered capital of CZK 15.8 billion. In the accounting period, the Company achieved profit of CZK 1.4 billion.

The balance of Company's assets and its financial position is disclosed in the financial statements as at 31 December 2018, which are attached as an independent appendix to the annual report. Detailed information on the balance of Company's assets is included in the financial section of the Company's annual report.

III. Major decisions of Company's bodies
During the period from 1 January 2018 to 31 December 2018, the Board of Directors and the Supervisory Board of the Company adopted necessary decisions relating to the ordinary business activities of the Company and the fulfilment of obligations arising to the members of Companies statutory bodies based on relevant regulations and Company's Statute.

Prague, 22 May 2019

Dušan Palcr
Vice-Chairman of the Board of Directors
J&T FINANCE GROUP SE

Gabriela Lachoutová
Member of the Board of Directors
J&T FINANCE GROUP SE

REPORT OF THE BOARD OF DIRECTORS OF J&T FINANCE GROUP SE ON THE BALANCE OF ITS ASSETS FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018 AND PROPOSAL ON SETTLEMENT OF COMPANY´S FINANCIAL RESULT

This report has been prepared by the Board of Directors of J&T FINANCE GROUP SE, with its registered office at Pobřežní 297/14, 186 00 Prague 8, ID: 275 92 502, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section H, insert 1317 („the Company“).

The Board of Directors states that the financial statements as at 31 December 2018 include all operations ocurring in the period from 1 January 2018 to 31 December 2018. The details regarding respective parts are disclosed in the financial statements.

The Company's financial statements as at 31 December 2018 will be audited by an external auditor, KPMG Česká republika Audit, s.r.o, with its registered office at Pobřežní 648 / 1a, 186 00 Prague 8, ID: 496 19 187, registered in the Commercial Register maintained by the Metropolitan Court in Prague, section C, insert 24185.

The Company's Board of Directors states that the Company's financial statements correspond to the reality and are in accordance with the applicable legislation of the Czech Republic, the Company's accounting and accounting records show the Company's financial position in all material respects, and the financial statements prepared on the basis of these accounting records provide a true and fair picture of the subject of accounting and financial situation of the Company.

Main indicators of Financial Statement as at 31 December 2018 (in TCZK):

in thousands of CZK	
Total assets	54,720,788
Fixed assets	44,497,792
Current assets	10,133,718
Accruals	89,278

in thousands of CZK	
Total liabilities	54,720,788
Equity	32,271,498
Liabilities	22,352,163
Accruals	97,127

The profit for the period from 1 January 2018 to 31 December 2018 amounts to CZK 1,383,766,058.38.

The accumulated retained earnings of previous years amount to CZK 7,344,657,609.76 as at 31 December 2018.

The Board of Directors proposes to the General Meeting to approve the annual financial statements of the Company as at 31 December 2018.

The Board of Directors of the Company proposes to the General Meeting to approve the following settlement of the economic result for the period from 1 January 2018 to 31 December 2018:

The Board of Directors of the Company proposes to the General Meeting to decide that:
— Profit of CZK 260,000,000.- will be transferred to the perpetuity fund account
— Profit of CZK 900,000,000.- will be paid to shareholders in the form of a dividend
— The remaining profit of CZK 223,766,058.38 will be transferred to retained earnings of previous years

Prague, 22 May 2019

Dušan Palcr
Vice-Chairman of the Board of Directors
J&T FINANCE GROUP SE

Gabriela Lachoutová
Member of the Board of Directors
J&T FINANCE GROUP SE

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