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ANNUAL REPORT 2018

MONETA | MONEY BANK

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HIGHLIGHTS

STRATEGY EXECUTION

MONETA Money Bank, a.s. (hereafter also the "Bank" or "MONETA Money Bank") and its subsidiaries included into consolidation (hereafter also the "Group" or "MONETA") has delivered and exceeded its commitments to the shareholders in 2018.

The Group's strategy remains unchanged, aiming to:

- maintain and further develop its retail banking franchise with a strong focus on mortgage and unsecured consumer lending through a continued concentration on risk-based returns, origination and risk management. Additionally, MONETA aims to further improve its offering of third-party products, namely insurance and asset management;
- significantly grow its presence within the SME commercial segment with a strong focus on small business lending represented by self-employed professionals, tradesmen and entrepreneurs, and to deepen relationships with medium-sized commercial customers, leveraging MONETA's unique position within the agricultural sector of the Czech economy;
- continue in gradually changing the overall business mix, targeting diversification of revenue streams and building recognition of MONETA as a leading retail and small business bank in the Czech Republic;
- improve and develop MONETA's digital capabilities through providing lending, deposit, transaction and third-party products via digital channels, while maintaining the position of the digital banking leader in the Czech Republic;
- manage MONETA's abilities through prudent and sustainable risk management;
- pursue an efficient capital strategy while also focusing on the development of human capital; MONETA is dedicated to promoting a healthy, agile and open corporate culture based on mutual trust, co-operation, recognition and transparency;

- focus on efficient cost control and operational excellence in MONETA's processes;
- continue to pursue its strong sustainability strategy that is based on the positive economic, social and environmental impact of MONETA. MONETA will continue to build its recognition as one of the leaders in reducing its carbon footprint and a corporate leader in e-mobility. MONETA is committed to running its business ethically, including its relationships with its key stakeholders who play an important part in this strategy, with its suppliers and external organisations;
- further encourage and motivate employees to become more deeply connected with their communities throughout the year as volunteers while MONETA will continue to support and help non-profit organisations in regions as a part of its corporate philanthropy program.

KEY EVENTS IN 2018

January

- Smart Banka with Tom account gained the "Special reward 2017" from Finparada.cz, a professional financial website.[1]
- Using green energy only, based on the certificate issued by Pražská energetika (Prague electricity trader). Confirmation that 100% of electricity supplied to the MONETA Money Bank between 1 January 2018 and 31 December 2018 would be supplied from renewable resources.
- Open banking capabilities according to the Payment Services Directive 2 (the "PSD 2") available for third parties.
- In line with its strategy to reduce legacy non-performing loan portfolio ("NPL") MONETA generated an extraordinary pre-tax gain of CZK 0.4 billion from the sale of legacy retail unsecured NPL receivables in a total nominal value of CZK 2.1 billion.[2]
- New marketing communication concept with the slogan "The Best Time is Now" launched.[3] MONETA emphasises its role as a reliable financial partner, who meets client requirements anytime and anywhere and emphasis on speed and flexibility.
- Google Pay service available directly through Smart Banka.

February

- The Bank received reaffirmed investment grade rating of "BBB/A-2" with stable outlook from Standard & Poor's Credit Market Services Limited (currently S&P Global Ratings Europe Limited).[2,4]
- The Bank selected among the "Top Employers 2018"[5] in the category of Banking and finance, based on a market research study performed annually by the Association of Students and Graduates.
- The Bank became the new titular partner of the Czech Open, the most prestigious international men's tennis tournament in the Czech Republic.[3]

March

- Launched a fully online onboarding process via Internet Bank or Smart Banka mobile application for tradesmen, independent professionals and SMEs applying for credit card.[3]
- Presented MONETA's e-mobility program at an international conference hosted by the European Commission.
- The first MONETA's Sustainability Report was published.[3]

April

- Annual General Meeting held on 25 April 2018. Shareholders approved the Annual Consolidated and Separate Financial Statements of the Bank as at 31 December 2017 and approved the dividend of CZK 8 gross per share by 31 May 2018.
- Announced voluntary commitment of MONETA to reduce its carbon footprint by 35% to 2020.[3]
- Announced strategic partnership with EVO Payments International to enhance services for commercial banking clients.[3] MONETA's merchant customers can now enjoy a full suite of secure processing services, innovations in digital transactions, and advanced payment acceptance services.

May

- MONETA among few first banks in Czech Republic to introduce a multibanking feature for clients using Smart Banka – an option to see their accounts with other banks within Smart Banka application.[3]
- Strategic partnership with the Czech Nanotechnology Industries Association announced. The Bank, as its general partner, helps promote the success of Czech nanotechnology and financially supported NanoDay in Ostrava.
- More than CZK 500,000 donated to non-governmental organisations.
- Solid dividend of CZK 8 gross per share paid to the shareholders.
- MONETA disposed of additional two NPL portfolios and generated extraordinary pre-tax gain of CZK 110 million and sold portfolios in nominal value of approximately CZK 940 million. Together with these sales MONETA generated year to date pre-tax gain of approximately CZK 0.6 billion and sold portfolio in nominal value of CZK 3.2 billion.[2]

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1 Source: https://finparada.cz/4823-Nejlepsi-financni-produkty-roku-2017-podle-Finparady.aspx.

2 Source: https://investors.moneta.cz/investor-relations.

3 Source: https://www.moneta.cz/web/en/for-media.

4 Each of S&P Global Ratings Europe Limited, the legal successor of Standard & Poor's Credit Market Services Europe Limited, and Moody's Investors Service Ltd. is established in the European Union and registered according to the Regulation (EC) No. 1060/2009 on credit rating agencies as amended (the "CRA Regulation"). As such, each of S&P Global Ratings Europe Limited and Moody's Investors Service Ltd. is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website http://www.esma.europa.eu/supervision/credit-rating-agencies/risk in accordance with the CRA Regulation. In choosing rating agencies, the Bank proceeded according to the obligations laid down by the Article 8d of the CRA Regulation. The market share of each of the aforementioned rating agencies exceeds 10% on the European Union market.

5 Source: https://www.topzamestnavatele.cz/.

June

- Smart Banka awarded "Zlatá koruna 2018" as the Best On-line Application in the Czech Republic.[3,6]
- Announced strategic cooperation with Česká pojišťovna/Generali to extend distribution network.[2] Česká pojišťovna will offer at its branches MONETA's products such as current accounts, unsecured lending products and mortgages.
- MONETA completed additional NPL portfolio sale with an extraordinary pre-tax gain of CZK 58 million and with a nominal value of approximately CZK 466 million. Year to date MONETA generated pre-tax gain of approximately CZK 0.7 billion and sold portfolio in nominal value of CZK 3.6 billion.[2]
- CNB unanimously approved an increase of two-week repo rate by 25bps to 1% effective from 28 June 2018.[7]

July

- Investment funds offer significantly expanded from 9 to 15 investments funds.[3]
- Announced plan to build a dense network of dozens of commercial charging stations for electric cars near the Bank's branches for public use across the country.[3]
- Achieved a milestone of becoming one of the Top 5 new mortgage providers.[8]
- The Bank received updated credit opinion from rating agency Moody's Investors Service Ltd. with no change on investment grade rating, "Baa2/P-2" with stable outlook.[2,4]

August

- Mrs. Maria Luisa Cicognani, the Chair of the Supervisory Board, resigned from the Supervisory Board and its Remuneration Committee and Mr. Gabriel Eichler was elected as the new Chairman of the Supervisory Board.[2]
- CNB increased two-week repo rate by additional 25bps to 1.25% effective from 3 August 2018.[9]
- In line with communicated digital strategy MONETA began with gradual move of selected MONETA's IT applications to the Amazon Web Services cloud.[3]
- Unique mobile ATM to allow cash withdrawals during cultural and other events was put into service.[3]

September

- Launched a brand new website www.moneta.cz designed for customer-centricity to support digital distribution.[3]
- The Bank received the best rating among other banks in evaluating the quality of the mortgage process.[10] The evaluation is based on regular market research performed by Market Vision, a mystery shopping and market research provider. The Bank scored the highest in the Service Quality Index.
- MONETA introduced its IT Strategy 2018-2020 and published it at moneta.cz in the Investor Relations section.[2]
- MONETA strengthened its capital position by obtaining permission from CNB to incorporate 30% of 2018 mid-year net profit into Common Equity Tier 1.[2]
- Launched contactless payments via Garmin Pay and Fitbit Pay for the very first time in the Czech Republic.[11]
- Data centre moved from the MONETA's headquarter to the third-party facility.[3]
- Ranked 11th (Return on Assets) and 14th (Return on Capital) among Top 250 banks in the EU.[12] Ranking received from The Banker Magazine.
- Simple loan application for non-preapproved clients launched in Smart Banka.
- MONETA continued with NPL sales and successfully completed additional legacy NPL portfolio sale with an extraordinary pre-tax gain of CZK 360 million and with a nominal value of approximately CZK 1.2 billion. Year to date MONETA generated pre-tax gain of approximately CZK 1.1 billion and sold portfolio in nominal value of CZK 5.1 billion.[2]
- CNB unanimously approved an increase of two-week repo rate by additional 25bps to 1.50% effective from 27 September 2018.[13]

6 Source: http://www.zlatakoruna.info/soutez/2018.
7 Source: http://www.cnb.cz/en/monetary_policy/bank_board_minutes/2018/180627_prohlaseni.html.
8 CNB ARAD monthly report banking sector, residents without building societies.
9 Source: http://www.cnb.cz/en/monetary_policy/bank_board_minutes/2018/180802_prohlaseni.html.
10 Source: https://www.hypoindex.cz/tiskove-zpravy/hypotecni-uvery-studie-odhalila-velke-rozdily-mezi-sluzbami-jednotlivych-ceskych-bank/.
11 Source: https://newsroom.mastercard.com/eu/cs/press-releases/moneta-money-bank-jako-prvni-banka-v-cr-spousti-s-mastercard-placeni-hodinkami-garmin-pay-a-fitbit-pay/.
12 The Banker Magazine, September 2018.
13 Source: http://www.cnb.cz/en/monetary_policy/bank_board_minutes/2018/180926_prohlaseni.html.

October

- The Bank and Home Credit Group B.V. entered in a non-binding Memorandum of Understanding regarding the potential acquisition of Air Bank and Home Credit's Czech and Slovak businesses of Home Credit B.V.[2]
- The Bank with Smart Banka awarded "Banking Innovator 2018" in the "Czech Best Bank 2018 Awards".[14]
- The Bank awarded The Best SME Bank in the Czech Republic 2018[15] by Business Vision, a global financial and economic portal.
- The Bank received reaffirmed investment grade rating from S&P Global Ratings Europe Limited.[2,4]
- First wave of transferring IT systems to the cloud successfully completed.[3]
- Tablet-based digital loan pilot process rolled out to Česká pojišťovna/Generali.

November

- The Bank awarded "The Best Mortgage 2018".[16] Award received as a part of the Bank of the Year 2018 competition.
- CNB announced additional increase of two-week repo rate by additional 25bps to 1.75% effective from 2 November 2018.[17]
- Smart Banka recognised as the 3rd Best Mobile Solution by WebTop100.[18]
- The Bank is the 4th financial institution in the world and the 1st in the Czech Republic to launch Apple Business Chat application to further enhance customer care.[19]
- Smart Banka optimised for blind and visually impaired people.
- Credit card for new SME clients available fully online.[3]
- Mr. Philip Holemans, the Vice-chairman of the Management Board and CFO, announced his resignation from the Management Board, effective as at 28 February 2019.[2]
- The Bronze level certificate for "Top Responsible Large Company in the Czech Republic 2018" received from the platform Business for Society.[20]
- Onboarding of current account rolled out through Česká pojišťovna/Generali.
- The Bank received from Moody's Investors Service Ltd. a reaffirmed rating of "Baa2/P-2" with an improved outlook from stable to positive.[2,4]
- The Czech National Bank decreased 2019 capital requirement for MONETA by 40bps.[2] The total SREP capital ratio consists of 8% Pillar I minimum own funds requirement and 2.6% Pillar II requirement, which is 40bps lower than the 2018 requirement. In addition, MONETA is required to maintain 2.5% CET1 capital conservation buffer and 1.25% CET1 countercyclical buffer (effective from 1 January 2019).[21] The total capital requirement will be 14.35% effective from 1 January 2019.

December

- Published Update of Digital Distribution Strategy 2018-2020.

14 Source: https://archiv.ihned.cz/c1-66324550-bankovni-inovator.
15 Source: https://bv.world/awards/2018/04/moneta-money-bank-best-sme-bank-czech-republic-2018/.
16 Source: https://www.bankaroku.cz/predchozi-rocniky/ and https://www.moneta.cz/servis-pro-media/tiskove-zpravy/detail/moneta-money-bank-zvitezila-se-svou-hypotekou-v-soutezi-banka-roku-2018.
17 Source: http://www.cnb.cz/en/monetary_policy/bank_board_minutes/2018/181101_prohlaseni.html.
18 Source: https://vysledky.webtop100.cz/2018/mobilni-reseni.
19 Source: https://www.czechcrunch.cz/2018/11/moneta-je-ctvrtou-bankou-na-svete-a-prvni-firmou-v-cesku-ktera-spousti-apple-business-chat/.
20 Source: http://www.odpovednefirmy.cz/pages/serve.php?file=1542354838_11_top-2018_v%C3%BDsledky-pdf.pdf.
21 Source: https://www.cnb.cz/en/financial_stability/macroprudential_policy/countercyclical_capital_buffer/index.html.

2018 GUIDANCE AND PERFORMANCE

	Results	2018 Guidance	
Metrics	**2018**	**Latest** [22]	**Initial**[23]
Gross Performing Loan Book Growth (YoY)	14.4%	≥13%	≥9%
Total Operating Income (CZK)	10.2bn	~10.0bn	≥9.5bn
Cost Base (CZK)	4.9bn	~4.8bn	~4.9bn
Cost of Risk	21bps	15-25bps	45-55bps
Cost of Risk (excluding legacy NPL portfolio sales)	72bps	70-80bps	90-100bps
Consolidated Net Profit (CZK)	4.2bn	~4.1bn	≥3.4bn
Return on Tangible Equity	17.9%	>17%	≥14%
Effective Tax Rate	16.6%	~17%	~17%
Dividend per Share (CZK gross)	6.15	5.6	5.0

KEY PERFORMANCE INDICATORS

Business Performance (CZK bn)	2018	2017	Change
Gross Performing Loan Balance	**140.1**	**122.5**	**14.4%**
Retail Gross Performing Loan Balance	74.8	61.2	22.1%
Commercial Gross Performing Loan Balance	65.3	61.2	6.7%
New Volume	**55.1**	**55.2**	**(0.1%)**
Retail Loans New Volume	34.6	35.4	(2.3%)
Commercial Loans New Volume	20.5	19.8	3.7%
Core Customer Deposits	**149.2**	**132.0**	**13.0%**

Figures in the table may not add up to total due to rounding differences.

Profitability and Efficiency	2018	2017	Change
Yield (% Avg. Net Customer Loans)	5.5%	6.3%	(0.8%)
Cost of Funds (% Avg. Deposits)	0.23%	0.15%	0.08%
NIM (% Avg. Interest Earning Net Assets)	3.7%	4.3%	(0.6%)
Cost of Risk (% Avg. Net Customer Loans)	0.21%	0.32%	(0.11%)
Risk-adj. Yield (% Avg. Net Customer Loans)	5.3%	6.0%	(0.7%)
Net Fee & Commission Income/Total Operating Income	18.6%	18.7%	(0.1%)
Net Non-Interest Income/Total Operating Income	27.1%	28.7%	(1.6%)
Reported RoTE	17.9%	16.0%	1.9%
RoAA	2.1%	2.2%	(0.1%)
Cost to Income Ratio	47.7%	47.9%	(0.2%)

Capital and Liquidity	2018	2017	Change
Total Capital Adequacy Ratio	16.4%	17.4%	(1.0%)
Net Loans to Deposit Ratio[24]	93.9%	93.7%	0.2%
Total Equity/Total Assets	12.2%	12.9%	(0.7%)
Liquid Assets[25]/Total Assets	30.1%	36.2%	(6.1%)

22 Latest market guidance published on 7 November 2018 in the presentation of 3Q 2018 Financial Results.

23 Initial market guidance published on 7 February 2018 in the presentation of FY 2017 Financial Results except Cost of Risk (excluding legacy NPL portfolio sales) and Dividend per Share. Initial guidance for Cost of Risk (excluding legacy NPL portfolio sales) was published on 10 May 2018 in the presentation of 1Q 2018 Results and initial guidance for Dividend per Share was published on 8 August 2018 in the presentation of 1H 2018 Results.

24 Excluding repo operations of CZK 19.6 billion as at 31 December 2018 (CZK 9.4 billion as at 31 December 2017).

25 Excluding hedging derivatives of CZK 111 million as at 31 December 2018 (CZK 46 million as at 31 December 2017).

2019 – 2021 GUIDANCE

	Guidance[26]		
Metrics	**2019**	**2020[27]**	**2021**
Total Operating Income (CZK)[28]	≥10.3bn	≥11.0bn	≥11.6bn
Cost Base (CZK)[28]	≤5.0bn	≤5.1bn	≤5.2bn
Cost of Risk Cost of Risk (excluding legacy NPL portfolio sales)[28]	45 – 55bps 70 - 80bps	70-80bps	75-85bps
Effective Tax Rate	~20%	~20%	~20%
Consolidated Net Profit (CZK)	≥3.7bn	≥3.8bn	≥4.0bn
Gross dividend per share (CZK)[29]	≥5.4	≥5.6	≥5.9
Earnings per share (CZK)[29]	≥7.2	≥7.4	≥7.8
Return on Tangible Equity	≥15.5%	≥15.5%	≥15.5%

MONETA stays committed to its current strategy, aiming to reach normalised net profit in excess of CZK 4.0 billion in the medium-term. The gross performing loan book is expected to grow by at least 11.5% of CAGR in 2019-2021 period, supporting gradual growth of revenues, while MONETA aims to maintain operating expenses under tight control to achieve its aspirational cost targets in the inflationary environment. Reported Cost of Risk are expected to return to 75-85bps level and the Core CoR reflecting normalisation of the macroeconomic environment. MONETA also aims to maintain RoTE of 15.5% at minimum and effective tax rate at 20%.

[26] The management's medium term guidance assumes purely organic growth without any potential acquisition. Management takes the opportunity to adjust the guidance in case of any material change of circumstances on which this guidance was based or in case of any accretive investment opportunity for the Bank.

[27] The guidance for 2020 published on 7 February 2018.

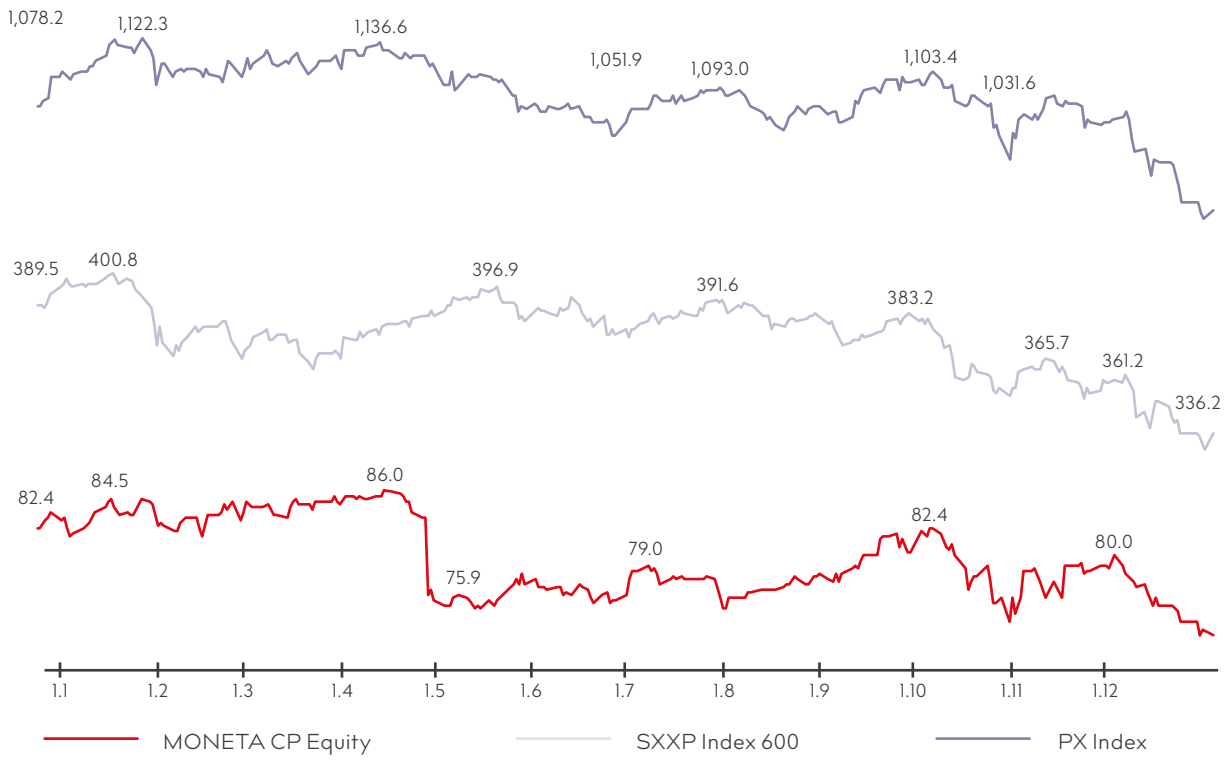
[28] The guidance for 2020 has been updated compared to the previously communicated guidance on 7 February 2018 in the presentation of 4Q 2017 results.

[29] Figures are rounded and assume a pay-out ratio of 75% and the ability to maintain capital adequacy ratio target at 15.5%. In addition, the guidance is subject to actual financial results of the Group in the years 2019 to 2021 and corporate, regulatory and regulator's limitations and approval of the Bank's General Meeting.

DELIVERING RETURN TO SHAREHOLDERS

- The Bank had almost 15 thousand investors from 47 countries according to an excerpt from the Czech Central Securities Depository as at 31 December 2018.
- On 28 December 2018, the closing price of one share in the Bank on the Prime Market of the Prague Stock Exchange was CZK 72.50. During 2018, the maximum intraday price of one share in the Bank on the Prime Market of the Prague Stock Exchange was CZK 86.25.[30] The maximum closing price in 2018 was CZK 86.0.
- Delivering a dividend yield of 8.5% attributable to the shares in the Bank.[31]
- The market capitalisation of the Bank equals CZK 37 billion as at 31 December 2018.[32]
- Throughout 2018, the average daily volume of trading in the shares in the Bank on the Prime Market of Prague Stock Exchange amounted to 1.2 million of shares and, therefore, the shares in the Bank were one of the most liquid securities listed on the Prime Market of the Prague Stock Exchange.[33]

The following chart shows the development of the stock price in 2018:



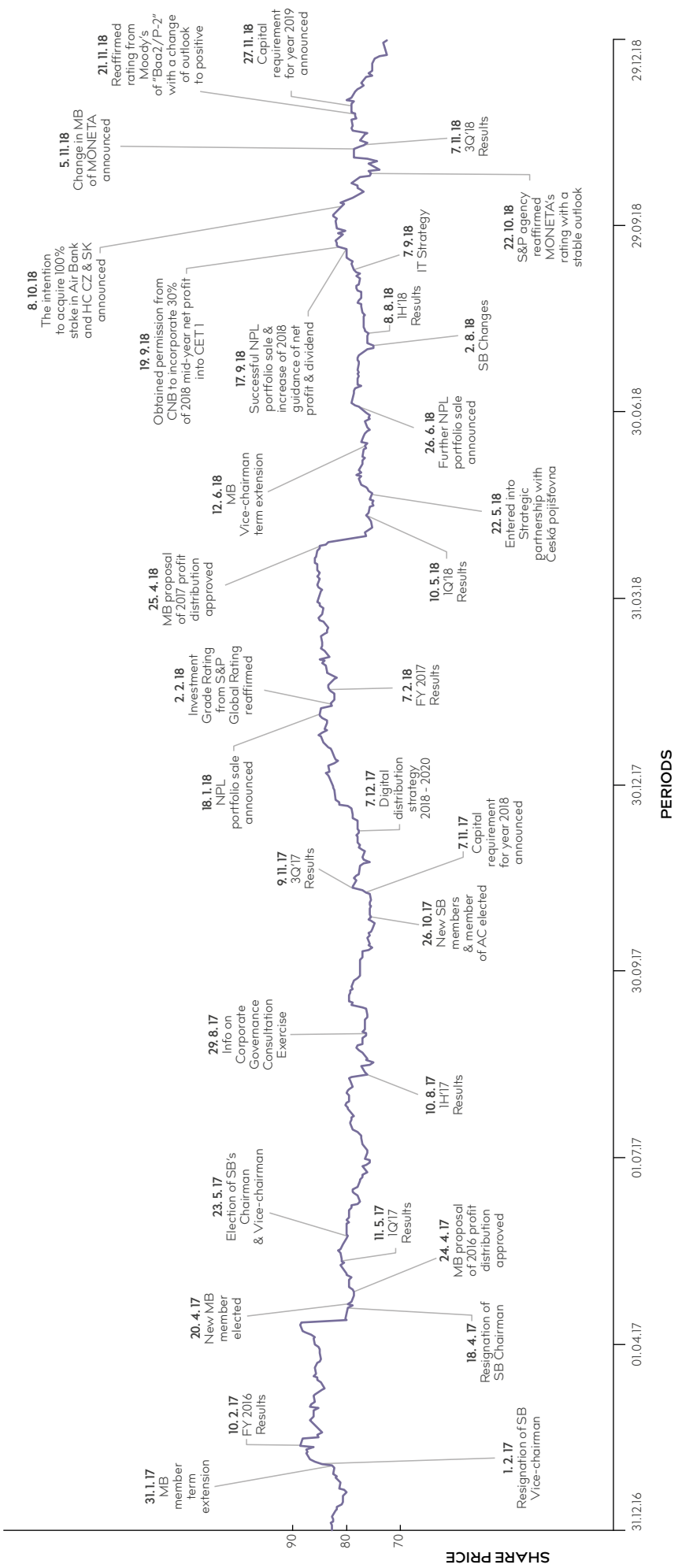
30 Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/.

31 The dividend yield is calculated as the ratio (expressed as a percentage) of proposed dividend per share to the closing price of the shares of the Bank. The dividend yield of 8.5% was calculated on the basis of the Bank shares closing price of CZK 72.50 as at 28 December 2018 (Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/) and the contemplated dividend proposal of CZK 6.15 gross per share, which is subject to the approval by the Annual General Meeting to be held on 24 April 2019 and corporate, regulatory and regulator's limitations.

32 The market capitalisation of the Bank was calculated on the basis of the share price of CZK 72.50 as at 28 December 2018. (Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/).

33 Source: www.pse.cz/udaje-o-trhu/statistika/objemy-obchodu/.

MONETA's Share Price Performance



Note: MB = the Management Board
SB = the Supervisory Board

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*

CZK m	31 Dec 2018	31 Dec 2017	% Change
Cash and balances with the central bank	8,139	7,127	14.2%
Financial assets	20,808	11,828	75.9%
Loans and receivables to banks	33,436	53,380	(37.4%)
Loans and receivables to customers	140,123	123,680	13.3%
Other Assets	4,426	3,719	19.0%
Total Assets	**206,932**	**199,734**	**3.6%**
Due to banks	10,716	29,643	(63.8%)
Due to customers	168,792	141,469	19.3%
Other liabilities	2,187	2,859	(23.5%)
Total Liabilities	**181,695**	**173,971**	**4.4%**
Total Equity	**25,237**	**25,763**	**(2.0%)**
Total Liabilities and Equity	**206,932**	**199,734**	**3.6%**

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS*

CZK m	2018	2017	% Change
Interest and similar income	7,820	7,582	3.1%
Interest expense and similar charges	(411)	(218)	88.5%
Net interest income	**7,409**	**7,364**	**0.6%**
Net fee and commission income	**1,892**	**1,933**	**(2.1%)**
Other Income	861	1,038	(17.1%)
Total operating income	**10,162**	**10,335**	**(1.7%)**
Total operating expenses	**(4,852)**	**(4,947)**	**(1.9%)**
Net impairment of financial assets**	**(274)**	**(381)**	**(28.1%)**
Goodwill impairment	**0**	**(104)**	**(100%)**
Profit for the period before tax	**5,036**	**4,903**	**2.7%**
Profit for the period after tax	**4,200**	**3,923**	**7.1%**

* Figures in the table may not add up to total due to rounding differences.
** Impairment of investment securities has been added in 2018 as a result of the application of IFRS 9.

LETTER FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

INTRODUCTION

It is my great pleasure to address the shareholders for the first time as the Chairman of the Supervisory Board of MONETA Money Bank, and to report on MONETA's continued progress over the past year. It has been a successful year in terms of financial performance and one in which we delivered further improvements in MONETA's corporate governance and significant strategic progress, such as the evolution of our digital offering. MONETA's agile approach to business has resulted in an improvement in its risk profile and an increase in its underlying profitability.

CORPORATE GOVERNANCE

MONETA maintains a strong focus on corporate governance and on ensuring that MONETA's policies are aligned with recent Czech regulatory changes as well as international best practice.

The Supervisory Board is an integral non-executive element of the Bank's two-tier corporate governance structure and is responsible for the control of the Bank's operations. It is of critical importance to all our stakeholders, shareholders, regulators, customers and employees that the Supervisory Board can exercise effective and independent oversight over the Management Board, while contributing to the definition of the Bank's strategic direction.

At the Annual General Meeting held on 24 April 2017, shareholders made a request to the Supervisory Board to propose and implement the principles concerning the compensation of members of the Management Board. The aim of this request was to set rules to the remuneration of the Management Board and other material risk-takers' and to align the interests of the Management Board members with those of the shareholders. During the proposal planning stage many consultations, direct calls and direct meetings with shareholders have taken place. More detailed information relating to this matter have been published on the company's website. The focus of this exercise was to introduce a stock-based incentive scheme, as well as the practical requirements of the functioning of corporate bodies of the Bank and their mutual interaction. The Supervisory Board collected all feedback from the shareholders, which was used to form the final proposal for the updated Executive Variable Incentive Plan ("EVIP") and new executive Long-Term Incentive Plan ("LTIP"). The LTIP program will be implemented in 2019.

An amendment reflecting a change to the approval mechanism of the variable component of the Management Board compensation was approved at the General Meeting held on 13 December 2018. This approval mechanism will require shareholder approval for the variable compensation of the Management Board members, should the variable part of compensation exceed 100% of the fixed compensation.

Three further amendments were approved at this General Meeting. The first required incorporation of employee representatives on the Supervisory Board, totalling one third of the Supervisory Board members. The remaining two thirds are to be elected by the Bank's shareholders at the General Meeting. The second reflected changes to the international banking regulation standards, and the final amendment addressed the competencies of the Bank bodies to emphasise control function of the Supervisory Board and executive function of the Management Board.

All amendments related to the Articles of Associations were subject to a second consultation exercise with our shareholders, ran by MONETA during November 2018, in order to discuss the proposed amendments. The main objective of the proposed changes was to align the Articles of Association with the amended applicable laws and regulations concerning corporate governance and their regulatory interpretation.

During 2018, there were several changes to the composition of both, the Supervisory and the Management Board. As at 1 August 2018, Mrs. Maria Luisa Cicognani resigned as the Chair of the Supervisory Board and its Remuneration Committee and I was honoured to be elected to the role of the Chairman of the Supervisory Board, having served on the Supervisory Board since October 2017.

On 5 November 2018, Mr. Philip Holemans, the Vice-chairman of the Management Board and the Chief Financial Officer of the Bank announced his resignation, with effect as at 28 February 2019. Mr. Holemans has served as CFO since January 2014, having worked for GE Group for more than 16 years. I would like to thank Mr. Holemans for his significant contribution over the years, guiding MONETA through the separation from GE Capital and helping establish MONETA as one of the leading consumer and small business bank in the Czech Republic.

On 6 February 2019 the Supervisory Board appointed Mr. Jan Friček to the Management Board of the Bank for a four-year term and as Chief Financial Officer of the Bank, both with effect from 1 March 2019.

FINANCIAL PERFORMANCE AND STRATEGY

Economic conditions in the Czech Republic remained favourable during 2018, despite the slowdown in the rate of GDP growth, which amounted to 3.0%, against a growth rate of 4.5% in 2017.[1] In 2018, MONETA reported a consolidated net profit of CZK 4.2 billion, exceeding the initial guidance of CZK 3.4 billion and a 7.1% increase against our 2017 performance. This achievement was mainly driven by the successful implementation of our strategy to reduce NPL portfolio, which increased our pre-tax profit by CZK 1.1 billion. Compared with 2017, consolidated Return on Tangible Equity rose by 190bps to 17.9%.

On 6 February 2019, MONETA announced its intention to propose a cumulative dividend pay-out of approximately CZK 11.8 billion[2] over the coming four years, out of which CZK 3.1 billion will be proposed for shareholders' approval as 2018 dividend at the Annual General Meeting of the Bank, which will be held on 24 April 2019.

MONETA aims to be the digital leader in the Czech banking market, offering speed and convenience in both sales and service to customers. MONETA has made substantial progress during the year in diversifying its overall product mix, building new revenue streams from insurance and investment funds offering and developing a leading retail and small business banking franchise within the Czech Republic. In line with its digital strategy, MONETA has continued with its commitment to rationalise its branch network to reduce the number of branches by 25 to 202.

ACQUISITION OF AIR BANK AND HOME CREDIT'S CZECH AND SLOVAK BUSINESSES

On 8 October 2018, the Bank announced that it had entered into a non-binding Memorandum of Understanding with Home Credit Group B.V. to potentially acquire Air Bank and Home Credit's Czech and Slovak businesses. Post year end, on 26 February 2019, we informed our shareholders and capital markets that despite the efforts on both sides the parties were not able to reach an agreement and the discussions regarding potential acquisition were terminated.

RISK MANAGEMENT

MONETA maintains a robust risk management framework. The Risk Committee of the Supervisory Board held four meetings during 2018 and continuously monitored MONETA's risk profile with a particular focus on portfolio performance, credit, market, and operational risk. The Risk Committee also concentrated on the implementation of the Bank's Cyber Security Strategy, the boosting of human resources and improvement of MONETA's risk prevention tools.

In line with our commitment to continue with a prudent approach to risk management, several improvements to MONETA's systems and approach were made during the year, including continued investments in MONETA's IFRS 9 capabilities. We are committed to protecting our depositors through a strong risk management culture, responsible lending and a conservative approach to investments.

MONETA has continued its strategy of improving the quality of its loan portfolio through the successful monetisation of NPL receivables. As a result, our NPL ratio has fallen to 2.8% in 2018, compared to 4.1% in 2017.

[1] Source: Czech Statistical Office: GDP Preliminary Estimate - 4th Quarter of 2018.

[2] It assumes the ability to maintain capital adequacy ratio target at 15.5%. Out of CZK 11.8 billion the amount of CZK 3.1 billion will be proposed to shareholders as 2018 dividend. The remaining amount of more than CZK 8.6 billion will be proposed to the shareholders at the General Meetings of the Bank in the years 2020 to 2022, not as a single dividend payment but yearly, subject to actual financial results of the Group in the years 2019 to 2021. Additionally, it is subject to corporate, regulatory and the regulator's limitations.

SUSTAINABILITY AND RESPONSIBILITY

Sustainability remained an important focus for MONETA in 2018, with significant progress made during the year. The sustainability strategy was developed in 2017, when MONETA outlined its ambitions for a sustainable approach to the way it operates. MONETA sees sustainability as its strong competitive advantage and as a driver for innovation. MONETA is becoming a market-leader in reduction of its corporate carbon footprint and is committed to reduce its carbon footprint by 35% by 2020.

In 2018, we continued to work closely with local enterprises, schools and communities to invest in the future of the country. During 2018, MONETA donated CZK 5 million to 59 organisations and our volunteers donated almost 2,500 voluntary hours to serving their communities.

The Bank's report on non-financial performance, including our economic, environmental and social performance, is summarised in section 6 of this Annual Report.

EXTERNAL AWARDS

MONETA has received numerous awards throughout the year. On the digital front, our Smart Banka application was recognised the best online application in the Czech Republic at the "Zlatá koruna 2018" awards[3] and the third Best Mobile Solution by WebTop100.[4] During the year, we achieved the distinction of being one of the top 5 new mortgage providers,[5] with the strength of our mortgage business reflected in MONETA receiving the highest rating amongst our Czech competitors in terms of the quality of our mortgage process[6], as well as being awarded "The Best Mortgage" as a part of the "Bank of the Year 2018" competition[7]. MONETA was also awarded first place in the "Banking Innovator" category at "The Best Bank 2018" awards.[8]

OUTLOOK 2019 – 2021

MONETA plans to deliver consolidated net profit of CZK 3.7 billion, CZK 3.8 billion and CZK 4 billion in 2019, 2020 and 2021, respectively.[9] During the year ahead, we will continue to reduce the size of our NPL portfolio and will seek to deliver further cost efficiencies through digital innovations and branch network optimisation.

The Supervisory Board would like to express gratitude to management and employees of MONETA for their contribution to our success during 2018. MONETA has strengthened its position within the Czech banking market over the past year and I am confident that MONETA will continue on this upward trajectory. 2019 promises to be an exciting year, as we look to continue to evolve our digital strategy, diversify our offers and look to new strategic opportunities. I look forward to reporting on our future successes.

Gabriel Eichler
Chairman of the Supervisory Board
of MONETA Money Bank, a.s.

3 Source: http://www.zlatakoruna.info/soutez/2018.
4 Source: https://vysledky.webtop100.cz/2018/mobilni-reseni.
5 Source: CNB ARAD monthly report banking sector, residents without building societies.
6 Source: https://www.hypoindex.cz/tiskove-zpravy/hypotecni-uvery-studie-odhalila-velke-rozdily-mezi-sluzbami-jednotlivych-ceskych-bank/.
7 Source: https://www.bankaroku.cz/predchozi-rocniky/ and https://www.moneta.cz/servis-pro-media/tiskove-zpravy/detail/moneta-money-bank-zvitezila-se-svou-hypotekou-v-soutezi-banka-roku-2018.
8 Source: https://archiv.ihned.cz/c1-66324550-bankovni-inovator.
9 This outlook for 2019 – 2021 assumes a solely organic growth of the Group, not including effects of any potential acquisition.

LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

INTRODUCTION

I am delighted to be reporting another successful year for MONETA in 2018. We have executed our existing strategy to maintain our position as a leading bank for Czech households and small businesses. Our financial results have shown improvement over the previous year with reported consolidated net profit of CZK 4.2 billion. This is not only a 7.1% increase over 2017 result but also it has exceeded our initial guidance for the year by CZK 0.8 billion. It is my pleasure to confirm that the Management Board intends to propose a 2018 dividend of CZK 6.15 gross per share which translates into a 75% pay-out ratio.

Our excellent financial results have been driven to a degree by the continued operational improvements we have made. Moreover, after more than 8 years[1] we have achieved the reversal of the declining net interest income trend driven by a rise in interest rates, growth in our loan portfolio and loan re-pricing. In line with our strategy we have successfully executed sales of our legacy non-performing loan portfolio with a nominal value of CZK 5.3 billion which provided us with a pre-tax gain of CZK 1.1 billion.

Our improvement in profitability has been delivered despite continued investment in our digital strategy, which is a vital part of our current and future success. We have seen a great response to our award-winning Smart Banka. This has helped us to increase online lending in both consumer and small business segments. Our enhanced digital capabilities are helping to drive efficiencies and enabling us to expand our product capabilities by adding a number of new digital offers.

At the end of 2018, we moved our headquarters to new premises which fully reflect the modern future we envision for MONETA. We are also working through the refurbishment of branch network to ensure they reflect MONETA's modern approach and are fit for the digital age of banking.

We have also successfully continued to focus on our portfolio quality which continues to improve with our non-performing loan ("NPL") ratio of 2.8% at 2018 year-end, down from 4.1% in 2017. Our Total NPL Coverage is 99.9% following the implementation of the new IFRS 9 accounting standard.

The positive developments in our business have seen our RoTE increase by 190bps in 2018 to 17.9%.

Equally important, during the year MONETA had its S&P credit rating confirmed at investment grade (BBB/A-2). Moody's also reiterated its investment grade rating for MONETA (Baa2/P-2) but with an improved positive outlook.

DIGITAL STRATEGY EXECUTION

Key to MONETA's strategy is to be a digital champion focused on credit distribution to Czech households and small businesses. This ambition is supported by our continued investment in our digital expertise and is underpinned by an agile approach to IT infrastructure and development. We are maintaining this leadership position by moving our whole infrastructure into a private secure cloud network. We moved over 10% of our applications in 2018, with the aim of completing 50% by the end of 2019 and 100% in 2021. We have also launched a new web portal with improved functionality and an enhanced customer experience and I am very proud that organic traffic increased by 111% year-on-year in December 2018.

The commercial success of our digital strategy has enabled us to rationalise branch network. During 2018, we successfully closed 25 of our branches and achieved our objectives set forth in our distribution strategy. Additionally to that, we have successfully developed and tested our digital platform for distribution of loans and current accounts via third parties, which will enable us to better manage our future cost base and also improve our overall market coverage through partnerships with brokers and other third parties.

[1] The 8-year period is based on 5 years of reporting according to IFRS and 3 years of reporting according to CZ GAAP.

The continuous improvement of the efficiency and quality of our digital servicing channels is supported by a range of new and innovative digital products introduced in 2018. These include fully online products such as commercial credit card, consumer loan distribution for 3rd parties, consumer loan in Smart Banka, credit card for new to bank entrepreneurs, loan instalment for small business and mortgage scoring for brokers.

We are continuously looking at ways to innovate in this evolving market and improve proposition for our existing and new customers. As a result, we are also working on a unique mortgage capability for the broker market, simplified auto lending process for dealers and digitally intermediated third-party distribution models. The strength of our digital offer has gained us strong recognition in the digitally savvy Czech market and we are recognised by customers as a leader in digital banking services.

Our approach to digitalisation is all aimed at driving credit growth amongst a broader range of customers which will enable us to build new fee and commission income streams. Our success can be seen by the fact that 32% of our consumer loan production was originated online, as of year-end 2018. In our small business lending 23% of the total production was originated online and this segment saw 118.4% growth in 2018. Indeed, the fully online consumer loan production has almost tripled year-on-year as consumers have shifted towards online.

Our Smart Banka and Internet Banka applications have been critical to our success in these areas and we continue to seek to differentiate ourselves further by enhancing the seamless and fully online nature of credit distribution and transaction banking.

RETAIL SEGMENT

In the retail segment, our focus has been on maintaining our position as a leading bank serving Czech households with a full range of credit, payment and deposit products and services. We have seen continued growth in retail lending in 2018 with our gross performing loan portfolio increasing by 22.1% year-on-year. Last year we set out to increase our share in the mortgage business and we are pleased to report that mortgages have been a significant factor in our strong loan growth. Our gross performing mortgage portfolio has risen by 55.8% year-on-year to CZK 31.4 billion and our market share increased to 2.8%.[2] This puts us well on the way in achieving our medium-term goal of gaining a 5% share which we remain committed to. As evidence of our success in this area and the quality of our products and service, we were awarded as "Best Mortgage Process Provider" by Market Vision in 2018.[3] Overall, we achieved 8% of market share in new mortgage production,[4] which testifies to the quality of the products and processes and confirming our position as one of the top five mortgage providers in the Czech Republic. This is a significant achievement and a reflection of the hard work of our staff in this area.

Our gross performing consumer loans reached a balance of CZK 37.0 billion as at 31 December 2018, which can be translated into the year-on-year growth of 7.4%. From the second half of the year 2018 we focused on maintaining pricing discipline and we were able to generate new consumer loan production at a pricing level of 9.4% in 4Q 2018, which was 90bps above the market pricing.

Overall our retail lending franchise continues to perform well, we improved our product profitability, we have generated solid growth of 22.1% year-on-year, and we maintained our market share at 18.8% in total retail unsecured lending as at the end of 2018.[5]

All this is underpinned by the strength of our deposit base which provides us with a low cost of funds via attractive transactional current accounts.

We have also continued our extension into third-party distribution for insurance and asset management products, which generated a year-on-year growth of 22.3% in fee and commission income. In asset management, we diversified our investment funds proposition from 9 to 15 funds in 2018 to provide greater choice to our customers and we managed assets of CZK 10.6 billion as at 31 December 2018. In insurance distribution we extended our

[2] Calculated as MONETA's mortgage gross loan balance divided by total mortgage market gross loan balance based on source from CNB ARAD.

[3] Source: https://www.bankaroku.cz/predchozi-rocniky/ and https://www.moneta.cz/servis-pro-media/tiskove-zpravy/detail/moneta-money-bank-zvitezila-se-svou-hypotekou-v-soutezi-banka-roku-2018.

[4] Source: market data based on signed contracts from Hypoindex.cz (https://www.hypoindex.cz/hypoindex-vyvoj/).

[5] Calculated as MONETA's retail unsecured gross loan balance divided by total retail market unsecured gross loan balance based on source from CNB ARAD.

cooperation from 4 to 6 insurance companies offering a wider range of insurance products, including offering of building savings accounts.

COMMERCIAL SEGMENT

The second pillar of our strategy is to develop our position in the small business market with special focus on entrepreneurs, tradesmen and self-employed professionals, as well as on small and medium sized companies (SME).

The small business lending franchise recorded phenomenal success where the balance of gross performing loans rose by 63.1% year-on-year to CZK 4.5 billion, where 59% of new production is generated by existing customers and 41% by new customers. We also achieved great success in client base growth of more than 6 thousand new customers in 2018. The combination of a strong product and service portfolio, as well as investment in front-line staff and innovative digital servicing capabilities has enabled us to continue to grow in areas beyond our traditional core segments.

In our SME lending franchise, where we maintain strong presence in agriculture, we achieved growth of 5.9% year-on-year and we maintained a stable client base.

In 2018, we achieved significant success in capital optimisation in commercial segment demonstrated by the delivery of capital savings of CZK 564 million. We improved our profitability where yield increased from 3.4% in 4Q 2017 to 3.8% in 4Q 2018 amid increase of market rates.

Our subsidiary, MONETA Leasing, focused on improvements in profitability of new volumes. The objective of better pricing largely materialised in the second half of 2018. Additionally, the subsidiary's operating costs have been successfully reduced through the integration of the back office functions into its operational platform.

Overall, in the commercial segment we have generated a solid year-on-year growth of 6.7% in gross performing loan balance and improved our product profitability.

COST MANAGEMENT

Despite our constant focus on investing in improving our digital capabilities, the changing nature of consumer demands and our ability to respond to those we were able to reduce our cost base in 2018 by 1.9%. We have found further operational efficiencies across our business. One area where this remains especially true is our branch network optimisation program, where we plan to close additional 22 branches in 2019.

RISK MANAGEMENT

Effective risk management remains our core focus. 2018 saw the introduction of the new IFRS 9 accounting standard and we came through this process successfully reflecting on the prudent risk management systems and approach.

We have continued with reduction of our legacy NPL portfolio and in 2018 we completed sales in the nominal value of CZK 5.3 billion. Our NPL portfolio decreased by over 22% in 2018 and resulted in a pre-tax gain of CZK 1.1 billion, to the benefit of our shareholders. We have also seen our cost of risk come down to an exceptionally low level of 21bps with a total Cost of Risk for the year amounting to CZK 274 million. This translates to our Core Cost of Risk of 72bps for 2018. Despite the continued low Cost of Risk and benign credit environment we remained prudent and conservatively positioned with a 99.9% of Total NPL Coverage as of 31 December 2018.

CAPITAL MANAGEMENT

We are especially proud that after the annual Supervisory Review and Evaluation Process (SREP) CNB decreased our Pillar II capital requirement by 40bps with effect from the 1 January 2019. The Pillar I requirement remains at 8% and the Pillar II requirement has been reduced to 2.6%. On top of this, MONETA is required to maintain a 2.5% capital conservation buffer and a 1.25% countercyclical buffer. MONETA's regulatory requirement will therefore be 14.35% from 1 January 2019 and the management has reiterated its commitment to maintain 15.5% for 2019.

In 2018, MONETA maintained a capital adequacy ratio well in excess of the management target of 15.5% and ended the year at 16.4%. Risk weighted assets (RWA) rose by only 3.1% despite loan portfolio growth of 13.3%. This was mainly driven by our optimisation actions which brought RWA savings of CZK 4.5 billion.

POTENTIAL ACQUISITION OF AIR BANK AND HOME CREDIT'S CZECH AND SLOVAK BUSINESSES

On 8 October 2018, the Bank disclosed it had entered into a non-binding Memorandum of Understanding with Home Credit Group B.V. to potentially acquire Air Bank and Home Credit's Czech and Slovak businesses. Subsequently, the Bank performed its due diligence across all entities and confirmed the hypotheses and assumptions set forth in a business case developed for this potential opportunity. Due to an overall change in capital markets environment, the Bank's management had been mandated to approach the sellers with the aim to re-negotiate certain conditions of the intended acquisition. These changes should have reflected the changed capital markets environment as well as address a shareholder feedback received since the announcement of the potential acquisition, published on 8 October 2018. Specifically, the Bank was seeking to address a feedback related to future corporate governance standards, adjustments in valuations and funding conditions of the intended acquisition. In February 2019, MONETA announced that despite efforts on both sides the parties were not able to reach an agreement and hence the discussions regarding the potential acquisition were terminated.

OUTLOOK 2019[6]

In 2019, we stay committed to our current strategy, aiming to generate consolidated net profit of at least CZK 3.7 billion, supported by gradual growth of total operating income to at least CZK 10.3 billion and focused cost management with target to maintain cost base below CZK 5 billion. Our Cost of Risk are planned to get to the range of 45 – 55bps.

We will continue to maintain our position as the champion for Czech households, self-employed professionals, tradesmen and entrepreneurs. We will focus on our digital strategy with the aim to maintain a position of a digital leader in the Czech market. We will further optimise our costs based on continued success of our digital offer.

We are pleased by the continued growth and opportunity we are envisioning for MONETA. We move into 2019 in a position of strength, with an improved customer offer and with a clear strategy which we will continue to execute. I would like to thank all our staff who have worked so hard this year across all our initiatives. With a significant momentum behind us and exciting plans ahead, 2019 is shaping up to be another good year.

Tomáš Spurný
CEO and Chairman of the Management Board
of MONETA Money Bank, a.s.

[6] Outlook 2019 assumes purely organic growth without having regard to any potential acquisition. Management takes the opportunity to adjust the guidance in case of any material change of circumstances on which this guidance was based or in case of any accretive investment opportunity for the Bank.

The branch network

The broad Bank's network of branches and ATMs is well dispersed across the Czech Republic and provides coverage in many smaller cities where competition is less intense. Our branches are equipped with state-of-the-art digital technologies so that clients can try our secure digital services and solutions we offer.

1. MONETA'S PROFILE

1.1 BASIC INFORMATION ABOUT MONETA MONEY BANK AND ITS SUBSIDIARIES

Company name	**MONETA Money Bank, a.s.**
Registered office	Vyskočilova 1442/1b, Michle, 140 00 Prague 4, Czech Republic, Post code 140 28
Company ID no.	25672720
LEI code	I6USJ58BDV2BO5KP3C31
Legal form	Joint-stock company Registered in the Czech Commercial Register maintained by the Municipal Court in Prague in Section B under Entry No. 5403
Date of registration	9 June 1998
Share capital	CZK 511 million
Paid-up share capital	100%
Type, form and format of issued shares and their nominal value	The company's registered capital is divided into 511,000,000 fully paid ordinary registered book-entry shares with a par value of CZK 1.00 each.
Number of branches (as at 31. 12. 2018)	202
Number of employees (average number of last 12 months)	3,188
Organisation units abroad	None
Telephone	+420 224 441 111
Webpage	www.moneta.cz

The Group ("MONETA") is a holding (in Czech: koncern) consisting of the parent controlling company MONETA Money Bank, a.s. (hereafter the "Bank" or "MONETA Money Bank"), and its controlled subsidiaries: MONETA Auto, s.r.o. (hereafter "MONETA Auto"), MONETA Leasing, s.r.o. (hereafter "MONETA Leasing"), MONETA Leasing Services, s.r.o. and Inkasní Expresní Servis s.r.o. v likvidaci.

The Bank as the sole shareholder of Inkasní Expresní Servis s.r.o. decided on the dissolution of this company with liquidation starting from 1 January 2019. For the duration of the liquidation process the company uses the business name with the appendix "v likvidaci" (Inkasní Expresní Servis s.r.o. v likvidaci).

The Bank as well as MONETA Auto and Inkasní Expresní Servis s.r.o. v likvidaci are headquartered in Prague, with a shared services centre in Ostrava and MONETA Leasing and MONETA Leasing Services, s.r.o. are headquartered in Brno.

Shares and Share Capital

The registered share capital consists of 511,000,000 fully paid ordinary registered book-entry shares with a par value of CZK 1.00 each. No shares in the Bank are owned by the Bank or its subsidiaries or on behalf or on the account of the Bank or its subsidiaries. The Bank has not issued any securities or instruments convertible into or exchangeable for the Bank shares, nor any securities or other instruments with warrants.

All shares in the Bank are admitted to official trading and traded on the Prime Market of the Prague Stock Exchange, which is a regulated market within the meaning of Section 55 and 64 of Act 256/2004 Coll., on conducting of business in capital markets, as amended. The shares of the Bank are also traded without the Bank's consent on markets operated by RM-SYSTÉM, česká burza cenných papírů a.s. (on the multilateral trading facility within the meaning of Section 69 of Czech Act 256/2004 Coll., on conducting of business in capital markets, as amended), and, to our best knowledge, also on certain foreign markets.

Security	ISIN	Total nominal value	Issued as	Form	Nominal value per share	Market	Traded since
Share	CZ0008040318	CZK 511 mil.	Book-entry share	Registered share	CZK 1.00	Prague Stock Exchange, BCPP	6. 5. 2016[1]

[1] On 6 May 2016, the conditional trading in the Bank's shares was commenced. The official trading in the Bank's shares was commenced on 10 May 2016.

Statutory Bodies of the Bank

Members of the Supervisory Board as at 31 December 2018:

Name	Role	Member position held from	Member position held to
Gabriel Eichler	Chairman[2]	26 October 2017	26 October 2021
Miroslav Singer	Vice-chairman[3]	24 April 2017	24 April 2021
Ronald Clarke	Member	21 April 2016	21 April 2020
Michal Petrman	Member	21 April 2016	21 April 2020
Denis Arthur Hall	Member	21 April 2016	21 April 2020
Tomáš Pardubický	Member	26 October 2017	26 October 2021

In January 2019 the Supervisory Board was extended by 3 new members elected by the Bank's employees (for more details please see MONETA's Investor Relations web pages https://investors.moneta.cz/en/corporate-governance):

Name	Role	Member position held from	Member position held to
Jiří Huml	Member	21 January 2019	21 January 2023
Aleš Sloupenský	Member	21 January 2019	21 January 2023
Klára Sokolová	Member	21 January 2019	21 January 2023

Members of the Management Board as at 31 December 2018:

Name	Role	Member position held from	Member position held to
Tomáš Spurný	Chairman[4]	1 October 2015	1 October 2019
Philip Holemans	Vice-chairman[5]	17 July 2014	28 February 2019
Carl Normann Vökt	Member	25 January 2013	26 January 2021
Jan Novotný	Member	16 December 2013	17 December 2021
Albert Piet van Veen	Member	1 May 2017	1 May 2021

On 6 February 2019 the Supervisory Board appointed Mr. Jan Friček as a member of the Management Board and CFO, both with effect from the 1 March 2019.

On 21 February 2019 the Management Board elected Mr. Carl Normann Vökt to the position of the Vice-chairman of the Management Board, with effect from 1 March 2019.

[2] Mr. Gabriel Eichler was elected as the Chairman of the Supervisory Board with effect from 2 August 2018 after Ms. Maria Luisa Cicognani resigned from her position of the Chair and member of the Supervisory Board and her position in Remuneration Committee as at 1 August 2018.

[3] Mr. Miroslav Singer was elected as a member of the Supervisory Board with effect from 24 April 2017 and has been the Vice-chairman of the Supervisory Board with effect from 22 May 2017.

[4] Mr. Tomáš Spurný held the position of Chairman of the Management Board with effect from 1 October 2015.

[5] Mr. Philip Holemans was elected as Vice Chairman of the Management Board with effect from 20 April 2016. In November 2018, Mr. Philip Holemans resigned from his position with effect as at 28 February 2019.

Subsidiaries and Associates

Investments in subsidiaries and associates as at 31 December 2018:

Name	Registered office	Business activity	Bank's share in registered capital and voting rights
MONETA Leasing, s.r.o.	Holandská 1006/10, Štýřice, 639 00 Brno	Financing of loans and leasing	100%
MONETA Auto, s.r.o.	Vyskočilova 1442/1b, Michle, 140 00 Prague 4	Auto financing (loans and leases)	100%
Inkasní Expresní Servis s.r.o. v likvidaci[6]	Vyskočilova 1442/1b, Michle, 140 00 Prague 4	Debt recovery services	100%
MONETA Leasing Services, s.r.o.	Holandská 1006/10, Štýřice, 639 00 Brno	Lease and rental of movables	100%
CBCB - Czech Banking Credit Bureau, a.s.	Štětkova 1638/18, Nusle, 140 00 Prague 4	Banking credit register	20%

Credit Rating

The Bank has been assigned credit ratings from two agencies:

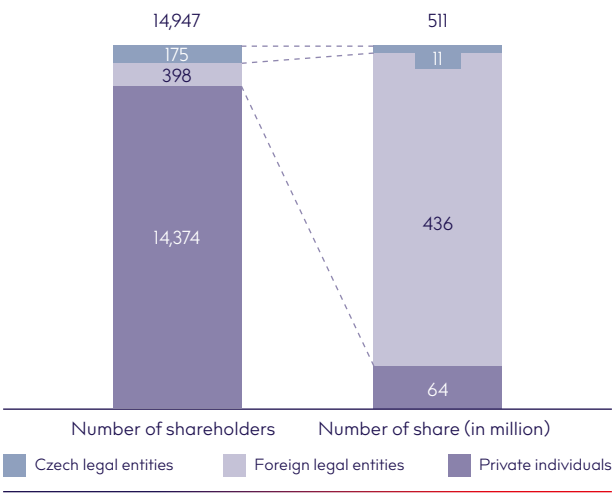
Rating agency	Long-term rating	Outlook	Short-term Rating	Long-term Rating valid since
Moody's Investors Service Ltd.	Baa2	positive	P-2	21 November 2018
S&P Global Ratings Europe Limited	BBB	stable	A-2	22 October 2018

Both S&P Global Ratings Europe Limited, the legal successor of Standard & Poor's Credit Market Services Europe Limited, and Moody's Investors Service Ltd. are established in the European Union and registered according to the Regulation (EC) No. 1060/2009 on credit rating agencies, as amended (the "CRA Regulation"). As such both S&P Global Ratings Europe Limited and Moody's Investors Service Ltd. are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (https://www.esma.europa.eu/supervision/credit-rating-agencies/risk) in accordance with the CRA Regulation. When selecting the rating agency, the Bank proceeded in accordance with the obligations laid down in Article 8d of the CRA Regulation. The market share of each of the aforementioned rating agencies exceeds 10% on the European Union market.

1.2 SHAREHOLDER STRUCTURE

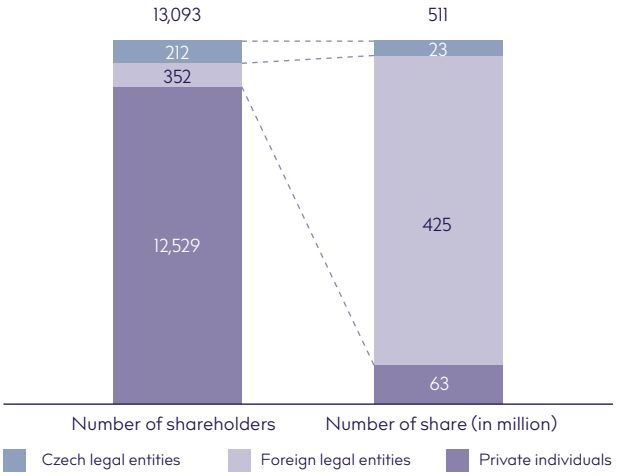
An overview of the shareholder structure of the Bank as at 31 December 2018 and 31 December 2017 (as per the extract from the registry of book-entry shares obtained from the Czech Central Securities as at 31 December 2018 and 31 December 2017) is shown below:

31 DECEMBER 2018



[6] The Bank as the sole shareholder of Inkasní Expresní Servis s.r.o. decided on the dissolution of this company with liquidation starting from 1 January 2019. For the duration of the dissolution process the company uses business name with "v likvidaci" (Inkasní Expresní Servis s.r.o. v likvidaci).

31 DECEMBER 2017



Please refer to chapter 4 in the section "Other legal requirements" for information on (i) the entities recorded in the registry of book-entry shares maintained by the Czech Central Securities Depository in Prague as holding at least 1% of the registered share capital of the Bank as at 31 December 2018 and (ii) the entities, which notified the Bank and the Czech National Bank pursuant to Section 122 of the Capital Markets Act of holding a direct or indirect proportion of the Bank's voting rights of at least 1% as at 31 December 2018.

1.3 DIVIDEND POLICY

Subject to corporate, regulatory and regulator's limitations, the Bank's target is to distribute the Group's excess capital above that required to meet the Group's internal target of the capital adequacy ratio, which is currently 15.5%. However, the internal capital adequacy ratio target is not legally binding upon the Group and is subject to change on the basis of the ongoing re-assessment by the Management Board of the Bank based on the business results and development. The Bank is targeting a minimum annual dividend of 70% of consolidated net profit for the year, with such dividend potentially increased if less capital is required to fund future loan growth, intangibles and/or decreased in the event of any accretive investment opportunity for the Bank.

In addition, the Management Board announced on 6 February 2019 that it intended to propose to the shareholders for their approval a 2018–2021 cumulative dividend pay-out of approximately CZK 11.8 billion, out of which more than CZK 3.1 billion will be proposed to the shareholders as a 2018 dividend at the Annual General Meeting of the Bank to be held on the 24 April 2019. The remaining amount of more than CZK 8.6 billion will be proposed to the shareholders at the General Meetings of the Bank in the years 2020 to 2022, not as a single dividend payment but yearly, subject to actual financial results of the Group in the years 2019 to 2021, assuming a pay-out ratio of 75% and the ability to maintain the capital adequacy ratio target at 15.5%. Additionally, it is subject to corporate, regulatory and the regulator's limitations.

The Management Board takes the opportunity to adjust this dividend guidance in case of any material change of circumstances on which this guidance was based. Moreover, this medium term dividend guidance assumes a purely organic growth without having regard to any potential acquisition. Please see also sections "Forward-Looking Statements" and "Medium-Term Outlook".

Dividends, if any, will be paid by the Bank to its shareholders in CZK. Each of the Bank's shareholders has the right to receive dividends from the Bank to the extent approved by a General Meeting.

1.4 MARKET PERFORMANCE OF THE BANK'S SHARES

The shares of the Bank are traded on the Prime Market of the Prague Stock Exchange with a share of 9.9% of the aggregate market capitalisation of all companies included in the PX index (as at 31 December 2018).[7]

As at 31 December 2018, the market capitalisation of the Bank amounted to CZK 37 billion[8] and the Bank ranked as number five in the PX index.[9] Throughout 2018, the average daily trading volume of the shares of the Bank on the Prime Market of Prague Stock Exchange amounted to 1.2 million of shares and the shares of the Bank were one of the most liquid securities listed on the Prime Market of the Prague Stock Exchange.[10] The Management Board intends to propose a 2018 dividend of CZK 3.1 billion to the shareholders for their

7 Calculated as percentage of the aggregate market capitalisation of all companies included in the PX index. (Source: Bloomberg – Prague Stock Exch Index).

8 Calculated on the basis of the share price of CZK 72.5 as at 28 December 2018. (Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/).

9 Source: Bloomberg – Prague Stock Exch Index.

10 Source:www.pse.cz/udaje-o-trhu/statistika/objemy-obchodu/.

approval at the General Meeting to be held on 24 April 2019. When calculated on the basis of the share price of CZK 72.5[11] as at 28 December 2018 and subject to the approval by the shareholders, the dividend yield attributable to the shares of the Bank is 8.5%.[12]

Market information on shares in the Bank as at 31 December 2018, unless otherwise indicated:

Number of shares issued	511,000,000
Market capitalisation (CZK million)[13]	37,048
Earnings per share (CZK)[14]	8.22
Book value per share (CZK)[15]	49.39
Share price (CZK), Prime Market of Prague Stock Exchange[13]	
Closing as at 28 December 2018	72.50
Maximum closing price during 2018	86.00
Minimum closing price during 2018	72.40

1.5 OUTPERFORMING GUIDANCE IN 2018

The Group successfully delivered all its key financial commitments to its shareholders, expressed in the market guidance throughout 2018.[16]

In 2018, despite the Group's initial expectation of only a single digit growth of its gross performing loan book the Group managed to outperform this guidance and achieved a 14.4% year-on-year growth. The strong performance in 2018 was predominantly driven by growth in our mortgage franchise and small business lending.

The Group generated consolidated net profit of CZK 4.2 billion, thus exceeding its initial 2018 guidance[16] of CZK 3.4 billion by 23.5%. Increases were recorded mainly in net interest income, other operating income and supported by a lower Cost of Risk. Net interest income, CZK 0.3 billion above expectations, was driven by a higher portfolio growth, accelerated rate hikes and improved trend of pricing on consumer loans. Cost of Risk was lower by CZK 0.3 billion, supported by a favourable macroeconomic environment as well as the successful sales of the legacy NPL portfolio. The successful NPL sales also contributed to a higher other operating income by CZK 0.3 billion. The adverse tax effect was CZK 0.1 billion.

Supported by portfolio growth, a higher interest rate environment, improved consumer pricing, and successful repricing in the commercial portfolio, the Group delivered a total operating income of CZK 10.2 billion and as such outperformed the initial 2018 guidance[16] of CZK 9.5 billion. Even though pricing pressure continued in both retail and commercial segments, and resulted in a 80bps drop in the yield on average net customer loans from 6.3% in 2017 to 5.5% at year ended 31 December 2018, the Group managed to return the negative trend in the net interest income back to its growth path, where the net interest income at the 2018 year end amounted to CZK 7.4 billion and was by 0.6% higher than for 2017. The growth in total operating income was also supported by an extraordinary legacy NPL sales during 2018, which generated a total pre-tax gain of CZK 1.1 billion, out of which CZK 0.3 billion positively impacted other operating income (CZK 0.2 billion higher than expectation).

In 2018, the Group continued in its efficient operating costs management. The operating expenses decreased by 1.9% year-on-year to CZK 4.9 billion and were in line with the initial guidance[16] of CZK 4.9 billion despite the increase in depreciation and amortisation due to investments in IT and digital capabilities and strong pressure on wages, backed up by very low unemployment. Moreover, total operating expenses were influenced by a release of contingent liability mainly in conjunction with the NPL sales generating a total pre-tax gain of CZK 1.1 billion, out of which CZK 94 million positively impacted operating costs. The Group's Cost to Income ratio for the year stood at 47.7%.

Cost of Risk had been initially estimated in the range[16] between 45 – 55bps. Based on the persisting positive macroeconomic environment and the executed strategy of legacy NPL sales, the Group managed to outperform the initial guidance and Cost of Risk amounted to 21bps in 2018. This was significantly supported by successful legacy NPL portfolio sales generating a total pre-tax gain of CZK 1.1 billion, out of which CZK 678 million positively impacted Cost of Risk. Excluding this extraordinary pre-tax gain, Cost of Risk amounted to 72bps and also overperformed the initial guidance[16] of 90 – 100bps.

[11] Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/.

[12] Calculated as the ratio (expressed as a percentage) of the proposed dividend per share to the closing share price. (Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/). Subject to the approval of CZK 3.1 billion dividend by the Annual General Meeting to be held on 24 April 2019 and corporate, regulatory and regulator's limitations.

[13] Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/.

[14] Calculated as Consolidated Net Profit for the Year divided by number of shares issued.

[15] Calculated as Consolidated Total Shareholders Equity divided by number of shares issued.

[16] Initial 2018 market guidance published on 7 February 2018 in the presentation of FY 2017 results.

Return on Tangible Equity for the year stood at 17.9%, surpassing the initial guidance[16] of 14.0%. The Effective tax rate stood at 16.6% and was in line with the expectation of around 17%.

The solid capital position, together with the very strong financial performance, allows the Management Board to propose to the shareholders for their approval, a 2018 dividend of CZK 3.1 bn (CZK 6.15 gross per share), an equivalent of 75% of the consolidated net profit of the Group for the year. Payment of this dividend is subject to corporate, regulatory and regulator's limitations and the approval by the shareholders at the Annual General Meeting to be held on 24 April 2019.

1.6 MEDIUM-TERM OUTLOOK

Macroeconomic Outlook

The outlook for the economic development remains positive, despite the predicted slowdown in the GDP growth pace. The February 2019 Czech National Bank macroeconomic forecast predicts 2.9% GDP growth in 2019, followed by 3.0% expansion in 2020.[17] The economy should be, similarly to 2018, supported mainly by domestic household spending. The level of unemployment should stabilise and remain on a very low level, which can be referred to as a state of full employment. The lower growth rate of domestic production should be reflected in a slowdown of average wage increases and loosen the current pressure on the labour productivity and the private sector profitability.

Growth of consumer prices is predicted to remain at or close to the Czech National Bank monetary policy target of 2.0%[17] annually. Therefore, the need of interest rate increases diminishes, and the key monetary policy interest rate should remain stable or increase marginally. Consistently, the cost of credit should remain relatively stabilised.

The stability of the interest rate environment together with very good financial situation of both households and companies favours the development of the lending market, which should further expand by approximately 5.0%.[18] Similarly, the deposit market should follow the growth of disposable income and thus the stock of deposits with banks is predicted to increase.

Risks for the future development are mainly in the area of the international relations including the EU and particularly related to the Brexit. The estimates of how the Brexit will affect the domestic economic development are very volatile and the uncertainty linked to how the situation will look like after Brexit increases. In addition, growing protectionism in international trade undermines the economic confidence of large world exporters and future positive development in net exports. Despite external risks, the Czech economy remains robust and the positive development should in the upcoming quarters persist.

Group's Medium-Term Outlook

MONETA stays committed to its current strategy, aiming to generate a consolidated net profit of at least CZK 3.7 billion, CZK 3.8 billion and CZK 4.0 billion in 2019, 2020 and 2021 respectively. The loan book is expecting a double digit growth in the 2019–2021 period, supporting the gradual growth of total operating income. MONETA aims to maintain operating expenses under tight control in order to achieve its aspirational cost targets despite an inflationary environment and continuing investments. Reported Cost of Risk is expected to gradually increase to 75–85bps level by 2021. MONETA also aims to maintain RoTE of 15.5% at a minimum. The Effective Tax Rate is estimated at around 20% reflecting normalisation after an one-time IFRS 9 impact in 2018.

[17] Source: CNB: CNB forecast, announced on 7 February 2019.
[18] According to the Czech Banking Association Economic Forecast Q1 2019.

	Guidance[19]		
Metrics	**2019**	**2020**[20]	**2021**
Total Operating Income (CZK)	≥10.3bn	≥11.0bn	≥11.6bn
Cost Base (CZK)	≤5.0bn	≤5.1bn	≤5.2bn
Cost of Risk Cost of Risk (excluding legacy NPL sales)	45–55bps 70–80bps	70–80bps	75–85bps
Effective Tax Rate	~20%	~20%	~20%
Consolidated Net Profit (CZK)	≥3.7bn	≥3.8bn	≥4.0bn
Gross dividend per share (CZK)[21]	≥5.4	≥5.6	≥5.9
Earnings per share (CZK)	≥7.2	≥7.4	≥7.8
Return on Tangible Equity	≥15.5%	≥15.5%	≥15.5%

Important notice: Please see also chapters "Forward-Looking Statements" and "Material Assumptions for Medium-Term Guidance" on page 333 of this Annual Report.

[19] The management's medium term guidance assumes a purely organic growth without having regard to any potential acquisition. Management takes the opportunity to adjust the guidance in case of any material change of circumstances on which this guidance was based or in case of any accretive investment opportunity for the Bank.

[20] The guidance for 2020 has been updated on 6 February 2019 compared to the previously communicated guidance on 7 February 2018 in the presentation of FY 2017 results (ref. Total Operating Income, Cost Base, Cost of Risk)

[21] Figures are rounded and assuming pay-out ratio of 75% and the ability to maintain the capital adequacy ratio target at 15.5%. In addition, guidance is subject to actual financial results of the Group in the years 2019 to 2021 and corporate, regulatory and regulator's limitations and approval of the General Meeting.

Czech digital banking leader

We aim to be a digital leader focused on credit distribution to Czech households and small businesses. We are already uniquely positioned as a challenger bank with an established and profitable core business and market leading digital capabilities. Knowing that our customers seek the convenience of digitalisation and use of financial products and services without having to visit one of our branches, we strive to offer them the best customer experience and many top quality and secure digital services.

2. STRATEGY AND RESULTS

2.1 MACROECONOMIC ENVIRONMENT

In 2018, the economic conditions in the Czech Republic remained favourable, despite the observed slowdown in the growth rate. The economy was supported mainly by domestic factors, which resulted in an increase of both consumption and investments.[1] The interest rate growth, initiated in 2017, continued throughout the year with the key monetary policy rate reaching 1.75% at the year-end.[2]

Czech GDP grew by 3.0% year-on-year in 2018, down from 4.5% in 2017.[3] The slowdown was expected as the economy reached its maximum production capacity and was not able to maintain the overwhelming pace of the growth seen in 2017. This was reflected in the labour market, where the number of job vacancies exceeded the number of available job applicants and the unemployment rate reached 3.1% at the end of 2018 (compared to 3.8% at the end of 2017).[4] The inequality in the labour market led to a rapid increase in wages and the average nominal gross wage grew by 8.5% year-on-year in the third quarter of 2018.[5] Higher wages resulted in a higher disposable income and growth in spending, as the retail trade increased by 4.8% year-on-year in 2018.[6]

Higher spending imposed inflationary pressures and the year-on-year growth of consumer prices was above the inflationary target of the central bank for most of the year. On average, the inflation reached 2.1% in 2018.[7] The Czech National Bank reacted by monetary policy tightening and five interest rate hikes, which pushed up the level of interest rates by 1.25 percentage points.

Good economic conditions should persist in 2019 as the Czech National Bank predicts a 2.9% growth in GDP in its latest forecast.[8] Economic risks lie mainly outside the country (Brexit, trade wars and potential trade barriers, geopolitical development) and the only domestic limiting factor remains the labour market.

2.2 MARKET DEVELOPMENT

Due to positive economic developments in the country, the Czech banking sector maintained the growing trend in both loans and deposits, up 7% and 8% respectively year-on-year in 2018.[9] Despite the growth in balances, retail interest rates for loans continued to decline because of competitive pressure, whereas retail interest rates for deposits began an increasing trend in the last quarter of 2018, reflecting the CNB main policy rate growth.[10]

The lending market continued to show a steady growth in both retail (up 8% year-on-year) and commercial (up 6% year-on-year) segments.[11] The increase in the retail loans balance was recorded in instalment loans, while revolving facilities continued to decrease.[12] The growth of the commercial segment occurred in middle-term and long-term loans.[13]

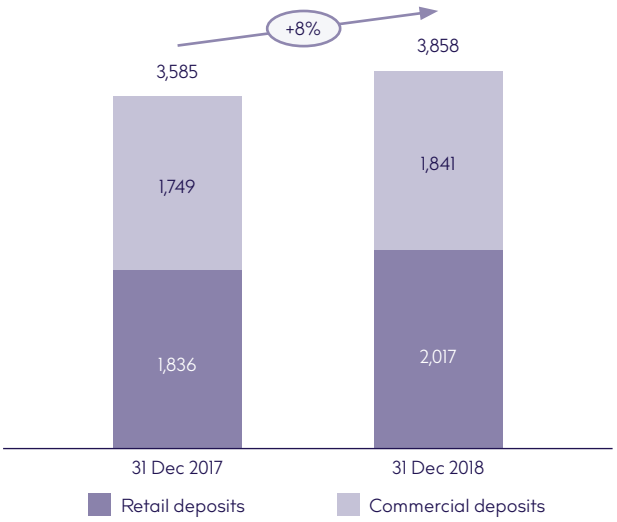
CZECH LENDING MARKET (CZK bn)

Source: CNB ARAD. Figures in chart may not add up to total due to rounding differences.

1 Source: Czech Statistical Office: GDP Resources and Uses - 3rd Quarter of 2018.
2 Source: CNB: CNB Board decision 20. 12. 2018 (http://www.cnb.cz/en/monetary_policy/bank_board_minutes/2018/181220_prohlaseni.html).
3 Source: Czech Statistical Office: GDP Preliminary Estimate - 4th Quarter of 2018.
4 Source: Ministry of Labour and Social Affairs: monthly unemployment statistics (http://portal.mpsv.cz/sz/stat/nz/mes).
5 Source: Czech Statistical Office: Average wages - 3. quarter of 2018.
6 Source: Czech Statistical Office: Retail trade - December 2018.
7 Source: Czech Statistical Office: Consumer price indices - inflation - December 2018.
8 Source: CNB: CNB forecast, announced on 7 February 2019.
9 Source: CNB ARAD monthly report banking sector, residents without building societies (reports nb. 44898/1651, 44876/997, 44895/1604, 27368/977).
10 Source: CNB ARAD monthly report banking sector, residents without building societies (reports nb. 16825/931, 16828/932).
11 Source: CNB ARAD monthly report banking sector, residents without building societies (reports nb. 44895/1604, 27368/977).
12 Source: CNB ARAD monthly report banking sector, residents without building societies (report nb. 27369/976).
13 Source: CNB ARAD monthly report banking sector, residents without building societies (report nb. 1799/1676, 27368/977).

The total deposit balance growth was driven by both increasing retail deposits (up 10% year-on-year) and commercial deposits (up 5% year-on-year).[14] Retail deposits on demand grew faster than term products, meanwhile commercial deposits recorded the opposite trend.[15]

CZECH DEPOSIT MARKET (CZK bn)



Source: CNB ARAD

The banking sector's total operating income increased by 5.7%[16] year-on-year in the first three quarters of 2018 driven by growth in net interest income (14.8%[16] year-on-year), supported by the CNB main policy rate increase. Net non-interest income fell by 8.1%[16] year-on-year. The Czech banking sector's net profit reached 4.7% growth year-on-year, cost of risk progressed by 64% year-on-year in the third quarter of 2018.[16] The annualised return on equity measured by net profit to Tier 1 capital remained around 18%[16] in Q3 2018 compared to the same period of the previous year.

Interest bearing assets represented by market net loans increased by 5.8%[16] year-on-year in the third quarter of 2018. Total assets grew by 4.3% year-on-year.[16] Total assets to Tier 1 ratio remained on 16% in Q3 2018.[16] NPL balances continued to decline by 21% year-on-year. Core coverage progressed to a 51.4% level.[16] The capitalisation of the Czech banking sector remained strong as Tier 1 capital increased by 4.5% year-on-year reaching almost CZK 448 billion[16] in Q3 2018 Regulatory Tier 1 capital to risk weighted assets slightly grew to 17.1%.[17]

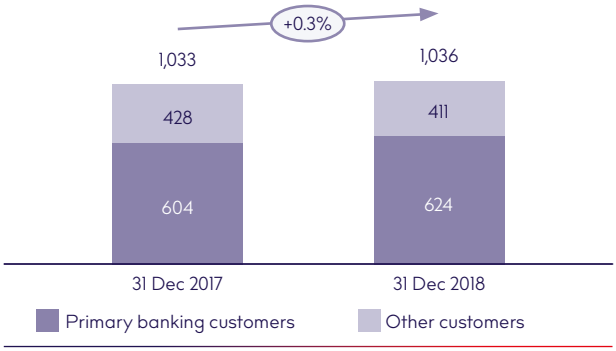
2.3 REPORT ON BUSINESS ACTIVITIES

2.3.1 Overview

MONETA Money Bank, a.s. is a leading retail and small business bank in the Czech Republic. It has a well-established position in Czech household financing and a growing position in the small business segment. It is regulated by the Czech National Bank and holds a universal banking licence.

MONETA operates through a well-dispersed network within the Czech Republic, comprising of 202 branches, 654 ATMs (as at 31 December 2018) and a full-service contact centre. MONETA's branch and ATM networks provide extensive coverage of the entire country with a particular strength in smaller cities and towns, relatively underserved by other banks. In addition, MONETA benefits from extensive third-party distribution through 70 retail broker relationships, over 1,200 auto dealers and more than 3,700 leasing partners (as at 31 December 2018). MONETA also benefits from market leading digital banking platforms which are becoming an increasingly important channel for both services and sales. As at 31 December 2018, MONETA served 1,035,780 retail and commercial customers, or approximately 9% of the Czech population.

CLIENT BASE EVOLUTION
(number of clients in thousands)



Figures in chart may not add up to total due to rounding differences.

MONETA has two primary segments: retail and commercial. The segments manage product and service propositions differentiated for their respective clients. There is, however, considerable overlap between the client bases and synergy in terms of the physical and digital infrastructure of the Group.

14 Source: CNB ARAD monthly report banking sector, residents without building societies (reports nb. 44898/1651, 44876/997).
15 Source: CNB ARAD monthly report banking sector, residents without building societies (reports nb. 44876/997, 44905/1696, 44903/995).
16 Source: CNB ARAD quarterly mandatory disclosures, banking sector without building societies.
17 Source: CNB Core and encouraged financial soundness indicators (consolidated).

The retail division served 935,068 customers and comprised CZK 74.8 billion gross performing loans and receivables as at 31 December 2018, representing approximately 53.4% of MONETA's total gross performing loans and receivables. The retail banking proposition includes the following key products:

- deposit products: current accounts, savings accounts, term deposits and transactional banking products including payment services and debit cards;
- lending products: consumer loans, credit cards, overdrafts, mortgages and auto loans and leases; and
- complementary third-party products such as insurance and investment funds.

The commercial division served 100,712 customers and comprised CZK 65.3 billion gross performing receivables as at 31 December 2018, representing approximately 46.6% of MONETA's total gross performing receivables. The commercial banking proposition includes the following key products:

- deposit products: current accounts, savings accounts and term deposits;
- lending products: term loans (including real estate loans), operating financing loans and leasing products; and
- other complementary products such as domestic and foreign payments, merchant acquiring, insurance, investment funds, treasury and trade finance products.

MONETA reports its primary retail and commercial businesses as separate operating divisions in its financial statements along with a third operating segment, "Treasury/Other". The retail business provides banking services to individuals, with a focus on the mass market. The commercial business provides banking services primarily to SME clients with particular focus on small businesses and entrepreneurs.

MONETA's strategy is to be the digital leader in the Czech banking market, offering speed and convenience in both sales and service. At the same time, MONETA recognises the need to maintain an adequate physical presence although this is being optimised based on changing customer preferences and behaviour. MONETA is diversifying its overall product mix, building new revenue streams from insurance and investments and developing a leading retail and small business banking franchise in the Czech Republic.

2.3.2 Retail Segment Business Performance

MONETA provides a full retail banking proposition covering the main borrowing, saving/investing and transactional needs as well as a wide range of insurance needs. MONETA has a market leading digital proposition for personal clients built around secure mobile and internet banking platforms. MONETA has a retail market share of 18.8% in total unsecured loans outstanding, 2.8% in mortgages and 3.9% in retail current account balances in the Czech market.[18]

MONETA successfully executed its key long-term strategic priorities in 2018 and delivered strong results.

As at 31 December 2018, MONETA served 935,068 retail clients, down 2,957 compared to 31 December 2017, which was mainly a result of the closure of client relationship following write-off of legacy NPLs and closure of dormant accounts. During 2018 MONETA on-boarded 58,104 clients, 60% via deposit products and 40% via lending products. At the same time the primary banking base grew by 14,509 clients or 2.7% in retail segment. MONETA continued to enjoy high levels of customer loyalty and satisfaction, confirmed by a net promoter score which grew to 36, one of the highest amongst the established banks.[19] 63% of customers have had a relationship with MONETA for longer than 8 years. Our reward program on payment cards, "bene+" is the largest in the Czech Republic and serves to support both loyalty and acquisition of new clients.[20]

MONETA's retail core deposit portfolio grew 13.7% year-on-year, from CZK 83.1 billion as at 31 December 2017, to CZK 94.5 billion as at 31 December 2018. The growth was driven primarily by increasing balances on existing accounts but also by growth in the primary banking client base. Cost of Funds on retail deposits remained low at 0.21%, below the market average.[21] The retail gross performing loan portfolio grew by 22.1% year-on-year, from CZK 61.2 billion as at 31 December 2017, to CZK 74.8 billion as at 31 December 2018. The portfolio growth was driven by continued solid growth in gross performing consumer loan up 7.4% year-on-year and exceptionally strong growth in gross performing mortgages up 55.8% year-on-year.

[18] Source: CNB ARAD according to CNB definitions. Gross consumer unsecured loans for residents = non-purposed and purposed consumer loans, debt consolidation, additional loan and American mortgages, Deposits excluding non-residents and building savings deposits.

[19] Source: NPS retail survey, agency Ipsos, sample of 1,113 clients, 10/2018.

[20] Source: Measured by number of partners (merchants) and their sales points, i.e. 310 partners and 3,714 sales points as at December 31, 2018.

[21] Source: CNB ARAD.

2.3.2.1 Retail Segment Strategic Priorities Delivery

MONETA continues to build a strong and popular Czech brand. MONETA is positioned uniquely as a challenger brand with an established, profitable core business and market leading digital capabilities.

MONETA's brand is built around trust, stability, innovation, fairness and transparency. Brand spontaneous awareness continues to grow following the rebranding in 2016, reaching 40% in 2018 (up from 35% in 2017).[22]

MONETA's retail business continues to focus on four key strategic priorities, which supported the positive development through 2018:

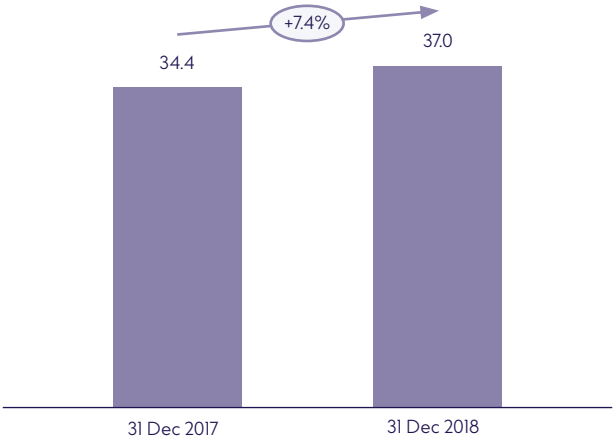
- safe asset growth in both unsecured consumer and mortgage loans;
- optimisation of the physical branch and ATM networks to complement the digital strategy and maintain cost efficiency;
- digital transformation to become the digital leader in the Czech banking market;
- development of third-party product distribution to drive fee income.

2.3.2.2 Loan Portfolio Growth

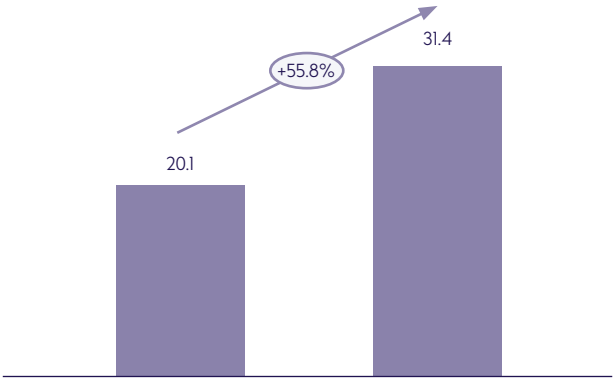
MONETA continues to build on its strong position in the retail lending market with a gross performing retail loan portfolio growth of 22.1% year-on-year, reaching CZK 74.8 billion by 31 December 2018.

The growth was driven by solid development of the gross performing consumer loan portfolio, which was up 7.4% year-on-year, reaching CZK 37.0 billion and exceptionally strong development of the gross performing mortgage portfolio, which was up 55.8% year-on-year, reaching CZK 31.4 billion.

GROSS PERFORMING CONSUMER LOAN BALANCE (CZK bn)

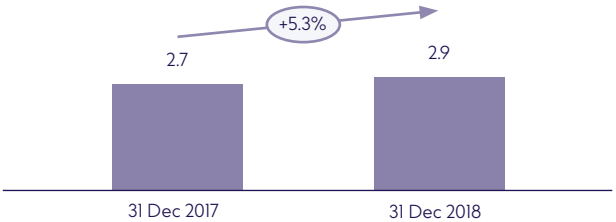


GROSS PERFORMING MORTGAGE BALANCE (CZK bn)



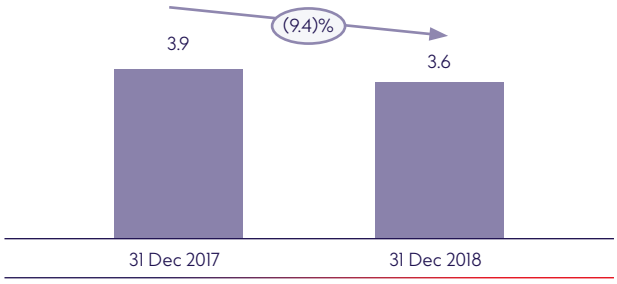
Auto lending also contributed to the retail growth with gross performing balances up 5.3% year-on-year. Positive development of instalment products was partially offset by 9.4% year-on-year decline in the credit card and overdraft gross performing balances.

GROSS PERFORMING AUTO LOANS BALANCE (CZK bn)



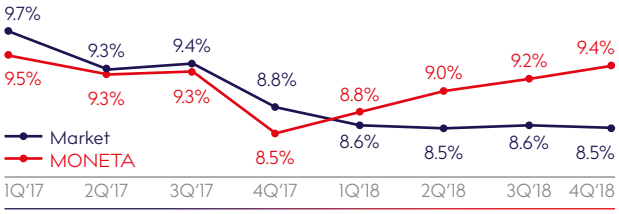
[22] Source: Research Ipsos, December 2018: MMB Tracking - retail.

GROSS PERFORMING CREDIT CARD AND OVERDRAFT BALANCE (CZK bn)



New production of consumer lending was driven by continued success in lending through digital channels with online volumes (online initiated and fully online) increasing 27.3% year-on-year to CZK 6.1 billion, accounting for 32% of total consumer loan production. MONETA continued to face intense competition in the market with new market interest rates declining 30bps year-on-year.[23] Despite this, MONETA was able to achieve a significant turnaround in the interest rate development with 4Q 2018 new rates up 90bps compared to 4Q 2017. In the second half of 2018, MONETA was able to sustain a price premium of more than 60bps to the market,[24] as MONETA has developed a deeper understanding of price sensitivity in its client base through advanced analytics.

NEW VOLUME PRICING OF CONSUMER LOANS



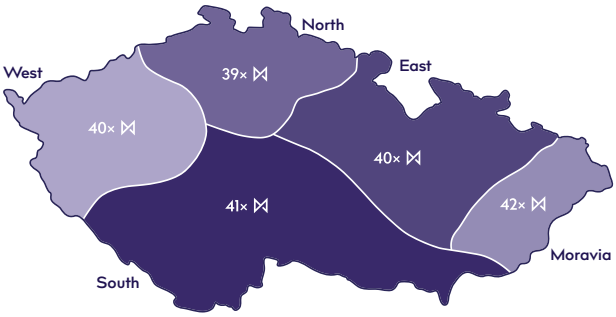
Mortgage new business volumes doubled year-on-year, with a market share of 8%[25] in 2018. Strong increase of the Bank's mortgage business was driven by solid development of the mortgage broker channel, where MONETA has built a differentiated position through investment in simplification and digitalisation. MONETA was recognised as the mortgage process leader in an independent mystery shopping study and received the "Mortgage of the Year" award in the Czech Republic's most prestigious banking awards.[26]

In line with other instalment lending products, 2018 was also a successful year for MONETA Auto retail lending although growth slowed year-on-year as MONETA Auto focused on renegotiation of two major dealer relationships in order to significantly improve profitability. Despite this, MONETA Auto retail lending delivered 5.3% balance growth to CZK 2.9 billion. In 4Q 2018 MONETA Auto observed new production recovering after an initial adverse impact from the renegotiation.

2.3.2.3 Optimisation of the Physical Branch and ATM Networks

MONETA's network of 202 branches is well-dispersed and provides coverage across the entire Czech Republic. The network is managed in 5 areas, and by 58 sales teams and 5 mortgage teams. In addition, MONETA has broad third-party distribution for mortgages, auto loans and leasing and distributes products and services through online channels.

BRANCH NETWORK REGIONAL DISTRIBUTION



In 2018, as part of MONETA's digitalisation strategy, MONETA undertook a review of the current branch network with the objective of optimising it as the behaviour of its client base changes. As a result of this review, MONETA has continued a program of branch closure, relocations and refurbishments and 25 branches were closed during 2018. MONETA has invested into the development of a new modern branch design, which will be rolled out across the network progressively, with 12 branches converted during 2018. By 2020, MONETA aims to convert the majority of its branches into the new retail and small business design and further continue in branch location optimisation to support its digital strategy. MONETA's objective is to build the best branches in the best locations providing excellent advisory on high value products and services whilst optimising for cost in an increasingly digital market.

[23] Source: CNB ARAD, following CNB definition (includes non-purposed and purposed consumer loans, debt consolidations and American mortgages). New volume pricing represented by annualised weighted average rate for Czech residents denominated in CZK only.

[24] Source: CNB ARAD: Consumer loans New volumes (loans in CZK only).

[25] Source: Hypoindex.

[26] Source: https://www.bankaroku.cz/predchozi-rocniky/.

In addition to its branches, MONETA's clients have at their disposal the 4th largest ATM network in the Czech Republic comprising of 654 ATMs (as at 31 December 2018), processing on average over 1.73 million cash withdrawals per month. ATM locations are well-dispersed across the country with respect to branch location and population distribution. MONETA's ATM network covers all cities with population above 9,000 inhabitants and many smaller cities.

In 2018, 10 relocations were undertaken to further increase ATM accessibility and focus on high traffic areas, taking into consideration network profitability. Additionally, MONETA installed 36 newly located ATMs to cover client needs.

MONETA continued the modernisation of its network – 31 ATMs were upgraded to increase data and physical security, and to enable new services such as contactless withdrawals, customer selection of banknotes and fast withdrawals. By the end of 2018, MONETA had 382 contactless ATMs in operation and the entire ATMs network allows customer selection of banknotes.

In 2019, further improvements are planned, including the expansion of contactless ATMs, new Dynamic Currency Conversion (DCC) locations, possibility of using Google Pay and increased presence in high traffic areas.

2.3.2.4 Digital Transformation

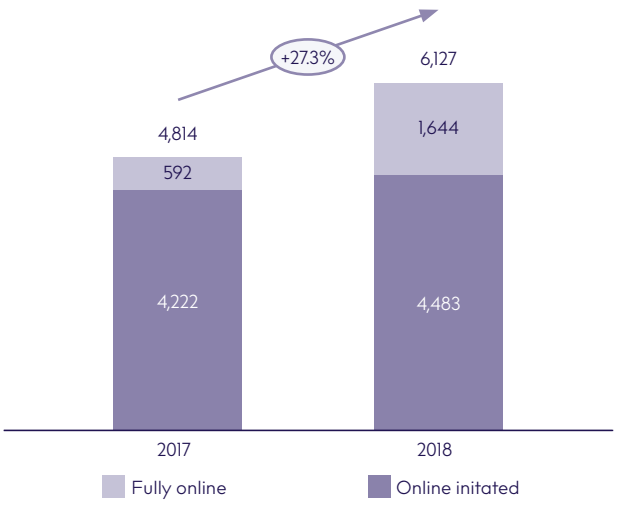
Digitalisation is central to MONETA's medium term strategy and during 2018 MONETA continued to develop its digital proposition and began to gain a significant business impact from these initiatives, especially in the area of online loan origination. The program remains focused on three key strategic pillars which support the long-term development of MONETA:

- drive credit growth through digital channels;
- reverse the decline in the active client base;
- build net fee and commission income streams through the development of insurance, asset management and foreign exchange services.

Drive Credit Growth Through Digital Channels

During 2018, CZK 6.1 billion of consumer loans were originated online, reaching a 32% share of the MONETA's consumer loan production in 2018. Starting in 4Q 2017, MONETA has implemented a series of enhancements to its online lending propositions through Internet Banka and Smart Banka resulting in a 6.2% year-on-year increase in online initiated loans and a 177.5% increase in fully online lending.

CONSUMER LOANS ORIGINATED ONLINE (CZK m)



MONETA is building digital credit distribution using two complementary approaches:

1. simple pre-approved loan applications for existing clients via secure internet and mobile banking applications; and
2. streamlined fully online underwriting for new-to-bank clients; initially via third-parties and digitally enabled branch processes, with the intention of leveraging this capability into fully online direct to client processes during 2019.

In September 2017, MONETA launched a pre-approved unsecured loan proposition via mobile and internet banking for existing clients. During 2018, MONETA has continued to enhance this process. As at 31 December 2018, MONETA had CZK 39.0 billion of pre-approved unsecured loan limits available fully online to more than 155,000 existing retail clients.

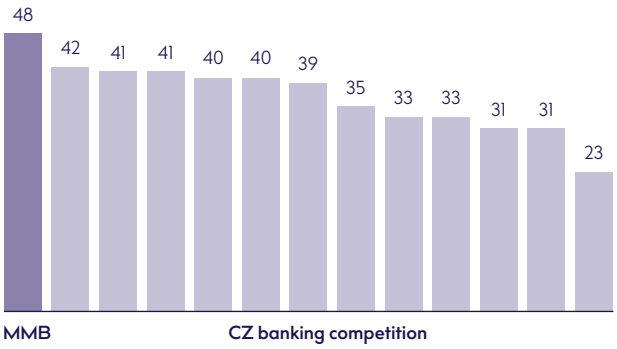
In 4Q 2018, MONETA added a simple loan application for clients without pre-approved limits to Smart Banka, with encouraging initial results.

Reversing the Decline in the Active Client Base

To support the retention and growth of MONETA's active client base MONETA aims to deliver market leading mobile and internet banking capabilities to allow its clients to carry out everyday banking with the highest levels of ease and convenience. In 2018, MONETA maintained top quartile internet banking penetration with 98% of retail clients enrolled and 43% of retail clients being active internet banking users (63% of primary banking clients).

Daily banking strategy is focused on mobile as it is the channel increasingly preferred by MONETA's clients. In 2016, MONETA introduced its "Smart Banka" mobile banking platform with development and enhancement of this platform continuing through 2018. By December 2018, the platform had 265 thousand registered users, up 42% year-on-year and has consistently received the highest customer ratings in both Google and Apple app stores amongst banks in the Czech Republic.[27] MONETA continues to receive external recognition as the digital leader in the Czech banking market. Smart Banka was awarded first place in the online application category and third place as the best financial product in the prestigious "Zlatá koruna" awards for 2018.[28] MONETA also won first place in the category of 'Banking Innovator' in the "Best Bank 2018" awards.[29] Furthermore, an independent study by Deloitte recognised MONETA as the most mature bank in the Czech market in terms of digital capabilities.[30]

OVERALL SCORE FOR CZ BANKS IN DIGITAL MATURITY (%)



Source: Deloitte EMEA Digital Banking Maturity Report 2018

In 2018, MONETA launched the first mobile multibanking feature in the market in the Czech Republic via PSD 2 APIs (Application Program Interfaces), allowing customers to link Smart Banka application to current accounts in 6 other Czech banks. This is a capability which MONETA is leveraging to support its lending processes enabling to automate income assessment.

MONETA has significantly enhanced its current account proposition in 2018 offering a free current account with fully digital on-boarding and the ability to add additional paid features on an "à-la-carte" basis via Smart Banka. MONETA has also led the market in the adoption of mobile payment technologies integrating Google Pay into Smart Banka, enabling virtual card issuing so that new cards can be activated overnight without the need to wait for physical delivery of the card and streamlining bill payments from email invoices without the need to print and manually scan.

To further support client acquisition across all products, in August 2018 we launched a new website focused on driving sales conversion through clear and simple customer journeys. Initial results from the new site are promising with a 111% year-on-year uplift in non-paid search traffic in December 2018 and a doubling of the monthly number of visits to the loan calculators.

2.3.2.5 Third Party Products Distribution

During 2018, MONETA continued to see a strong development in insurance distribution with revenues up 26.8% year-on-year. Through the diversification of its proposition MONETA has reduced its reliance on credit insurance. MONETA has been particularly successful with "Payment Instrument Insurance" where the portfolio has grown to 101 thousand policies, up 74% year-on-year. At the same time MONETA's travel insurance business has developed positively reaching 26 thousand policies with 20% of new sales now originated via Smart Banka. Life insurance is growing strongly but penetration remains low and MONETA is focused on growing its market share via simplification of the proposition. MONETA's home and motor insurances still have to gain meaningful traction and MONETA intends to explore the "aggregation" capability for branches and online to strengthen its proposition in these products.

2018 was a more difficult year for investment funds as a result of an increased market volatility after a long period of relative stability. MONETA's distributed Assets Under Management (AUM) declined 8.2% year-on-year as clients unsettled by the market volatility shifted assets to cash and/or reduced their new investments into funds. Despite the decline in AUM MONETA's income from funds grew 5.9% year-on-year driven largely by a shift in composition towards higher yielding mixed and equity funds and the annualisation effect of prior year growth. MONETA continued during the year to diversify its funds proposition from 9 to 15 funds to provide a greater choice to its customers and MONETA began to see the benefit of this diversification in 2H 2018 as AUM began to show

[27] Source: https://play.google.com/store/apps/details?id=cz.moneta.smartbanka and https://itunes.apple.com/cz/app/moneta-smart-banka/id1122443334?l=cs&mt=8.

[28] Source: http://www.zlatakoruna.info/soutez/2018.

[29] Source: https://archiv.ihned.cz/c1-66324550-bankovni-inovator.

[30] Source: EMEA, Digital Banking Maturity 2018, Deloitte.

more stability. MONETA continues to focus on its strategy of building out the proposition focusing on established global providers and intends during 2019 to begin development of alternative distribution models in both its physical and digital channels.

2.3.3 Commercial Segment Business Performance

MONETA's commercial division provides a full range of commercial products to clients from all segments of the market with a focus on small businesses. Out of a total of 100,712 customers, 81 thousand commercial customers had current accounts, with 50 thousand also borrowing from the Group, and 5.3 thousand holding a savings or term deposit account. The total number of customers grew year-on-year by 6.5% including customer record write-offs and closures. The number of active clients grew by 8% to 77 thousand customers.

The Group's commercial division has national coverage, with commercial clients supported by a network of 202 branches. In line with our strategy of promoting lending growth in our small business base, as at 31 December 2018 we deployed 163 small business segment bankers into 126 of our branches. Our small business segment bankers are in charge of sales and care for our small business customers. Small business bankers have specific small business product and service knowledge combined with industry know-how. In addition, the division also has an experienced team of 136 relationship managers with expertise in serving SME customers, a dedicated team of MONETA Leasing sales representatives and a smaller team of bankers for real estate clients. MONETA Auto's products are distributed through a wide network of car dealers.

The Bank's core commercial deposit balance totalled CZK 54.7 billion as at 31 December 2018 up 11.8% from CZK 48.9 billion as at 31 December 2017.

The overall commercial portfolio comprised of CZK 65.3 billion gross performing receivables as at 31 December 2018 representing 46.6% of the Group's total gross performing receivables, up from CZK 61.2 billion as at 31 December 2017.

2.3.3.1 Delivering Strategic Priorities in the Commercial Segment in 2018

MONETA remained focused on maintaining its presence within the SME segment and growing the small business segment. MONETA has traditionally targeted the SME segment and the agriculture industry segment and has focused on further developing its capabilities and digital transformation in the small business segment.

Key commercial banking strategic priorities in 2018 were fully aligned with the MONETA's overall strategy to become a leading provider of services to small businesses and SMEs through a truly national network of specialised bankers as well as through innovative digital servicing channels. The key priorities in the commercial segment are the following:

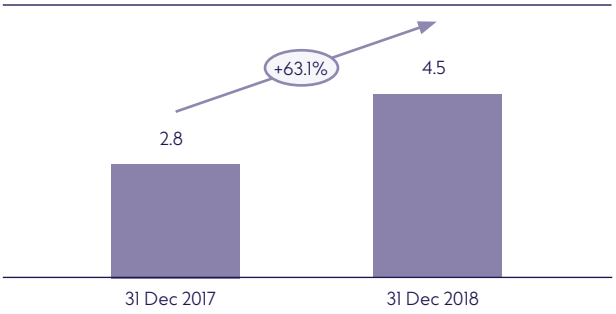
- further develop small business segment capabilities;
- continue digital transformation for small businesses and SME;
- add new products to generate fee income;
- maintain SME lending portfolio, optimise its capital intensity and profitability;
- keep a strong presence in agriculture;
- transform MONETA Leasing and keep MONETA Auto profitable growth.

2.3.3.2 Further Develop Small Business Segment Capabilities

MONETA has remained focused on developing capabilities to become a market champion in servicing small businesses through its proprietary service model. The model comprises mainly of changes in physical distribution, development of new products as well as developing digital distribution channels.

In 2018, the number of dedicated small business bankers grew from 159 as at 31 December 2017 to 163 as at 31 December 2018. MONETA intends to continue its focus on sales force training and sales force effectivity management to further increase the physical distribution capacity going forward, and to leverage its strong digital presence to provide customers with the choice of sales and service in either channel.

GROSS PERFORMING SMALL BUSINESS LENDING BALANCE (CZK bn)



New business volumes of the key unsecured lending product for the segment – unsecured instalment loans - were up 42% year-on-year,

while the number of newly opened unsecured automated business overdraft facilities increased by 13% year-on-year, and the number of newly opened unsecured commercial credit cards increased 83% year-on-year. MONETA also strongly focuses on growing its active customer base through new client acquisitions and retention of its current portfolio. The number of newly opened current accounts grew by 17% year-on-year and the number of active customers increased by 11.4% year-on-year from 50 thousand to more than 55 thousand.

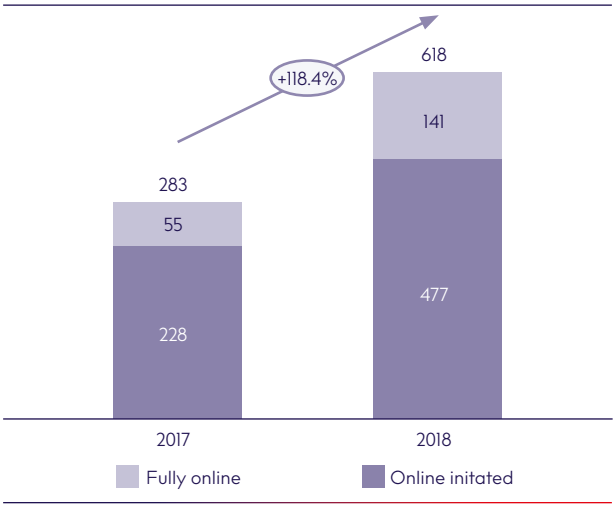
To strengthen the value proposition to the segment, MONETA was also active in launching new products focused on expanding fee income streams. During 2018, MONETA introduced merchant acquiring (acceptance of card payments) via a strategic partnership with EVO Payments International, and sales of insurance and asset management products by small business bankers.

2.3.3.3 Continue Digital Transformation for SME and Small Businesses

MONETA sees continuing its digital transformation for SME and small business customers as pivotal for growing commercial distribution capacities as well as for positioning MONETA for the future. During 2018, MONETA focused on developing a paperless application and approval process for new small business customers that is unique in the market and leveraging this fast and convenient proposition to grow its new client base via both digital and physical channels. This capability was implemented for entrepreneurs in the MONETA's branch sales network, online approval with signature in branches for unsecured instalment loans and commercial credit cards, and fully online origination for commercial credit cards. MONETA will launch fully online origination of unsecured instalment loans for new small business customers in early 2019.

Other digital solutions for existing small business clients introduced in 2018 include a fully digital lending process for commercial credit cards, fully digital unsecured instalment lending processes and the capability to apply for unsecured loans remotely via their small business banker.

SMALL BUSINESS INSTALMENT LOANS ORIGINATED ONLINE (CZK m)

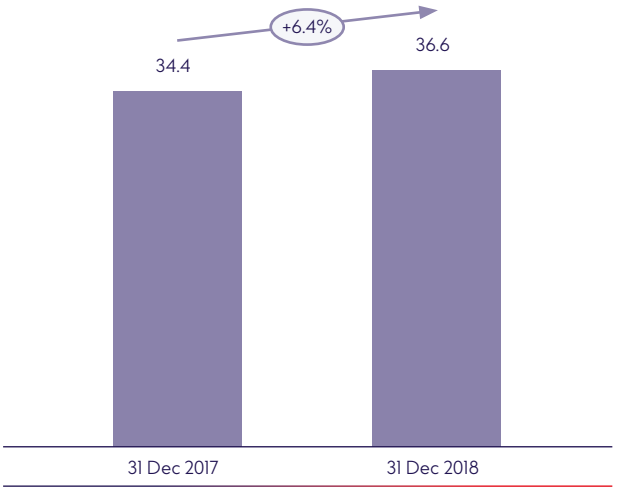


2.3.3.4 Maintain SME Lending Portfolio, Optimise its Capital Intensity and Profitability

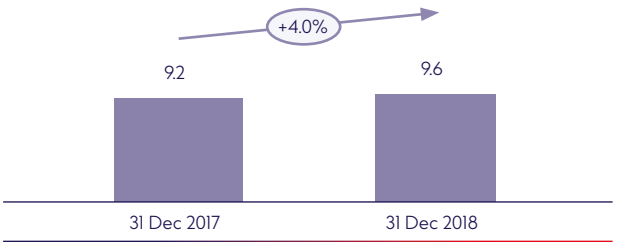
MONETA remains focused on maintaining a SME lending portfolio as it remains vital to delivering strong commercial performance. While MONETA is traditionally focused on portfolio quality, in 2018 equal attention has been paid to effective capital deployment.

Strong results of MONETA's commercial division were largely driven by performance of the SME segment underpinned by excellent results in investment loans and partially offset by a real estate financing slowdown. Investment loan new business volumes excluding real estate financing were up 10% year-on-year while real estate financing new business volumes decreased by 32% year-on-year. Investment loan overall gross performing receivables grew by 6.4% reaching CZK 36.6 billion as at 31 December 2018. Working capital gross performing receivables grew by 4.0% year-on-year reaching CZK 9.6 billion as at 31 December 2018.

GROSS PERFORMING INVESTMENT LOANS BALANCE (CZK bn)



GROSS PERFORMING WORKING CAPITAL BALANCE (CZK bn)



Strong results are underpinned by a sizeable reduction of capital intensity of the SME lending portfolio. MONETA utilised credit risk mitigation techniques connected to secured commercial loans and cash collateral and also reviewed credit conversion factor for off-balance-sheet exposures to optimise capital deployment.

2.3.3.5 Keep a Strong Presence in the Agriculture Segment

MONETA has a long-standing and stable position in financing of the Czech agriculture sector with a market share of over 30%. MONETA focuses on financing solutions for purchase of agricultural equipment, investments in the modernisation of farms' production technologies and investments in production facilities. MONETA provides farmers with a special product to finance the purchase of agricultural land on advantageous conditions.

In 2018, MONETA was the general partner of the "Zemědělec roku 2018" competition and participated actively in the traditional Czech trade fairs "Země živitelka" and "TECHAGRO". MONETA also organised several seminars focused on agricultural segment development, new technologies and subsidy policies. In addition to this MONETA organised a conference on biogas stations and new trends in renewable energy and has participated in many regional events related to agriculture.

2.3.3.6 Transform MONETA Leasing and Keep MONETA Auto Profitable Growth

In 2018, MONETA focused on the transformation of MONETA Leasing franchise, exploiting synergies and cross-selling opportunities within the Group. As a result, some functions like Risk, IT and Back office were integrated into the Bank operations, resulting in a significant cost reduction. At the same time, it has allowed MONETA Leasing operations to be more focused on sales and sales force effectivity.

Together with the whole Group, MONETA Leasing is committed to using increasingly automated and more effective processes. In the year ending 31 December 2018, MONETA Leasing financed 35.5% of personal cars through a fully standardised MONETA Auto approval process, significantly reducing time-to-yes and increasing effectivity.

Measures implemented throughout 2018 led to significantly reduced operational costs. Cross-sell of MONETA Leasing products to the Bank's clients contributed CZK 1.1 billion or 29.2% to overall MONETA Leasing new business volumes.[31]

MONETA Auto gross performing receivables grew by 16.2% from CZK 7.7 billion as at 31 December 2017 to CZK 9.0 billion as at 31 December 2018. Out of which gross performing commercial receivables grew by 22.1% year-on-year to CZK 6.1 billion as at 31 December 2018 and gross performing retail receivables increased by 5.3% to CZK 2.9 billion as at 31 December 2018. New business volumes increased in total by 17.3% year-on-year. The growth was mainly supported by strengthening cooperation with existing partners and adding a new distribution channel through MONETA Leasing. In line with the Group's digital strategy, MONETA Auto developed and rolled out a new front-end application (called Smart Auto) across the dealer network. The management of MONETA Auto reviewed commission schemes with all dealers and put in place measures mitigating negative impact arising from early terminations.

[31] Operating lease excluded.

2.3.4 Treasury/Other

The Bank's treasury product offering comprises of FX spots, FX forwards and FX swaps in a range of currencies (CZK, EUR, USD, GBP, CHF and other), with a range of settlement dates and an average monthly sales volume of CZK 1.5 billion in the year ending 31 December 2018 down from CZK 1.6 billion in 2017. MONETA does not engage in speculative trading.

MONETA also has a trade finance offering to support its commercial customers active in both domestic and foreign trade. Its main areas of focus are customers in the construction and industry sectors. The offered products include bank guarantees, letters of credit and documentary collections.

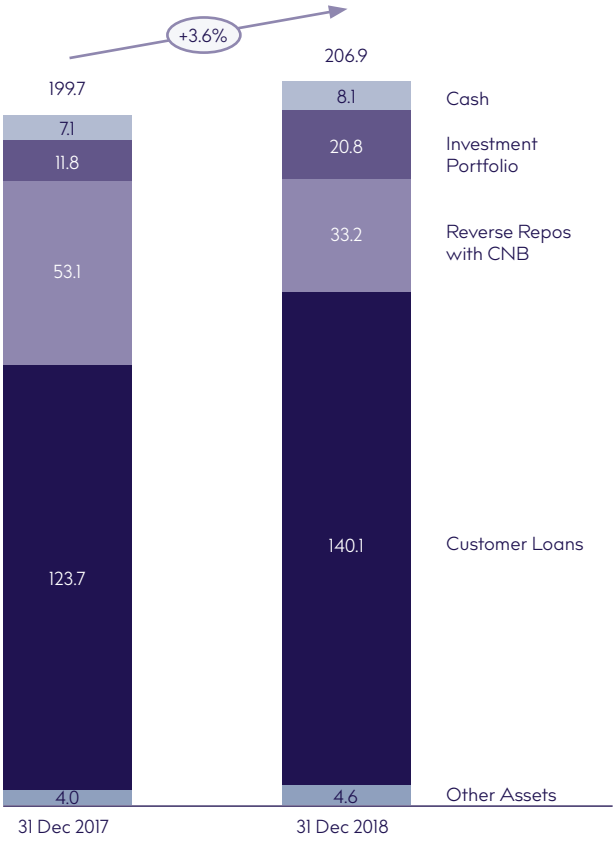
Within its Treasury/Other segment, MONETA invests free liquidity into safe securities such as Czech government bonds or mid-term covered commercial bonds and engages in opportunistic reverse repo operations.

2.4 GROUP FINANCIAL REVIEW

2.4.1 Statement of Financial Position Analysis

MONETA maintains a strong, highly liquid, and conservative balance sheet. MONETA delivered a 13.3% growth of net receivables as at 31 December 2018. This translated into growth in total assets to CZK 206.9 billion as at 31 December 2018, a 3.6% year-on-year increase. The balance sheet included a total of CZK 26.4 billion of externally funded opportunistic repo operations as at 31 December 2018, compared to 29.4 billion as at 31 December 2017.

TOTAL ASSETS EVOLUTION (CZK bn)



Figures in chart may not add up to total due to rounding differences.

Liquid Assets

As evidenced by the liquidity coverage ratio (LCR) of 160.8% on a consolidated basis and 161.6% on an individual basis, MONETA maintains an excellent liquidity position – well above the regulatory requirement. The liquid assets of CZK 62.4 billion as at 31 December 2018 consist primarily of CZK 33.2 billion in reverse repo transactions, CZK 8.1 billion in cash and CZK 20.7 billion[32] in bonds. The excess liquidity[33] reached CZK 11.5 billion on a consolidated basis and CZK 11.6 billion on an individual basis as at 31 December 2018, compared to CZK 16.1 billion on an individual basis (consolidated not available) as at 31 December 2017.

Our portfolio of investment securities grew 76.4% year-on-year to CZK 20.8 billion as at 31 December 2018. The growth was driven by using excess cash to purchase bonds, majority of which are Czech government bonds, and which offered attractive returns in 2018. MONETA measures all its bonds at amortised cost in compliance with IFRS 9 standard.

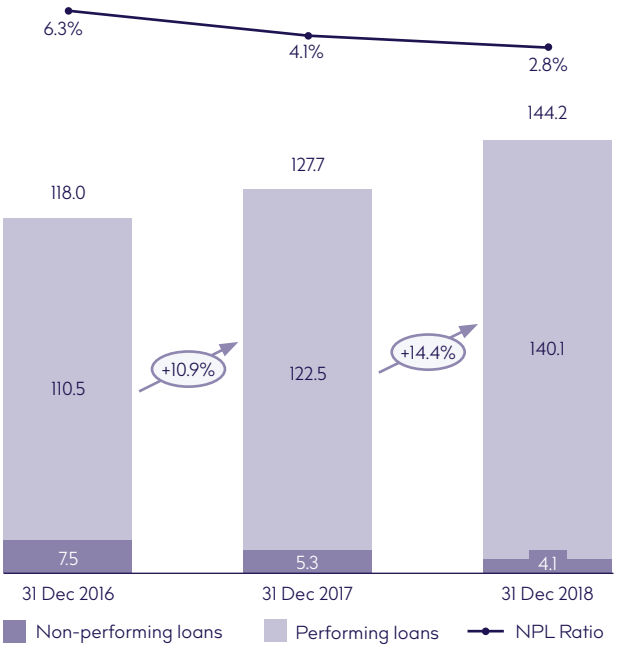
[32] Of which CZK 7.7 billion are encumbered.
[33] Excess liquidity exceeding 100% LCR.

Loan Portfolio

The Group's overall portfolio of net customer loans grew year-on-year by 13.3% to CZK 140.1 billion, maintaining a balanced mix of commercial and retail loans. The primary drivers of the growth were mortgages (up CZK 11.2 billion, or 54.9% year-on-year) and consumer loans (up 1.9 billion, or 5.5% year-on-year) in the retail segment, and investment loans (up CZK 2.0 billion, or 5.7% year-on-year) and small business loans (up CZK 1.7 billion, or 62.6% year-on-year) in the commercial segment.

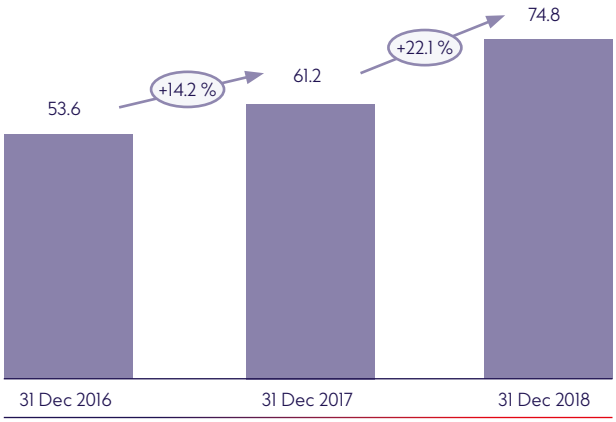
Gross performing loans and receivables to customers grew by 14.4% reaching CZK 140.1 billion as a result of strong new production. MONETA continued in a further reduction of NPL stock to CZK 4.1 billion as at 31 December 2018, down 22.2% from 31 December 2017. The NPL ratio was reduced from 4.1% as at 31 December 2017 to 2.8% as at 31 December 2018, in line with management strategy and guidance. This was achieved mainly through write-offs and legacy NPL sales. The nominal amount of NPL sales reached CZK 5.3 billion (including CZK 4.2 billion off-balance sheet). MONETA reached the total NPL coverage of 99.9% as at 31 December 2018, up from 77.0% at 31 December 2017, following IFRS 9 implementation.

GROSS LOANS AND RECEIVABLES BREAK DOWN (CZK bn)



The retail gross performing loan portfolio demonstrated a strong growth during the period, with the balance of CZK 74.8 billion as at 31 December 2018, CZK 13.6 billion or 22.1% year-on-year increase.

GROSS PERFORMING RETAIL RECEIVABLES (CZK bn)

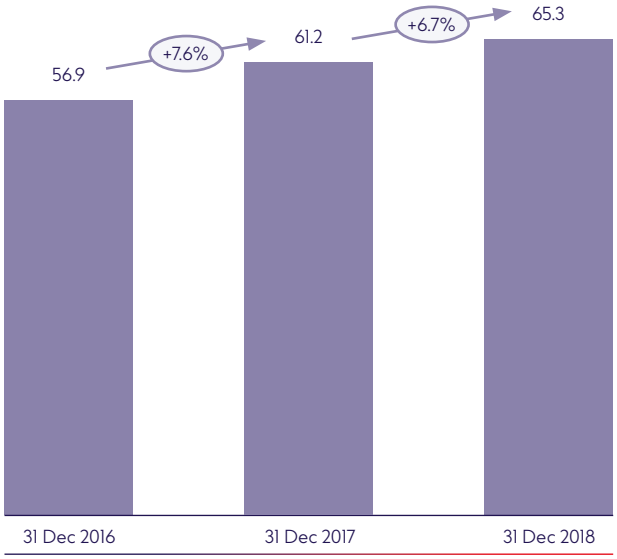


The growth in retail loans is primarily attributable to the exceptional growth in new mortgage production which doubled year-on-year, gaining a new volume market share of 8%[34] and driving the gross performing mortgage balance up by 55.8% year-on-year to CZK 31.4 billion as at 31 December 2018. MONETA also recorded a 7.4% growth of gross performing consumer loans balance driven by strong new production as well as improved client retention. These positive developments were slightly offset by a 9.4% year-on-year decline in gross performing credit cards and overdraft portfolios, in line with the continuing market trend of consumers switching to instalment lending. Finally, MONETA Auto's gross performing retail balance grew by 5.3% year-on-year to CZK 2.9 billion, while new production decreased by 8.5% year-on-year, reflecting a focus on improving profitability, namely through renegotiation of terms with two major dealers.

The commercial gross performing loan portfolio ended 2018 at CZK 65.3 billion, an increase of CZK 4.1 billion, or 6.7%, from the previous year's balance driven by growth in both SME and small business segments.

[34] Source: market data based on signed contracts from Hypoindex.cz (https://www.hypoindex.cz/hypoindex-vyvoj/).

GROSS PERFORMING COMMERCIAL RECEIVABLES (CZK bn)



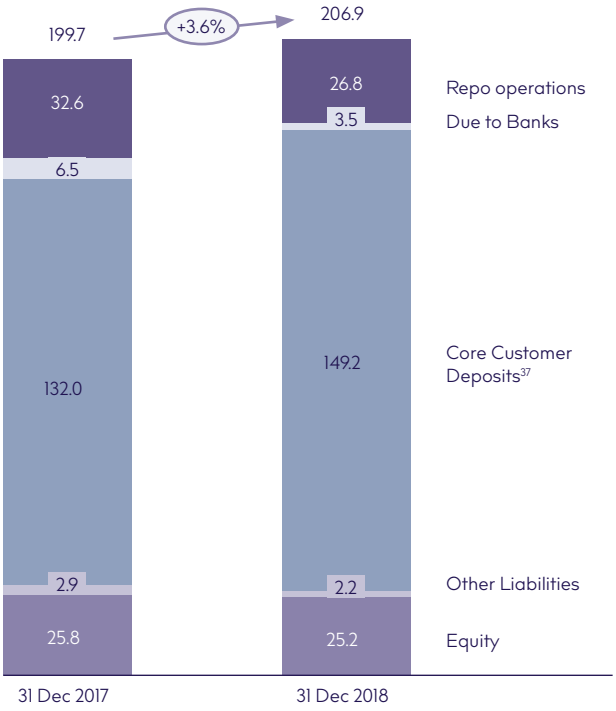
Gross performing investment loans were a major driver of the growth in the commercial segment, recording an increase of 6.4% (or CZK 2.2 billion). Gross performing working capital drawn balance increased by 4.0% year-on-year and stood at CZK 9.6 billion as at 31 December 2018.

MONETA continued expansion of its small business digital and physical distribution network. Our small business sales force is currently represented by 163 bankers as at the end of 2018, a 2.5% year-on-year increase. Our efforts resulted in a significant uplift in new production of small business lending (up by 41.7% year-on-year) in 2018. The gross performing small business instalment loan balance expanded by CZK 1.6 billion, or 72.2%, in the same period, while the gross performing unsecured overdraft and credit card balance increased by 27.2%, supported by a strong growth in the credit cards portfolio.

MONETA Auto commercial lending delivered a solid 37.2% year-on-year increase in new production, resulting in a 25.9% year-on-year growth of gross performing loan balance to CZK 5.1 billion as at 31 December 2018. MONETA Auto's new production was further supported by CZK 475 million[35] delivered by cross-sell from MONETA Leasing, while MONETA Leasing's portfolio balance declined by 13.7% year-on-year as significant portion of personal cars financing was redirected to MONETA Auto books.

Total Liabilities and Equity

TOTAL LIABILITIES AND EQUITY EVOLUTION (CZK bn)



Figures in chart may not add up to total due to rounding differences.

MONETA's core customer deposits demonstrated growth in both the retail and the commercial segments, and stood at CZK 149.2 billion as at 31 December 2018, increasing by 13.0% compared to 31 December 2017. Retail deposits increased by 13.7%, with both current and savings accounts gradually growing during the year, recording an increase of 16.4% and 11.2% (CZK 7.0 billion and CZK 4.5 billion) in balances respectively. Commercial deposits increased by 11.8% year-on-year driven by growth of current accounts and term deposits (CZK 2.1 billion or 6.2% and CZK 4.3 billion[36] or 73.6% respectively).

The loan to deposit ratio[37] stood at 93.9%, i.e. flat compared to 93.7% as at 31 December 2017. The continued growth in deposits, driven by both an increasing average balance, and newly opened accounts, further reinforces the self-funding capacity of MONETA and its solid liquidity position.

35 Of which CZK 422 million are new commercial deals and CZK 53 million are retail.

36 Includes Term & Other.

37 Excluding impact of opportunistic externally funded repo operations, of which CZK 19.6 billion is classified as Due to Customers as at 31 December 2018, compared to CZK 9.4 billion as at 31 December 2017.

Capital Position

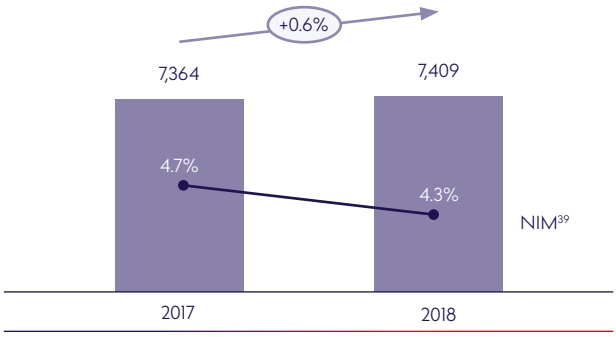
MONETA continues to be one of the best-capitalised financial institutions in the Czech banking sector, reporting a Capital Adequacy Ratio of 16.4% as at 31 December 2018, well above the management target of 15.5%. The 100bps year-on-year decline in Capital Adequacy Ratio was mainly driven by solid 13.3% net loan book growth, partially neutralised through RWA optimisations and 37.5% growth of intangible assets balance. Moreover, the payment of CZK 165 million of excess capital through 2017 dividend was more than offset by recognition of CZK 636 million in regulatory capital, representing 30% of 1H 2018 consolidated net profit. The excess capital amounted to CZK 1.1 billion as at 31 December 2018.

2.4.2 Statement of Profit or Loss Analysis

MONETA generated net profit in the amount of CZK 4.2 billion, a 7.1% year-on-year increase and well above the initial 2018 guidance of CZK 3.4 billion. The positive result was supported by a pre-tax gain on legacy NPL portfolio sales of CZK1.1 billion,[38] a prevailing positive macroeconomic environment, increasing interest rates and tight cost management. The total operating income amounted to CZK 10.2 billion for 2018, down 1.7% from 2017, with a CZK 320 million pre-tax gain on NPL sales generated in other operating income offsetting an extraordinary pre-tax gain on bonds sale of CZK 343 million in 2017. The reported Return on Tangible Equity for 2018 reached 17.9%, a 190bps year-on-year increase.

Net interest income reached CZK 7,409 million in 2018, a 0.6% improvement year-on-year. This was a result of successful loan book growth and accelerated interest rate hikes supporting margins stabilisation and improving returns on liquid assets. Net interest margin[39] declined to 4.3% in 2018, down from 4.7% in 2017. In the retail segment, this was a result of a strong growth of secured mortgage balances and by lower, albeit stabilising, yield on consumer loans as the gap between back-book and new production pricing continues to close. Yield in the commercial segment has improved, as our focus on profitability was supported by interest rate hikes in 2018.

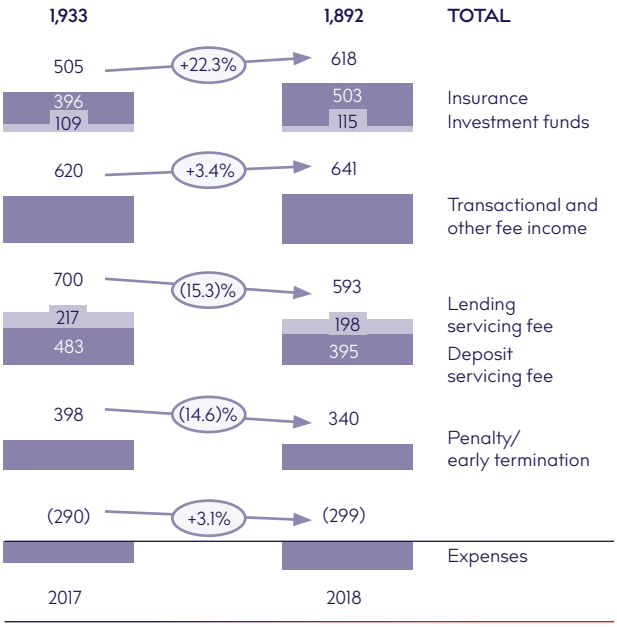
NET INTEREST INCOME (CZK m)



Net fee and commission income remained relatively flat year-on-year at CZK 1,892 million in 2018, compared to CZK 1,933 million in 2017. The trend of customers actively switching to free accounts continued in 2018, driving the 15.3% year-on-year drop of servicing fees to a total of CZK 593 million in the year ended 31 December 2018. Penalty and early termination fees declined 14.6% year-on-year, impacted by improved portfolio quality. Higher transactional and other fees, up 3.4% year-on-year to CZK 641 million, were mainly a result of a higher volume of client transactions.

Commissions from selling 3rd party products witnessed a 22.3% uplift year-on-year to CZK 618 million (compared to CZK 505 million in 2017), driven by higher commissions from sale of insurance products (up 26.8% year-on-year) as well as investment funds (up 5.9% year-on-year), despite a 8.2% year-on-year decline in the balance of assets under management.

NET FEE AND COMMISSION INCOME (CZK m)



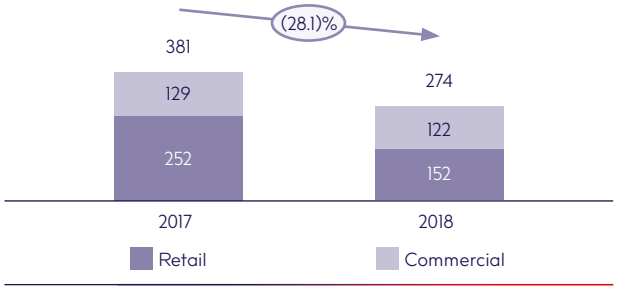
38 Of which CZK 678 million was booked in Net impairment of financial assets, CZK 320 million in Other Income and CZK 94 million amounts to accrual release in Operating Expenses.

39 Excluding impact of opportunistic externally funded repo operations.

Other income amounted to CZK 861 million in the year ended 31 December 2018, down 17.1% year-on-year. The extraordinary gain realised in 2018 from legacy NPL sales of CZK 320 million offset a CZK 343 million gain on bonds sales in 2017, while the year-on-year decline is mainly attributable to lower recoveries from written-off NPL portfolio as the balance was significantly reduced through legacy NPL sales.

Net impairment of financial assets remained very low, amounting to CZK 274 million for the year ended 31 December 2018, a 28.1% decrease year-on-year. The cost of risk stood at 21bps for the year ended 31 December 2018, a 11bps decrease compared to 32bps for the year ended 31 December 2017. The major driver of the decrease was legacy NPL portfolio monetisation, having a positive impact of CZK 678 million on the overall net impairment, compared to CZK 315 million in 2017. Adjusted for this impact, the core cost of risk for 2018 would stand at 72bps, compared to 59bps in 2017, reflecting among other the difference between IFRS 9 and IAS39 standards. Net impairment was supported by continuing favourable macroeconomic conditions, as well as low NPL formation.

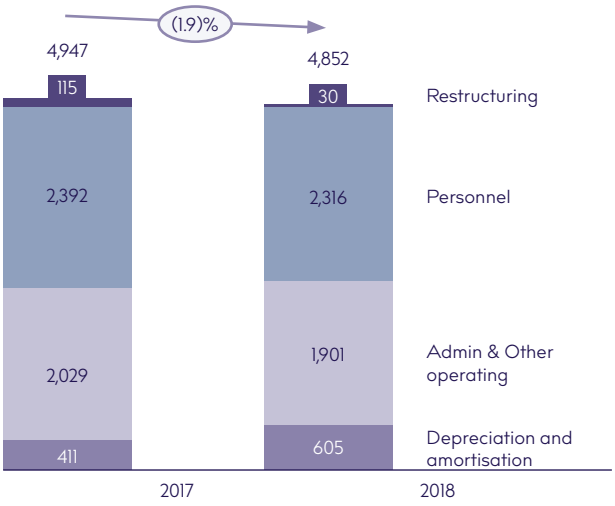
NET IMPAIRMENT OF FINANCIAL ASSETS (CZK m)



Operating Expenses

Operating expenses for the year ended 31 December 2018 amounted to CZK 4,852 million, down 1.9% year-on-year. Personnel costs decreased by CZK 76 million to CZK 2,316 million, as the decreasing number of FTEs (3.5% down year-on-year) more than offset pressure on wages. Administrative & other expenses were CZK 128 million year-on-year lower, amounting to CZK 1,901 million, mainly due to savings on separation costs (CZK 83 million) and higher release of contingent liability in conjunction with NPL sale (CZK 32 million). Depreciation & amortisation expenses increased by 47.2% to CZK 605 million amid continuing investment in IT and digital capabilities. One-off restructuring cost related to a planned branch network optimisation was booked in 4Q 2018 in the amount of CZK 30 million (in 2017: CZK 115 million).

OPERATING EXPENSES (CZK m)



Out of total restructuring costs of CZK 30 million: CZK 8 million booked in Personnel expenses, CZK 17 million booked in Admin & Other operating expenses and CZK 5 million booked in Depreciation and amortisation; in 2017 out of total restructuring costs of CZK 115 million, CZK 64 million booked in Personnel expenses, CZK 48 million in Admin & Other operating expenses and CZK 3 million in Depreciation and amortisation.

Preferred partner of Czech households

MONETA provides Czech households a full retail banking portfolio of products and services covering all credit, saving, investing and transactional needs as well as a wide range of insurance products. The bank offers first class digital services for personal clients built around secure mobile and internet banking platforms.

3. CAPITAL AND LIQUIDITY

3.1 CAPITAL

3.1.1 Regulatory Framework

As the Group operates only in the Czech market, the Bank is subject to supervision by the Czech National Bank (hereafter also the "CNB").

The framework used for capital management involves monitoring and complying with the capital adequacy limit in accordance with the Basel III rules codified in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended (hereafter "CRR"), Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (hereafter "CRD IV"), and Directive (EU) 2014/59 of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms, as amended (hereafter "BRRD"), and their implementing measures. Furthermore, from a local perspective, the regulatory framework is given mainly by Banking Act No. 21/1992 Coll., as amended, the CNB Decree No. 163/2014 Coll., as amended, and Act No. 374/2015 Coll., on recovery and resolution in the financial market, as amended.

On a consolidated basis, the Bank manages its capital in order to meet the regulatory capital adequacy requirements prescribed in Basel III and codified in EU law and regulation and to allow the Group to continue its operations on a going concern basis while maximising the returns for the shareholders through the optimisation of its debt and equity balances.

Under Pillar I, the minimum regulatory capital requirement is equal to 8% of risk weighted assets.

Under Pillar II (the internal capital adequacy assessment process, hereafter "ICAAP", ultimately evaluated by the Czech National Bank according to the European Banking Authority Guidelines on common procedures and methodologies for the supervisory review and evaluation process, hereafter "SREP", of 19 December 2014 (EBA/GL/2014/13)), pursuant to the assessment of the Bank's ICAAP report submitted to the Czech National Bank in 2017, the Czech National Bank set up the Pillar II capital requirement of 3% applicable from 1 January 2018, as a result of which the total SREP capital ratio requirement was 11%.

Pursuant to the assessment of the Bank's report on the internal capital adequacy assessment process submitted to the Czech National Bank in 2018, the Czech National Bank set up the Pillar II capital requirement 2.6%, down from 3.0%, applicable from 1 January 2019, that means new total SREP capital ratio requirement applicable from 1 January 2019 of 10.6%.

In addition, the Bank was required to maintain a capital conservation buffer of 2.5% and a countercyclical capital buffer of 0.5% and, since July 2018, 1%, which were applied to the whole Czech market. Therefore, the overall capital requirement on an individual and a consolidated basis was 14.5% as at 31 December 2018.

The Czech National Bank also announced an increase of the countercyclical capital buffer in 2019 and 2020: to 1.25% from 1 January 2019, to 1.5% from 1 July 2019 and finally to 1.75% from 1 January 2020. These changes mean the overall capital requirement on an individual and a consolidated basis of 14.35% from 1 January 2019, 14.6% from 1 July 2019 and 14.85% from 1 January 2020.

The Bank decided to maintain the target capital adequacy ratio at least at 15.5% on an individual and a consolidated basis, both for the year 2018 and the year 2019. The 2019 capital adequacy target is subject to an ongoing re-assessment by the Management Board of the Bank based on the business results and development.

3.1.2 Capital and Risk Weighted Assets

The Group's capital on a consolidated basis primarily consists of share capital, share premium and retained earnings from prior years, that is the highest quality CET 1 capital. Also, in September 2018, the Group strengthened its capital position by obtaining permission from CNB to incorporate 30% of 2018 mid-year net profit into Common Equity Tier 1.

In order to calculate the regulatory capital requirement for credit risk, both on an individual and a consolidated basis, the Bank uses the standardised approach.

To calculate the capital requirement for operational risk, the Bank uses the alternative standardised approach on an individual basis. However, the Czech National Bank has prescribed that the capital requirement for operational risk on an individual basis shall not fall below 75% of the capital requirement for operational risk per the standardised approach. The standardised approach is used to calculate the capital requirement for operational risk on a consolidated basis for the rest of the Group.

The Bank has started to calculate regulatory capital requirements against the market risk of the trading book since 3Q 2018.

In order to calculate the internal capital requirement, the Bank applied methods similar to advanced approaches according to regulatory Pillar I, both on an individual and a consolidated basis.

3.1.3 Capital Management

In accordance with applicable regulations, the Bank manages capital on a consolidated basis both above the level of the regulatory capital requirement and the internal capital requirement.

As at 31 December 2018, the Bank's Capital Adequacy Ratio was 16.4% on a consolidated basis and 17.2% on an individual basis. The Bank met all regulatory requirements and expectations regarding capital adequacy on an individual and a consolidated basis.

3.1.4 The Internal Capital Adequacy Assessment Process (ICAAP)

3.1.4.1 Internal Capital Requirement on a One-Year Horizon

The internal capital requirement represents the stock of capital which is needed to cover unexpected losses in the following 12 months at the chosen confidence level.

To determine the internal capital requirement on an individual and a consolidated basis, the Bank currently uses the internal economic capital (ECAP) model. This model covers all regular risks that are material for the Group and for which the Group has decided to hold capital to cover. The ECAP model is calibrated and relevant risks are quantified on at least 99.9% confidence interval.

Other risks not covered by the ECAP model that are material to the Group in the following planning period are identified through workshops with members of the Bank's Management Board and selected senior managers organised once a year. The list of key identified risks and relevant stress scenarios resulting from this process are discussed and approved by the Enterprise Risk Management Committee (ERMC). Identified risks are subject to monitoring via quarterly reviews presented at the ERMC with the possibility to add new risks.

Capital sources to cover the internal capital requirement are the same as the capital sources to cover the regulatory capital requirement.

3.1.4.2 Three-Year Capital Outlook and Stress Testing

In addition to the assessment of the internal capital requirement, the Bank annually prepares a three-year capital outlook on an individual and a consolidated basis, which includes the anticipated development according to the base case scenario of the economic environment and at least one stress scenario. The capital outlook includes the outlook of the regulatory capital requirement, outlook of the internal capital requirement, outlook of capital sources and outlook of economic results. The main stress scenario assumes the worsening of the most significant risk factors that may occur once in a 25-year period; the other stress scenarios cover the most significant identified strategic and other risks. This outlook is reported to the Czech National Bank on a yearly basis as a part of the ICAAP report.

In 2018, the capital outlook, together with stress testing results, confirmed that the Bank and the Group are capable of keeping the Capital Adequacy Ratio safely above the assumed regulatory requirements, even under the circumstances of unexpected adverse macroeconomic developments.

3.1.5 Recovery Plan

Given the regulatory requirements stipulated in BRRD and Act No. 374/2015 Coll., on recovery and resolution in the financial market, as amended, the Bank also maintains a recovery plan. The recovery plan includes three stress scenarios provided by regulation (idiosyncratic event, system-wide event and a combination of the two events) with a proposal of relevant measures to ensure it is possible to respond to the developing situation in a timely and proper manner as and when needed.

3.2 LIQUIDITY

3.2.1 Regulatory Framework

Liquidity risk represents the risk of an inability to meet financial liabilities when due or to finance increase in assets.

The new Basel III framework for liquidity risk measurement, standards and monitoring was introduced into EU and Czech law by CRR and by Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, to supplement CRR with regard to liquidity coverage requirement for credit institutions, which specifies the Liquidity Coverage Ratio (LCR) requirement.

The LCR addresses the liquidity risk of banks over a 30-day period and aims to ensure that banks have a sufficient buffer of high-quality liquid assets available to meet their short-term liquidity needs in a given stress scenario. The LCR became effective as a binding regulatory requirement in October 2015. The minimum required level for LCR was implemented progressively in accordance with the following schedule: 60% from 1 October 2015, 70% from 1 January 2016, 80% from 1 January 2017 and 100% from 1 January 2018. The Bank maintains an LCR well in excess of the requirement of 100% that is mandatory since 2018 (31 December 2018: 160.8% on a consolidated basis and 161.6% on an individual basis, 31 December 2017: 183% on individual basis, consolidated not available).

The second liquidity ratio introduced by the Basel III framework is Net Stable Funding Ratio (NSFR), which will establish the criteria for a minimum amount of stable funding to support a bank's assets and activities in the medium term (i.e. over one year). The binding minimum standards for NSFR have not yet been adopted by the EU; nevertheless, the Bank already monitors its NSFR for internal purposes, calculating the metric based on the existing Basel methodology.

3.2.2 Internal Liquidity Adequacy Assessment Process (ILAAP)

The concept of an internal liquidity adequacy assessment process (hereafter "ILAAP") was introduced by the European Banking Authority Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) of 19 December 2014 (EBA/GL/2014/13). Within ILAAP, the Bank assesses annually the components that constitute the liquidity risk management of the Group and submits an ILAAP report to the Czech National Bank.

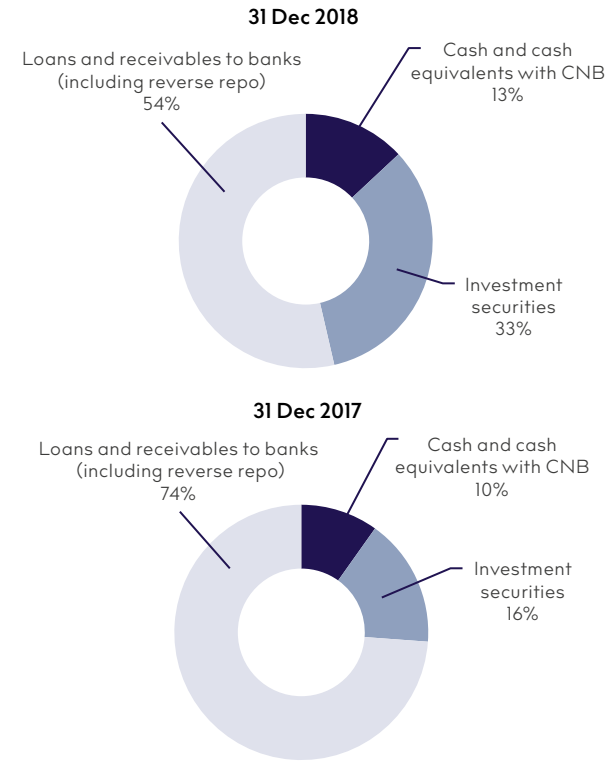
3.2.3 Liquidity Portfolio

The liquidity buffer is monitored only by the Bank as the subsidiaries are funded predominantly by the Bank. Any excess liquidity is used mainly for reduction of the Bank's funding.

The Bank currently invests its free cash mostly into safe securities, such as Czech government bonds. As at 31 December 2018, around 58% of total liquid assets (excluding the part derived from opportunistic repo operations) was invested in securities, with the remainder held in central bank (CNB) and interbank deposits. Almost all of these investments were eligible as collateral with the CNB for central bank funding (with the exception of Equa Bank covered bonds of CZK 250 million) or with other financial institutions for funding purposes. As at 31 December 2018, assets with a nominal value of CZK 0.4 billion were encumbered for funding purposes (encumbered assets derived from opportunistic repo operations are not included).

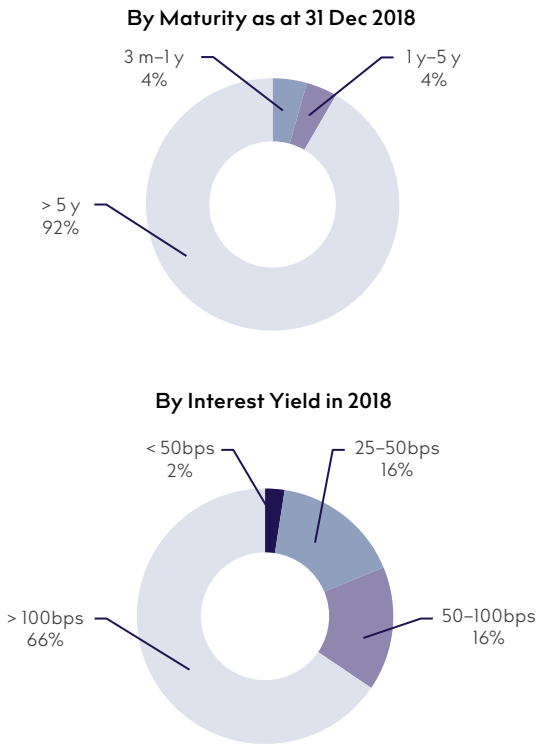
The Group has a strong liquidity position. Under the new Basel III framework for liquidity risk measurement, the Bank is required to maintain an LCR of at least 100% from 2018. The Bank's LCR stood on 161.6% translating into held excess liquidity of CZK 11.6 billion as at 31 December 2018. The chart below sets out the composition of the Group's liquid assets as at 31 December 2018 and its comparison with the position as at 31 December 2017:

BREAKDOWN OF LIQUIDITY PORTFOLIO



The securities held by the Group as at 31 December 2018 were almost entirely measured at amortised costs (with the exception of CZK 59 million of equity investment measured at FVTPL or FVTOCI). The portfolio volume has nearly doubled during 2018 in the context of rising Czech government bonds yields. The chart below sets out the securities portfolio by maturity and interest yield as at 31 December 2018:

BREAKDOWN OF SECURITIES PORTFOLIO



Funding

The Bank is an important source of funding for the rest of the Group. The Bank itself is not reliant on wholesale funding as customer deposits and equity together exceed customer loans. The vast majority of these customer deposits are demand deposits, 93%[1] as at 31 December 2018.

The Bank's funding model benefits from an established and stable client base comprising customer deposits of CZK 149.2 billion[1] as at 31 December 2018. 73%[1] of customer deposits were covered by the Deposit Insurance Fund[2] as at 31 December 2018. In terms of deposit concentration, the top 10 depositors accounted for 7%[1] of total customer deposits as at 31 December 2018.

The Bank is funded primarily by deposits[1], 97.7% being customer deposits and 2.3% being deposits from banks and retained earnings.

For the purpose of financing EUR-denominated assets, as at 31 December 2018, the Group borrowed equivalent CZK 0.3 billion in the interbank market consisting of both secured and unsecured borrowings. The Bank also benefits from a 3-year unsecured funding drawn in 2017 from the European Investment Bank (hereafter "EIB") totalling EUR 80.0 million to protect refinancing and interest rate risk and to provide attractive financing for SMEs and Mid-Caps in the Czech Republic with the possibility of drawing an additional EUR 70.0 million secured funding arising from the signed frame agreement with EIB.

On top of that, the Group has the CNB approved bond issuance program to prepare for requirements of the Minimum Requirement for Own Funds and Eligible Liabilities (hereafter "MREL"), newly including the ability to issue senior non-preferred and Tier 2 Capital bonds.

[1] Excluding CZK 19.6 billion of opportunistic repo operations with customers.
[2] Depositors Insurance Fund is a deposit insurance scheme that protects depositors at banks.

The table below presents the period-end and average balances of total deposits by type and weighted-average rates thereon paid during the years presented:

CZK m	Year ended 31 Dec 2018			Year ended 31 Dec 2017		
	Period-End Balance	Average Balance	Cost of Funds	Period-End Balance	Average Balance	Cost of Funds
Retail						
Current Accounts	49,569	46,078	0.0%	42,586	39,884	0.0%
Savings Accounts	44,526	42,280	0.4%	40,033	37,721	0.4%
Term Deposits	353	377	0.3%	402	489	0.3%
Commercial						
Current Accounts	36,260	35,258	0.1%	34,256	32,350	0.1%
Savings Accounts	8,376	8,610	0.2%	8,845	8,827	0.2%
Term Deposits	10,149	8,484	0.3%	6,817	5,571	0.1%
Liabilities arising from repurchase agreement due to customers and banks and other Due to customers and banks	30,275	34,223	0.5%	38,173	20,168	n/a
Total liabilities due to banks and due to customers	**179,508**	**175,310**	**0.2%**	**171,112**	**145,011**	**0.2%**

Figures in table may not add up to total due to rounding differences.

Human capital

Given our ambition to be a responsible and attractive employer, we create a modern and functional environment which supports the agile way of working and in which our people can cooperate and thrive. Our values and ethics are embedded in our workplace culture through the way we treat and reward our colleagues; and through the way our colleagues treat our customers.

4. CORPORATE GOVERNANCE

(A separate part of the annual report pursuant to Section 118 (4) (b), (c), (e), (j), (l) and (5) (6) of Act No. 256/2004 Coll., on conducting business in the capital markets, as amended).

The sections "General Meeting", "Supervisory Board" and "Management Board" reflect the changes to the Bank's Articles of Association approved by the General Meeting held on 13 December 2018.

4.1 ORGANISATIONAL CHART

The rights of the Bank's shareholders are exercised through (as set out in the chart below):

- decisions of the General Meeting of the Bank; and
- participation of persons elected by the General Meeting in the Supervisory Board of the Bank.

100% shares is floated on the Prague Stock Exchange with no majority shareholder.

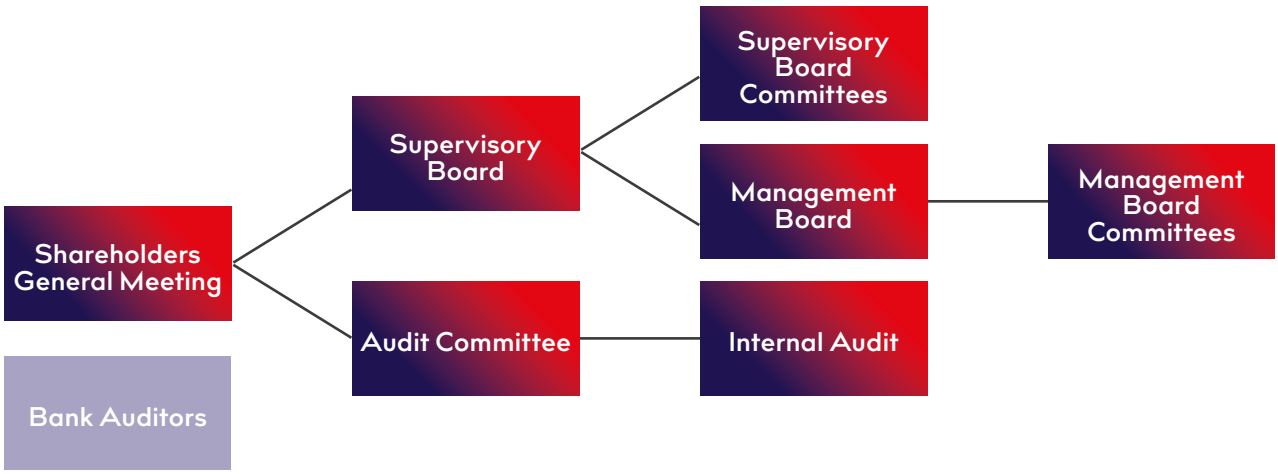
The Bank has a two-tier corporate governance structure, which ensures the separation of the executive and control functions. The Supervisory Board is an integral nonexecutive element of this structure and is responsible for the oversight of the Bank's operations and the Management Board activities, while also contributing to the definition of the Bank's strategic direction.

The Supervisory Board has, among other things, the following powers:

- to review financial statements and accounting records;
- to request information on all business activities and inspect all documents and records related to business activities of the Bank; and
- to convene the General Meeting of the Bank if required by law or if it is in the Bank's interest.

The Supervisory Board established the principles for the appointing members of the Management Board and candidates to the Supervisory Board and for the composition and performance of the Management Board and Supervisory Board. These key principles ensure that the members of the Management Board and Supervisory Board are individuals with suitable professional experience, time served and other qualifications so both bodies have the balance of expert's qualifications and experience and that the composition of the Management Board and Supervisory Board as a whole is diverse.

The Nomination Committee periodically, or at least annually, assesses that the members of the Management Board and the Supervisory Board have the trustworthiness, proper knowledge, skills and adequate professional qualifications, as well as experience.



From 1 January 2018 to 1 August 2018, the Supervisory Board had 7 members, represented by 1 woman and 6 men. From 2 August 2018 to 13 December 2018, the Supervisory Board had 6 members out of 7 posts (1 post has been unoccupied), represented by 6 men. From 13 December to 31 December 2018, the Supervisory Board had 6 members out of 9 posts (3 posts have been unoccupied), represented by 6 men.

Throughout the entire year of 2018, the Management Board had 5 members, represented by 5 men (for further information on the Bank's diversity policies please see chapter 6 "Responsible Bank", which applies also with respect to members of the Supervisory Board and the Management Board).

The Management Board is the second component of the two-tier corporate governance structure and is the corporate body which manages the Bank's business, including ensuring the proper keeping of the Bank's books, proper existence, timely evaluation and set up of the management and control system and that the Bank is compliant with the law.

4.2 GENERAL MEETING

Participation at the General Meeting

The General Meeting may be attended by any person who is registered, as at the record date, as a shareholder, shareholder's proxy, administrator, or person authorised to exercise rights attached to the shares in the registry of book-entry shares maintained by the Czech Central Securities Depository Prague. The record date for participation at the General Meeting is the seventh (7th) day prior to the date of the respective General Meeting.

Furthermore, the General Meeting is attended by members of the Management Board, the Supervisory Board and the Audit Committee. Subject to approval by the Management Board, the General Meeting may also be attended by individuals who can reasonably give their opinion on agenda items of the General Meeting, including the Bank's external auditors, advisers or individuals that make arrangements for the General Meeting.

Procedure at the General Meeting

The Chairman of the General Meeting shall ensure that all proposals, counterproposals, and requests for explanation made by the shareholders are presented at the General Meeting, provided that they relate to the agenda of the General Meeting.

A shareholder may request and shall receive at the General Meeting an explanation of matters related to the Bank or entities controlled by the Bank if such explanation is necessary to consider items on the agenda of the General Meeting or for exercising shareholder's rights at the General Meeting, unless it follows from the applicable law that providing the explanation may be denied. Explanations may be provided at the General Meeting as a summary answer to multiple questions with similar contents.

Explanations of matters related to the current General Meeting are provided by the Bank to a shareholder at the General Meeting. If this is not possible due to the complexity of the explanation, the Bank will provide the explanation to the shareholder within 15 days after the date on which the General Meeting is held.

Decision of the General Meeting

The General Meeting constitutes a quorum if the present shareholders hold shares whose aggregate nominal value exceeds 50% (fifty per cent) of the Bank's registered share capital.

The General Meeting makes decisions by a simple majority of the votes of the shareholders present, unless a different majority is required by law or the Articles of Association.

The right to vote at the General Meeting is linked with the Bank share and each Bank share with a nominal value of CZK 1 carries one vote. A total of all votes of the Bank's shareholders is 511,000,000 (in words: five hundred and eleven million).

1. The General Meeting is the highest corporate body of the Bank.
2. The General Meeting is authorised to:
   a) amend the Articles of Association, save for amendments resulting from increasing the Bank's registered share capital by the duly authorised Management Board or amendments resulting from other legal matters;
   b) decide on changes in the Bank's registered share capital;
   c) decide on an increase in the Bank's registered share capital by in-kind contributions;
   d) authorise the Management Board to increase the Bank's registered share capital;
   e) approve the offset of the Bank's receivable towards the Bank's shareholder for payment of a subscription price for the shares and the Bank's shareholder's receivable against the Bank;

f) decide on issuing convertible or preference bonds;
g) decide on restriction or limitation of the shareholders' pre-emptive right to subscribe for a pro rata portion of the new shares or the preference or convertible bonds issued by the Bank;
h) elect and recall members of the Supervisory Board, with the exception of members of the Supervisory Board who are elected by the Bank's employees;
i) elect and recall members of the Audit Committee;
j) approve service contracts with members of the Supervisory Board and the Audit Committee, and fixed and variable components of their compensation;
k) approve any compensation to members of the Supervisory Board and the Audit Committee, unless such compensation is established by applicable laws, by a service contract or by the Bank's internal rules;
l) decide that the amount of the variable component of the compensation of a member of the Management Board may be higher than the amount of the fixed component of his/her compensation, but not higher than the double amount of the fixed component of his/her compensation;
m) approve contracts for settlement of loss caused by a breach of the duty of due care by a member of the Bank's body;
n) approve a distribution of profit or other own resources of the Bank or on compensation of loss;
o) approve a distribution of the profit to a person that is not a shareholder of the Bank;
p) decide to unwind the Bank;
q) approve a proposed distribution of the Bank's liquidation balance;
r) decide to apply for listing or delisting the Bank's securities on the European regulated market;
s) approve a transfer or a pledge of the Bank's undertaking or a part thereof constituting a substantial change of the existing structure of the Bank's undertaking or a substantial change of the Bank's scope of business;
t) decide on a change of classes of the shares;
u) decide on a change of rights attached to individual classes of the shares;
v) decide on a conversion of registered shares to bearer shares and vice-versa;
w) approve restrictions or limitations of the shares' transferability;
x) decide on a merger of two or more shares into one share;
y) decide on splitting shares;
z) decide on an acquisition of the Bank treasury shares;
aa) approve a transfer of all other shareholders' shares to the Bank's shareholder that owns Bank shares in the total nominal value corresponding to at least 90% (ninety per cent.) of the Bank's registered share capital created by shares with voting rights and carrying at least 90% (ninety per cent.) of voting rights in the Bank;
bb) approve a transformation of the Bank in compliance with Act No. 125/2008 Coll., on transformations of companies and cooperatives, as amended (hereafter the "Transformations Act");
cc) approve the Bank's annual, extraordinary or consolidated and, if required, interim financial statements;
dd) appoint an auditor to perform the statutory audit;
ee) approve principles for the Management Board, the Supervisory Board or another Bank's body, and give instructions to the Management Board, the Supervisory Board or another Bank's body, all subject to the terms set forth by applicable laws and the Articles of Association; and
ff) exercise all other powers vested to the General Meeting by applicable laws or by the Articles of Association.

3. The General Meeting may not reserve powers which are not vested to it by applicable laws or by the Articles of Association.
4. Resolutions under Article 2 Lett. a), b), d), e), f), p), q), s) and y) above shall be passed at a General Meeting with a qualified majority of at least two-thirds (2/3) of the votes cast at a General Meeting.
5. Resolutions under Article 2 Lett. b) and s) above shall be passed at a General Meeting in addition with a qualified majority of at least two-thirds (2/3) of the votes cast at a General Meeting by the Bank's shareholders holding each class of the shares, whose rights are affected by such resolutions.
6. Resolution under Article 2 Lett. m) above shall be passed at a General Meeting with a qualified majority of at least two-thirds (2/3) of the votes of all Bank's shareholders.
7. Resolutions under Article 2 Lett. c), g) and o) above shall be passed at a General Meeting:
   a) with a qualified majority of at least three-quarters (3/4) of the votes cast at a General Meeting; and
   b) in addition, with a qualified majority of at least three-quarters (3/4) of the votes cast at a General Meeting by the Bank's shareholders holding each class of the shares, unless the respective resolution will not affect any rights of owners of these classes of the shares.

8. Resolution under Article 2 Lett. r) (only as for delisting the Bank securities) above shall be passed at a General Meeting by a qualified majority of at least three-quarters (3/4) of the votes cast at a General Meeting by the Bank's shareholders holding the classes of the shares affected by this resolution.
9. Resolutions under Article 2 Lett. t), u), v) and w) hereof shall be passed at a General Meeting:
   a) with a qualified majority of at least two-thirds (2/3) of the votes cast at a General Meeting; and
   b) in addition, with a qualified majority of at least three-quarters (3/4) of the votes cast at a General Meeting by the Bank's shareholders holding the classes of the shares affected by such resolutions.
10. Resolution under Article 2 Lett. l) above shall be passed at a General Meeting with a qualified majority of at least three-quarters (3/4) of the votes cast at a General Meeting (qualified majority of at least 66 % (sixty-six per cent.) of the votes cast at a General Meeting is sufficient, provided that the shareholders holding at least one (1) half of the voting rights in the Bank are present at a General Meeting).
11. Resolution under Article 2 Lett. x) above shall be passed at a General Meeting:
    a) with a qualified majority of at least two-thirds (2/3) of the votes cast at a General Meeting; and
    b) in addition, by all shareholders of the company whose shares are to be merged.
12. Resolution under Article 2 Lett. aa) above shall be passed at a General Meeting by a qualified majority of at least 90% (ninety per cent.) of the votes of all Bank's shareholders.
13. Resolution under Article 2 Lett. bb) above shall be passed at a General Meeting by a qualified majority of at least three-quarters (3/4) of the votes cast at a General Meeting by the Bank's shareholders holding each class of the shares, however:
    a) a demerger of the Bank with an unequal shares exchange proportion shall be approved by a resolution passed at a General Meeting by a qualified majority of at least 90% (ninety per cent.) of the votes of all Bank's shareholders holding each class of the shares; and
    b) a transfer of all Bank's assets to the Bank's shareholder shall be approved by a resolution passed at a General Meeting by a qualified majority of at least 90% (ninety per cent.) of the votes of all Bank's shareholders.

4.3 SUPERVISORY BOARD

4.3.1 Position and Powers of the Supervisory Board

The Supervisory Board is the Bank's body that oversees the Management Board and the Bank's activities, as well as informs the General Meeting on results thereof.

The Supervisory Board shall decide on all matters and exercise all powers, rights and duties vested to the Supervisory Board by applicable law or by the Articles of Association. The Supervisory Board shall among others:

a) review annual, extraordinary or consolidated and, if required, interim financial statements, proposal for the distribution of profit or compensation of loss, and submit its opinion thereon to the General Meeting;
b) establish the Nomination Committee, the Remuneration Committee and the Risk Committee (hereafter jointly as the "Supervisory Board Committees"), adopt statutes of the Supervisory Board Committees and have discretion to set up any other committees of the Supervisory Board and adopt their statutes;
c) elect and recall members of the Management Board, of the Supervisory Board Committees and of other committees of the Supervisory Board;
d) approve service contracts with members of the Management Board, the fixed component of their compensation and the variable component of their compensation set forth, inter alia, by the Executive Variable Incentive Plan (EVIP) and Long Term Incentive Plan (LTIP), up to the amount corresponding to the fixed component of their compensation;
e) approve any compensation to members of the Management Board, unless a member's compensation is established by applicable law, by a service contract or by the Bank's internal rules;
f) propose to the General Meeting an auditor to perform the statutory audit;
g) convene a General Meeting if required by applicable law or by the Bank's interests and propose to the General Meeting appropriate measures to be taken;
h) designate one member of the Supervisory Board, who shall represent the Bank before courts or other authorities in disputes with members of the Management Board;
i) review the affiliated parties report and submit its opinion thereon to the General Meeting;
j) inspect all documents and records related to the activities of the Bank;

k) examine whether the Bank's books and records are kept properly, whether they comply with the true current state of affairs and whether the business activities of the Bank are carried out in compliance with applicable law and the Articles of Association; and
l) exercise all other powers, rights and duties vested to the Supervisory Board by applicable law, including powers, rights and duties of a controlling body under the CNB regulation no. 163/2014 Coll., on activities of banks, saving and credit unions and securities traders, as amended, or, as the case may be, under any replacement thereof (hereafter the "CNB Decree No. 163/2014 Coll.").

The Supervisory Board makes decisions by a simple majority of votes cast at the meeting. The quorum for a meeting of the Supervisory Board is a simple majority of all its members. Members of the Supervisory Board may participate at the Supervisory Board meetings through telephone or other technical devices. When necessary in matters of urgency, a decision may be made by the Supervisory Board without holding a meeting.

In accordance with the Articles of Association, meetings of the Supervisory Board are called by the Chairman of the Supervisory Board. The Chairman of the Supervisory Board is required to call the meeting at any member's request or at the request of the member of the Management Board responsible for risk management. At its discretion, the Supervisory Board may invite members of other Bank's corporate bodies, employees, or other persons to its meetings.

Following the amendment to the Bank's Articles of Association approved by the General Meeting of the Bank on 13 December 2018, the Supervisory Board shall consist of nine members. Six members of the Supervisory Board are elected and recalled by a decision of the General Meeting. Three members of the Supervisory Board are elected and recalled by the Bank's employees. Only employees currently employed by the Bank have the right to elect and recall members of the Supervisory Board elected by the employees. The election order of the Bank sets forth the method and rules for elections and recalling of members of the Supervisory Board elected by employees.

The majority of members of the Supervisory Board elected by the General Meeting, including the Chairman of the Supervisory Board, must be independent. For purposes of the Articles of Association an independent member of the Supervisory Board shall mean a member who is:

a) independent of the Bank's management;
b) not an employee of the Bank or any of its affiliates;
c) not closely related to the Bank or its management through significant economic, family or other ties; and
d) independent of the Bank's controlling shareholder(s), if any.

No member of the Supervisory Board may be a member of the Management Board or the Bank's procura holder (if any).

Members of the Supervisory Board serve a four-year terms and may be re-elected.

Members of the Supervisory Board elect and recall the Chairman and Vice-chairman of the Supervisory Board from among members of the Supervisory Board.

The relationship between a member of the Supervisory Board and the Bank is governed by a service contract concluded between the Bank and the respective member of the Supervisory Board and further by applicable law. There are no service contracts entered into between the Bank and the members of the Supervisory Board providing benefits upon termination of their office.

A member of the Supervisory Board may resign from the Supervisory Board through a written notification delivered to the Supervisory Board or through a written notification addressed to the Supervisory Board and delivered to the Bank's registered office. A member of the Supervisory Board may also resign through an oral declaration made at a meeting of the Supervisory Board and recorded in the minutes. A member of the Supervisory Board may not resign at an improper time for the Bank.

A member's office terminates one month after the delivery of the member's resignation to the Supervisory Board or to the Bank's registered office, unless the Supervisory Board approves another date at the resigning member's request.

If the office of no more than one half of the Supervisory Board members have been terminated for any reason, the Supervisory Board may appoint until the next General Meeting, substitute Supervisory Board members in place of those members of the Supervisory Board elected by the General Meeting whose office were terminated since the last General Meeting.

4.3.2 Members of the Supervisory Board

As at 31 December 2018 the following persons were members of the Supervisory Board:

Name	Role	Member position held from	Member position held to
Gabriel Eichler	Chairman	26 October 2017 (Chairman since 2 August 2018)	26 October 2021
Miroslav Singer	Vice-chairman	24 April 2017 (Vice-chairman since 22 May 2017)	24 April 2021
Ronald Clarke	Member	21 April 2016	21 April 2020
Michal Petrman	Member	21 April 2016	21 April 2020
Denis Arthur Hall	Member	21 April 2016	21 April 2020
Tomáš Pardubický	Member	26 October 2017	26 October 2021

Members of the Supervisory Board whose function terminated in 2018:

Name	Role terminated as a result of resignation on
Maria Luisa Cicognani	1 August 2018

Members of the Supervisory Board whose were elected by employees in January 2019 (for more details please see MONETA's Investor Relations web pages https://investors.moneta.cz/en/about-us):

Name	Role	Member position held from	Member position held to
Jiří Huml	Member	21 January 2019	21 January 2023
Aleš Sloupenský	Member	21 January 2019	21 January 2023
Klára Sokolová	Member	21 January 2019	21 January 2023

Except as stated below, none of the members of the Supervisory Board has been a member of the administrative, management or supervisory bodies or partner of any company or partnership other than the Bank at any time in the previous five years.

GABRIEL EICHLER is the Chairman of the Supervisory Board of MONETA Money Bank since 2 August 2018.

Mr. Eichler studied economics and international relations and has degrees from Brandeis University, The University of Chicago, and the University of Toronto.

Apart from his position as Chairman of the Supervisory Board of MONETA Money Bank he currently holds the positions as Founder Senior partner, the sole member and Director of Benson Oak spol. s r.o., originally a boutique investment bank, later a private equity group which he founded in August 1991. He is also Chairman of the Board of Directors of Vaclav Havel Library.

He began his international banking career at Bank of America where he spent 15 years (1975-1990), half of it in the bank's headquarters in the US (his last position was Chief international Economist) and half as regional General Manager of Bank of America in Paris, Vienna and Frankfurt. After leaving Bank of America, Mr. Eichler spent a year as a partner and Executive Vice-President (EVP) in a US private equity group.

In 1998–2001, Mr. Eichler was the Chairman of the Board, President & CEO of Východoslovenské železiarne (VSŽ). From 1994 to 1998 he was the Vice-chairman of the Board and until the end of 1996 CFO of ČEZ.

Mr. Eichler also acted as the Vice-chairman of the Supervisory Board of Československá obchodní banka, a member of the Supervisory Boards of Česká pojišťovna and Slovenská sporiteľňa.

Until September 2016, Mr. Eichler was Vice-chairman (earlier Executive Chairman) of AVG Technologies Supervisory Board. Mr. Eichler helped bring AVG Technologies, as the first Central European company, to the New York Stock Exchange (NYSE). Earlier he was Member of the Board of Ness Technologies (NASDAQ).

The service contract between Mr. Eichler and the Bank was entered into on 7 November 2017 and will terminate upon the termination of his office.

MIROSLAV SINGER is the Vice-chairman of the Supervisory Board of MONETA Money Bank.

Mr. Singer graduated from the University of Economics in Prague, where he obtained an engineering degree in econometrics and operations research. He also holds a doctoral degree in econometrics and labour from the University of Pittsburgh.

Mr. Singer served for 5 years as the Vice-governor (from February 2005 to June 2010) and 6 years as the Governor (from July 2010 to June 2016) of the Czech National Bank. He also has broad experience from having served on a number of boards. Mr. Singer served from 1994 until 1996 at the Centre for Economic Research and Doctoral Studies at the Charles University, within the Economic Institute of the Academy of Sciences of the Czech Republic, where he was the Deputy Director for Research. Between 1995 and 1996, Mr. Singer worked as a member of the Supervisory Board and the Board of Directors of Česká pojišťovna, a.s. He subsequently joined Expandia Group, where he served as the Chief Economist and a member of the Supervisory Board of Expandia Bank.

From 2001 to 2005, he was a Director of Business Restructuring Services at the international consulting firm, PwC.

Apart from his position as the Vice-chairman of the Supervisory Board of MONETA Money Bank he currently serves as a member of the Supervisory Board of Generali Pojišťovna, a.s. (since May 2017), Chairman of the Supervisory Board of Česká pojišťovna, a.s. (since May 2017), Chairman of the Supervisory Board of Generali Poisťovňa, a.s. (board membership since 2018) and Director for Institutional Affairs and Chief Economist in Generali CEE Holding B.V. (since January 2017), in which he also became a member of the Executive Committee from 1 January 2018.

The service contract between Mr. Singer and the Bank was entered into on 26 October 2017 and will terminate upon the termination of his office.

RONALD CLARKE is a member of the Supervisory Board of MONETA Money Bank.

Mr. Clarke holds an Associate's degree from Dalhousie University.

He worked as HR Manager of Pfizer and also of Warner-Lambert, based in Canada, before joining Telefónica, where he was HR Executive Director, and, later, a member of the Board from 2009 until 2010. At Telefónica, he was based in Prague, reporting to the Director of Human Resources in London. Mr. Clarke was responsible for Commercial & Technical Learning across European region. He designed and implemented Telefónica's European Region Commercial/ Technical Learning & Development Organisation, which led to a cost reduction of 50%.

He has substantially contributed to the successful transition of the Supervisory Board during a challenging period, while it separated from GE Corporation.

Apart from his position as a member of the Supervisory Board of MONETA Money Bank he currently holds the position of the sole member and director of ReDefine, s.r.o. (since February 2015).

The service contract between Mr. Clarke and the Bank was entered into on 26 October 2017 and will terminate upon the termination of his office.

MICHAL PETRMAN is a member of the Supervisory Board of MONETA Money Bank.

Mr. Petrman is also an independent consultant advising clients on finance and management and a lecturer at the University of Economics, Prague.

Mr. Petrman spent most of his career at Deloitte in the Czech Republic where he specialised in auditing financial institutions and other large companies. He also held a number of senior management roles including the Managing Partner of the Deloitte Czech and Slovak offices and a member of the executive committee of Deloitte Central Europe.

He has been a member of the Supervisory Board of the Vaclav and Dagmar Havel foundation VIZE 97 and a member of the Board of the University of Economics in Prague. He is the Chairman of the Audit Committee of NET4GAS, s.r.o. and member of the Audit Committee of Allianz pojišťovna, a.s., Allianz penzijní společnost, a.s. and Diamond Point, a.s. in the Czech Republic. Until middle of 2018 he had executive director roles in few start-up companies: Auxilium Consultum, s.r.o., 6D Academy, z.u, and 6D Services, s.r.o. Since 2009, he has been managing director of INCELA s.r.o.

The service contract between Mr. Petrman (as a member of the Supervisory Board) and the Bank was entered into on 26 October 2017 and will terminate upon the termination of his office.

DENIS ARTHUR HALL is a member of the Supervisory Board of MONETA Money Bank.

Previously, Mr. Hall held senior executive positions as the Chief Risk Officer in Citibank (1985-2001), Deutsche Bank (2001-2007) and GE Capital International (2007–2016). From 2008 to November 2016, he worked as a Supervisory Board Member and a Chairman of the Risk committee at BPH Bank SA and from November 2013 to March 2017 as a Non-Executive Board Member of Hyundai Capital Cards. From 2012 to June 2015, he worked as a member of the Supervisory Board of Budapest Bank Zrt and from October 2013 to December 2016 as a Chairman of the Board of UK Home Lending Ltd.

He is currently a member of the Supervisory Board of Hyundai Capital Bank Europe GmBH based in Frankfurt. Since May 2014, he has served as a Board and Audit and Risk Committee member of Cembra Money Bank AG, Zurich, a bank listed on the SIX Swiss Exchange. He is also a Non-Executive Board member and a Chairman of the Risk committee of the Skipton Building Society in the UK.

The service contract between Mr. Hall (as a member of the Supervisory Board) and the Bank was entered into on 26 October 2017 and will terminate upon the termination of his office.

TOMÁŠ PARDUBICKÝ is a member of the Supervisory Board of MONETA Money Bank.

Mr. Pardubický started his professional career in banking and over his career gained extensive experience both in the financial sector, as well as in real estate development.

He was a member of the team that founded Expandia Banka, later known as eBanka, which was the first Internet banking project in the Czech Republic. Subsequently, he worked as the Chief Executive Officer of eBanka, where he was also responsible for its sale process, since one of the objectives of eBanka was to build a bank with a new strategic partner.

Mr. Pardubický subsequently joined international advisory company PwC, where he was responsible for the banking and insurance sector advisory.

Subsequently, he worked for Komerční banka, where he was one of the Executive Directors responsible for project management and organisation. In 2007, he joined FINEP, one of the leading property developers in the Czech Republic. In FINEP he participated in the group's expansion and transformation to a holding structure.

Mr. Pardubický currently works as the CEO of FINEP HOLDING, SE, a.s. The list of entities operating in the real estate sector, where he is active and holds positions of a member of a corporate body is as follows: ERDEX a.s., EYSCHA a.s., F.R.C., a.s., FINEP Hloubětín 61 a.s., FINEP Hloubětín a.s., FINEP HOLDING, SE, FINEP Holešovice a.s., FINEP Hostivař a.s., FINEP Modřany a.s., FINEP Poštovní a.s., FINEP PROBYDLENÍ a.s., FINEP Real a.s., FINEP Troja a.s., FINEP Zlíchov a.s., FLams a.s., INGRAS a.s., NATURE CITY a.s., Pensum a.s., PROBYDLENÍ FINANČNÍ SLUŽBY a.s., PROSEK Development, a.s., TPK Real a.s., TROJMEZÍ GATE a.s., a WELHAM a.s. During the last 5 years he has held positions in the Office Center Stodůlky GAMA a.s. and Office Center Stodůlky BETA a.s. v likvidaci.

The service contract between Mr. Pardubický and the Bank was entered into on 26 October 2017 and will terminate upon the termination of his office.

4.3.3 Activity Report of the Supervisory Board

In 2018, the Supervisory Board held seven regular meetings.

The Supervisory Board reviewed the Bank's separate and consolidated financial statements as at 31 December 2017 prepared under IFRS and audited by the external auditor, the audit firm KPMG Česká republika Audit, s.r.o. The Supervisory Board recommended to the General Meeting held on 25 April 2018 to approve these financial statements.

The Supervisory Board reviewed the Management Board's proposal for distribution of profit after tax for the financial year 2017 and recommended to the General Meeting to approve this proposal.

Upon recommendation of the Audit Committee, the Supervisory Board made a proposal at the Annual General Meeting held on 25 April 2018 to appoint KPMG Česká republika Audit, s.r.o. as an auditor to conduct the statutory audit of the Bank for the financial year 2018.

In 2018, the Supervisory Board was continuously informed of the Bank's activities and was regularly presented reports and analyses. The Supervisory Board assessed, in particular, the functionality and efficiency of the Bank's internal control systems, concluding that the internal control

systems are functional and effective. Moreover, it examined the 2017 annual assessment report on the Bank's system for anti-money laundering and preventing the financing of terrorism, including a related risk assessment and the annual compliance management report.

Further, as a result of a tender for an auditor to conduct the Bank's statutory audit for the year ending 31 December 2019, the Audit Committee recommended to the Supervisory Board to propose the audit firm Deloitte Audit s.r.o. as the new auditor of the Bank, which meets all the requisite requirements for independence and professionalism.

The Supervisory Board regularly discussed the Bank's quarterly financial results and its position on the market in line with developments of the macroeconomic environment. Furthermore, it discussed the actions of the Internal Audit team and their results in individual periods of the year, changes in the audit plan for 2018, as well as the internal audit plan for 2019.

In the course of its activities, the Supervisory Board continued to rely on the opinion of its Risk, Nomination and Remuneration Committees and was informed of the issues discussed by the Audit Committee.

Further activities of the Supervisory Board in relation to the 2018 financial statements and annual report are described in the Supervisory Board report in chapter 7 and Section "Letter from the Chairman of the Supervisory Board".

The Supervisory Board discussed the remuneration of the members of the Management Board and recommended bonus amounts for the performance year 2017, the payment of which is subject to the principles of the deferred bonus scheme.

The Chairman of the Supervisory Board approved, upon the resignation and request of Mr. Holemans, that his function as a Member and Vice-chairman of the Management Board will terminate on 28 February 2019.

Please see chapter 7 for the opinions of the Supervisory Board (i) on the consolidated and separate financial statements for the year ended 31 December 2018 and (ii) on the proposal of the Management Board on the distribution of the profit for the year 2018 to the Bank's shareholders.

4.4 COMMITTEES ESTABLISHED BY THE SUPERVISORY BOARD

The Nomination Committee, the Remuneration Committee and the Risk Committee established by the Supervisory Board, together with their powers and duties, and chairs and members, are described below.

4.4.1 Nomination Committee

The Nomination Committee is a supporting and advisory body of the Supervisory Board. The Nomination Committee consists of three members elected and recalled by the Supervisory Board from among its own members, with the majority of its members being independent.

The Nomination Committee shall in particular:

a) identify and recommend candidates to fill the vacancies on the Management Board or the Supervisory Board for the approval of the Supervisory Board or the General Meeting, as the case may be;
b) periodically, and at least annually, assess the structure, size, composition and performance of the Management Board and the Supervisory Board and make recommendations to the Supervisory Board with regard to any changes;
c) periodically, and at least annually, assess the trustworthiness, knowledge, skills and experience of individual members of the Management Board and of the Supervisory Board; of the Management Board collectively and of the Supervisory Board collectively; and report to the Supervisory Board accordingly;
d) periodically review the policy of the Management Board and the Supervisory Board for selection and appointment of senior management and make recommendations to the Supervisory Board; and
e) exercise other powers and responsibilities vested to the Nomination Committee by applicable law, the Bank's Articles of Association or by the Bank's internal rules, to the extent that those comply with applicable law.

The Nomination Committee makes decisions by a simple majority of votes cast at the meeting. The quorum for a meeting of the Nomination Committee is a simple majority of all its members. Meetings of the Nomination Committee are called by the Chairman of the Nomination Committee.

As at 31 December 2018 the following persons were members of the Nomination Committee:

Name	Role
Ronald Clarke	Chairman of the Committee
Gabriel Eichler	Member of the Committee
Michal Petrman	Member of the Committee

4.4.2 Remuneration Committee

The Remuneration Committee is a supporting and advisory body of the Supervisory Board. The committee consists of three members elected and recalled by the Supervisory Board from among its own members, with the majority of members being independent. The Remuneration Committee shall, in particular:

a) establish the remuneration strategy for the Bank;
b) establish and maintain principles for remunerating new and current members of the Management Board and members of the Material Risk Takers group;
c) review and approve all aspects of fixed and variable compensation for the Management Board (including the Chief Risk Officer);
d) approve an annual consolidated variable compensation report for the Banks' employees;
e) opine on Material Risk Takers compensation matters, as they arise;
f) review and approve all aspects of fixed and variable compensation for the Head of the Internal Audit and Compliance functions; and
g) exercise other powers and responsibilities vested to the Remuneration Committee by applicable law, the Bank's Articles of Association or by the Bank's internal rules, to the extent that those comply with applicable law.

The Remuneration Committee makes decisions by a simple majority of votes cast at the meeting. The quorum for a meeting of the Remuneration Committee is a simple majority of all its members. Meetings of the Remuneration Committee are called by the Chairman of the Remuneration Committee.

As at 31 December 2018 the following persons were members of the Remuneration Committee:

Name	Role
Ronald Clarke	Chairman of the Committee
Miroslav Singer	Member of the Committee
Tomáš Pardubický	Member of the Committee since 2 August 2018*

* Maria Luisa Cicognani served as the member of the Committee untill 1 August 2018.

4.4.3 Risk Committee

The Risk Committee is a supporting and advisory body of the Supervisory Board. The committee consists of three members elected and recalled by the Supervisory Board from among its own members, with the majority of members being independent.

The Committee shall in particular:

a) advise the Supervisory Board on the Bank's overall current and future risk approach, risk strategy and risk appetite;
b) assist the Supervisory Board in overseeing the implementation of the risk strategy by the Bank's senior management;
c) on a quarterly basis, review the regulatory risk profile of the Bank or any of its subsidiaries;
d) on a quarterly basis, review Group's IT security policies and measures;
e) on a quarterly basis, monitor major regulatory risks or issues along with compliance with the risk appetite and with all other risk policies (as approved by the Management Board) and oversee any actions taken as a result of material risk policy breaches;
f) on a quarterly basis, oversee changes in Group's regulatory risk management environment and other emerging risks and Group readiness for such changes;
g) on a quarterly basis, oversee Group's capital and liquidity position via escalation and regular reporting from the Enterprise Risk Management Committee ("ERMC") and Asset and Liability Committee ("ALCO");
h) on an annual or as required basis, review key management and control function information and reports (from, including but not limited to, the ERMC and the ALCO to assess the level and nature of the risks Group is facing and to make recommendations to the Management and Supervisory Board to adjust its risk appetite if necessary); and
i) provide other activities pertaining to business risks of the Bank.

The Risk Committee makes decisions by a simple majority of votes cast at the meeting. The quorum for a meeting of the Risk Committee is a simple majority of all its members. Meetings of the Risk Committee are called by the Chairman of the Risk Committee.

As at 31 December 2018 the following persons were members of the Risk Committee:

Name	Role
Miroslav Singer	Chairman of the Committee
Denis Arthur Hall	Member of the Committee
Tomáš Pardubický	Member of the Committee

4.5 AUDIT COMMITTEE

The Audit Committee is a separate body of the Bank and consists of three members. The composition of the Audit Committee and qualification of its members complies with the requirements set forth by Act No. 93/2009 Coll., on auditors and on amending other acts, as amended, and the members of the Audit Committee also comply with the same eligibility qualifications as members of the Supervisory Board.

The Audit Committee is empowered to:

a) monitor the effectiveness of the Bank's internal control and risk management system;
b) monitor the effectiveness of the Bank's internal audit and its functional independence;
c) monitor the process of compiling the Bank's consolidated and non-consolidated financial statements, and submit recommendations on ensuring the integrity of the accounting and financial reporting systems to the Management Board or to the Supervisory Board;
d) recommend an auditor to the Supervisory Board whereas such recommendation shall be duly reasoned, unless provided otherwise by directly applicable law of the European Union on specific requirements regarding statutory audit of public-interest entities;
e) evaluate the independence of the Bank's auditor and providing non-audit services by that auditor;
f) discuss with the Bank's auditor threats to his/her independence and the safeguards applied by that auditor to mitigate those threats;
g) monitor the process of the statutory audit;
h) opine on the termination of obligation arising from the agreement on performance of the statutory audit or the withdrawal from the agreement on performance of the statutory audit, pursuant to Section 17a sub. 1 of Act No. 93/2009 Coll., on auditors and on amending another laws, as amended (hereafter the "Act on Auditors");
i) evaluate whether the Bank's auditor engagement shall be subject to an engagement quality control review by another auditor pursuant to Article 4 sub. 3 first subsection of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, as amended (hereafter the "EU Regulation No. 537/2014");
j) inform the Supervisory Board of the outcome of the statutory audit and its findings discovered within monitoring the process of the statutory audit;
k) inform the Supervisory Board how the statutory audit contributed to the integrity of the accounting and financial reporting systems;
l) decide whether the statutory audit shall be further carried out by the Bank's auditor pursuant to Article 4 sub. 3 second subsection of the EU Regulation No. 537/2014;
m) approve providing other non-audit services;
n) approve a report on outcome of selection procedure in the selection procedure pursuant to Article 16 of the EU Regulation No. 537/2014;
o) be entitled to inspect documents and records related to the activities of the Bank to the extent required for execution of its activities;
p) receive and discuss with the Bank's auditor information, declarations and notifications as required by applicable laws;
q) provide other Bank's bodies with information on matters within the Audit Committee's competences;
r) prepare a report on its activities, evaluating its activities in relation to the activities specified in Section 44a sub. 1 of the Act on Auditors, and provide this report to the Council for public audit supervision; and
s) exercise all other powers, rights and duties vested to the Audit Committee by applicable laws.

The Audit Committee makes decisions by a simple majority of votes cast at the meeting. The quorum for a meeting of the Audit Committee is a simple majority of all its members. The Audit Committee has discretion to invite to its meetings members of other Bank's corporate bodies, employees, or other persons.

As at 31 December 2018 the following persons were members of the Audit Committee:

Name	Role
Michal Petrman	Chairman of the Committee
Denis Arthur Hall	Member of the Committee
Zuzana Prokopcová	Member of the Committee

Members of the Audit Committee serve four-year terms and may be re-elected.

The relationship between a member of the Audit Committee and the Bank is governed by a service contract agreed between the Bank and the respective member of the Audit Committee and further by applicable laws. There are no service contracts entered into between the Bank and the members of the Audit Committee providing benefits upon termination of their office or employment.

For information about **MICHAL PETRMAN**, please see section "Supervisory Board". The service contract between Michal Petrman (as a member of the Audit Committee) and the Bank was entered into on 26 October 2017 and will terminate upon the termination of his office.

For information about **DENIS ARTHUR HALL**, please see section "Supervisory Board". The service contract between Denis Arthur Hall (as a member of the Audit Committee) and the Bank was entered into on 26 October 2017 and will terminate upon the termination of his office.

ZUZANA PROKOPCOVÁ is a member of the Audit Committee of MONETA Money Bank (she is not a member of the Supervisory Board).

Mrs. Zuzana Prokopcová graduated from the University of Economics in Prague, Faculty of Finance and Accounting. She has extensive experience as an auditor in an international advisory company and in the management of large companies. She began her professional career at the international consulting company PricewaterhouseCoopers (PwC) in 1998, where she served as an auditor, focusing mainly on financial institutions. Subsequently, she held the same position for one year in Russia and for two years in Kazakhstan, again within the framework of her work at PwC.

In 2014, she became the Vice-chair of the Board of Directors and CFO of Czech Aeroholding, the leading company in the field of air transport in the Czech Republic, where she was responsible for treasury, accounting, tax, controlling, internal audit and risk management areas. She held the position of the Chair of the Supervisory Board of Czech Airlines Handling, a.s., Czech Airlines Technics, a.s., Realitní developerská, a.s., Sky Venture a.s., Whitelines Indurstries a.s., and B. aircraft, a.s. Mrs. Prokopcová is currently a member of the Audit Committee of Kofola ČeskoSlovensko, a.s. She was recommended for her knowledge of financial reporting and IFRS, she is also a certified member of the Association of Chartered Certified Accountants (ACCA).

The service contract between Zuzana Prokopcová and the Bank was entered into on 26 October 2017 and will terminate upon the termination of her office.

Except as stated above, none of the members of the Audit Committee has been a member of the administrative, management or supervisory bodies or partner of any company other than the Bank or partnership at any time in the previous five years.

4.5.1 Activity Report of the Audit Committee

In 2018, the Audit Committee held 5 meetings and adopted 5 decisions outside the meeting through per rollam voting. The Audit Committee met outside the regular meetings to review proposals for the external statutory auditor. The Audit Committee is responsible for conducting all its duties in accordance with the relevant law. Its members continued in 2018 to have the main areas of responsibility split as follows: Mr. Petrman is responsible for the internal and external audit, Mrs. Prokopcová is responsible for the financial reporting and controls, Mr. Hall is responsible for risk management.

The Audit Committee activities primarily focused on the following five major areas:

I. Internal Control System, Compliance and Risk Management Matters

The Audit Committee discussed internal controls with the Chief Finance Officer, the Chief Risk Officer and the Chief Compliance Officer, in particular, around financial reporting, risk and compliance matters. Any significant changes and/or issues relating to these matters were on the agenda of the Audit Committee. The Audit Committee also reviewed the annual Report on Evaluation of the Functionality and Efficiency of the Internal Control System prepared by the Internal Audit. The Audit Committee continues to oversee effectiveness of internal controls and risk management, with a focus on financial reporting.

II. Preparation of Annual Financial Statements

The Audit Committee reviewed processes and controls relating to financial reporting and, in particular, to the preparation of the Bank's annual separate and consolidated financial statements as at and for the year ended 31 December 2017. The review of the annual financial statements included inquiries regarding changes to accounting policies, significant accounting estimates, compliance with accounting standards and major trends in financial results.

Based on the above and on the basis of the oversight of external audit activities (see below), the Audit Committee concluded that the annual separate and consolidated financial statements for the year ended 31 December 2017 were prepared in accordance with applicable law and accounting standards.

III. Selection of the External Statutory Auditor and Approval of Non-Audit Services Provided by the Statutory Auditor

Based upon the proposal of the Supervisory Board and the recommendation of the Audit Committee, the Annual General Meeting held on 25 April 2018 appointed the audit firm KPMG Česká republika Audit, s.r.o ("KPMG") as an auditor to conduct the statutory audit of the Bank for the financial year 2018.

The Audit Committee reviewed the statutory auditor appointment again during 2018 and, on the basis of a tender procedure, recommended to the Supervisory Board to propose the audit firm Deloitte Audit s.r.o. as the statutory auditor for the financial year 2019.

In 2018, the Audit Committee reviewed and approved all requests for performance of non-audit services by KPMG. In its review, the Audit Committee focused on any potential threats to KPMG's independence.

IV. Oversight of Internal Audit Activities

The Audit Committee approved the 2018 internal audit plan and all of its changes that were proposed during the year 2018. A summary of key internal audit findings and remedial action plans were regularly presented to the Audit Committee. Implementation of the 2018 internal audit plans was regularly monitored by the Audit Committee. The Audit Committee received and discussed regular reports from the Head of Internal Audit on the implementation of the Internal Audit Reinforcement Plan. In December 2018, the Audit Committee approved the 2019 internal audit plan.

During the first half of 2018 an external quality assessment of the Internal Audit function was performed. This review did not identify any significant deficiencies. All recommendations from the reviewer were agreed with the management and are in process of implementation. The Audit Committee did not identify any material deficiencies in respect to the functioning and independence of the Bank's internal audit function in the year 2018.

V. Oversight of External Audit Activities

The Audit Committee also monitored the process of the statutory audit of the Bank's annual separate and consolidated financial statements for the year ended 31 December 2017 which were conducted by KPMG.

The Audit Committee discussed the audit report and the process of the annual statutory audit including unadjusted audit differences and other matters as specified in the agenda with the external auditor.

The Audit Committee reviewed and acknowledged KPMG's 2017 audit report where KPMG concluded that in their opinion, the consolidated and separate financial statements give a true and fair view of the financial position of the Group and the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with IFRS.

The Audit Committee also received and reviewed an additional report to the Audit Committee from KPMG as the statutory auditor as required by the EU Regulation No. 537/2014.

The Audit Committee was satisfied with assuring the auditor's independence and with the scope and execution of the statutory audit.

The Audit Committee informed the Supervisory Board of the outcome of the 2017 statutory audit, the Audit Committee's observations and the contribution of the statutory audit to the integrity of the Bank's accounting and financial reporting system.

VI. Conclusion

In conclusion, the Audit Committee states that it has fulfilled all of its responsibilities as set forth by applicable Czech and EU law, the Bank's Articles of Association, the Bank's internal rules and policies and where relevant provided its recommendations to the Bank's Supervisory

Board. Within the scope of its responsibilities, the Audit Committee did not identify any substantial facts relating to the Bank and its activities of which the General Meeting should be informed.

4.6 MANAGEMENT BOARD

4.6.1 Position and Powers of the Management Board

The Management Board is the corporate body which manages the Bank's business. The Management Board is charged with business management, including ensuring the proper keeping of the Bank's books. The Management Board further guarantees the proper existence, timely evaluation and set up of the management and control system, and ensures the Bank is compliant with the law.

The Management Board is responsible for the continuous functioning and effectiveness of the management and control system and creates conditions for the independent and objective performance of compliance related operations and of the internal audit. The Management Board ensures the establishment, maintenance and implementation of the management and control system to ensure the adequacy of information and communication in conducting the Bank's operations. The Management Board shall decide upon all matters concerning the Bank unless they are assigned to the General Meeting, the Supervisory Board or the Audit Committee by law or by the Articles of Association.

The Management Board consists of five members (individuals) who comply with the law for serving as a member of the Bank's Management Board. They are elected for a four-year term by a majority of all Supervisory Board members at the recommendation of the Nomination Committee. The Nomination Committee ensures the trustworthiness, adequate professional qualifications, and experience of the members of the Management Board. The professional qualifications, trustworthiness, and experience of the members of the Bank's Management Board are assessed by the Czech National Bank.

4.6.2 Special Powers of the Management Board under the Czech Law

The Management Board is responsible for the Bank's management and conducts the business activities of the Bank. The Management Board represents the Bank in all matters.

The Management Board shall decide on all the Bank's matters, save for matters reserved for other Bank's bodies by applicable laws or by the Articles of Association. The Management Board shall, inter alia:

a) ensure proper maintenance of the Bank's book-keeping;
b) decide on an increase in the registered share capital, provided that the Management Board has been duly authorised by the General Meeting;
c) decide on establishing and dissolving the Bank's funds and reserves, on the rules relating to such funds and reserves and on the use of resources from such funds and reserves, unless stated otherwise by applicable laws;
d) have discretion to set up any committees and other bodies of the Management Board (hereafter the "Management Board Bodies") and adopt their statutes;
e) elect and recall members of the Management Board Bodies;
f) exercise rights of the Bank as a shareholder in the Bank's subsidiaries;
g) exercise employer's rights;
h) convene a General Meeting and implement its resolutions;
i) prepare and submit to the General Meeting the following documents:
   i. annual, extraordinary or consolidated and, if required, interim financial statements;
   ii. proposal for a distribution of profit or for a compensation of loss;
   iii. affiliated parties report;
   iv. report on the Bank's business and its assets;
   v. summary report pursuant to Section 118 sub. 9 of the Czech Capital Markets Act;
   vi. proposals to amend the Articles of Association;
   vii. proposals to increase or decrease the registered share capital;
   viii. proposals to issue preference or convertible bonds;
   ix. other documents and proposals, if required by applicable laws or by the Articles of Association;
j) approve and issue the election order setting forth the method and rules for elections and recalling of members of the Supervisory Board elected by the Bank's employees;
k) organise elections and recalling of members of the Supervisory Board elected by the Bank's employees;
l) exercise all other powers, rights and duties vested to the Management Board by applicable laws, including powers, rights and duties of a managing body under CNB Decree No. 163/2014 Coll.

The Management Board informs the Supervisory Board on the following matters:

a) approval or modification of the Bank's strategy, business plan, annual budget and/or organisation rules;
b) issue or modification of any material terms or approval of pre-payment of any bonds or any other debt securities (other than deposit taking), unless:
   i. issue of bonds is reserved by applicable laws for the General Meeting; and
   ii. issue or modification of any material terms or approval of pre-payment of any bonds or any other debt securities are included in the approved Bank's business plan and/or annual budget;
c) entering into or modification of any material terms of any agreements concerning loan, credit, guarantee or any other instruments incurring to the Bank financial indebtedness (other than deposit taking) in the aggregate nominal value in excess of 5% (five per cent) of the Bank's consolidated equity as recorded in the latest available consolidated quarterly financial statements of the Bank (hereafter the "Equity"), unless included in the approved Bank's business plan and/or annual budget;
d) entering into or modification of any material terms of any loan, credit or guarantee agreements with persons with a special relationship to the Bank pursuant to Act No. 21/1992 Coll., on banks, as amended (hereafter the "Act on Banks");
e) entering into or modification of any material terms of any agreements concerning loan, credit or any other financial products with the Bank's receivables in the aggregate nominal value in excess of 5% (five per cent) of the Equity, unless included in the approved Bank's business plan and/or annual budget;
f) approval of any corporate transformation of the Bank, unless approval of such corporate transformation is reserved by applicable laws for the General Meeting;
g) establishment, corporate transformation, dissolution or liquidation of, or acquisition, disposition or encumbrance of any ownership interest in, or increase in the registered share capital of any Bank's subsidiary, unless included in the approved Bank's business plan and/or annual budget;
h) approval or modification or cancellation of any investment with the acquisition value in excess of 5% (five per cent.) of the Equity, unless included in the approved Bank's business plan and/or annual budget;
i) disposition of any non-performing loan, credit or other financial products receivables with the aggregate book value in excess of 5% (five per cent.) of the Equity, unless included in the approved Bank's business plan and/or annual budget;
j) acquisition, disposition or encumbrance of any other assets of the Bank with the book value in excess of 5% (five per cent.) of the Equity, if outside the Bank's ordinary course of business and unless included in the approved Bank's business plan and/or annual budget; and
k) approval of any compensation to members of the Bank's staff identified in the Bank's internal rules.

The Management Board makes decisions by a simple majority of votes cast at the meeting. A quorum is present when a simple majority of members of the Management Board is present at a meeting. Members of the Management Board may participate in Management Board meetings by telephone or through another technical device. When necessary in matters of urgency, a decision may be made by the Management Board without holding a meeting. The Management Board has the discretion to invite members of other Bank's corporate bodies, employees or other persons to its meetings.

The Management Board consists of five (5) members. No member of the Management Board may be a member of the Supervisory Board or the Audit Committee. Members of the Management Board are elected and recalled by a decision of the Supervisory Board. Members of the Management Board serve four (4) year terms and may be re-elected. Members of the Management Board elect and recall the Chairman and Vice-chairman of the Management Board from among members of the Management Board. The relationship between a member of the Management Board and the Bank is governed by a service contract concluded between the Bank and the respective member of the Management Board and further by applicable laws.

A member of the Management Board may resign from the Management Board through a written notification delivered to the Chairman of the Supervisory Board or through a written notification addressed to the Chairman of the Supervisory Board and delivered to the Bank's registered office. A member of the Management Board may not resign at an improper time for the Bank.

The Bank is represented by two board members, one of whom must be the Chairman or Vice-chairman.

4.6.3 Members of the Management Board

As at 31 December 2018 the following persons were members of the Management Board:

Name	Role	Member position held from	Member position held to
Tomáš Spurný	Chairman of the Management Board	1 October 2015 (Chairman since 1 October 2015)	1 October 2019
Philip Holemans	Vice-chairman of the Management Board	17 July 2014 (Vice-chairman since 20 April 2016)	Mr. Holemans resigned with effect as at 28 February 2019
Carl Normann Vökt	Member of the Management Board	25 January 2013	26 January 2021
Jan Novotný	Member of the Management Board	16 December 2013	17 December 2021
Albert Piet van Veen	Member of the Management Board	1 May 2017	1 May 2021

On 6 February 2019 the Supervisory Board appointed Mr. Jan Friček to the Management Board of the Bank for a four-year term and as the Chief Financial Officer of the Bank, both with effect from 1 March 2019 (for more details about Mr. Jan Friček please see MONETA's Investor Relations web pages https://investors.moneta.cz/en/about-us).

On 21 February 2019 the Management Board elected Mr. Carl Normann Vökt to the position of the Vice-chairman of the Management Board, with effect from 1 March 2019.

Except as stated below, none of the members of the Management Board has been a member of the administrative, management or supervisory bodies or partner of any company or partnership other than the Bank at any time in the previous five years.

TOMÁŠ SPURNÝ holds a bachelor's degree from New York University and a MBA from Columbia Business School. He started his career at McKinsey & Company and has extensive experience from managerial positions in the banking and financial sector.

Most recently, he served as the CEO and the Chairman of the Management Board of Banca Comerciala Romana, a Romanian subsidiary of Erste Group. Previously he served as the CEO at major banks in the CEE region, including CIB in Hungary, VUB in Slovakia and held the CFO position at Komerční banka. Mr. Spurný also held CEO positions at PPF and CCS.

On 1 October 2015, he was appointed CEO and Chairman of the Management Board of the Bank for four years. The current service contract between Mr. Spurný and the Bank was entered into on 5 February 2018, became effective on 1 January 2018 and will terminate upon the termination of his office. The service contract provides for the following benefits upon termination of Mr. Spurný's office: in the period of up to nine months following the termination of his office, Mr. Spurný is entitled to receive monthly in arrears a salary continuance equal to his monthly pre-termination base salary, subject to compliance by Mr. Spurný with non-compete obligation and other terms of his service contract. Mr. Spurný has also been a member of the Supervisory Boards of MONETA Leasing since November 2015 and MONETA Auto since May 2016. He was also a Managing Director of GE Capital (Czech) Holdings, s.r.o. between October 2015 and May 2016.

As the Chief Executive Officer, he actively fulfils his duties, which are set by applicable law, internal regulations of the Bank and decisions by the General Meeting of the Bank.

CARL NORMANN VÖKT holds a university degree with a major in Finance and Marketing gained at the Karl Franzens University in Graz, Austria.

His career started back in 1990 in Vienna in the area of Project and Structured Finance at Creditanstalt, followed by a short secondment to the International Finance Corporation in Washington. Since 1996 he was working in Poland. During his more than 15-year stay in Poland, Mr. Vökt held different senior positions in Corporate Banking and Risk Management. The last position he held in Poland was as the Chief Risk Officer and Deputy President of the Management Board at Bank BPH in Warsaw.

Since November 2012, Mr. Vökt has held the position of the Chief Risk Officer at MONETA Money Bank. On 25 January 2013, he was appointed as a member of the Management Board of the Bank for four years and reappointed with effect from 26 January 2017 for further four years. The current service contract between Mr. Vökt and the Bank was entered into on 24 January 2017 and will

terminate upon the termination of his office. The service contract provides for the following benefits upon termination of Mr. Vökt's office: In the period of twelve months following the termination of his office, Mr. Vökt is entitled to receive monthly in arrears a salary continuance equal to his monthly pre-termination base salary, subject to compliance by Mr. Vökt with his non-compete obligation and other terms and conditions of his service contract.

He has been also a member of the Supervisory Boards of MONETA Leasing since November 2015 and MONETA Auto since May 2016.

As the Chief Risk Officer, he is responsible for the overall direction of the Risk function of the Group. He leads the underwriting, portfolio management and risk management functions and also provides leadership to executive and senior risk managers. He is accountable for enabling the efficient and effective governance of significant risks, and related opportunities, to each business and its various segments.

JAN NOVOTNÝ has worked in several positions at the Bank since joining in 2003.

He began as a commercial banking analyst and later became the data team leader; Mr. Novotný also led product development and ultimately product management. He left in 2007 to gain more experience within the GE Capital Group in Singapore, where he was product manager for SME for the South-East Asia Region (Singapore, the Philippines, Thailand and China). He returned to the Czech Republic the following year, working as the Head of the Micro and Small Enterprises Segment, and later as the Manager of the entire SME segment of the Bank.

Mr. Novotný was appointed the Chief Commercial Banking Officer in May 2013, and on 16 December 2013 a member of the Management Board for four years. On 10 August 2017, his service contract was extended for an additional four years and will terminate upon the termination of his office.

The current service contract between Mr. Novotný and the Bank was entered into on 19 September 2017 and will terminate upon the termination of his office. The service contract provides for the following benefits upon termination of Mr. Novotný's office: In the period of twelve months following the termination of his office, Mr. Novotný is entitled to receive monthly in arrears a salary continuance equal to his monthly pre-termination base salary, subject to compliance by Mr. Novotný with non-compete obligation and other terms and conditions of his service contract.

He has also been a member of the Supervisory Boards of MONETA Leasing since November 2015 and MONETA Auto since May 2016.

As the Chief Commercial Banking Officer, he is responsible for leading and managing all aspects of the client relationship and portfolio performance. His mandate is to manage and increase assets and accounts, profitably execute growth initiatives, introduce additional products, manage assigned resources and enhance client relationships in order to retain and grow the business.

ALBERT PIET VAN VEEN studied Management Science and Business Engineering at the Eindhoven University of Technology, and Logistical and Physical Distribution Systems at the Technical University of Crete.

During the more than twenty years of his professional career, Mr. Van Veen has gained experience in telecoms, banking and insurance in several countries. At ING, where he worked for 8 years, he was CIO for ING RE and responsible for the IT separation of ING Insurance and transformation into NN and for the IPO.

Mr. Van Veen came to MONETA Money Bank from Schiphol Group, where he was the Chief Digital Officer. As the leader of digital transformation, he managed to accelerate digital services and, together with a team of innovators, he explored new technologies to find new business models for the Schiphol airport to become the best digital airport in the world.

At the Bank, Mr. Van Veen is responsible for the agile transformation of MONETA and is in charge of IT, the Shared Services Centre and the Project Management Team. Since May 2017, he has been the Chief Operating Officer and a member of the Management Board of MONETA Money Bank.

The service contract between Mr. Van Veen and the Bank was entered into on 1 May 2017 and will terminate upon the termination of his office.

The service contract provides for the following benefits upon termination of Mr. Van Veen's office: Mr. Van Veen is entitled to an extraordinary payment in the amount of nine months' remuneration in case of the termination of the performance of the office. Such extraordinary remuneration will be paid to Mr. Van Veen together with the last payment of remuneration.

PHILIP HOLEMANS has a Master's degree in applied economics from the Leuven University in Belgium.

Mr. Holemans has resigned from his position of the Member and Vice-chairman of the Management Board of the Bank with effect from 28 February 2019.

He joined GE Capital in 1998, where he worked in increasingly senior positions in Finance. Before joining the Bank, he held the position of the Chief Financial Officer at GE Capital Germany and Benelux for almost five years. Since January 2014, he has held the position of the Chief Financial Officer and was appointed on 17 July 2014 as a member of the Management Board of the Bank for four years and on 20 April 2016 as the Vice-chairman of the Management Board of the Bank.

The last service contract between Mr. Holemans and the Bank was entered into on 12 June 2018 and terminated upon the termination of his office on 28 February 2019. The service contract provides for the following benefits upon termination of Mr. Holemans's office: In the period of up to twelve months following the termination of his office, Mr. Holemans is entitled to receive monthly in arrears a salary continuance equal to his monthly pre-termination base salary, subject to compliance by Mr. Holemans with non-compete obligation and other terms of his service contract. However, given that following his resignation Mr. Holemans will take up a paid position elsewhere, he is to receive no salary continuance in accordance with his service contract.

Until 28 February 2019, Mr. Holemans was a member of the Supervisory Boards of MONETA Leasing since November 2015 and MONETA Auto since May 2016. Mr. Holemans was a Managing Director of GE Money Multiservis between June 2014 and June 2016. In addition, Mr. Holemans is a board member of the Belgian company iSurgic CVBA.

As the Chief Financial Officer, Mr. Holemans participated in key decisions pertaining to strategic initiatives, operating model and operational execution. He directed the execution of the finance strategy, and oversaw multiple areas of finance (e.g. Controllership, Financial Planning & Treasury Analysis, Pricing).

Following the announcement of the resignation of Mr. Holemans in November 2018, the Bank enacted a succession procedure to choose a suitable candidate to fill the vacant position. On 6 February 2019, the Supervisory Board appointed Mr. Jan Friček to the Management Board of the Bank for a four-year term and as the Chief Financial Officer of the Bank, both with effect from 1 March 2019.

4.6.4 Activity Report of the Management Board

During 2018, the main tasks of the Management Board were supporting the expansion of business activities across both the retail and commercial franchise and introducing the new digital strategy of the Bank. The Management Board prepared and discussed the separate and consolidated financial statements of the Bank and the Group for the financial year 2017 which were prepared according to IFRS.

The Management Board submitted the separate and consolidated financial statements of the Bank for the financial year 2017 for review to the Supervisory Board and then to the Annual General Meeting held on 25 April 2018, where they were approved. The Management Board also submitted a proposal regarding 2017 net profit distribution to the Supervisory Board for review, which was subsequently approved at the Annual General Meeting held on 25 April 2018. At the Annual General Meeting, the Management Board presented their report on the Bank's business activities and the Supervisory Board's proposal for appointment of the external statutory auditor. The Management Board also prepared and approved the Bank's Annual Report for the financial year 2017.

During 2018, the Management Board regularly reviewed and published the Banks's quarterly financial results.

In 2018, the Management Board held 50 meetings in total.

In 2018, the Management Board regularly evaluated the Bank's capital adequacy and liquidity and approved the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports which were submitted to the Czech National Bank in accordance with the CNB Decree No. 163/2014 Coll. While taking into consideration the solvency test, the Management Board decided on the payment of dividends for the financial year 2017, as approved by the Annual General Meeting held on 25 April 2018. The Management Board also discussed the capital management policy, reports on the market situation and the development of structural risks for each quarter of the year 2018.

As part of its activities, the Management Board regularly assessed all risks to which the Bank is exposed. In the field of risk management, the Management Board discussed on a regular basis

reports on the developments in market and capital risks and developments in lending on capital markets. At the same time, the Management Board discussed and approved limits on market risks and approved certain large loans provided to clients. The Management Board approved competences in providing the loans and dealt with issues of risk management supervision across the entire Group. In the operational risks area, the Management Board discussed regular quarterly reports containing information on the results of the first level controls.

Compliance risks were evaluated by the Management Board both in the annual report for the financial year 2017 and in the quarterly reports on the development of these risks. At the same time, the Management Board approved the 2017 annual evaluation report on the Bank's system against money laundering and the financing of terrorism.

The Management Board continued to oversee implementation of compliance with new regulation, most importantly the PSD 2 and GDPR.

The Management Board identified those employees whose professional activities have a material impact on the Bank's risk profile. In the area of Internal Audit, the Management Board discussed a number of documents and was regularly informed of all actions carried out by Internal Audit. The management of remedial measures and their proper implementation were fully addressed by the Management Board.

The Board monitored the status of individual projects relating to IT, HQ move and digital strategy, updated the information security policy and approved the information management strategy.

The Management Board evaluated the overall functioning and efficiency of the Bank's management and control system, which is functional and effective. Furthermore, the Management Board addressed reports on the handling of complaints and claims (including complaints sent to the Bank's Ombudsman).

The Management Board also discussed the Bank's strategic direction and business plan for year 2019.

The Management Board discussed all issues falling within its competence as the sole shareholder performing the duties of the General Meeting in the Group's subsidiaries, such as approving financial statements, the election and remuneration of members of company bodies, amendments to the articles of association, appointment of auditors and other matters.

During 2018, the Management Board was in a regular contact with investors and organised 311 individual or group meetings or phone calls.

The Management Board has also conducted preparatory activities connected with the potential acquisition of Air Bank and Home Credit's Czech and Slovak businesses announced in October 2018, including performance of due diligence and its evaluations.

As part of its activities, the Management Board decided on many other issues related to the organisational structure, approving directives within various arms or granting powers of attorney.

Great attention was further devoted to corporate governance issues in the context of new developments in Czech legislation and in the context of corporate governance standards. The Management Board evaluated its own activities in 2017 and submitted its report on those activities for this period to the Supervisory Board.

4.7 COMMITTEES ESTABLISHED BY THE MANAGEMENT BOARD

The committees established by the Management Board, their roles and responsibilities, and their composition as at 31 December 2018 are listed below.

4.7.1 Asset & Liability Committee

The Asset & Liability Committee (ALCO) is responsible for the management and coordination of activities in the area of asset & liability management, capital, market risk and liquidity risk management of companies of the Group.

Its main responsibilities include: advising the Management Board in the area of asset & liability management, capital, market and liquidity risk management; monitoring market and liquidity risk, asset & liability structure, capital, capital requirements (regulatory and internal) and capital adequacy, and approving remediation measures in case of adverse trends or limit breaches; approving methods, scenarios and limits; approving limits for funding; approving investment products and transaction limits for Treasury transactions; approving investment strategy for Treasury transactions; approving Funds Transfer Pricing methodology; approving

hedging strategy; and assessing the profitability of Treasury transactions.

ALCO makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of ALCO is a half of its voting members exercising a simple majority of votes of all voting members. If absent, a voting member of ALCO may appoint another voting member to exercise his or her voting rights. Non-voting members have no voting rights.

As at 31 December 2018 the following persons were members of ALCO:

Members	Name
Voting members	
Chief Financial Officer*	Philip Holemans (Chairman)
Chief Executive Officer	Tomáš Spurný (Vice-chairman)
Chief Risk Officer	Carl Normann Vökt
Chief Commercial Banking Officer	Jan Novotný
Senior Manager Treasury, Finance	Ondřej Fuka
Non-voting members	
Chief Products & Marketing Officer	Andrew Gerber
Chief Retail Distribution Officer	Aleš Sloupenský
Chief Legal Officer	Tomáš Černý
Senior Manager Enterprise Risk Management, Models & Reporting, Risk Management	Petr Gapko
Senior Manager FP&A, Finance	Vít Legerský
Manager ALM, Finance	Petra Buzková

* Jan Friček replaces Philip Holemans as the Chairman of the Committee from 1 March 2019.

4.7.2 Credit Committee

The Credit Committee (CRCO) is responsible for the management and coordination of activities in the area of credit risk of the Group.

Its main responsibilities include: advising the Management Board concerning credit risk; maintaining proper methods for credit risk management; managing the credit portfolio and its limits as well as collateral, including setting action plans in case of limit breaches; approving credit-risk-related stress tests and other parameters and monitoring of their results; tracking and assessing the changes of macro-economic environment as well as external legislation and regulation relevant for credit risk management; keeping the internal control system and processes for credit risk management efficient and adequate; informing other relevant bodies of the Group about significant events in the area of credit risk management; evaluating, approving and monitoring large exposures, including those towards financial institutions, governments and countries; monitoring of loan-loss provisions and their overall trends; and tracking large defaulted exposures and credit frauds.

CRCO makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of CRCO is a half of its voting members exercising a simple majority of votes of all voting members. If absent, a voting member of CRCO may appoint another voting member to exercise his or her voting rights. Non-voting members have no voting rights.

As at 31 December 2018 the following persons were members of CRCO:

Members	Name
Voting members	
Chief Risk Officer	Carl Normann Vökt (Chairman)
Chief Executive Officer	Tomáš Spurný (Vice-chairman)
Chief Financial Officer*	Philip Holemans
Chief Commercial Banking Officer	Jan Novotný
Non-voting members	
Chief Products & Marketing Officer	Andrew Gerber
Chief Retail Distribution Officer	Aleš Sloupenský
Chief Legal Officer	Tomáš Černý
Senior Manager Commercial Risk & Collections	Petr Toman
Senior Manager Consumer risk, Risk Management	Jan Dlabola
Senior Manager Product Finance, Finance	Jan Friček
Senior Manager Enterprise Risk Management, Models & Reporting, Risk Management	Petr Gapko
Senior Manager Treasury, Finance	Ondřej Fuka

* Jan Friček replaces Philip Holemans as the voting member of the Committee from 1 March 2019

4.7.3 Enterprise Risk Management Committee

The Enterprise Risk Management Committee (ERMC) is responsible for the management and coordination of activities in the area of risk management framework, internal control system, internal capital adequacy assessment process (ICAAP), operational risk and model risk management of the Group.

Its main responsibilities include: advising the Management Board concerning the risk management framework, internal control system and ICAAP; monitoring of effectiveness and adequacy of the internal control system; ensuring effective, efficient and reliable methods for risk management; reviewing risk management limits; approving limits, scenarios, Key Risk Indicators and other parameters used in operational risk management; monitoring trends and limits in operational risk and approving remedial actions in case of adverse trends; reviewing and approving information security principles; approving ICAAP principles and remedial measures in case of recognised deficiencies; monitoring risks identified within ICAAP; and approving methodology for risk weighted assets.

ERMC makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of ERMC is a half of its voting members exercising a simple majority of votes of all voting members. If absent, a voting member of ERMC may appoint another voting member to exercise his or her voting rights. Non-voting members have no voting rights.

As at 31 December 2018 the following persons were members of ERMC:

Members	Name
Voting members	
Chief Risk Officer	Carl Normann Vökt (Chairman)
Chief Executive Officer	Tomáš Spurný (Vice-chairman)
Chief Financial Officer*	Philip Holemans
Chief Commercial Banking Officer	Jan Novotný
Chief Operating Officer	Albert Piet van Veen
Non-voting members	
Chief Legal Officer	Tomáš Černý
Chief Compliance Officer	Thomas Dodd
Senior Manager Enterprise Risk Management, Models & Reporting, Risk Management	Petr Gapko
Operational Risk Manager, Risk Management	Milan Hroníček
Senior Manager Treasury, Finance	Ondřej Fuka

* Jan Friček replaces Philip Holemans as the member of the Committee from 1 March 2019.

4.7.4 Business Review Committee

The Business Review Committee is responsible for the management and coordination of activities in the area of rates and fees and overall profitability of products and segments of the Group.

The Business Review Committee mainly reviews and approves the Group's pricing strategy, approves rates and fees for particular products, ensures compliance of rates and fees with legal and regulatory requirements, and approves parameters and conditions of contracts with external distribution partners.

The Business Review Committee makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of the Business Review Committee is a half of its voting members exercising a simple majority of votes of all voting members. If absent, a voting member of the Business Review Committee may appoint another voting member to exercise his or her voting rights. Non-voting members have no voting rights.

As at 31 December 2018 the following persons were members of the Business Review Committee:

Members	Name
Voting members	
Chief Executive Officer	Tomáš Spurný (Chairman)
Chief Financial Officer*	Philip Holemans (Vice-chairman)
Chief Products & Marketing Officer	Andrew Gerber
Chief Commercial Banking Officer	Jan Novotný
Chief Risk Officer	Carl Normann Vökt
Chief Retail Distribution Officer	Aleš Sloupenský
Senior Manager Product Finance, Finance	Jan Friček
Non-voting members	
Senior Manager Products Developments, Commercial Banking	Lukáš Krejza
Senior Analyst Product Finance, Finance (Retail Product Finance)	Vladimír Bulko
Senior Manager Treasury, Finance	Ondřej Fuka

* Jan Friček replaces Philip Holemans as the Vice-chairman of the Committee from 1 March 2019.

4.7.5 Compensation Committee

The Compensation Committee is responsible for the management and coordination of activities in the area of compensations and benefits for the employees of the companies of the Group.

The main responsibilities include: preparing compensation and benefits strategy and communicating it; defining Material Risk Takers and reviewing their compensation and benefits (except for members of the Bank's

Management Board); approving budget and certain changes for salaries and incentive plans; and quarterly reviewing payments from incentive plans and exemptions.

The Compensation Committee makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of the Compensation Committee is a half of its voting members. Non-voting members have no voting rights.

As at 31 December 2018 the following persons were members of the Compensation Committee:

Members	Name
Voting members	
Chief Executive Officer	Tomáš Spurný
Chief Financial Officer*	Philip Holemans
Chief Risk Officer	Carl Normann Vökt
Non-voting members	
Chief Human Resources Officer	Klára Sokolová (Chair)

* Jan Friček replaces Philip Holemans as the member of the Committee from 1 March 2019.

4.7.6 Compliance and Anti-Fraud Committee

The Compliance & Anti-Fraud Committee (CAFC) is responsible for the management and coordination of activities in the area of internal controls, compliance risk and anti-fraud management of companies of the Group.

Its main responsibilities include: using reliable, efficient and effective methods for managing compliance risk; maintaining a reliable and integrated framework for managing compliance risk; approving methods and limits for compliance risk management; approving remedial measures in case of identified deficiencies of internal controls; reviewing new legislation and regulation and addressing responsibility for their implementation; and reviewing anti-fraud reports and approving material remedial measures in the area of anti-fraud management.

CAFC makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of CAFC is a half of its voting members exercising a simple majority of votes of all voting members. If absent, a voting member of CAFC may appoint another voting member to exercise his or her voting rights. Non-voting members have no voting rights.

As at 31 December 2018 the following persons were members of CAFC:

Members	Name
Voting members	
Chief Compliance Officer	Thomas Dodd (Chairman)
Chief Risk Officer	Carl Normann Vökt (Vice-chairman)
Chief Executive Officer	Tomáš Spurný
Chief Commercial Banking Officer	Jan Novotný
Non-voting members	
Chief Controller, Finance	Jan Novotný
Operational Risk Manager, Risk Management	Milan Hroníček
Chief Audit Officer	Martin Wrlík

4.7.7 Business Continuity Management Committee

The Business Continuity Management Committee is responsible for the activities in the area of business continuity management of the Group.

Its main responsibilities include: reviewing and recommending the Business Continuity Management Programme for the Management Board's approval; approving the methodology for Business Impact Analysis; deciding on requirements for the management of risks connected with the area of business continuity management; reviewing and assessing control reports of regulatory authorities in the area of business continuity management; and reviewing the results of business continuity tests and monitoring remediate measures in case of any identified deficiencies.

The Business Continuity Management Committee makes decisions by a simple majority of votes present at the meeting; in case of equality of votes the chairperson's vote is decisive. The quorum for a meeting of the Business Continuity Management Committee is a simple majority of all its members or their deputies and present members exceeds present deputies. If absent, a member of the Business Continuity Management Committee may appoint a deputy to exercise his or her voting rights.

As at 31 December 2018 the following persons were members of Business Continuity Management Committee:

Members	Name
Voting members	
Chief Shared Services Officer	Jiří Huml (Chairman)
Chief Information Officer	Vladimír Klein (Vice-chairman)
Chief Compliance Officer	Thomas Dodd
Chief Human Resources Officer	Klára Sokolová
Manager Facilities & Security, Shared Services Center	Jaroslav Šůs
Senior Manager Products Development, Commercial Banking	Lukáš Krejza
Senior Manager Treasury, Finance	Ondřej Fuka
Senior Manager Communication and CSR, Communication	Martina Lambert
Operational Risk Manager, Risk Management	Milan Hroníček
Senior Manager Product & Process Assurance, Retail Sales	Lenka Műllerová
Dealer Management Manager, Sales (MONETA Auto, s.r.o.)	Marek Pičman
Managing Director (MONETA Leasing, s.r.o.)	Libor Šmíd

4.8 KEY EXECUTIVE MANAGERS

The Chief Products & Marketing Officer and the Chief Retail Distribution Officer are the Bank's Key Executive Managers. They provide strategic recommendations to the Management Board on retail products, marketing and retail franchise development and, in accordance with internal governance policies of the Bank, have the power to make certain managerial decisions that may affect future development and the commercial strategy of the Bank.

The Chief Products & Marketing Officer manages and executes retail product and digital strategies and aligns product development strategy with the wider business objectives and goals of the Bank.

The Chief Retail Distribution Officer participates in key decisions related to strategic initiatives and operational execution in the retail franchise, and is responsible for the alignment of the retail client relationship and portfolio performance in the retail franchise.

Name	Role	Employed since
Andrew Gerber	Chief Products & Marketing Officer	1 July 2016
Aleš Sloupenský	Chief Retail Distribution Officer	1 April 2014

None of the members of the Key Executive Managers has been a member of the administrative, management or supervisory bodies or partner of any company or partnership at any time in the previous five years.

ANDREW GERBER holds a bachelor's degree from Durham University in the United Kingdom. Mr. Gerber started his career at Bain and Company where he worked in Australia, Sweden and the UK.

He entered banking in 2002 working for several British institutions, including the Royal Bank of Scotland where he was responsible for retail lending (incl. mortgages) and insurance activities. Before joining MONETA Money Bank, Mr. Gerber spent 5 years in Banca Comerciala Romana, a Romanian subsidiary of Erste Group as the Executive Director for retail product and segment management.

Since July 2016, he has held the position of the Chief Products & Marketing Officer at MONETA. In this role Mr. Gerber is responsible for the strategy and performance of the Bank's retail franchise products, including product development, pricing and financial performance. Mr. Gerber also leads the Bank's digital transformation and customer analytics/CRM development.

The employment contract between Mr. Gerber and the Bank was entered into on 1 July 2016 for an indefinite period of time. The employment contract provides for the following benefits upon termination of Mr. Gerber's employment: the employee is entitled to an extraordinary bonus in the amount of six times the basic salary of the employee.

ALEŠ SLOUPENSKÝ studied marketing and management at the Faculty of Economics of the University of West Bohemia in Plzeň and has an MBA degree from Nottingham Trent University in the United Kingdom. During his career, he has been primarily focused on retail banking. A significant portion of his career was spent at Česká spořitelna, where for 12 years he was responsible for management and development of the retail distribution network. He also held management positions in Komerční banka and Bank Austria Creditanstalt Czech Republic. Mr. Sloupenský gained foreign experience in Banca Comerciala Romana, where he cooperated to create a successful retail development strategy. Since April 2014, he has held the position of the Chief Retail Distribution Officer of the Bank. As the Chief Retail Distribution Officer, Mr. Sloupenský participates in the key decisions

related to strategic initiatives, operating model and operational execution in the retail division of the Bank. He is also responsible for the alignment of the client relationship and portfolio performance in retail and effective growth of the assigned portfolio to increase assets and accounts.

The employment contract between Mr. Sloupenský and the Bank was entered into on 1 April 2014 and was entered into for an indefinite period of time. The employment contract does not provide any specific benefits upon termination of Mr. Sloupenský's employment.

4.9 OTHER INFORMATION REGARDING THE MEMBERS OF THE MANAGEMENT BOARD, THE SUPERVISORY BOARD, THE AUDIT COMMITTEE AND KEY EXECUTIVE MANAGERS

In the last five years, no member of the Management Board, the Supervisory Board and the Audit Committee, and no Key Executive Manager has been:

- convicted in relation to any (fraudulent) offence;
- subject to any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies);
- disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer of securities or from acting in the management or conduct of the affairs of any issuer of securities; and
- associated with any bankruptcies, receiverships or liquidations, when acting in his/her capacity as a member of the administrative, management or supervisory body or as a senior manager.

There are no conflicts of interest between the duties of members of the Management Board, the Supervisory Board and the Audit Committee and Key Executive Managers and their private interests or other duties.

4.10 REMUNERATION AND BENEFITS OF MEMBERS OF THE MANAGEMENT BOARD, THE SUPERVISORY BOARD AND KEY EXECUTIVE MANAGERS

4.10.1 Remuneration and Benefits of the Management Board Members – Key Principles

For performance of their office, members of the Management Board are rewarded by fixed remuneration and annual variable remuneration, including certain benefits.

The remuneration is awarded, and the benefits are provided to the Management Board members in accordance with regulatory requirements under the CRD IV and its transposition into Czech law by the CNB Decree No. 163/2014 Coll.

4.10.1.1 Fixed Remuneration

The fixed remuneration is paid in cash by the Bank to the Management Board members monthly in arrears. The amount of the monthly fixed remuneration is agreed in a service contract between the Bank and a Management Board member.

The amount of the fixed remuneration reflects the responsibility and professional experience of each Management Board member. The amount of the fixed remuneration is subject to approval by the Supervisory Board (upon proposal by the Remuneration Committee).

4.10.1.2 Variable Remuneration for Performance (Fiscal) Year 2018

Applicable Internal Policy

Awarding the annual variable remuneration to the Management Board members for performance (fiscal) year 2017 and onward is subject to the terms and conditions detailed in the Executive Variable Incentive Plan (the "EVIP") policy. The EVIP policy was adopted by the Supervisory Board (upon proposal of the Remuneration Committee).

The amount of the variable remuneration for 2018 awarded to, but not received yet in cash as at the date hereof by, the Management Board members for the performance year 2018 under the EVIP policy is presented in the table in section "Remuneration and Benefits Awarded to and Received by Management Board Members and Key Executive Managers within 2018", in the row "Variable remuneration recognised (not received in cash)".

Purpose

Annual variable remuneration under the EVIP policy is designed to reward the performance of each Management Board member throughout the performance (fiscal) year, scored against performance, risk and non-financial targets of: (a) the Group, (b) each individual Management Board member, and (c) a business department managed by a Management Board member (together, the "KPIs").

The EVIP policy is based on the following principles:

- **Regulatory Compliance:** reflecting good corporate governance and regulatory compliance, ensuring sustainability and effective risk management;
- **Shareholder Alignment:** reflecting shareholder value interest, through linking the Management Board's variable remuneration and promotion of share ownership as an integral part of the EVIP policy;
- **Pay for Performance:** a long-established best practice, pay for performance, rewards or penalties, individual and group remuneration, based on performance against specific KPIs, both internally (individual/department/group objective achievement) and externally (shareholder return). Ultimately, ensuring attraction, retention and motivation of top performers and sound management of the Group; and
- **Equity - Internal/External:** EVIP policy reflects internal equity requirements and prudent risk management of the Group, based on organisational level, individual responsibilities, long term performance and non-discrimination. Further, the EVIP policy utilises external market benchmarks where feasible.

Key Performance Indicators of the Management Board

The quantitative and qualitative KPIs are approved for each Management Board member by the Supervisory Board in the early stages of each performance year.

Both quantitative and qualitative KPIs are approved by the Supervisory Board based on the medium-term strategy and the latest business plan and incorporate annual financial, risk and non-financial targets at the individual, department and Group levels, which can be effectively measured and evaluated. Therefore, the eligibility of a Management Board member for the annual variable remuneration under the EVIP policy is primarily determined by the fulfilment of such KPIs.

The quantitative KPIs include ratios reflecting Group's main strategic areas, namely (i) Capital and Liquidity, (ii) Profitability, (iii) Efficiency, (iv) Risk Management and (v) Growth.

The qualitative KPIs include, the Group's strategic objectives which are equally important in the execution of the medium-term strategy and are complementary to the quantitative objectives.

For the 2018 KPIs of the Management Board members, please see pages 27 through 31 of the presentation of the Group's 1Q 2018 financial results published on 10 May 2018 and available on the Bank's website www.moneta.cz by selecting Investor relations/Financial results section.

Application

Following the end of each performance (fiscal) year, a budget for the maximum aggregate annual variable remuneration, which may be awarded under the EVIP policy to all Management Board members for the respective performance (fiscal) year is set, in accordance with the operation business plans, actual results, financial soundness and risk position of the Group.

The annual performance evaluation of the previous performance (fiscal) year at the individual, department and Group levels is conducted in the first quarter of the subsequent fiscal year.

Calculations and resulting variable remuneration awards under the EVIP policy to the individual Management Board members are subject to the prior approval of the Supervisory Board (based upon recommendation of the Remuneration Committee).

If the KPIs are delivered at the individual, division and Group levels, the annual variable remuneration under the EVIP policy (determined as a CZK amount) awarded to a Management Board member comprises the following components:

	Cash Non-deferred	Cash Deferred	Phantom Shares Deferred
	(paid in the performance (fiscal) year + 1)*	(deferred and released from performance (fiscal) year + 2 through to performance (fiscal) year + 4)*	
Percentage of annual variable remuneration award	30%	20%	50%

* The performance (fiscal) year + 1 means the fiscal year immediately following the performance year. The performance (fiscal) year + 2 means the second fiscal year following the performance year. The performance (fiscal) year + 3 means the third fiscal year following the performance year. The performance (fiscal) year + 4 means the fourth fiscal year following the performance year.

Cash Non-Deferred & Deferred

The non-deferred cash component of the annual variable remuneration awarded under the EVIP policy is payable to the Management Board members on the regular payroll date in the calendar month following the Annual General Meeting held in the performance (fiscal) year + 1.

The deferred cash component of the annual variable remuneration awarded under the EVIP policy is payable to Management Board members on a yearly basis in three equal instalments in the period from the performance (fiscal) year + 2 to the performance (fiscal) year + 4. Each instalment is payable on the regular payroll date in the calendar month following the respective Annual General Meeting held in the performance (fiscal) year + 2 through to the performance (fiscal) year + 4.

Phantom Shares

The Phantom Shares under the EVIP policy represent a cash-settled share-based remuneration arrangement. The Phantom Shares are not existing shares or other securities issued by the Bank or any other member of the Group. The Phantom Shares are not exchangeable for any shares or any other securities issued (or to be issued) by the Bank or any other member of the Group. The Phantom Shares do not constitute an option or a right to acquire any shares or any other securities issued or to be issued by the Bank or any other member of the Group.

In the performance (fiscal) year + 1, each member of the Management Board is awarded with a certain number of the Phantom Shares with the aggregate (CZK) value equal to 50% of the aggregate annual variable remuneration award. The number of the awarded Phantom Shares is calculated based on the average closing price of the Bank shares on the Prague Stock Exchange for the first twenty trading dates in the performance (fiscal) year + 1.

The value of the awarded Phantom Shares is paid to the Management Board members in three annual cash instalments in the period from the performance (fiscal) year + 2 to the performance (fiscal) year + 4, subject to progression or regression tied to developments in the market price of the Bank shares and profit distributions by the Bank to its shareholders. Effective from the performance year 2019, a utilisation of a benchmark index (e.g. PX index) will be applied to the calculation of the value of the Phantom Shares to act as an additional accelerating or decelerating coefficient.

Each Phantom Shares instalment is payable to the Management Board members on the regular payroll date in the calendar month following the respective Annual General Meeting held in the performance (fiscal) year + 2 through to the performance (fiscal) year + 4.

The deferred part of the awarded Phantom Shares remuneration for the related period is evaluated each year. The number of Phantom Shares is multiplied by the TSR (total shareholder return) coefficient.

TSR is calculated as follows:

$$TSR = 1.0 + \frac{((\text{MMB Share Price End} - \text{MMB Share Price Begin}) + \text{Dividend per Share})}{\text{MMB Share Price Begin}}$$

Adjusted for relative capital change (e.g. dilution of total MMB shares traded)
MMB fiscal and performance evaluation year defined as 1 January – 31 December
MMB Share Price End means the average daily closing price of the Bank shares at the Prague Stock Exchange for the first 20 trading days of January in the respective year in the period from the performance (fiscal) year + 1 through to the performance (fiscal) year + 4.
MMB Share Price Begin means the average daily closing price of the Bank shares at the Prague Stock Exchange for the first 20 trading days of January in the year preceding the year for which the MMB Share Price End is calculated.
Dividend per Share shall mean all dividends paid out in the period from 1 January through 31 December in the year for which the MMB Share Price Begin is calculated, expressed as CZK per share.

Maximum Potential of Variable Remuneration

The maximum amount of the annual variable remuneration award to a member of the Management Board is 100% of the annual fixed remuneration of such Management Board member, unless a higher ratio (up to 200% of the annual fixed remuneration) is approved by the General Meeting.

Malus & Clawback

The variable remuneration may be subject to malus (decrease of awarded but not paid variable remuneration) and clawback (duty to return the already paid variable remuneration). This enables the Supervisory Board to seek to recoup from the Management Board members part or all of the awarded and/or paid variable remuneration, in particular, if the Group suffers material financial or risk difficulties or in case of a material misconduct by a Management Board member.

4.10.1.3 Long-Term Incentive Plan and Share Holding Guidelines

In November 2018, the Supervisory Board of the Bank adopted (upon proposal of the Remuneration Committee) the Rules of the Long-Term Incentive Plan internal policy (the "LTIP"), complemented by the Share Holding Guidelines (the "SHG").

The LTIP was developed, as a share-only incentive plan, based upon benchmarks from relevant peer banks of a similar size and business model. Members of the Management Board are eligible to be granted LTIP awards in the form of actual shares in the Bank as part of their variable remuneration, where the proportion of the award that vests is conditional on the satisfaction of mid-term performance targets, determined and evaluated by the Supervisory Board. The annual LTIP award opportunity as a range of an annual fixed salary, as well as its subsequent vesting to the Management Board members, is subject to a decision of the Supervisory Board. The LTIP (through the SHG) also seeks to achieve a minimum number of shares in the Bank retained by the Management Board members as long as they continue to serve as Management Board members. The purpose of this requirement is to further align interests of the Management Board members with those of the Bank's shareholders.

The first LTIP awards are expected to be granted to members of the Management Board in 2019.

Restrictions on the maximum potential of the variable remuneration of the Management Board members and the malus & clawback tools, as described in section 4.10.1.2 above of this Annual Report, apply also with respect to the LTIP awards.

4.10.1.4 Deferred and Non-Deferred Variable Remuneration for Performance (Fiscal) Years 2014 to 2017

In the fiscal year 2018, the Bank paid to the Management Board members the following portions of the deferred cash variable remuneration:

- one third of the deferred cash variable remuneration awarded in 2015 to the respective Management Board members for the performance (fiscal) year 2014;
- one third of the deferred cash variable remuneration awarded in 2016 to the respective Management Board members for the performance (fiscal) year 2015; and
- one third of the deferred cash variable remuneration awarded in 2017 to the respective Management Board members for the performance (fiscal) year 2016.

For information on the Group's policy, under which the cash variable remuneration for the performance (fiscal) years 2014 to 2016 was awarded, please see pages 71 and 72 of the Consolidated Annual Report for the year 2016 published on the Bank's website.

In addition, the Bank paid in 2018 to the Management Board members the non-deferred cash variable remuneration awarded in 2018 for the performance (fiscal) year 2017.

In 2018, the Bank also paid in cash to the Management Board members the relevant portions of the value of the deferred Phantom Shares, as follows:

- one third of the deferred Phantom Shares awarded in 2015 to the respective Management Board members for the performance (fiscal) year 2014;
- one third of the deferred Phantom Shares awarded in 2016 to the respective Management Board members for the performance (fiscal) year 2015; and
- one third of the deferred Phantom Shares awarded in 2017 to the respective Management Board members for the performance (fiscal) year 2016.

The deferred Phantom Shares awarded for the performance (fiscal) years 2014 to 2016 were converted to cash and the EVIP formula was applied to them.

The above described deferred and non-deferred variable remuneration for the (fiscal) years 2014, 2015, 2016 and 2017 paid in the year 2018 by the Bank to the Management Board members in cash:

- has been already shown as accruals in the respective annual financial statements of the Bank for the (fiscal) years 2014, 2015, 2016 and 2017 which are published on the Bank's website; and
- is presented in the table in section "Remuneration and Benefits Awarded to and Received by Management Board Members and Key Executive Managers within 2018", in the row "Variable remuneration received in cash and related to performance years 2014 – 2017".

4.10.1.5 Benefits

The following benefits are provided to the Management Board members:

- insurance premium for life insurance in the amount of up to CZK 250,000 per year is paid to three Management Board members;
- three members of the Management Board will receive an aggregate amount equal to a 12-month salary continuance in case that the Performance of the Office is terminated as a consequence of illness, disability or death of such member of the Management Board. The amount shall be reduced by any insurance benefit payable at the Bank's expense;
- one member of the Management Board will receive an additional aggregate amount equal to a 3-month salary continuance in case that the Performance of the Office is terminated as a consequence of illness, disability or termination of the Performance of the Office of that member of the Management Board. In case of death, heirs of that member of the Management Board will receive a 9-month salary continuance;
- one member of the Management Board is entitled to receive the money as pension allowance to the maximum amount 14.66 % of calculated pensionable earnings;
- school tuition for children less than eighteen years old is paid to three Management Board members, when one Management Board member is entitled to receive up to CZK 540,000 for each child per year, one member is entitled to receive up to CZK 546,660 per year and one Management Board member is entitled to receive up to CZK 746,372;
- a company car is provided to four Management Board members; one member of the Management Board receives instead of the car a car allowance in amount of CZK 38,000 per month;
- a health care programme is provided to each Management Board member;
- a contribution through the cafeteria plan valued at CZK 26,000 per year is provided to each member of the Management Board for sport activities, leisure or pension plan use (the unused amount may be converted to cash).

4.10.2 Remuneration and Benefits of the Key Executive Managers – Key Principles

Key Executive Managers (for further information see section "Key Executive Managers") are employed under employment contracts between them and the Bank.

For performance of their employment, members of the Key Executive Managers are rewarded by fixed remuneration and annual variable remuneration. In addition, certain benefits are provided to the Key Executive Managers.

The remuneration is rewarded, and the benefits are provided to the Key Executive Managers in accordance with regulatory requirements under the CRD IV and its transposition into Czech law by the CNB Decree No. 163/2014 Coll.

4.10.2.1 Fixed Remuneration

The fixed remuneration is paid in cash by the Bank to the Key Executive Managers monthly in arrears. The amount of the monthly fixed remuneration is agreed in an employment contract between the Bank and each of the Key Executive Managers.

The amount of the fixed remuneration reflects responsibility and professional experience of each Key Executive Manager. The amount of the fixed remuneration is subject to an approval of the Management Board.

4.10.2.2 Variable Remuneration for Performance (Fiscal) Year 2018

Awarding the annual variable remuneration to the Key Executive Managers for the performance (fiscal) year 2017 and onward is subject to the terms and conditions detailed in the EVIP policy adopted by the Supervisory Board (upon proposal of the Remuneration Committee). For further information on the EVIP policy, please see section above "Remuneration of Management Board Members – Key Principles - Variable Remuneration for Performance (fiscal) year 2018".

For purposes of the EVIP policy, the quantitative and qualitative KPIs are approved for the Key Executive Managers by the Management Board. Calculations and resulting variable remuneration awards under the EVIP policy to the Key Executive Managers are subject to the prior approval of the Management Board.

The amount of the variable remuneration awarded to, but not received yet in cash as at the date hereof by, the Key Executive Managers for the performance year 2018 under the EVIP policy is presented in the table below included in section "Remuneration and Benefits Awarded to and Received by the Management Board Members and by Key Executive Managers within 2018", in the row "Variable remuneration recognised (not received in cash)".

4.10.2.3 Deferred and Non-Deferred Variable Remuneration for Performance (Fiscal) Years 2015 to 2017

In the fiscal year 2018, the Bank paid to the Key Executive Managers the respective portions of the deferred cash variable remuneration awarded in the years 2016 and 2017 for the performance (fiscal) years 2015 and 2016, respectively.

In addition, the Bank paid the non-deferred cash variable remuneration in 2018 awarded for the performance in (fiscal) year 2017.

In 2018, the Bank also paid in cash to the Key Executive Managers the relevant portions of the value of the deferred Phantom Shares awarded in the years 2016 and 2017 for the performance (fiscal) years 2015 and 2016, respectively.

For further information on the deferred and non-deferred remuneration awarded to the Key Executive Managers in the years 2016 and 2017 for the performance (fiscal) years 2015 and 2016 respectively, please see section "Remuneration of Management Board Members – Key Principles - Deferred and Non-Deferred Variable Remuneration for Performance (fiscal) Years 2014 to 2017".

The above described deferred and non-deferred variable remuneration for the (fiscal) years 2015, 2016 and 2017 paid in the year 2018 by the Bank to the Key Executive Managers in cash:

- has been already shown as accruals in the respective annual financial statements of the Bank for the (fiscal) years 2015, 2016 and 2017 which are published on the Bank's website; and
- is presented in the table in section "Remuneration and Benefits Awarded to and Received by the Management Board Members and by Key Executive Managers within 2018", in the row "Variable remuneration received in cash and related to performance years 2014 – 2017".

4.10.2.4 Benefits

The following benefits are provided to the Key Executive Managers:

- insurance premium for life insurance in the amount of up to CZK 250,000 per year is paid to one Key Executive Manager;
- a company car is provided to each Key Executive Manager;
- a health care programme is provided to each Key Executive Manager;
- a contribution through the cafeteria plan valued at CZK 26,000 per year is provided to each Key Executive Manager for sport activities, leisure or pension plan use (the unused amount may be converted to cash).

4.10.3 Remuneration and Benefits Awarded to and Received by the Management Board Members and Key Executive Managers within 2018

The table below sets out the total remuneration and benefits awarded to and received by the Management Board members and Key Executive Managers in the year 2018:

Item	Amount (thousands CZK)
Remuneration for the year 2018	
Fixed remuneration	64,304
Variable remuneration recognised and received in cash	1,437
Variable remuneration recognised (not received in cash)	24,304
Benefits	4,788
Total remuneration for 2018	**94,834***
Variable remuneration received in cash and related to performance 2014 – 2017	32,951

* Figures may not add up to total due to rounding differences.

4.10.4 Remuneration and Benefits of the Supervisory Board Members

For performance of their office in the Supervisory Board and the committees established by the Supervisory Board, the Supervisory Board members are rewarded with fixed remuneration, paid monthly, in arrears.

No variable remuneration (e.g., annual bonus) is awarded by the Bank or other member of the Group to the Supervisory Board members.

The table below sets out the total remuneration received by the Supervisory Board members in the year 2018 for performance of their office in the Supervisory Board and the committees established by the Supervisory Board:

Item	Amount* (thousands CZK)
Total remuneration (fixed part)	12,311
Benefits	69
Total	**12,380**

* Does not include the remuneration paid to Mr. Petrman and Mr. Hall for performance of their office in the Audit Committee.

Remuneration of Supervisory Board and committees established by the Supervisory Board follows the internal regulation approved by the General Meeting hold on 26 October 2017:

Position	Annual Remuneration (EUR)*
Supervisory Board	
Chairman	100,000
Vice-chairman	70,000
Member	48,000
Risk Committee	
Chairman	17,000
Member	7,000
Remuneration Committee	
Chairman	16,000
Member	7,000
Nomination Committee	
Chairman	16,000
Member	7,000

* The above remuneration of the Supervisory Board members is fixed in CZK using the EUR/CZK exchange rate announced by the CNB as at 26 October 2017.

4.11 REMUNERATION OF THE AUDIT COMMITTEE MEMBERS

For performance of their office in the Audit Committees, the Audit Committee members are rewarded with:

- fixed remuneration, paid monthly in arrears; and
- compensation of travel costs, if an Audit Committee member travels in connection with performance of his/her function.

No variable remuneration (e.g., annual bonus) is awarded by the Bank or other member of the Group to the Audit Committee members.

The table below sets out the total remuneration paid to the Audit Committee members in the year 2018 for performance of their office in the Audit Committee:

Item	Amount* (thousands CZK)
Total remuneration (fixed part)	1,075
Total	**1,075**

* Does not include the remuneration paid to Mr. Petrman and Mr. Hall for performance of their office in the Supervisory Board or Nomination/Remuneration Committee.

The internal regulation concerning the remuneration of the Audit Committee was approved by the General Meeting held on 26 October 2017, as follows:

Position	Annual Remuneration (EUR)*
Chairman	19,000
Member (within the Supervisory Board)	8,000
Member (outside the Supervisory Board)	15,000

* The above remuneration of the Audit Committee members is fixed in CZK using the EUR/CZK exchange rate announced by the Czech National Bank as at 26 October 2017.

4.12 SHARES AND SHARE OPTIONS HELD BY THE MANAGEMENT BOARD, THE SUPERVISORY BOARD, KEY EXECUTIVE MANAGEMENT MEMBERS AND THE AUDIT COMMITTEE MEMBERS

The following table provides information on the number of shares issued by the Bank and share options relating to the Bank shares which were as at 31 December 2018 held by members of the Management Board, the Supervisory Board, Key Executive Management Members and the Audit Committee and their close persons:

	Shares	Share Options
Management Board Members (total)	87,626	0
Supervisory Board Members (total)	0	0
Key Executive Management Members (total)	0	0
Audit Committee Members (total)	0	0

4.13 RETENTION PROGRAMMES FOR MEMBERS OF THE SENIOR MANAGEMENT AND EMPLOYEES

4.13.1 Virtual Share Programme for the Management Board Members and Employees

In connection with the IPO, in 2016 the Group established the virtual share programme as an incentive arrangement for the Management Board members and employees of the Group holding their positions as at the IPO (the "Virtual Share Programme"). Under the Virtual Share Programme, employees of the Group and all the members of the Management Board were awarded with a certain number of the virtual shares, the value of which tracked the market price of the shares of the Bank (the "Virtual Shares").

The value of virtual shares was paid to the employees and Management Board members in cash in June 2018 provided that the concerned employee or a Management Board member was employed in the Group.

The Virtual Shares Programme was a cash settled share-based incentive instrument. The Virtual Shares were not existing shares or any other securities issued by the Bank or any other member of the Group. The Virtual Shares were not exchangeable for any shares or any other securities issued (or to be issued) by the Bank or any other member of the Group. The Virtual Shares did not constitute an option or right to acquire any shares or other securities issued (or to be issued) by the Bank or any other member of the Group.

If an employment or service contract (as the case may be) had been terminated for organisational reasons prior to May 2018, when the Management Board members and employees eligible for the Virtual Shares cash pay-out were determined, the value of the Virtual Shares would have been reduced on a pro-rata basis and paid in cash to the relevant employee or a member of the Management Board (as the case may be). Otherwise, the Virtual Shares would have been forfeited.

Costs of the Virtual Share Programme were born by the pre-IPO sole shareholder of the Bank, GE Capital International Holdings Limited.

The below table sets out the split of paid amounts of Virtual Shares between Management Board members and employees during 2018 (including former employees whose employment contracts were terminated due to organisation reasons):

	Virtual Shares (thousands CZK)
Managament Board Members and Key Executive Managers	14,220
Employees	
MONETA Money Bank, a.s.	22,467
MONETA Auto, s.r.o.	793
MONETA Leasing, s.r.o.	1,799
Inkasní Expresní Servis s.r.o. in liquidation	52
TOTAL	**39,331**

4.13.2 Retention Programmes

Retention Programme for Employees

In the year 2017, the Group established the retention programme for selected employees with specific skills and expertise. Under this programme a payment was made to 12 employees in the aggregate amount of CZK 1,000,800 in 2018. The aggregate amount of CZK 630,000 will be paid to the remaining 4 employees in 2019. Additional 3 employees were added to this programme in 2018 and the aggregate amount of CZK 100,000 should be paid under the programme in 2019.

4.14 INTERNAL AUDIT

The Internal Audit function operates in accordance with the CNB Decree No. 163/2014 Coll., as amended. The Internal Audit and its activities follow the International Professional Practices Framework issued by the Institute of Internal Auditors.

The Internal Audit in a complete and interconnected manner covers all activities within the Bank and focuses on identifying risks, to which the Bank is exposed. The Internal Audit provides objective and independent assurance to the Management Board, the Audit Committee and the Supervisory Board as to the functionality and efficiency of risk management, control and governance processes within the Bank.

Internal Audit continued in 2018 with increasing of its capacities and expertise in line with the Internal Audit reinforcement strategy supported by the Management Board and the Audit Committee. Since the initiation of the strategy in 2016 the Internal Audit expanded from 12 to 28 employees at the end of 2018. The enhancement resulted in more comprehensive coverage of Group processes.

In 2018, the Internal Audit was executing assurance engagements in accordance with the Strategic and Periodic Audit Plans based on regular risk assessments and reflecting regulatory requirements.

The Internal Audit evaluates the Internal Control System of the Bank. The results of this assessment are issued annually in the Report on Evaluation of the Functionality and Efficiency of the Internal Control System. In this Report, issued in 2018, the Internal Audit evaluates the Internal Control System of the Bank as functioning and effective.

4.15 INFORMATION ON INTERNAL CONTROL AND APPROACH TO RISKS IN THE PROCESS OF ACCOUNTING AND PREPARING FINANCIAL STATEMENTS

The Group uses various technical and governance measures in order to maintain its financial statements. These measures ensure compliance with the relevant accounting standards and provide users of the financial statements with a true and fair view of the financial position, cash flows and performance of the Group.

These measures comprise internal governance, namely the Group's consistent accounting policies, and process set-up. This means multi-level controls over transactions being recorded, and maximum attention being paid to the automation of booking accounting entries.

Pursuant to the Act no. 563/1991 Coll., on accounting, as amended, the Bank presents its financial statements in accordance with IFRS. Subsidiaries such as MONETA Auto or MONETA Leasing present their financial statements in accordance with Czech Accounting Standards and are subject to the IFRS consolidation on a Group level.

The Group keeps its books through Oracle Financials, using inputs of several auxiliary systems which have either been subject to robust internal testing or been tested by an auditor before being incorporated into the Group's financial reporting environment.

Governance and process set-up measures control the circulation of documents supporting the journal entries. As a rule, any accounting record may only be posted on the basis of the multi-level approval process. This rule excludes any possibility of a single employee entering more than one role in the hierarchy. Approval takes place online through the approval process in Oracle's accounting system. In terms of organisation, the accounting function is separated from the process of managing business partners (e.g. the setup of bank accounts or payment conditions) or procurement.

Only users with appropriate privileges have access to the accounting system. Access privileges for the system are granted by means of a software application and are subject to approval by both a superior and by the owner of the accounting process. Access is authorised according to the employee's job position and reviewed on a regular basis. Only employees of the relevant department have privileges for active operations (posting) in the accounting system. The accounting system allows for the identification of the user that created, changed or reversed any accounting record.

The Group utilises a system of defining responsibilities for individual balance sheet accounts (the so-called reconciliation system) under which a particular employee is responsible for account analysis of each account in the general ledger. The control over account analysis includes, in particular, the duty to specify the account balance and to monitor its balance and movements, as well as having responsibility for attending to the related documents. The control over account analysis is tracked by the supporting documentation in the reconciliation systems at regular intervals and is approved by a superior or senior member of the finance department (always different from the person who is preparing the reconciliation). The system of account reconciliation verifies whether all risk and benefits associated with the Group's assets, obligations related to the liabilities, their valuation and measurement are precisely disclosed in the statement of financial position. Within the reconciliation process, the Group stipulates several criteria for proper account reconciliation, such as exact description of the account, timeliness, independent supporting documentation and its accessibility, and manager oversight control.

The correctness of the accounts and presented financial statements is monitored on an ongoing basis. In addition, financial statements are audited by an external auditor who carries out the audit of separate and consolidated financial statements as at the balance sheet date, i.e. 31 December of a given year.

4.16 CORPORATE GOVERNANCE HANDBOOK

The corporate governance structure of the Bank complies with Act No. 90/2012 Coll., on business corporations and co-operatives (Business

Corporations Act), as amended (hereafter the "Business Corporations Act"), as well as stringent requirements under Czech and EU banking regulation and international capital markets corporate governance standards. As a result, the Bank has a best-in-class corporate governance structure. To reflect this, the Bank has developed and adopted the Corporate Governance Handbook to document and provide guidance to all staff on the principles, structures, rights, responsibilities, and practices within the corporate governance framework of the Group.

In line with the Group's strategy to establish and keep a sound and effective organisational framework, the Corporate Governance Handbook was designed to provide a strong foundation for operational processes, workflows, and business activities.

The Corporate Governance Handbook represents the stand-alone manual containing the general principles and features of the internal guidelines, procedures and working instructions to be observed by the Group staff.

The main objectives of the Corporate Governance Handbook are to:

a) ensure consistent and sound governance and monitoring of the Group;
b) ensure a comprehensive overview of the Group's corporate governance framework;
c) ensure a sound basis for a consistent, clear, and effective organisational framework within the Group;
d) enhance the internal controls system through the adoption of an integrated and comprehensive governance structure;
e) provide essential information about the structure and functioning of the Group; and
f) serve as a guide for the implementation of new processes.

The Bank also published the Corporate Governance Handbook on the Bank's website to provide investors and other stakeholders with an overview of its framework, including the overview of key principles and practices that are deployed by the Bank in its internal processes.

Since the Bank has a best-in-class corporate governance structure and has adopted the Corporate Governance Handbook described above, the Bank does not adhere to any corporate governance codes.

4.17 REMUNERATION CHARGED BY EXTERNAL STATUTORY AUDITORS OF THE GROUP IN 2018

CZK m	Bank	Group
Statutory audit	6	8
Non-audit services	3	3
Total (excl. VAT)	**9**	**11**

4.18 OTHER LEGAL REQUIREMENTS

The summary explanatory report pursuant to Section 118(9) of the Capital Markets Act is based on the requirements set forth in Section 118(5)(a) through (k) of the Capital Markets Act.

a) Information on the structure of the Bank's equity as at 31 December 2018:

CZK m	
Share capital	511
Share premium	5,028
Statutory reserve	102
Share based payment reserve	(2)
Retained earnings	19,598
Total equity	**25,237**

As at 31 December 2018 the registered share capital consisted of 511,000,000 shares, with a nominal value of CZK 1.00 each. The issue price of all shares has been paid up in full. All of the shares have been issued as registered book-entry shares.

The Bank's registered share capital is divided exclusively into common shares, with no special rights attached. All of the Bank shares have been admitted to trading on the Prime Market of the Prague Stock Exchange in the Czech Republic.

b) Information on restrictions of the transferability of securities:

The transferability of the Bank shares is not restricted.

c) Information on significant direct and indirect shares in the Bank's voting rights:

As at 31 December 2018, the following entities were recorded in the registry of book-entry shares maintained by the Czech Central Securities Depository in Prague as holding at least 1% of the registered share capital of the Bank:

Shareholder	Shareholding (%)
Chase Nominees Limited	18.35
State Street Bank and Trust Company	5.60
J.P. Morgan Bank Luxembourg, S.A.	4.25
GIC Private Limited	3.95
Nortrust Nominees Limited	3.19
American Funds Developing World Grown and Income Fund	2.79
Brown Brothers Harriman (Luxemburg) S.C.A.	2.64
UBS Switzerland AG	2.40
Brown Brothers Harriman CO.	2.19
RBC Investor Services Trust	2.07
Goldman Sachs Funds	1.54
Morgan Stanley and Co International PLC	1.43
College Retirement Equities Fund	1.35
Government of Norway	1.30
Raiffeisen Bank International AG	1.10
Kuwait Invest Authority	1.00
Caceis Bank Luxembourg	1.00

The above entities may not necessarily be the beneficial owners of the Bank shares but may hold shares of the Bank (as custodians, securities brokers, banks, or nominees) for the beneficial owners.

As at 31 December 2018, the following entities notified the Bank and the Czech National Bank pursuant to Section 122 of the Capital Markets Act of holding a direct or indirect proportion of the Bank's voting rights of at least 1%:

Shareholder	Voting rights (%)
J.P. Morgan Securities Plc	5.96
BlackRock, Inc.	5.12
Artemis Investment Management LLP	4.84
The Capital Group Companies, Inc.	4.69
GIC Private Limited	3.89
Rainer-Marc Frey	2.94
The Goldman Sachs Group, Inc.	2.28
Templeton Asset Management Ltd.	1.72
NN Group N.V.	1.54
JPMorgan Chase & Co.	1.50
MORGAN STANLEY	1.48
NN Investment Partners Luxembourg S.A.	1.36
Wellington Management Group LLP	1.36
Norges Bank	1.23
College Retirement Equities Fund	1.08
Vanguard Total International Stock Index Fund	1.07
The Bank of New York Mellon Corporation	1.06
APG Asset Management N.V.	1.02
Abu Dhabi Investment Authority	1.00
Prudential plc	1.00
State Street Corp	1.00
Vanguard Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds	1.00

These entities have rights pursuant to Section 365 et seq. of Act No. 90/2012 Coll., on business companies and cooperatives (Business Corporations Act), as amended.

d) Information on owners of securities with special rights, including description of such rights:

No special rights are attached to any of the Bank shares.

e) Information on restrictions on voting rights:

The voting rights attached to the Bank shares are not restricted.

f) Information on agreements between shareholders that may restrict or limit the transferability of shares or voting rights:

The Bank is not aware of any agreements between its shareholders that might restrict or limit the transferability of its shares or voting rights.

g) Information on special rules for the election of and recalling of members of the Management Board and amendments to the Bank's Articles of Association:

Pursuant to the Bank's Articles of Association, members of the Management Board are elected and removed by the Supervisory Board by a simple majority of the votes of the Supervisory Board members present at a meeting.

The Articles of Association may be amended by a decision of the General Meeting by a qualified, two-third majority of the votes cast by the shareholders at the General Meeting.

Apart from regulatory prudential requirements, no special rules are in place for the election of and recalling of members of the Management Board and for adoption of the amendments to the Bank's Articles of Association.

h) Information on special powers of the Bank's Management Board:

The Bank's Management Board has no such special powers.

i) Information on significant contracts relating to change in control over the Bank as a result of a takeover bid:

The Bank has not entered into significant contracts that will become effective, change, or expire if control over the Bank changes as a result of a takeover bid.

j) Information on contracts with members of its Management Board or its employees binding the Bank in relation to a takeover bid:

The Bank has not entered into any contracts with members of its Management Board or its employees in which the Bank would undertake to provide a performance in case their service or employment is terminated in relation to a takeover bid.

k) Information on programs that allow acquiring the Bank's corporate securities:

Please see section "Long Term Incentive Plan and Share Holding Guidelines" in the chapter 4.10.1.3 of this Annual Report above.

As the Bank did not have any controlling person in 2018, no report on relations according to the Business Corporations Act was prepared for the accounting period from 1 January 2018 to 31 December 2018.

Banking champion for tradesmen and SMEs

We strive to be a champion for tradesmen and small and medium-sized businesses in the Czech Republic. We, therefore, continuously develop our capabilities, product offering and services for our customers. We focus on the development of digital offerings, in particular, credit products with emphasis on providing top customer experience.

5. RISK MANAGEMENT

5.1 RISK GOVERNANCE

5.1.1 Main Principles and Goals of Risk Management

The Group aims to achieve competitive returns at an acceptable risk level as part of its business activities. Risk management covers the control of risks associated with all business activities in the environment in which the Group operates and ensures that the risks taken are in a compliance with regulatory limits, as well as falling within its risk appetite.

When managing risks, the Group relies on three pillars:

- people (the qualifications and experience of its employees);
- risk governance (including well-defined information flows, processes, models and responsibilities); and
- risk data (including the use of sophisticated analytical instruments and technologies).

This combination has supported the Group's success and the stability of its economic results.

The Group's risk management processes are underpinned by advanced analytics, based on an enterprise-wide data warehouse and a centralised underwriting process. This allows the Group to price on a risk basis, according to its in-house scoring and rating models.

The level of risk is measured in terms of its impact on the value of assets and/or capital, as well as on the profitability of the Group. To determine this, the Group evaluates the potential effects on its business of changes in political, economic, market and operational conditions, as well as changes in clients' creditworthiness.

The Bank provides centralised risk management for the Group wherever possible and practical. It does this primarily through outsourcing or by providing methodology guidance to other Group members.

5.1.2 Risk Management Organisational Structure

The Bank's key committees for risk management of the Group, as established by the Bank's Management Board are:

- the Enterprise Risk Management Committee (ERMC) for the risk management framework, internal control system, internal capital adequacy assessment process, operational risk and model risk management;
- the Credit Committee (CRCO) for credit risk management;
- the Asset & Liability Committee (ALCO) for asset and liability management, capital, market risk and liquidity risk management; and
- the Compliance & Anti-Fraud Committee for compliance, operational managing of internal controls and anti-fraud management.

The members of these committees include the members of the Bank's Management Board and other senior managers of the Bank. The committees are responsible for, inter alia:

- approval of the relevant risk management framework including the basic methods, limits, scenario assumptions and any other parameters used in the risk management process;
- monitoring the development of relevant risks, including the observance of limits, approval of remedial measures in case of exceeded limits or unfavourable development trends; and
- monitoring the adequacy, reliability and efficiency of internal policies, processes and limits for risk management in the area of their responsibility.

Other Bank's committees that are established by the Bank's Chief Risk Officer (CRO) and that manage individual risks include the following:

- The Credit Monitoring and Management Committee (CMMC) monitors and manages the credit risk of the commercial individually managed credit portfolio not in the work-out process. Members of the committee are employees of the Risk Division and the Commercial Banking Division. The CMMC reports to the CRCO.
- The Problem Loan Committee (PLC) monitors and manages the credit risk of the commercial individually managed credit portfolio in the work-out process and its members are employees of the Risk Division and the Legal Division. The PLC reports to the CRCO.
- The New Product Introduction Council (NPIC) co-ordinates development and implementation of new or material changes of current products. Its members are employees

of relevant Bank's divisions. The NPIC reports to the ERMC.
- The Model Risk Oversight Committee (MROC) monitors the model risk. Its members are employees of the Risk Division and the Finance Division. The MROC reports to the ERMC.

The Bank's Risk Division is responsible for risk management on an individual and a consolidated basis. The Risk Division is headed by the CRO, who is also a member of the Bank's Management Board. The Risk Division primarily:

- monitors, measures and reports credit, market, model, operational and liquidity risks and proposes remedial measures in case of limits being exceeded or unfavourable trends;
- sets terms and conditions for granting loans and lines of credit including their subsequent approval;
- assesses the adequacy of collateral given by borrowers to the Group as security for extending loans and lines of credit;
- manages the loan portfolio;
- executes controls in the area of credit deals;
- ensures methodology support and control functions in the area of information security;
- administers the data infrastructure and analytical systems supporting risk management;
- ensures the model risk management;
- maintains and develops models for credit risk management, collections, provisioning, management of operational risks and capital allocation;
- monitors indicators of fraudulent operations in the credit portfolio and is involved in the prevention of credit frauds; and
- collects amounts due from borrowers.

The particular departments of the Risk Division are responsible mainly for the following:

- the Commercial Risk & Collections department: commercial credit risk for individually managed exposures (products' conditions, underwriting, monitoring, reporting) and overall collections (including methodology guidance for early collection provided by the Shared Serviced Division);
- the Consumer Risk department: consumer credit risk and commercial credit risk for portfolio managed exposures (products' conditions, underwriting, monitoring, reporting);
- the Collateral Management department: collateral management (methodology, valuation);
- the Risk Infrastructure department: risk IT infrastructure (information systems, applications and data structures for credit risk management purposes);
- the Planning & Reserving department: provisioning methodology and provisioning model development, provisioning in the planning process;
- the Risk Reporting & Analytics department: credit risk measurement and data for reporting;
- the Enterprise Risk Management & Models (ERM) department: market, liquidity, and operational risk methodology, measuring, monitoring and reporting, regulatory and internal capital requirement methodology and calculation, credit model development, credit risk quality assurance and controls;
- the IT Security department: information security management;
- the Model Validation & Controls department: model governance, model validation.

The Group's business activities involve the provision of deposit accounts, loans and lines of credit to retail customers, providing funding to entrepreneurs, as well as SME businesses, and distribution of third–party products (mutual funds, insurance) in the Czech Republic. The Group takes steps to avoid risks that are not associated with its main lines of business and to minimise all other risks. The principal objectives in the management of risks and tolerance of individual types of risks are defined in the Risk Appetite Statement document approved by the Bank's Management Board.

5.2 CREDIT RISK

Credit risk is the risk of loss for a party resulting from the failure of a counterparty to meet its obligations arising from the terms and conditions of the contract under which the party became the creditor of this counterparty. The Group is exposed to credit risk, in particular, in case of credits granted, non-approved debits, guarantees provided, letters of credit issued and interbank deals.

5.2.1 Credit Risk Management

Credit risk management is organised along the following approval processes:

Individually managed exposures represent exposures to entrepreneurs and SMEs where loans and lines of credit are approved based on an individual assessment of the borrower's creditworthiness in connection with the loan size.

Portfolio managed exposures include exposures to natural persons, natural persons acting as entrepreneurs, and SMEs where loans and lines of credit are approved using an automated credit scoring process. Mortgages have a specific position, as mortgages form a part of the retail exposures (usually portfolio managed) but a number of the processes and methods used fall within the category of individually managed exposures.

Exposures to counterparties in the financial markets include exposures to financial institutions and governments. These exposures primarily arise as part of liquidity management and market risk management. Transactions in the financial markets are performed only by the Bank; other entities in the Group only have receivables to banks in respect of current account balances. The credit risk of these exposures is managed through limits to countries and counterparties approved based on external ratings.

5.2.2 Individually Managed Exposures

5.2.2.1 Internal Rating

The Group uses internal statistical rating models, which use the most recent available qualitative and quantitative information to estimate the probability that a commercial borrower will default in the following 12 months. The rating calculation is based on an assessment of ratios of two types. The first type of ratios (financial) are derived from financial statements and reflect the financial strength of a borrower. The second type of ratios (non-financial) are used to assess the borrower based on qualitative information, which reflects the non-financial attributes of the customer's business. The financial ratios are more significant. The rating models assign an "obligor rating" (OR) grade from zero to twenty-one to borrowers that are not in default. Borrowers in default are given the internal rating grade twenty-two (OR22). The 23 ORs and their associated probabilities of default are:

a) OR0 to 5: 0% to 0.07%
b) OR6 to 10: 0.08% to 0.39%
c) OR11 to 15: 0.59% to 3.03%
d) OR16 to 21: 4.55% to 35.00%
e) OR22: 100%

The predictive power of the rating models is reviewed periodically and significant changes in the models, if any, are approved by the ERMC. Internal rating is used for the definition of approval authorities and categorisation (5.2.5).

5.2.2.2 Approval Process

The approval process is based on an individual evaluation of a borrower. The approval process of the products of the Bank is executed at the Bank with approval required from CRCO or two authorised persons – one in the Commercial Banking Division and one in the Risk Division. Approval authorities are set on an individual basis and are determined by combining the level of exposure, the borrower's internal rating, maturity, product and collateral.

The approval process of the products of MONETA Auto and MONETA Leasing is executed at the Bank and follows the approval process of the Bank (the Commercial Banking Division is not involved).

As part of the approval process, the Group assesses the financial situation of the prospective borrower, the persons economically related to the borrower and the collateral being offered using internal and external data sources, including credit registers.

The Bank has implemented its own IT solution supporting the process of SME credit approval and administration facilitating the preparation of credit applications, linking them with data warehouses, document storage and the subsequent production of contract documentation. The system enables access to financial analysis tools including internal ratings.

5.2.2.3 Monitoring

All SME clients are monitored both individually and on a portfolio basis. Individual monitoring and any potential remedial measures concerning the Bank's clients are dealt with by the CMMC, which also decides on categorisation changes. MONETA Leasing's clients are monitored individually, and potential remedial measures are discussed and approved at the Bank within authorities for collection process.

Certain contractual conditions of MONETA Auto's borrowers with individually managed exposures are monitored at least weekly via standardised reports.

Reports on the quality of the commercial portfolio across the Group are discussed by the CRCO each month.

Individually managed exposures above a certain threshold are also subject to at least a yearly credit review, which follows an approval process similar to that for new exposures.

5.2.2.4 Recovery of Debtors' Receivables

In order to achieve maximum recovery, the Commercial Risk & Collections department of the Risk Division manages the Bank's loans where exposure recoverability is not reasonably assured. The department engages affected borrowers with the aim to recover the Bank's exposure. This may involve taking legal action against the borrower, restructuring the loans, taking relevant legal steps to realise collateral, debt sale or representing the Bank in insolvency proceedings.

The Commercial Risk & Collections department of the Risk Division manages the collection process for MONETA Leasing and MONETA Auto according to the same principles as for Bank's loans. MONETA Leasing and MONETA Auto also use the assistance of external agencies in collecting their receivables.

5.2.3 Portfolio Managed Exposures

5.2.3.1 Scoring Instruments

When approving portfolio managed exposure, internal and external scoring models are used. These statistical models classify individual borrowers into categories of homogeneous exposures using socio-demographic and behavioural data. The development of internal scoring models and monitoring of predictive power of all scoring models is carried out by the Enterprise Risk Management & Models department of the Risk Division. The calculated score for the commercial portfolio managed exposures is, similarly to individually managed exposures, mapped to the OR scale. The calculated score for retail portfolio managed performing exposures is grouped into five "credit rating" (CR) grades with associated probabilities of default in the following 12 months as outlined below:

a) CR1: 1.3% and lower
b) CR2: 1.3% to 3.2%
c) CR3: 3.2% to 7.7%
d) CR4: 7.7% to 15.8%
e) CR5: 15.8% and greater

In order to ensure methodological and factual accuracy, models are monitored on a regular basis.

5.2.3.2 Approval Process

The approval process is based on the use of internally or externally developed scoring models and access to external data sources (in particular credit registers). Approval strategies are set by the Risk Division for the products of the Bank and MONETA Auto.

Risk Division underwriters may approve individual exposures that do not pass the automatic approval process. For auto financing products, the automated approval process is almost always supplemented by an individual assessment.

Mortgages are approved based on an individual assessment of the prospective borrower supported by input from internally-developed scoring models, with approval required from an authorised underwriter from the Risk Division.

5.2.3.3 Monitoring

The Risk Division regularly monitors segments of portfolio managed exposures, which are reported to the CRCO.

5.2.3.4 Collection

The Commercial Risk & Collections department of the Risk Division is in charge of the recovery process for the Bank's loans, while the execution of early collection is provided by the Shared Services Division. The Bank has a comprehensive collection process which includes an automated collection system. The Bank optimises its overall recovery capacity and performance by using external capabilities (collection agencies and law offices) as well as debt sales of non-performing receivables.

The Commercial Risk & Collections department of the Risk Division manages the collection process for MONETA Leasing and MONETA Auto according the same principles as for Bank's loans. MONETA Auto and MONETA Leasing also use the assistance of external agencies in collecting their receivables.

5.2.4 Counterparties in the Financial Market

5.2.4.1 External Rating

The main tool for measuring the credit risk of countries and counterparties (financial institutions and governments) with respect to transactions in financial markets is the rating set by international rating agencies: Standard & Poor's, Moody's, and Fitch. The Bank sets individual limits for individual countries and counterparties for which it requires a minimum short-term rating of A-1/P-1/F1 (exceptions must be properly approved).

5.2.4.2 Approval Process

The approval of limits is based on an individual assessment with approval required from the CRO or an authorised approver from the Risk Division. The approval levels are determined individually and are based primarily on the combination of the limit, external rating, maturity and product. In selected cases, the prior approval of the CRCO is required.

5.2.4.3 Monitoring

All counterparties and countries with a determined limit are monitored individually. The subject of the monitoring is primarily the external rating. Remedial measures (decrease/cancellation of the limit, categorisation of receivables) are approved by an authorised approver from the Risk Division.

The Bank monitors compliance with limits. Any breach of limits is escalated to the Treasurer and CRO. In addition, intentional material limit breaches are escalated also to the CFO and breaches over CZK 100 million to the ALCO members.

5.2.5 Categorisation of Exposures

The Bank has assigned exposures to individual categories in compliance with the CNB Decree No. 163/2014 Coll. The categorisation is used for regulatory reporting and calculation of loan loss allowances. The categorisation is as follows:

- exposures without borrower default are classified as performing;
- exposures where the borrower has defaulted are classified as non-performing.

A default of borrower is recognised if, given the borrower's financial and economic situation, full repayment of exposures toward such borrower is unlikely. The Bank considers a borrower to be in default mainly if:

- the material part of principal, interest or fees of any borrower's exposure is more than 90 days past due;
- any material exposure was forborne in the past 6 months due to a deterioration in the borrower's financial situation;
- the borrower's internal rating is OR22;
- a competent court has issued a decision on settling the borrower's bankruptcy via a discharge from debts or reorganisation;
- a borrower is subject to bankruptcy or settlement proceedings.

Exposures within other entities of the Group are categorised according to the similar principles.

5.2.6 Collateral Assessment

The Group determines the nature and extent of collateral that is required either by individually assessing a prospective borrower's creditworthiness or as an integral part of the given credit product. The Group considers the following types of collateral acceptable for mitigating the credit risk on a loan or line of credit:

- cash;
- securities;
- account receivables;
- bank guarantees;
- guarantee of a reliable third party;
- insurance;
- real estate properties; and
- movable assets (machinery, equipment, breeding stock).

For mortgages real estate collateral is used, for Auto loans and financial leases mainly movable assets are used as collateral, for commercial loans all types of collateral may be used. Retail consumer loans and credit cards and overdrafts are unsecured.

To determine the realisable value of a collateral, the Group uses external expert appraisals or internal assessments made by the Collateral Management department of the Risk Division, which is a department operating independently of the Group's sales departments. The ultimate realisable value of the collateral is then set by applying collateral acceptance ratios reflecting the Group's ability to realise the collateral in case of default. Maximum values of collateral acceptance ratios are approved by the CRCO.

In determining the realisable value of movable assets, MONETA Leasing uses a discount on the cost derived from model depreciation curves (describing the relation between fair value as a percentage of purchase price and time) for individual asset classes. Curves are reassessed yearly and approved by the CRCO.

The collateral quality has not changed during 2018.

The Group did not hold financial instruments for which an entity has not recognised a loss allowance because of the collateral during 2018.

5.2.7 Allowances Calculation

Allowances for credit losses are determined using an expected credit loss approach as required under IFRS 9.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

To calculate allowances, the portfolio is divided into three stages, which are further segmented into commercial and retail exposures by product. Non-performing exposures belong to Stage 3. Performing exposures are assigned into Stage 2 when a significant increase in credit risk (SICR) occurred. The Group considers mainly the following situations as SICR:

- customer's days past due are higher than 30;
- similar qualitative criteria suggest deterioration in credit risk; or
- the relative change of the remaining lifetime probability of default (PD) at origination and at reporting is higher than the relative threshold, and the lifetime PD at reporting is higher than the absolute threshold. Thresholds are set by the Bank.

Exposures that are not assigned into Stage 3 or 2 belong to Stage 1.

The Group estimates 12 months expected credit loss (ECL) for Stage 1 exposures and lifetime expected credit loss for Stage 2 and Stage 3. The Group also uses multiple macro-economic forecasts for estimation of future losses, thus the future development of macro-economic variables is reflected in risk parameters.

The calculation of allowances is based on statistical models. These models are used for calculation of probability of default (PD), loss given default (LGD), exposure at default (EAD) and the cure rate (CR). Some commercial exposures have expected discounted cash flows set individually.

5.2.7.1 PD and CR Calculation

PD and CR are calculated based on a transition matrices model. Transition matrices track migration between rating grades, defaulted and cured status. They provide an intuitive and comprehensive overview of portfolio movements across time. From these matrices, through-the-cycle (TTC) matrices are created for each segment that are independent of the economy's position within the macro-economic cycle. PIT (point-in-time) matrices for each segment and month are created by conditioning the TTC matrices with an adjustment for the current and expected state of the macro-economy. PD and CR are then derived from PIT matrices.

5.2.7.2 LGD Calculation

For the majority of exposures without collateral and for an unsecured part of the collateralised exposures, historical recoveries discounted by original effective interest rate are used to derive LGD parameters. LGD for the collateralised part of the exposure is based on forward collateral value (macro-conditioned using all macro scenarios forecasted), which is discounted by the effective interest rate.

5.2.7.3 EAD Calculation

The exposure at default is an 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, whether scheduled by a contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

5.2.8 Credit Concentration Risk

As part of managing credit risk, the Bank regularly monitors and actively manages the credit concentration risk of the Group through the limits to countries, counterparties, collateral providers and economic sectors. Regional concentration is not relevant as most income is generated within the territory of the Czech Republic.

The top 10 commercial exposures (groups of customers) represent 8.9% of commercial receivables (exposure includes gross loans and receivables, unused commitments including credit lines and guarantees).

The top 3 sector exposures and their share in the Group's commercial portfolio are Agriculture 32%, Services 24% and Wholesale 9%.

The main collateral providers (via guarantees) are Českomoravská záruční a rozvojová banka, a. s. and The European Investment Fund.

5.2.9 Credit Portfolio and Its Quality

5.2.9.1 Non-performing Loans and Receivables to Customers*

	31 December 2018			31 December 2017		
CZK m	Retail	Commercial	Total	Retail	Commercial	Total
Nonperforming Receivables	2,899	1,205	**4,104**	3,639	1,635	**5,274**
Allowances to NPL Receivables	1,947	773	**2,720**	2,453	927	**3,380**
NPL Ratio	3.7%	1.8%	**2.8%**	5.6%	2.6%	**4.1%**
Total NPL Coverage	103.2%	91.9%	**99.9%**	79.6%	71.2%	**77.0%**

* Figures in the table may not add up to total due to rounding differences.

The NPL Ratio decreased from 4.1% as at 31. 12. 2017 to 2.8% as at 31. 12. 2018, which was significantly influenced by the legacy non-performing portfolio resolution and the improvement in the portfolio performance, driven by an exceptionally positive macroeconomic environment. At the same time the Group maintained a conservative Total NPL Coverage of 99.9% on the total portfolio.

5.2.10 Modified Financial Assets

The modification in the form of the forbearance is reflected in the categorisation of receivables in accordance with the exposures categorisation rules (5.2.5).

5.2.10.1 Forborne Receivables

Forborne receivables are receivables for which the Group provided the debtor with relief as it assessed that it would likely incur a loss if it did not do so. For economic or legal reasons associated with the debtor's financial position, the Group granted it relief that the Group would not otherwise have granted. Reliefs primarily include reworking the repayment plan, a decrease in the interest rate, a waiver of default interest, a deferral of principal or accrued interest repayments. Forborne receivables do not include receivables arising from the roll-over of a short-term loan for current assets if the debtor met all of its payment and non-payment obligations arising from the loan contract.

The Group applies the following general principles for the forbearance:

- the customer demonstrably lost the ability to repay the loan according to the original loan contract;
- the customer demonstrates a willingness and ability to pay his/her debts;
- specific product/customer criteria must be met;
- the loan was not restructured more than once in the last 12 months and more than twice during the last 5 years.

For commercial loans/leases and mortgages, only instalments not past due are subject to rescheduling. The customer is obliged to repay all past due payments in full and delinquency status is calculated according the oldest unpaid instalment.

For retail products, the Group offers the customer a new loan contract. The customer's original (delinquent) loans are, by signature of this new contract, repaid and closed. A new (restructured) loan with different monthly instalments, interest rate and maturity are then opened as non-delinquent (current).

5.2.11 Environmental Risk Management

Environmental risk is the risk of damage to the reputation or financial situation of the Group (including the ability to utilise collateral or sell ownership stakes) or client (including adverse impact to the client's assets or client's ability to continue its business activities) due to the adverse impact of the client's business activities on the environment.

Within the credit risk management, the Group assesses environmental risk both for clients, their businesses and for collateral. Environmental risk is assessed at a transaction level for individually managed exposures and at a product conditions level for portfolio managed exposures. CRCO sets up principles for environmental risk management including restrictions for economic sectors, activities and collateral.

5.3 CONCENTRATION RISK

Concentration risk is defined as the risk arising from the concentration of exposures with respect to a person, an economically-related group of persons, sector, region, activity or commodity. The Group manages the concentration risk within individual risks, primarily the credit risk and liquidity risk. Activity and commodity concentrations are not relevant for the Group.

5.4 MARKET AND LIQUIDITY RISK

Market risk is the risk of a loss arising from changes in prices or rates on financial markets. Due to its activities, the Group is exposed only to interest rate risk and foreign exchange risk.

5.4.1 Interest Rate Risk

Interest rate risk is the risk of a loss arising from changes in interest rates on financial markets. The Group is exposed to interest rate risk as interest-bearing assets and liabilities have different maturity periods or interest rate readjustment periods.

The Bank strives to minimise the Group's interest rate risk by setting limits and keeping positions within these limits. The interest rate risk management activities are aimed at reducing the risk of losses. The Group's interest rate risk management is centralised in the Bank.

The Bank implemented the Trading book for certain client products (FX swap, FX forward, FX spot) in 3Q 2018. The other positions are included within the Banking book.

The interest rate risk of the Trading book is managed by the requirement to close each FX swap and FX forward transaction on a back-to-back basis.

To monitor and measure the interest rate risk of the Banking book, a model of interest rate sensitivity is used which serves to determine the sensitivity of the Group to changes in the market interest rates. The model is based on the inclusion of interest-sensitive assets and liabilities into relevant time bands. The Group prefers to use behavioural features of cash flows rather than those that are purely contractual. All behavioural assumptions are approved by the ALCO. The model works with 1-month time bands up to a 186-month period and a time band exceeding 186 months.

Simultaneously, the Bank carries out stress testing of the Banking book positions based on the all outlier stress tests (since 3Q 2018; until 2Q 2018 only a parallel shift of the yield curve by ± 200bps was used) according to the European Banking Authority Guideline EBA/GL/2018/02 on the management of interest rate risk arising from non-trading activities ("EBA/GL/2018/02") for all currencies that account for more than 5% of the Group's assets or liabilities. In 2017 and 2018, only the portfolios denominated in Czech Koruna and Euro exceeded a 5% share of the Group's assets/liabilities. To manage the interest rate risk of the Banking book, the Group uses the limits for the impact of all the EBA/GL/2018/02 outlier stress tests on total capital and the limit for the impact of the parallel shift of the yield curve by ± 200bps on the annual net interest income. The results of stress testing are presented to ALCO on a monthly basis. To manage the discrepancy between the interest sensitivity of assets and liabilities, interest rate derivatives may be used. In October 2017, ALCO approved the interest rate hedging strategy for hedge accounting and the Bank started to use interest rate swaps as hedging instruments.

5.4.2 Foreign Exchange Risk

Foreign exchange risk covers the risk of a loss due to changes in exchange rates. The Group is exposed to the foreign exchange risk primarily due to the provision of foreign exchange loan products to commercial borrowers and foreign exchange deposits.

The management of the Group's foreign exchange risk is centralised in the Bank. The Bank strives to minimise the foreign exchange risk of the Group. For this purpose, the Bank maintains a balance of assets and liabilities in foreign currencies (by using a mix of FX spot, forward and swap transactions).

To measure the foreign exchange risk on an individual basis, the Bank calculates daily net currency positions and FX Value at Risk. The Bank uses the following limits:

- ratio of the absolute value of the net currency position to capital for each foreign currency;
- ratio of the absolute value of the net currency position in Czech crown to capital;
- ratio of the absolute value of the total net currency position to capital;
- absolute value of the net currency position for each foreign currency; and
- FX Value-at-Risk (VaR) (maximum expected loss per business day at the 99% confidence level) for the foreign currency portfolio.

On top of that, the foreign exchange risk of the Trading book is managed by limits (intraday and end-of-day) for open FX spot position and by requirement to close each FX swap and FX forward transaction on a back-to-back basis.

As MONETA Auto provides loans only in CZK and MONETA Leasing in EUR and CZK, the Bank measures on a consolidated basis only the net currency position in EUR (monthly frequency).

The foreign exchange risk at MONETA Leasing at an individual level is managed primarily by the funding structure (natural hedging due to EUR funding) and MONETA Leasing regularly closes its open FX position with the Bank.

5.4.3 Liquidity Risk

Liquidity risk represents the risk of an inability to meet financial liabilities when due or to finance increases in assets.

The daily measurement of liquidity risk includes:

- calculation of the liquidity position based on the liquidity gap model, which measures net cash flows in set time bands;
- calculation of the Liquidity Coverage Ratio; and
- calculation of Early Warning Indicators.

The monthly measurement of liquidity risk includes:

- calculation of the Loan to Deposit Ratio;
- assessment of the impact of liquidity management stress scenarios on the Bank's liquidity position;
- measurement of concentration in deposits;
- calculation of the Interbank Borrowing to Total Assets Ratio; and
- calculation of the Net Stable Funding Ratio.

To manage liquidity risk, the Bank applies a system of the following limits:

- liquidity positions in selected time buckets;
- Liquidity Coverage Ratio;
- Net Stable Funding Ratio;
- liquidity buffer (based on liquidity stress tests);
- structure of the portfolio for liquidity management;
- concentration in deposits;
- Interbank Borrowing to Total Assets Ratio;

and monitors a chosen set of Early Warning Indicators.

The Group has access to diversified sources of financing, which include deposits, loans taken (including external funding for MONETA Leasing), as well as the Group's equity. In 2017, the Bank obtained 3-year unsecured EUR funding from the European Investment Bank with an option of drawing additional secured EUR funding. The bond and money markets are used to further diversify sources of liquidity and to deposit excess cash. In line with a funding strategy which aims to diversify long-term funding sources, the Bank set up its bond programme (Base Prospectus approved by the Czech National Bank in 2017). The extension of the bond programme in 2018 allows the Bank to issue also senior non-preferred and Tier 2 Capital bonds. The Bank did not issue any bonds within an approved bond programme as at 31 December 2018.

For the purpose of liquidity management under extraordinary circumstances, the Bank has a contingency plan containing measures for recovering liquidity. The Treasury regularly reviews the contingency plan and forwards it to the ALCO for approval.

The liquidity coverage ratio on a consolidated basis was 160.8% as at 31 December 2018 (on an individual basis as at 31 December 2017: 183%, consolidated not available).

As other companies of the Group are either financed exclusively by the Bank or have only partial funding from banks (MONETA Leasing), the Group's liquidity management is executed as part of the Bank's liquidity management by including credit exposures to other companies of the Group.

5.5 OPERATIONAL RISK

Operational risk represents the risk of a loss resulting from inadequate or failed internal processes, people or systems, or from external events, including the risk of loss due to a breach of, or failure to comply with, a legal or regulatory requirement, or a threat to the Group's reputation. It also includes legal and outsourcing risk.

The Group implemented standardised tools and processes for operational risk management, including Risk & Control Self-Assessment (RCSA), Loss Data Collection of actual internal operational risk losses, monitoring of external risk events, Key Risk Indicators, and Issue management that is used to record, monitor and report identified risks and issues. The Issue management system is also used for monitoring the relevant action plans, if applicable, and is closely linked to RCSA process.

To mitigate operational risk, the Group produces and maintains business continuity plans for critical situations and operations' recovery with the aim of ensuring business activities at a back-up workplace and IT disaster recovery plans for key IT applications.

The Group also uses the following methods for mitigation of operational risk:

- decrease of risk by means of process improvements, organisation changes, introduction of limits, Key Risk Indicators or controls, or use of technologies;
- transfer of risk via outsourcing;
- decrease of risk impact via insurance (mainly for high severity and low frequency operational risk events); and
- avoidance of risk by terminating risk-inducing activities.

The Bank's Management Board specifically approves the operational risk governance structure and framework, and the Group's objectives for operational risk management.

The ERMC oversees the Group's operational risk management process and approves methods, limits and Key Risk Indicators; monitors adherence to approved limits and Key Risk Indicators; approves principal changes in the insurance programme; and approves remedial measures or decides about acceptance of major risks if there are no feasible remedial measures.

The ERM department especially develops and maintains the operational risk methodology for RCSA, Loss Data Collection, Key Risk Indicators, outsourcing and insurance, provides measurement of operational risk using the Loss Data Collection process and Key Risk Indicators and reporting to ERMC.

Individual organisational units have operational risk co-ordinators who provide employees with methodological support for operational risk management and co-operate with the ERM department in operational risk management matters.

Other important parts of operational risk (compliance, information security, business continuity and legal risk) are managed by other organisational units as described below.

5.5.1 Compliance Risk

Compliance risk represents the risk of legal or regulatory sanctions, material financial loss or loss to reputation as a result of failure to comply with laws, regulations, and relevant self-regulatory organisations' standards and codes of conducts.

The Bank's Compliance Division is an independent control function responsible for monitoring compliance with laws, regulations and internal policies. It oversees the implementation of applicable laws and regulations and provides compliance training to the Group's employees. The Compliance Division is managed by the Chief Compliance Officer, who functionally reports to the Bank's Management Board and organisationally directly to the Chief Executive Officer of the Bank.

The Group manages compliance risk by requiring business activities to adhere to the various compliance policies which it has established and by monitoring compliance with these standards. The Group also has an Issue management system in place to monitor and resolve any compliance issues as they arise.

The key areas of responsibility of the Compliance Division include:

- managing day-to-day regulatory interactions, and management and follow-up of regulatory on-site or off-site inspection issues;
- ensuring and recording the communication of the Group's entities with local as well as international regulators and authorities, mainly with the Czech National Banks, Financial Arbitrator, Data Protection Office, European Banking Authority, etc;
- ensuring the Group is aware of the latest legislative and regulatory developments through a process to identify legislative and regulatory changes that will have a material effect on the Group's entities via its "regulatory early warning system", including initiating the necessary implementation of the changes;
- ensuring compliance of the Group's internal policies with applicable legal and regulatory provisions as well as compliance with all other internal policies;
- introducing, co-ordinating and overseeing the Group internal policy framework (see the Annex for the list of the significant internal policies);
- ensuring compliance with the Code of Ethics agenda: Anti-Bribery (Improper payments) and Corruption programme, Competitor Programme & Competitor Contacts database;
- performing regular and ad hoc compliance monitoring and controls including co-ordination of the correction process of identified deficiencies;
- co-ordinating the correction process of deficiency findings and recommendations of financial counsellors or relevant community organisations;
- maintaining the Client Ombudsman function addressing serious client complaints;

- maintaining an Employee Ombudsman function operating an independent and confidential channel to ensure protection of whistle-blowers reporting potentially illegal or unethical behaviour;
- responsibility for the centralised anti-money laundering team, focusing on money laundering and terrorist financing prevention, detection, reporting and strategy;
- responsibility for the anti-fraud risk management programme by the centralised anti-fraud team, covering all internal and external areas of fraud;
- overseeing the data privacy and personal data protection agenda.

In the area of regulatory compliance, the Compliance Division acts as a single point of contact for communication with all regulatory bodies. Furthermore, during the reporting period, the Compliance Division co-operated with other departments in the implementation of the EU Payments Services Directive II (PSD 2), General Data Protection Regulation (GDPR), and the EU Insurance Distribution Directive (IDD) as these were transmitted into Czech legislation.

In the reporting period, the Compliance Division has also co-ordinated the on-site inspection of the Czech National Bank, which took place from July 2017 to January 2018, when the Bank received the Czech National Bank Inspection Protocol. In March 2018, the Czech National Bank acknowledged and approved the Remediation Plan of the deficiencies which contained mainly issues of a low severity nature. There were no deficiencies of a high or very high severity nature and no administrative proceeding was initiated. The Bank continues to fulfil the Remediation Plan as expected and within the agreed timeframe.

5.5.2 Information Security

The main objective of Information Security is to protect information assets by maintaining the confidentiality, integrity, availability and credibility of information. The Group understands the significance of well-designed and implemented Information Security and regards it as one of its key priorities. Information Security is applied via a variety of security tools and processes ranging from antivirus software to user awareness. The aim is to ensure maximum risk coverage and protection of Group information, including client data.

5.5.2.1 Cyber Security Strategy

The Group has established a mid-term cyber security strategy, which is endorsed and followed by the Management Board and is reviewed yearly to adjust to the relevant objectives of the business strategy. The cyber security strategy of the Group is strongly based on the foundation of the following three pillars:

- governance;
- risk management;
- compliance management.

Cyber security governance is a critical element of awareness and the defensive building block upon which all other security measures rest. Concise rules and accountability define clear policies and procedures. In order to broaden cyber security competencies, information security risks are continuously managed by repeatedly:

- specifying security objectives;
- assessing risks and controls;
- implementing treatment plan;
- monitoring and reviewing the performance;
- maintaining and improving the process.

The IT Security department of the Risk Division as an organisational unit responsible for the cyber security of the Group achieves the defined strategy goals by:

- communicating an accurate risk landscape to the top management;
- periodically performing risk assessments;
- issuing security policies, guidelines and procedures;
- providing guidance and assurance in implementing controls and measures;
- monitoring adherence to controls using suitable tools;
- investigating emerging threats and security trends;
- acting as a second line of defence (the IT departments being the first);
- effectively managing cyber security incidents;
- increasing cyber security awareness within the Group.

5.5.2.2 Monitoring and Incident Management

To ensure the reliability, availability and security of business services within an increasingly complex IT environment, the internal network traffic is constantly monitored for anomalies using an advanced flow-based network traffic monitoring approach. Real-time analysis of generated security alerts and collected logs is provided by a Security Information and Event Management (SIEM) system, which is monitored by the 24x7 Security Operations Center (SOC). Alerts and incidents are escalated to Incident managers,

who follow the incident end-to-end and make sure that not only is the incident resolved, but lessons learned are also identified and implemented.

5.5.2.3 Vulnerability Management and Penetration Testing

Regular assessments of cyber security became an organic part of the internal security programme a long time ago. To remain up-to-date, the scope and methodology is constantly updated as new threats and vulnerabilities emerge. Concise, actionable findings and effective remediation recommendations are enabled by appropriate security metrics and information gathered within regular tests, i.e.:

- penetration testing to enable full risk assessments of network systems by both an internal team as well as external security auditors to ensure the objectivity of the results;
- vulnerability scanning to automate known-vulnerabilities and system misconfiguration tests including missing patches, default/common password verification and Denial-of-Service (DoS) resiliency tests.

5.5.2.4 Vendor Management

The Group diligently selects external resources via a highly documented process to monitor and perform assessments on vendors and external outsource providers which manage, process or store confidential information. In order to minimise the risk and to evaluate their security status, the process naturally incorporates multiple divisions (Legal, Compliance, etc.) to define the correct contractual requirements and agreements.

The Group seeks to leverage the benefits of cloud services that are highly secure, able to provide scalable innovative digital platforms within a secure environment and that meet the requirements of the most security-sensitive organisations. With cloud services, we co-operate with the regulator (the Czech National Bank) very closely to make sure we do not step outside of regulatory boundaries.

5.5.2.5 Privacy and Data Security

In banking, trust and confidentiality are essential. The Group strives to achieve the maximum protection of data in our custody, especially client data.

Data classification in custody is enforced. Mandatory encryption "at rest" and "in transit" are applicable to any data classified as Confidential or higher.

Special attention is dedicated to personal data and sensitive personal data. As the Group operates in the EU, it is fully subject to the GDPR, and therefore meets its strict requirements for handling and managing personal data.

Data stored on end-points, especially from lost or stolen equipment, has always been an interesting target for attackers in attempts to gain access to valuable data. In order to meet compliance requirements and to prevent the theft of personally identifiable information or sensitive personal information, the Group leverages a powerful software component composed of several protection suites, which provides:

- strong access control and data encryption;
- certified encryption technology;
- support for mixed-device environments.

In conjunction with, and to further enforce policies for compliance, privacy, and intellectual property protection, a market-leading data loss prevention (DLP) solution has been deployed company-wide. USB data and removable device access are protected and controlled using a state-of-the-art data loss prevention solution, which protects against unauthorised usage of valuable company data by hardware and content-based filtering, monitoring and blocking of confidential data on any removable storage device.

5.5.2.6 Training & Awareness

Due to a lack of realisation that cyber security is a multi-disciplinary responsibility shared throughout the organisation, many organisations learned the hard way that humans represent the weakest link in cyber security defences. Therefore, thorough training programs have been developed in order to raise awareness and help employees as well as clients navigate, survive and thrive in the digital environment, make informed decisions, and to successfully recognise and deal with various types of possible threats.

The Group promotes a positive security culture by analysing its leadership, human resources policies and practices, IT governance, physical defences, as well as the cybersecurity awareness and accountability of its staff, its partners and contractors. A strong organisational culture and morale, supported by a strong cyber security education programme, combined with teamwork, collaboration, and loyalty create an incredibly powerful security measure.

5.5.3 Business Continuity

The main goal of business continuity management is to ensure the lowest possible impact on the Group's business continuity in the case of an extraordinary situation with regard to employee security or health, while maintaining duties prescribed by legal and regulatory requirements.

The regular business continuity management process includes Risk Assessment – decisions about critical and non-critical processes, Business Impact Analysis and Business Continuity Plans for critical processes, training and tests. The Group has developed Business Continuity Plans for all critical processes. The Group regularly tests Business Continuity Plans and reviews and assesses their adequacy.

During the past five years, the Group has experienced no material interruption in its business operations.

5.5.4 Legal Risk

Dealing with legal risk and managing it means minimising uncertainty associated with enforcement and interpretation of applicable law, contracts and regulations. In addition to standard legal functions in the various areas such as contract, banking and corporate law, the main tasks of the Group's lawyers during 2018 consisted of keeping both the retail and commercial contractual documentation aligned with both the business strategy and various needs of the business departments of the Group, as well as new regulations. Significant changes were made to the processes and contractual documentation in preparatory works for PSD 2. All of these actions were taken in due time in order to fully comply with the new regulations. The Group continuously monitors legal disputes and provision is created for the estimated amount of payment if it is more probable than not that the cash outflow will have to be made.

5.5.5 Significant Legal Disputes

The significant legal disputes include the following pending legal disputes against MONETA Group: (i) the court actions by Serbina Consulting a.s. (formerly ARC equity services a.s., and previously, Arca Services a.s., hereafter "Serbina Consulting") against the Bank in connection with the 1998 acquisition of a part of banking business of Agrobanka Praha, a.s., currently Agrobanka Praha, a.s. v likvidaci ("Agrobanka"; the "Acquisition") and (ii) the administrative proceedings initiated by the Czech Trade Inspection Authority ("CTI") against MONETA Auto, s.r.o. ("MONETA Auto").

- **Litigation risks in respect of the 1998 acquisition of a part of banking business of Agrobanka**

In connection with the court actions by Serbina Consulting, the Bank notes that it is subject to the risks set out below in connection with the Acquisition and the ongoing liquidation of Agrobanka which could have a material adverse effect on the reputation, business, results of operations and financial condition of the Bank and the value of its shares.

Following the completion of the Acquisition in 1998, certain Agrobanka shareholders and members of its supervisory board filed claims against the Bank and Agrobanka in the Czech courts, alleging that the Acquisition was not legal, valid and enforceable. If this had been found to have been the case at the time, the consequences could have been the unwinding of the Acquisition and the return by the Bank to Agrobanka of all assets and/or liabilities deemed to belong to Agrobanka or, alternatively, a payment by the Bank of their financial equivalent to Agrobanka.

In 2010, the Bank and certain other entities affiliated with GE (the sole shareholder of the Bank at that time) reached a general settlement with Agrobanka and shareholders holding in aggregate more than 60 per cent of the shares in Agrobanka as a result of which: (i) the claims set out above against the Bank were withdrawn and terminated; and (ii) Agrobanka and its shareholders bound by the settlement waived any claims against the Bank in connection with the Acquisition (the "2010 Settlement"). In September 2014, the general meeting of Agrobanka approved the liquidation balance of Agrobanka in the aggregate amount of approx. CZK 177.5 million by more than 96% majority of present Agrobanka shareholders in line with the 2010 Settlement.

- **Legal challenges by Serbina Consulting (formerly Arca Group)**

In October 2016, Serbina Consulting (at that time operating under the name Arca Services a.s.), a minority shareholder of Agrobanka not bound by the 2010 Settlement and, to our best knowledge, a member of Arca Group at that time, filed court action against the Bank, Agrobanka and Mr. Jiří Klumpar (the forced administrator of Agrobanka in 1998) challenging the legality, validity and enforceability of the Acquisition. According to public records, Serbina Consulting is currently

solely managed by 23-year old Kamila Serbinová, who was apparently appointed to the company in 2018, when the company was renamed, and its seat moved from Prague to northern Moravia.

In August 2018, the court action brought by Serbina Consulting challenging the legality, validity and enforceability of the Acquisition was dismissed in full by the Municipal Court in Prague. The Municipal Court stated in its reasoning that, inter alia, Serbina Consulting does not have any interest let alone a compelling legal interest to file such a claim and that with respect to the circumstances the litigation claim of Serbina Consulting might be of a frivolous nature. Serbina Consulting appealed against the decision of the Municipal Court in Prague and the Bank will continue to vigorously contest the action of Serbina Consulting on appeal.

Shortly after dismissal of the above described claim of Serbina Consulting by the Municipal Court in Prague, Serbina Consulting filed another court action challenging again the legality, validity and enforceability of the Acquisition with the Municipal Court in Prague against Agrobanka, VALUE ADDED, a.s. (the liquidator of Agrobanka) and the Bank. In the court action, Serbina Consulting seeks a court declaration that, as a result of the alleged invalidity of the Acquisition, (i) the liquidation balance of Agrobanka shall include also (a) the part of Agrobanka's business acquired by the Bank in the Acquisition (or its financial equivalent) and (b) a receivable which Agrobanka allegedly has against the Bank due to an asserted unjust enrichment on the Bank's part resulting from the Bank's use of the said part of Agrobanka's business and, hence, (ii) the aggregate amount of Agrobanka's liquidation balance shall be increased from approx. CZK 177.5 million to approx. CZK 42 billion. In December 2018, the Bank responded to the court action and rejected all Serbina Consulting's claims, including the fictitious and completely unfounded calculation of the aggregate amount of Agrobanka's liquidation balance made by Serbina Consulting, as entirely baseless, frivolous and abusive.

In this respect, the Bank points out that Serbina Consulting (at that time under the name Arca Services a.s.) acquired shares in Agrobanka only in the course of 2016, i.e., (i) two years after the liquidation balance of Agrobanka was approved by its shareholders and (ii) almost twenty years after the Acquisition was completed. Accordingly, the information concerning the final amount of Agrobanka's liquidation balance as approved by Agrobanka's shareholders had been available to Serbina Consulting before it decided to acquire shares in Agrobanka. The circumstances suggest that the court actions of Serbina Consulting are driven by an ulterior purpose, and not by a genuine Agrobanka's liquidation-related claim. The Bank also notes that according to data from the Czech Central Securities Depository Serbina Consulting is not a shareholder of the Bank.

The Bank is convinced (as the Bank and Agrobanka also declared in their joint submission to the Municipal Court in Prague of October 2017) that the Acquisition is legal, valid and enforceable, Serbina Consulting, as well as any Agrobanka shareholders, directors and members of the supervisory board, does not have the standing to take legal action to claim otherwise, and that both court actions of Serbina Consulting are entirely baseless. Likewise, the Czech National Bank declared the same in its statement dated 11 August 2017 and published on its official webpage that it considers the Acquisition valid.

The Bank notes that the Municipal Court in Prague (as the trial court) and the High Court in Prague (as the appellate court) have also already dismissed similar court actions filed by other Agrobanka's shareholders.

In any event, any unwinding of the Acquisition would be difficult in practice given that more than 20 years have elapsed since the completion of the Acquisition and substantially all assets and liabilities that were originally acquired by the Bank from Agrobanka no longer exist. Similarly, if any payment by the Bank of a financial equivalent of such assets and/or liabilities to Agrobanka was awarded, it is unclear how the actual amount of such payment would be determined by court.

- **Other potential risks**

Furthermore, there is a risk that also other Agrobanka shareholders not bound by the 2010 Settlement may attempt to challenge the Acquisition and, even though the 2010 Settlement documents provide that neither Agrobanka nor shareholders bound by the 2010 Settlement may challenge the legality, validity and enforceability of the Acquisition, there is no guarantee that the 2010 Settlement parties will not do so in breach of the terms and conditions of the 2010 Settlement. No such claims have been notified to the Bank until the date of this report.

Finally, negative developments in relation to Agrobanka may generate negative publicity which may, in turn, have a material adverse effect on the reputation, business, results of operations, financial condition and/or prospects of the Bank

and the value of its shares. The Bank follows any such negative publicity and thoroughly reacts to any attempts to harm its good reputation, business and prospects.

- **Current status of Agrobanka liquidation**

Agrobanka is in the final phase of its liquidation, its shares were cancelled in 2016 and, as at the date hereof, almost all Agrobanka shareholders have received their respective payments of the liquidation balance either directly or by its depositing in court escrow.

In this connection, we note that, under the applicable corporate law, it is possible to revive even an entity which was fully liquidated and ceased to legally exist in case any unknown assets are discovered. The Bank believes that the risks associated with renewal of the liquidation of Agrobanka after its deregistration will lessen over time.

5.5.5.1 Administrative Proceedings Initiated by CTI against MONETA Auto

In August 2015, the CTI issued a decision imposing a fine of CZK 5 million on MONETA Auto for alleged breach of Czech consumer credit law by MONETA Auto. According to the CTI, consumer credit agreements entered into from 2011 to 2014 between MONETA Auto and its consumer clients and related credit documents did not include correct information regarding the annual percentage rate of the loan ("APR") and the total amount repayable by the consumer to MONETA Auto in connection with the loan agreement.

MONETA Auto lodged an appeal against this decision with the General Director of the CTI. In July 2016, the General Director of the CTI decreased the amount of fine to CZK 4 million and affirmed the opinion of the CTI. MONETA Auto believes that the relevant consumer credit agreements concluded by MONETA Auto from 2011 to 2014 are in compliance with Czech consumer credit law and filed a court action against the decision of the General Director of the CTI in August 2016. In August 2017, the court dismissed the action of MONETA Auto and, consequently, MONETA Auto filed an appeal against this court decision with the Czech Supreme Administrative Court. The proceedings before the Czech Supreme Administrative court are pending.

Consumers which are parties to the relevant consumer credit agreements concluded by MONETA Auto from 2011 to 2014 may attempt to bring legal proceedings in light of the CTI decision alleging that (i) they are not liable to pay to MONETA Auto the interest rate and other fees agreed in the relevant consumer credit agreements and (ii) they are liable to pay only a discount rate published by the CNB and that MONETA Auto may be required to return to customers an amount of already paid interest and fees insofar as those interest and fees exceeded the CNB's discount rate.

The CTI initiated several additional administrative proceedings and reviews of MONETA Auto's compliance with Czech consumer credit law. As a result, the CTI imposed on MONETA Auto, (i) in October 2015, a fine of CZK 100,000, decreased by the General Director of the CTI to CZK 80,000, (ii) in April 2017, a fine of CZK 900,000, and (iii) in August 2017, a fine of CZK 800,000 for an alleged breach of Czech consumer credit law. MONETA Auto believes that it complied with all legal requirements and has challenged the above decisions of the CTI in administrative proceedings and, where relevant, before courts. None of the above matters has been finally resolved.

Consumers which were parties to the relevant consumer credit agreements may attempt to bring legal proceedings in light of the CTI decisions alleging that (i) the relevant consumer agreements are not valid and enforceable and (ii) that they are not liable to pay to MONETA Auto the interest rate and other fees agreed in the relevant consumer credit agreements and they are liable to only return the principal amount of the loan (or only a discount rate published by the CNB) and MONETA Auto may be required to return to customers an amount of already paid interest and fees.

5.5.6 Legal Challenges of General Meeting Resolutions by Arca Group

5.5.6.1 Legal Challenge of Resolutions of General Meeting Held on 26 October 2017

On 16 January 2018, Arca Capital Bohemia, a.s., a minority shareholder of the Bank holding according to data from the Czech Central Securities Depository 10 shares of the Bank and to our best knowledge a member of Arca Group, filed with the Municipal Court in Prague action against the Bank challenging the validity of the resolutions adopted by the General Meeting of the Bank held on 26 October 2017 concerning approval of the internal regulation on remuneration of the Supervisory Board and Audit Committee members and respective template service contracts. The Bank believes that the concerned General Meeting resolutions are valid

and were adopted in compliance with applicable law, the Articles of Association of the Bank and good morals, and that the court action is entirely baseless.

In September 2018, the Municipal Court in Prague dismissed in full the claims of Arca Capital Bohemia, a.s. and confirmed that the General Meeting of the Bank held on 26 October 2017 was conducted in full accordance with law and Articles of Association of the Bank and that all resolutions adopted at the General Meeting of the Bank held on 26 October 2017 are valid and effective.

Arca Capital Bohemia, a.s. appealed against the decision of the Municipal Court in Prague. In January 2019, the Bank responded to the appeal and rejected all the claims asserted by Arca Capital Bohemia, a.s. in the appeal as entirely baseless. The Bank will continue to vigorously contest the court action of Arca Capital Bohemia, a.s. on appeal.

5.5.6.2 Legal Challenge of Resolutions of Annual General Meeting Held on 25 April 2018

On 24 July 2018, a minority shareholder-individual, to our best knowledge associated with Arca Group and holding according to data from the Czech Central Securities Depository 5 shares of the Bank, filed with the Municipal Court in Prague action against the Bank challenging the validity of all resolutions adopted at the Annual General Meeting held on 25 April 2018. The claimant asserts that the Annual General Meeting was allegedly inquorate, and the resolutions were allegedly not adopted by the requisite percentage of the votes.

The Bank believes that the Annual General Meeting was quorate, all resolutions were duly adopted by the Annual General Meeting in compliance with applicable law, the Bank's Articles of Association and good morals, and has made several submissions to the Municipal Court in Prague rejecting all the plaintiff's claims as entirely baseless. The Bank will continue to vigorously contest the court action.

5.6 MODEL RISK

Model risk refers to the possibility of adverse consequences or other negative impacts emerging from decisions based on the results of a flawed model or the incorrect use of model outputs and/or reports (linked to errors in the development, implementation or use of the models).

The Group manages model risk mainly by actively managing individual phases of the model life cycle, among others by imposing requirements and standards on:

- model Tiering;
- model development documentation;
- model validation;
- model approvals;
- model performance monitoring.

Model Tier reflects the influence, complexity and other aspects of models and triggers mainly the depth of model documentation, validation, and approval requirements.

The ERMC is responsible for the general set-up of the model risk management process in the Group, with the Model Risk Oversight Committee monitoring compliance and model performance on a regular basis and reporting regularly to the ERMC. The ERMC authorities notably cover approval of the Tiering framework and approval of model use for the most influential models.

Sustainability

We see sustainability as a strong competitive advantage, a driver of innovation and a fundamental way how to conduct our business. Even though only a year has passed, significant progress has been made, with MONETA becoming one of the leaders in reducing its carbon footprint, we have initiated new community grants, offered our clients more innovative services while our employees regularly engage in volunteer activities.

6. RESPONSIBLE BANK: OUR ECONOMIC, SOCIAL, CIVIC, ENVIRONMENTAL AND CUSTOMER RESPONSIBILITY

6.1 OUR MISSION, VISION AND VALUES

Our business is formed around a carefully designed vision, mission and set of values to guide our strategic planning and the decisions and actions of MONETA employees.

OUR MISSION

We are an innovative, digital bank. We want to provide our customers with an enjoyable customer experience. Our people cooperate, support each other and support our customers. We behave responsibly and respectfully towards our environment.

OUR VISION

We strive to be the most innovative organisation providing financial services in the Czech Republic, in the eyes of our customers, employees and communities in which we operate.

OUR VALUES

Entrepreneurship

- we are innovating our business and creating banking services for the future;
- we are brave enough to change and actively seek growth opportunities;
- in our business and all our decisions, we always consider the acceptable amount of risk.

Respect

- we are fair to each other;
- we treat others the way we want to be treated;
- we take our competition seriously and learn from it.

Cooperation and Engagement

- we can achieve more together;
- we pursue a common goal;
- we enjoy our work.

Accountability

- we are all change agents;
- we are in it together;
- we share our achievements.

Credibility and Integrity

- our word is our bond; we are consistent and transparent;
- we act and make decisions ethically according to our beliefs;
- we represent the MONETA brand.

6.1.1 Our Sustainability Strategy

The MONETA Sustainability strategy is structured around 5 pillars and 12 priorities, which reflect the priorities and achievements of the Bank's Economic, Social and Environmental Responsibility programme. In line with the Global Reporting Initiative (GRI), our programme aims to build a more sustainable world while ensuring the Group's stability and performance.

MONETA'S RESPONSIBILITY
5 PILLARS AND 12 PRIORITIES

5 PILLARS				
THE ECONOMY Ethical leadership and best in class financial stewardship	OUR PEOPLE Developing and engaging our people responsibly	THE COMMUNITY Being a positive agent for change and a good neighbour	THE ENVIRONMENT Combating climate change	OUR CUSTOMERS Providing excellent service in a responsible way
12 PRIORITIES				
1 Transparency and Responsible banking principles	4 Remuneration policies and practices	6 Corporate volunteering	8 Our carbon footprint	10 Widely accessible products and services
2 Supplier Relationship Management	5 Workplace and culture	7 Corporate philanthropy	9 Innovative ecological solutions	11 Quality customer experience
3 Prevention of Financial crime				12 Responsible sales practices

GOVERNANCE

We are dedicated to promoting a healthy, agile and open corporate culture based on mutual trust, cooperation, recognition and transparency.

We strive to align business activities with our corporate values and priorities, not only to deliver value to our customers, and create long-term shareholder value, but also to ensure a sustainable future for our business and deliver a positive impact on society and in the communities in which we operate.

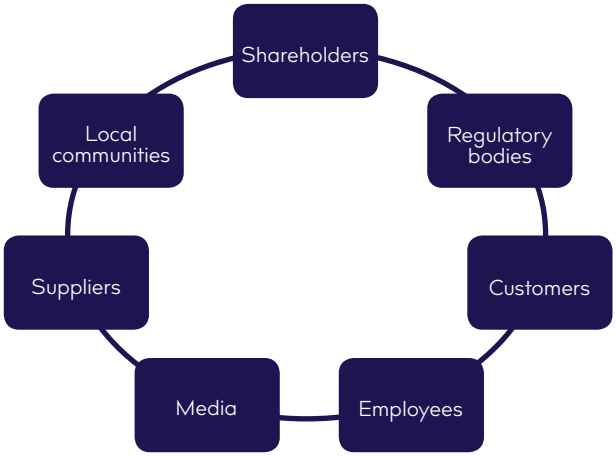
This Sustainability strategy was formed in 2017, when MONETA outlined its ambitions for a sustainable approach to the way it operates. Despite being in place for only a year, significant progress has been made, with sustainability being seen in the Bank as a strong competitive advantage, a driver of innovation and a fundamental way in which to conduct business. MONETA is becoming one of the leaders in reducing its carbon footprint: we initiated new community grants, offered our clients more innovative services and our employees regularly engage in volunteer activities.

Our sustainability and CSR activities were rewarded with a national Czech award "TOP Odpovědná firma" by BpS[1]. MONETA received a bronze medal in the category of "Most Responsible Large Company". This award is regularly dedicated to the most committed companies in the area of corporate sustainability and responsibility.

BRONZOVÁ
TOP ODPOVĚDNÁ VELKÁ FIRMA 2018
cena Byznysu pro společnost

We continue to keep a close dialogue with our key stakeholders, which entails carefully listening, understanding and considering their needs. All our actions put into place to facilitate this close dialogue are outlined in the individual stakeholder sections. There has been no change to our material issues, which continue to form the basis for our 12 priorities.

Our key stakeholders are:



[1] Source: http://www.odpovednefirmy.cz/pages/serve.php?file=1542354838_11_top-2018_v%C3%BDsledky-pdf.pdf.

6.2 ECONOMIC RESPONSIBILITY: ETHICAL LEADERSHIP AND BEST IN CLASS FINANCIAL STEWARDSHIP

MONETA promotes sustainable development in its lending and investing practices, as well as more broadly across its operations. We are committed to running our business ethically, including our relationships with suppliers and external organisations. Transparency forms our central and overarching guiding principle.

6.2.1 Priority 1: Transparency and Responsible Banking Principles

MONETA is aware of the growing interest of its stakeholders in the way how it conducts its business. By disclosing transparent information about our economic, environmental and social activities, we enable our stakeholders to make better-informed decisions in relation to our business. This develops trust, on which our relationship with our stakeholders is dependent. Fostering a culture of transparency, integrity and long-term perspective has become a corporate necessity for us.

Code of Ethics

Our Code of Ethics underpins the culture of the MONETA Group companies. It provides guidelines to the basic rules of conduct for employees and members of the Board and declares the commitments of MONETA Group companies towards their employees, members of their boards, shareholders, business partners, and other third parties. It also details our values, which form an integral part of our culture (see section 6.1).

The Code of Ethics is binding for all employees and members of bodies of the MONETA Group companies. Our employees complete annual, mandatory training related to the prevention of inappropriate behaviour, unethical conduct and conflicts of interest.

MONETA also follows the Code of Ethics established by the Czech Banking Association, whose aim is to set up general ethical standards for relationships between banks and their clients in the Czech Republic. Our operations are in line with the Code of Conduct on Client Mobility, the Code of Conduct in Relations between Banks and Clients, the Code of Conduct on Loans and Living and the Code of Ethics for Financial Market.

We are a member of the Institute of Internal Auditors and our activities are bound by the International Professional Practices Framework. Additionally, we have adopted Codes of Ethics issued by other institutions such as the Code of Ethics of the Czech Capital Market Association, Memorandum of the Czech Leasing and Financial Association for Consumer Protection in the Provision of Consumer Credit, and the Members Code of Conduct of the Czech Leasing and Financial Association.

Cooperation with Control and Regulatory Bodies

MONETA operates in line with relevant legislation and regulatory requirements and cooperates with both Czech and European Union control and regulatory bodies on a regular basis.

The main regulatory body for MONETA and the banking sector in the Czech Republic is the Czech National Bank. MONETA deals also with other regulatory bodies and institutions, such as the Financial Arbitrator of the Czech Republic, the Office for Personal Data Protection, the Financial Analytical Office, the European Banking Authority, the European Securities and Markets Authority, the European Insurance and Occupational Pensions Authority, the National Security Authority, the Czech Banking Association as well as other institutions, whose regulatory or administrative action could potentially result in financial or reputational risks for MONETA. As part of our risk management policies, our Compliance Department is therefore, among other activities, committed to timely and precise communication with these regulatory bodies, as well as coordination of implementation of legislative and regulatory requirements or decisions.

Tax Transparency

We recognise the need for transparency in relation to tax administration. MONETA is a tax resident only in the Czech Republic and all its tax requirements are fulfilled within the Czech tax administration and as required by Czech legislation. Tax compliance, i.e. filing and settling, is monitored by our Tax department and independently reviewed by renowned advisory companies. MONETA also has no unpaid tax liabilities. All corporate tax duties for 2018 are listed in the financial section "Notes to Consolidated Financial Statements" of the Annual Report 2018.

Responsible Banking and Risk Management

Risk management forms an inherent part of the banking sector. We comply with all legislative and regulatory requirements for risk assessment set up for the banking sector. Our risk governance

processes are described in detail in the section "Risk Management" of the Annual Report 2018.

On top of evaluating all legislatively required risks connected to our business activities, we are aware of sustainability risks that affect, or could affect, our business in the near future. These risks stem from sustainability challenges posed by climate change, such as water scarcity, increased periods of drought or loss of biodiversity; and by raw material scarcity, growing demand for energy, population growth and urbanisation. The banking industry is indirectly affected by these sustainability risks through its diverse range of clients.

Our Responsible banking principles include responsible corporate governance, fair and transparent customer relationships, positive contribution to local communities, and building an environmentally friendly business, while striving for financial health, responsible investment and financial stability. These principles set out the principles of fair and ethical conduct with customers during all phases of client contact; from the purchase process to compliance with the terms of the contract. All employees are regularly trained to adhere to these principles, including, for example, respecting customer behaviour, high levels of professional attitude, refraining from any pressure to sign the contract, allowing the customer time to understand all the obligations arising from the purchase of the product, or informing them about advantageous services available in connection with the product.

6.2.2 Priority 2: Supplier Relationship Management

Two MONETA group policies on the Purchasing Process and Outsourcing Management came into effect in 2018 for more efficient supplier relationship management.

The Purchasing Process Policy governs the selection and approval of suppliers, the process of purchasing goods and/or services, and ordering and paying. It aligns all procedures across the Group. The Outsourcing Management policy implements the new European Banking Authority guidelines in the area of outsourcing arrangements and outsourcing to cloud service providers.

Supplier review and assessment is done in accordance with the Supplier Risk Management policy. The risks of all supplier-related activities are evaluated in our internal vendor management application according to pre-set rules. The review process involves, for example, prevention of money laundering and fraud, assessment of financial health of the supplier, IT security controls and potential impact of supplier failure on our business continuity assessment. Special diligence is directed towards the providers of so-called banking outsourcing (148 suppliers at the end of 2018).

The final supplier selection is done under clearly defined competencies of relevant managers, and in specific cases, the final supplier selection is subject to approval by the Management Board. By following the rules, we can achieve auditable transparency of the supplier selection process and assessment of the risks inherent to selecting suppliers.

Where confidential information is to be shared with a new supplier, a Non-Disclosure Agreement (NDA) is signed prior to beginning of any cooperation. All contracts and agreements between MONETA and its suppliers are based on a mutually beneficial and equal relationship. Equality is ensured by, for example, mutual responsibility for compliance with the NDA conditions and the related compensation where the confidentiality of information is breached. An integral part of our NDA is a reference to the Code of Ethics located on the MONETA website.

MONETA cooperates with approximately 850 suppliers. Around 95% of our supplier spend is with suppliers based in the Czech and Slovak Republics, the remaining suppliers are mostly based in the European Union and North America. Being a service-orientated company, MONETA's procurement is related mainly to IT (purchase of software and hardware, cloud computing), marketing and advertisement, cash and cashless payment services, legal and consultation services, telecommunication, building lease, energy, and postal services.

6.2.3 Priority 3: Prevention of Financial Crime

Anti-Money Laundering and Counter Terrorist Financing

MONETA, as a regulated banking entity, is fully aware of its legal and social values' liabilities and liabilities to its shareholders, clients, business partners and other stakeholders. In order to eliminate the risks arising from possible misuse through products and services provided, MONETA adopted the Anti-Money Laundering and Counter-Terrorist Financing Strategy (AML/CTF) in 2018.

We have set up a rigorous set of guidelines and control processes to make sure we operate in line with all relevant legislation and recommendations of international organisations (such as the Financial Action Task Force) in this area. All guidelines are subject to regular review and updates. Know Your Customer and Customer Risk Rating processes are carried out on a regular basis and include assessments in terms of national and international restrictive measures such as sanctions and embargoes.

All of our employees and clients undergo regular specialised training related to prevention of anti-money laundering, including counter terrorist financing and international sanction matters. The AML/CTF area is subject to regular and comprehensive internal and external audits at MONETA. MONETA has never been sanctioned or sued in connection with money laundering or terrorist financing.

MONETA strictly adheres to the Know Your Customer Policy that stipulates necessary measures for compliance with international trade sanctions, prevention of legalisation of profits from criminal acts or financing of terrorism. Above these measures, we also set up policies to refrain from financing activities in possible high-risk sectors and activities with a money-laundering potential.

MONETA group has also implemented an effective Anti-Fraud management programme and strategy that reflect fraud risks and threats completely. These documents are regularly reviewed taking into account current trends of fraudulent threats occurring within the financial institutions area. Relevant internal procedures covering the anti-fraud management area are in place as well.

Anti-Bribery and Corruption

Our Anti-corruption policy has been put into place to prevent any corruptive behaviour or an unwanted conflict of interest. We have set up internal processes and procedures governing the selection of new suppliers as well as for our gift policy to and from our clients or partners. We require the same anti-corruption standards from our employees, as well as from our partners and suppliers.

We are active in promoting our policy and diminishing any risks of corruption or bribery through a range of our regular employee training sessions that take place every year. Training sessions are divided into 5 categories: preventing improper payments, conflict of interest, whistleblowing policy, code of ethics and guidelines for education in compliance. All our employees have passed all compulsory training sessions on anti-bribery and corruption and are regularly trained in all categories.

6.3 SOCIAL RESPONSIBILITY: DEVELOPING AND ENGAGING MONETA'S EMPLOYEES RESPONSIBLY

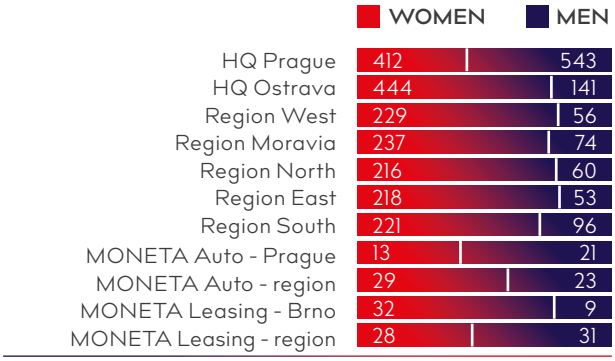
People seek employment with companies that match their own values. MONETA is one of those companies. Our ambition is to be a responsible and attractive employer. We create a modern and functional environment, where our employees can cooperate effectively and feel good. Our values and ethical standards are reflected in our company culture. We want to be a company that demonstrates its values on a day-to-day basis by how it treats and rewards its employees, and then we encourage our employees to reflect these values when engaging with our clients.

In 2018, the MONETA Group had 3,188 employees, while in 2017 it was 3,304.

Respect and strict adherence to labour law standards given by Czech and international legislation is essential for us. We believe in equal opportunities, fair working conditions and dialogue with our employees.

Number of employees according to the type of employment contract, divided by gender*

Number of employees by region, divided by gender*



* Figures may not add up to total due to rounding differences.

6.3.1 Priority 4: Remuneration Policies and Practices

Our remuneration policy is designed to enable our goals and create sustainable shareholder value, while attracting, rewarding and retaining the best employees. It stems from best practices based on reward pay-out, in relation to individual progress against KPIs. During 2018 we also provided salary increase to 1,596 employees, where the average increase was 5.3%. We consider both long-term results as well as short-term challenges, pay attention to internal equity while monitoring the market to ensure external competitive remuneration of our employees. Our remuneration principles ensure compliance with the prohibition of discrimination.

Digital transformation is strongly supported in our company and it is reflected in the employee remuneration tools we use. Employees can use an electronic system of employee benefits in the form of a "cafeteria". This online application is utilised both for individual choice of benefits and as a way of rewarding extraordinary performance of individuals by their managers. Electronic meal vouchers, loyalty awards and referral rewards are also awarded via the cafeteria. An extraordinary reward in the form of benefit points is awarded to employees with a recognised disability.

6.3.2 Priority 5: Employee Care and Culture

Creating an environment, where employees combine a strong corporate culture, where they are nurtured, and where openness and solidarity is supported, not only helps build a stronger organisation, but also motivates employees to provide better service to all customers.

Work-Life Balance

MONETA supports work-life balance in different life situations through several well-established programmes. Students can take time off for exams, including preparation for and attending their final exams as well as for the defence of their thesis. Parents and foster parents can use "Parent's day" to deal with matters related to childcare. MONETA experiences high retention rates of employees that have taken maternity or paternity leave. In 2018, 60 parents returned to work.

Effective time utilisation is supported by home office working, through "FlexPlace", enabling employees with suitable job descriptions to occasionally work from home.

Lifestyle and Motivation

In addition to cultural, sports and leisure activities, which our employees can select as part of the electronic cafeteria system, we support both the physical and mental health of our staff. Healthy life style is supported by distribution of fruits in HQ Prague and Ostrava.

Agile as Way of Working Combined with Company Values

In 2018, we began to involve our staff in our agile transformation. We supported the transformation with 26 trainings for 344 employees. After receiving the training, employees are better at accepting changes, quicker at adopting new innovations and more actively engage in the changes.

Workplace Environment

In Prague, we moved to a new building where our staff has a pleasant working environment that meets the newest standards for office work. It is equipped with modern communication technologies that enable an interactive system of work. The building offers several alternative workplaces (Café, Living Room), so the staff don't have to spend all day at their desks. Wheelchair access within the entire building is standard.

In 2019, we will finish a multifunctional room for employees who need to bring their children to work.

We reconstructed and renewed our headquarters building in Ostrava. There are new kitchens for our employees, meeting rooms are equipped by ALCOVE stools, the training room is equipped with new audio and visual technology, and there are digital screens on each floor. New carpets and new ceilings have also been added on most of the floors.

We are also modernising our branches in accordance with health and safety protection requirements, as well as social standards and state-of-the-art technologies. Upgrade and reconstruction of branches was undertaken according to a new concept, where we used new design, technologies and materials to ensure that employees and customers feel more comfortable.

Use of modern communication technologies accompanies our employees at the start of their career at MONETA. Even before their first day of work they receive access to our MONCliQ website, where they can find internal information about the Bank that will help them

with onboarding. We use a QR code to upload an electronic assessment questionnaire after the induction training. The employment documents are processed electronically and competent persons have electronic access.

Several times a week we issue an electronic newsletter to our staff, where they can find the Bank's financial results as well as news from each department. Employees can also find information about special events, discounts and benefits applicable with our partners. The newsletter also includes information about our volunteers helping various non-profit organisations as well as success job stories, extraordinary achievement or inspirations from our senior colleagues and leaders.

Supporting communication and the effective resolution of different situations is important to us. Staff can contact their HR Business Partners and consultants to point them in the direction of the fastest resolution of their issue. In the event of a difficult life situation, we are able to support our staff with respect to their specific situation. Each case is assessed individually. In 2018, we paid CZK 156,007 to employees in difficult financial situations. For more information on this topic, see the chapter 'Civic Responsibility – Corporate philanthropy – Matching and Social funds'.

Support in Sickness and Injury

As MONETA wants to protect the lives and health of its employees, it has contracted accident insurance in case of death or permanent accidental disability in connection with injury for all of its staff. In case of a short-term illness, employees can stay at home for a certain number of days without the need to visit a doctor.

Diversity and Inclusion

MONETA's company culture and environment is designed with emphasis on a fair and inclusive approach to all employees. We foster opportunities for career development to increase employees' engagement. Our Code of Ethics prohibits any form of discrimination and internal policies promote equal opportunities for everyone.

Motivated employees are our capital that helps us meet our company objectives.

6.3.3 Internal Ombudsman

MONETA does not have a labour union and is not subject to collective bargaining agreements. We do, however, have an Internal Ombudsman Office, which aids and ensures the protection of rights and legitimate interests of employees. This occurs mostly in situations when they suspect a breach of internal rules and regulations, or when they feel they are not treated in line with our principles of integrity, equal opportunities and fair remuneration.

In 2018, we strengthened the role of the Chief Compliance Officer in the internal ombudsman process. The Chief Compliance Officer is now the owner and guarantor of the entire process and coordinates the investigation of more serious complaints. He also appoints all internal ombudsman that are represented by our employees. If an employee is worried about the consequences, he can make an anonymous complaint or ask for his identity to be protected during the investigation (so-called whistleblowing principle). We had no significant complaints in 2018.

Training and Development

The Bank provides a wide range of training and development activities focusing on our employees' professional and personal development and talent management. Apart from traditional trainings, our employees are offered a range of seminars and conferences. Employees attended the following compulsory trainings: Occupational Health and Safety and Fire Protection, Code of Ethics Acknowledgment, Code of Ethics, Insider Trading and Stock Tipping Training, Personal Data Protection, Bank Secrecy, Trade Secrets, Anti Money Laundering, Business Continuity Management Programme, Regulatory Compliance, MONETA Quality standards, Major Impacts of GDPR on MONETA Group Processes.

In 2018, there was an average of 3.5 training days per employee. We are maintaining a long-term standard where the education and development of our staff is important to us. In 2018, 7,422 employees attended professional development training, of which 29% were men and 71% were women.

6.4 CIVIC RESPONSIBILITY: BEING A POSITIVE AGENT FOR CHANGE AND A GOOD NEIGHBOUR

In 2018, MONETA introduced a number of significant changes within its civic responsibility pillar. A large emphasis is still placed on supporting communities in areas where the Bank operates. However, new attention is being focused on our employees' own involvement and their own support of non-profit organisations. In particular, our corporate volunteering programme

was transformed, and under our corporate philanthropy, two new special funds were established: Matching and Social Funds.

6.4.1 Priority 6: Corporate Volunteering

In 2018, our volunteer programme "PÁCHÁME DOBRO – MONETA Volunteers" underwent a major change. We introduced greater transparency of the whole system, unified rules of operation, enabled more effective communication with volunteers and offered new volunteering opportunities. The administration of all volunteer events is now easily accessible online.

We continued to encourage and motivate our employees to become more deeply connected with their communities throughout the year. Starting in 2018, each employee is provided with two full working days per year to volunteer. The possibility of volunteering outside working hours with a claim for compensation has been discontinued.

In 2018, MONETA volunteers donated 2,526 hours to the community within their working hours and supported 31 organisations. We organised 65 volunteer events involving 364 MONETA volunteers. Our events also had an international flavour when we took part in the international Give & Gain Day and Engage Days organised under the auspices of the British organisation Business in the Community.

Popular volunteering activities at MONETA were for example, monthly charitable baking or Christmas and Easter fairs. In 2018, the amount of 269,091 CZK was raised by our employees through these activities. The proceeds were donated to organisations selected by them and with whom we have long-term cooperation. These include, for example, Mamma HELP, an organisation helping women with breast cancer and their families, or Společnost E, offering support to people suffering from epilepsy.

6.4.2 Priority 7: Corporate Philanthropy

We continued our partnership with the charity fundraising project "Help the Children" (Pomozte dětem) organised by the Czech foundation "Nadace rozvoje občanské společnosti" for the second year. MONETA provided a free account no. 9595959595/0600 to support vulnerable and disadvantaged children. Our clients can support this project through a financial contribution made at one of MONETA branches, paying by card or via ATM deposit. Our clients donated CZK 89,400 in 2018 via the ATM deposits. In addition, we also provide free cash processing for anyone who deposits money into their account and for all funds raised in the streets during the week-long fundraising event called "Peříčkový týden".

We also newly introduced the possibility that employees can exchange their benefits obtained in the employee benefit programme eBenefity into money and donate it to a selected non-profit organisation. In 2018, this amount was CZK 75,767. Our employees supported for instance the "Hospice of St. Elizabeth in Brno" (Hospic sv. Alžběty, Brno) or the "Czech Otter Endowment Fund" (Český nadační fond pro vydru), whose rescue station helps stray, handicapped and/or injured animals.

MONETA Grant Programme

Our regional grant programme is focused on supporting local communities and has existed since 1996. It focuses mainly on helping disadvantaged children and adults and on promoting environmental protection. The programme is built on employee engagement from our headquarters in Prague and Ostrava, as well as from the branch network. Employees make suggestions as to which organisation should be supported and with which organisation MONETA should cooperate. Naturally, they select organisations that are close to their values, thereby creating harmony between their personal values and the Bank's social responsibility. This builds a high level of involvement and has a visible impact on communities that need help.

In 2018, we supported 59 organisations and their projects with an amount of CZK 4,944,163. It is nearly 4 million more than in 2017. The Grant Committee, which meets twice a year and consists of MONETA employees, always considers the impact and sustainability of the proposed projects in its decision making. Employees who apply may join the Grant Committee meeting and give reasons for supporting the organisation of their choice. 14 employees took advantage of this opportunity in 2018.

Detailed information on the recommended procedure for grant applicants is available on our website. You can also obtain more information at grant.cz@moneta.cz.

Matching Fund and Social Fund

In 2018, MONETA established two new funds to support its employees, the Matching Fund and the Social Fund.

The Social Fund aims to support MONETA employees in difficult life situations. An employee in need can receive a one-time gift of up to CZK 20,000 which is initiated by the employees themselves. MONETA has supported 6 employees with CZK 156,007 in 2018. Among the most common reasons for this support was serious illness or death of a partner.

The Matching Fund offers support for fundraising activities of MONETA employees by doubling the amount they raise. Contributions from the Matching Fund are provided to non-profit organisations or employees in difficult life situations. In 2018, we supported all requests and multiplied 6 employees' collections by the amount of CZK 192,812.

Requests for support under the Matching and Social Funds are always subject to approval by the Grant Committee. You can obtain more information at csr@moneta.cz.

MONETA Fundraising and Philanthropic Overview in 2018

Supported area in 2018	Names of supported organisations	Total donation in CZK	No. of supported projects
Disadvantaged children	DOTYK II, o.p.s. Základní škola Velká Bíteš Centrum pro náhradní rodinnou péči, o. p. s. Mateřská škola, základní škola a střední škola Daneta, s. r. o. ZERAFA nadační fond Nadační fond Nadace Bátor Tábor Česká republika LECCOS, z. s. Dětské krizové centrum, z.ú. Základní škola a Mateřská škola pro zrakově postižené a vady řeči, Plzeň Nadace rozvoje občanské společnosti Želvička, občanské sdružení Středisko rané péče SPRP, pobočka Ostrava Isar z. s. DĚTSKÝ KLÍČ Šumperk, o.p.s. Státní léčebné lázně Janské Lázně, státní podnik Český kynologický svaz ZKO Nepomyšl 1033 Majoránek, z.s. Centrum BAZALKA, o.p.s. SOS dětské vesničky, z.s. Mobilní hospic Ondrášek, o.p.s. Sjednocená organizace nevidomých a slabozrakých České republiky, z. s., pobočka Kladno Nadační fond Pink Bubble Helpstep z.s.	2,005,553	23

Supported area in 2018	Names of supported organisations	Total donation in CZK	No. of supported projects
Disadvantaged adults	Česká asociace paraplegiků - CZEPA z.s. Dobro-volně, z. s. ENVIRA, o.p.s. Spolek GO ON NONA 92, o.p.s. Borůvka Praha o.p.s. Vzájemné soužití o.p.s. Pomocné tlapky o.p.s. Asistence, o.p.s. PFERDA z.ú. ADRA, o.p.s. Studio Oáza, kulturní centrum pro lidi s mentálním postižením PIAFA Vyškov, z.ú. Mezigenerační a dobrovolnické centrum TOTEM, z.s. Popálky o.p.s. Mamma HELP, z. s. IQ Roma servis, z.s. Pestrá, o.p.s. Klub nemocných cystickou fibrózou, z.s.	1,457,266	19
Senior citizens	Hospic sv. Jana N. Neumanna, o.p.s. Hospic Sv. Jiří, o.p.s. TŘI, o.p.s. Oblastní charita Červený Kostelec Hospicová péče sv. Kleofáše, o.p.s. Hospic svaté Hedviky, o.p.s. Diakonie Apoštolské církve, středisko Domácí hospic Křídla HOSPIC TEMPUS, z.s. Centrum Seňorina, z.s. Cesta domů, z.ú 15. přední hlídka Royal Rangers Mariánské Lázně, Víteček Černošín Sdílení o.p.s. Charita Nový Hrozenkov Wikimedia ČR Hospic svatého Lazara z.s. NADĚJE Zlín Farní charita Litomyšl	1,481,344	17
TOTAL	**59 organisations**	**4,944,163**	**59**

6.5 ENVIRONMENTAL RESPONSIBILITY: COMBATING CLIMATE CHANGE

Respect for the environment, accountability for the environmental impact of our activities, as well as finding innovative solutions in this area are the key points of our Environmental Sustainability Policy. We work to fulfil our commitment to reduce MONETA's carbon footprint by 35% by 2020 and to promote responsible attitudes among employees, suppliers and customers.

6.5.1 Priority 8: Our Carbon Footprint

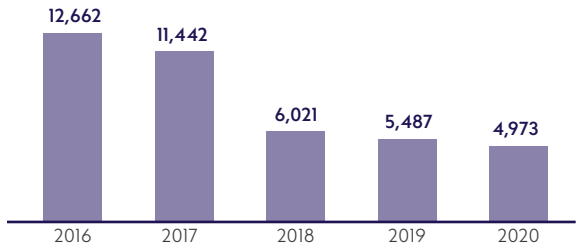
In 2018, we continued to measure our carbon footprint, where we gave ourselves a voluntary commitment to reduce it by 35% by 2020. Measurements were carried out in line with the Green House Gas (GHG) Protocol and covered specific emissions of greenhouse gases in the Scope 1–2. At the same time, we tested performance objectives leading to the improvement of our carbon footprint, which were set in 2017.

Our commitment to reduce MONETA's carbon footprint was determined on the basis of our first measurement in 2016. While measuring the carbon footprint for 2017, we further refined our calculation and expanded it with several optional items from Scope 3. At the same time, we found out that in the first year of measurement, the data collection process was not optimally set. Therefore, the data for 2016 had also been recalculated and refined.

Due to these facts and due to a new decision to include diesel fuel consumption of MONETA Group companies in the calculation, we had an increase in CO_2 for Scope 1 and 2 in 2017. However, this will not affect our declared commitment in any way. It is also important to note that the complete 2018 data will only be available in the second half of 2019, so we are working only with data for 2017 in this report.

ESTIMATION of MONETA CARBON FOOTOPRINT DEVELOPMENT

Scope 1 and 2, tCO_2e

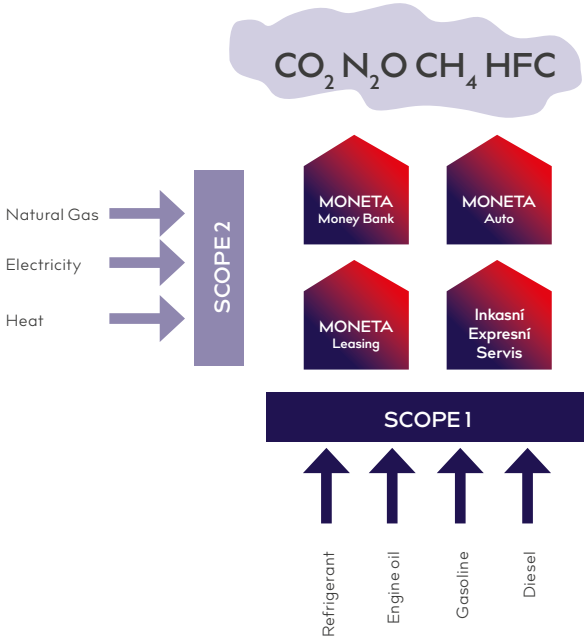


The final data from 2017 shows that the carbon footprint in Scope 1 and 2 dropped by 9.6% compared to 2016, which is in line with our above-mentioned commitment. To reach this goal, we continued to follow our five measures set in 2017. More details on these measures are included further in this chapter.

1. Our branch network will rely on renewable energy.
2. Our headquarters in Prague and Ostrava will rely on renewable energy.
3. We will gradually reduce the number of our branches that are powered by solid fuels.
4. We will reduce the number of company cars.
5. We will replace the majority of our diesel company cars with electric vehicles.

In 2017, in terms of individual greenhouse gases, 99% of our emissions consisted of carbon dioxide (CO_2). Emissions of methane (CH_4), nitrous oxide (N_2O) and HFC fluorinated hydrocarbons were minor. GHG emissions were generated by the consumption of electricity (39.4%), by consumption of heat for heating MONETA's branches (25.4%), by employee commuting to work (11.5%) and by fuel consumption in the private and Bank's vehicles (14.9%).

Carbon Footprint's Composition of MONETA



MONETA confirms taking active responsibility for the environment by participating in the CDP project (former Carbon Disclosure Project). CDP is an independent organisation helping the largest and industry-leading companies worldwide monitor and publish their environmental information with special focus on climate protection. MONETA was rated 'C' confirming the company's active approach to carbon footprint reduction and managing climate change as well as having environmental responsibility policy and clear definition of its objectives as a solid part of the company strategy[2].

Renewable Energy

Energy is one of MONETA's main sources of emissions, so it is a focus of our attention. In 2018, we focused on the use of renewable energy and energy-saving technologies. The buildings at our headquarters in Prague and Ostrava have been using only renewable energy since 2018. Moreover, 73% of our branch network is already powered by renewable energy.

We also care about a low-carbon economy while working with suppliers. This is proven by the move of our primary data servers in 2018 to a new external data centre powered by renewable energy.

[2] Source: https://www.cdp.net/en/scores#446647786929955804cc9a3a08ef1eb4.

Electro-Mobility

Another major source of MONETA's direct emissions is fuel consumption in corporate vehicles. We are aware of the serious impact on the environment that we have by driving millions of kilometres per year. In 2018, we drove 10% more than in 2017, and that is why we are looking to further strengthen our position as a leader in corporate electromobility in the Czech Republic.

In 2017, we decided to replace most of our car fleet with electric vehicles within the next five years. From 12 electric Volkswagen e-Golf cars used in 2017, the number of electric cars in 2018 increased to 56 out of the total of 454 company cars. Our employees have driven almost 230,000 kilometres with electric cars in 2018, which brought a saving of 74.5 tCO_2e.

To accelerate the development of electromobility in the Czech Republic, MONETA began cooperation with a local technology partner. The goal is to build a dense network of public rechargeable stations all around the country and in the proximity of our own branches.

6.5.2 Priority 9: Innovative Ecological Solutions

MONETA Group continuously supports various activities that have a positive environmental impact. An example is our support of agriculture, which has major impact on landscape development as well as the quality of life of the entire population. Promoting investment in agriculture and the effort to apply state-of-the-art technologies leads to reducing the negative impacts of farming, improving welfare of farm animals and producing better and healthier foods.

A unique opportunity that helped further develop the agricultural sector potential and supported the development of eco-energy projects was the construction of biogas stations. By supporting these financially demanding projects, MONETA helped agricultural businesses realise investments that ideally complement their main activity, thus contributing to diversification of their activities and eliminating the risk inherent to the agriculture sector.

As part of support for the agricultural sector and eco-energetic projects, in 2018 we carried out 13 seminars focused on sector development, modern technologies and subsidy consulting. We also organised a special conference for owners of biogas stations, which focused on the current topic of electricity production from renewable sources.

We further strive to promote environmental sustainability through active cooperation with our partners. MONETA formed a partnership with the Czech Nanotechnology Industries Association and became a partner of the "Czech is nano" project. We contribute both financially and organisationally to many Nano-association's activities, as well as to the activities organised by its members. This helps spread awareness of using nanotechnologies in our everyday life, which is positively reflected in the area of health and environmental protection.

Our other partner in innovation is 3 Dees Industries. With MONETA's support, 3D printing technology can become an effective tool for constant innovation and for increasing the effectiveness and safety of many companies' manufacturing processes, especially in the area of environmental protection and ecology.

6.6 CUSTOMER RESPONSIBILITY: PROVIDING EXCELLENT SERVICE IN A RESPONSIBLE WAY

Customers form one of our key pillars. Our aim is to provide them with quality products and services they need every day in a way that reflects our values and corporate ethics. In 2018, we continued to implement a number of new measures to improve the quality of our services, always in the spirit of the MONETA Principles of responsible banking.

6.6.1 Priority 10: Widely Accessible Products and Services

Innovation and Digitalisation

In 2018, MONETA continued its long-term transformation strategy to become the digital banking leader in the Czech Republic. As in previous years, the main emphasis was on providing simple online solutions to customer fund management requirements.

In March 2018, we added unlimited cash withdrawals from the ATMs of all Czech banks to Smart Banka functionalities for the Bank's flagship current account – the Tom account. Clients can turn the service on with just a few clicks in their mobile phone and for CZK 50 a month withdraw cash from the ATMs of all

providers both in the Czech Republic and abroad, as free ATM withdrawals abroad are one of the main Tom account parameters.

The number of Smart Banka users has increased by more than 40% between 2017 and 2018 to more than 265 thousand, which is 48% of the Bank's active customer base[3]. Smart Banka received two prestigious awards in 2018 in the renowned Zlatá koruna 2018 competition. It won the online application category of the industry awards as voted by a jury of experts and also became the third best financial product according to the general public vote[4]. These major achievements extend Smart Banka's list of awards including, for example, gold in "Mobilní aplikace roku 2017"[5] and silver in "WebTop100"[6].

At the beginning of September 2018, we added brand two new payment methods, Garmin Pay and Fitbit Pay. These services allow clients to pay with Garmin and Fitbit watches (with NFC technology) through contactless payment terminals. We reached more than 600 users by the end of 2018. In addition, we've supported marketing communication of these payment wallets in the media and on social networks and we rewarded the winners with 6 pieces of Garmin and Fitbit watches in our Facebook contests.

At the end of 2018, MONETA commenced cooperation with a strategic partner Česká pojišťovna. The project was initiated by Česká pojišťovna seeking a partner to provide banking services to its clients. MONETA won the tender and through a tablet available to Česká pojišťovna's staff, anyone can now open the Tom current account or arrange a consumer Express loan at their chosen branch office. Thirteen selected Česká pojišťovna branches piloted the project until the end of January 2019 involving 25 branch workers.

Small and Medium Business Support

It is still our commitment to become a local champion in supporting Czech small and medium-sized companies (SMEs). By providing banking services to SMEs, as well as to many types of non-governmental organisations, we are supporting the Czech economy, job creation and development of community life and culture.

Our strategy continuously focuses on building and reinforcing our position in the SME segment of the market, namely becoming the bank of choice for self-employed professionals and small and medium-sized businesses. In 2018, MONETA supported over 100,000 clients, more than 6,000 clients (6.5%) than in 2017. New clients primarily ranged from self-employed professionals to small-sized businesses.

Altogether, clients deposited 54.7 billion CZK and took out loans of 65.3 billion CZK, with the volume of SME lending having increased by 6.7% in 2018. We have been successful in expanding the support of SME clients' investment needs over the long-term, especially in the lending sector to the agriculture and light industry sectors.

In order to further improve our business development support, we set up two strategic partnerships with major institutions in 2018:

- Českomoravská záruční a rozvojová banka, a.s. (Czech-Moravian guarantee and development bank): this partnership has allowed us to provide small and medium-sized businesses with preferential loans under the Expansion programme to fund start-up or business development projects.
- The European Investment Fund (EIF): the portfolio guarantee has enabled us to expand the range of companies that can use bank finance to finance their development needs or receive financing on more advantageous terms. The offer is intended for self-employed professionals and companies primarily from the fields of production, trade, transport, agriculture and services, and for example, machines, technology, real estate or intangible assets can be purchased. Based on cooperation with the European Investment Fund within the COSME LGF guarantee programme, MONETA will provide preferential loans over the next three years in a total amount of up to CZK 2.7 billion.

In addition to supporting business investment, we also focus on simplifying the business process. In 2018, we cooperated with EVO Payments International to provide entrepreneurs with the most modern terminals and payment gateways, to which we are able to integrate EET.

It is also worth mentioning the launch of a paperless credit application process, which not only facilitates the process of the application itself but is also in line with our efforts to reduce the number of printed materials and thus save natural resources.

[3] Customer with credit income on current account of more than CZK 7 thousand at least twice in last 3 months.
[4] Source: http://www.zlatakoruna.info/soutez/2018.
[5] Source: https://i.iinfo.cz/files/aplikace_roku/65/vysledkova-listina-1.pdf.
[6] Source: https://vysledky.webtop100.cz/2017/mobilni-reseni.

MONETA SME and Non-Governmental Organisations Clients

Clients	Number of clients
Comercial clients	98,179
Foundations and endowment funds	138
Civic and interest associations	93
Associations	2,268
Asylums	34
Total	**100,712**

6.6.2 Priority 11: Quality Customer Experience

MONETA Group Client Ombudsman

The office of the MONETA Group Client's ombudsman has been in existence since 2012. It deals mainly with cases that have already gone through the standard claims and complaints-handling process, as well as with some other specific cases, such as complaints escalated to regulators and complaints involving large amounts of money. In addition to reviewing the outcomes of the Bank's investigations concerning client complaints and proposing a suitable resolution of the situation for the client, the Ombudsman also searches for the root cause of the issue and suggests mechanisms that will help remove it.

In 2018, there has been a marked decrease in the number of processed serious complaints, which fully corresponds with our efforts to resolve any complaint to the client's satisfaction at first contact. In 2018, a total of 561 serious client complaints were resolved, the majority directly by the Client's Ombudsman team. Reasons for complaint included process failures, technical or human error, misunderstanding of our products, services or issues between our staff and clients. They all represent valuable customer feedback we can further work with and use for continued development of our services.

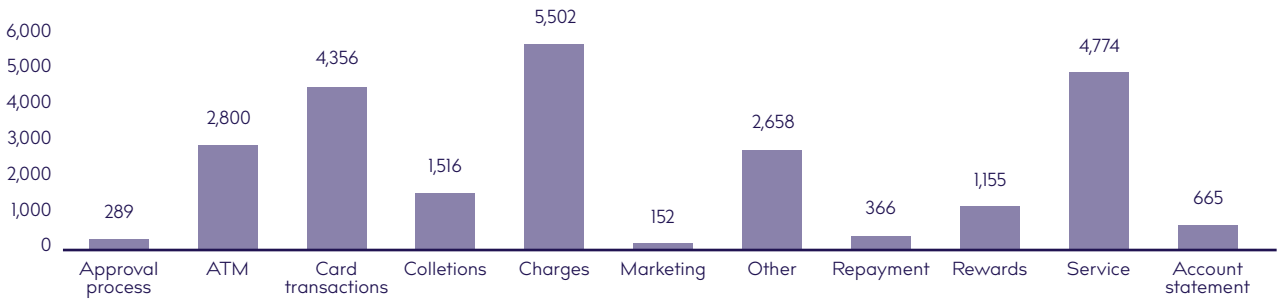
In October 2018, a new complaint handling process was introduced, ensuring that 25% of client complaints were resolved within 10 minutes to customer satisfaction, including pay-out of financial compensation to the client. In June 2018, we also launched client notifications about their filed complaint. The client is now provided with information in writing about what exactly his or her complaint contains, regardless of the channel used.

Customer Satisfaction

Positive customer experience is the cornerstone of MONETA's success. Our mission is to provide an excellent customer experience in any and every interaction with the Bank. All services are provided in a way that is clear and simple to understand and eliminates any potential risks. As the fourth largest retail bank with an ambition to become the Czech digital leader we create our services to ensure their availability to the wider public.

Clients can contact MONETA personally at any of our branches, via our contact centre, new online chat function, internet banking or by e-mail. 2018 saw the continuation of the previous year's trend, where the largest share of incoming client requests consisted of service calls. The most frequent type of requests related to support of digital channels (most frequent inquiries: blocking of internet banking and support of channel functionality) as well as inquiries about transactions and client payments.

SOLVED COMPLAINTS & CLAIMS in 2018 BREAKDOWN by CATEGORY



INCOMING CLIENT REQUESTS by CHANNEL TYPE

Channel type	2018	% of total
Answered calls[7]	735,691	90.5%
Chats	26,049	3.2%
E-mails and messages from Internet banking	37,299	4.6%
Messages from social networks	13,637	1.7%
Total	**812,676**	**100%**

Our service support focused on service line availability and service quality. In case there are more clients waiting to be connected to the operator, we offer to call them back. We have accelerated the response time to written requests from our websites or internet banking by 5 hours year-on-year and launched a new, user-friendly chat interface on our website in June 2018.

We continue to reduce the waiting time for a call-back for requests entered via online channels. We are also able to insure our customers during one call and without unnecessary paperwork, especially against the inability to repay or accident insurance. More than 16 thousand of our clients were insured directly on calls in 2018.

We have extended the portfolio of service activities carried out during a call, for clients calling in relation to mortgage-related requests. We have also introduced the possibility of sending back signed documents through encrypted e-mails, thus reducing the number of paper applications in the mortgage service process by 50%.

Our Facebook communications this year were assisted by a chat bot. We respond to client inquiries immediately. Comments are either answered at once or we inform the client about the next steps. To collect feedback, we use an online communication platform called "MONETA Forum", where we discuss current topics with dozens of our clients. All customer inputs from these channels are summarised and regularly evaluated as part of our internal product/process reviews. We collect valuable customer inputs and comments via our web form and analyse their potential for execution during the reviews.

Branch Network

In 2018, we focused on our branch network as the key sales channel. Our investment in the branch network aims at increasing the quality of our services as well as modernising the working environment for our employees. In line with our image of the Czech digital banking leader, we have introduced modern technologies to our branches, such as Wi-Fi connectivity, tablets in the client waiting areas, LCD screens for the presentation of the current product offer and the list of currency exchange rates. In addition, we have introduced background music (popular songs) to increase the discreetness during meetings with clients. Unique scents and quality coffee serve to underscore the overall enjoyable customer experience.

In 2018, we remodelled 12 branches according to the new design. Actively responding to customers' needs, we have gradually opened 6 branches available 7 days a week and 14 branches available 6 days a week.

We have also increased the number of branches with a wider offer of foreign currencies for foreign exchange transactions this year. 101 branches now offer foreign exchange transactions with the 8 most frequent foreign currencies, i.e. EUR, USD, GBP, HRK, CHF, BGN, HUF, PLN. The remaining branches ensure that cash transactions similarly provide basic foreign exchange transactions in 4 currencies (EUR, USD, GBP and HRK).

To get even closer to our clients and the general public, we attended some big cultural and sales events with our mobile ATM and mobile branch, which took place all over the country. The mobile branch can be used not only as a branch for cashless operations but there is also an ATM. The largest events where our mobile branch was present included the festival line "HRADY CZ", "Beat for Love" festival, the "Student Mayday celebrations" in Hradec Králové, Brno, Prague or Ostrava, "Benátská music festival", "Techagro" and "Země Živitelka" trade fairs, and many more. The volume of cash withdrawn at these events exceeded CZK 24 million, signalling that this service had been actively used.

Customer Data Protection

In times of increasing digitalisation of our services and more exhaustive usage of banking information, customer data security is a priority. Personal data protection is applied via a variety of measures, ranging from organisational ones, to continuous improvement of internal processes including relevant controls and security tools. The aim is to ensure maximum risk coverage and protection of the Group's information, including client data.

[7] Contact center for Retail and Commercial clients, Internal Branchhelpline.

In 2018, MONETA experienced only a limited number of complaints, in line with previous years. The complaints usually dealt with individual or technical failures that could have led to potential access to data by unauthorised recipients. In total, there were 25 such incidents, and appropriate measures have been applied to avoid similar situations in the future.

In 2018, the implementation of the new general data protection regulation (GDPR) has also been completed within the MONETA Group. Processes for the data subject's request handlings (like the exercise of the right of access, right of rectification, right of erasure of the data or the right to data portability) were set up and new processes required by GDPR were implemented, e.g. the data protection impact assessment, data breach management or creating the role of the data protection officer and nominating him. The form for data subject consent was simplified and a new electronic database for client consent was developed to better manage it. The process for anonymisation of electronically processed personal data was also adjusted.

6.6.3 Priority 12: Responsible Sales Practices

Quality Service Guarantee

Client experience and expectations that MONETA receives in the form of client satisfaction surveys and direct interaction with clients is used to set up the Standards of Quality procedures. These reflect on the most sensitive areas of our services as perceived by customers. Quality is reflected into standards impacting the behaviour and professionalism of bankers, their professional performance, equipment and atmosphere of our branches or their accessibility.

Since 2017, MONETA has been monitoring compliance with Quality Standards, defined as binding for all employees and reflecting the required level of service given to all types of clients. In 2018, we expanded tracking to include the quality of service for commercial clients.

In terms of compliance with Standards of Quality, the branch network reached a level of 80% of the maximum possible overall rating, demonstrating a high level of service for our retail clients. The highest rating was achieved in the following areas: pleasant atmosphere at our branches; their clean interiors; professionalism and discretion of employees, including their dress code; interest in the client; and an open approach during negotiations. In retail ratings, we ranked in the middle of the rated banks in the Czech market with a "Net Promoter Score" (NPS) score of 36%.[8]

Commercial bankers also achieved high results in terms of compliance with Standards of Quality. The top-rated areas were the clean and friendly interior of our branch offices, expertise, professional and discreet behaviour of bankers, including their dress code and their open approach during negotiations.

In addition, at every branch, quality of service to real clients and standards maintenance is evaluated by external mystery shopping. While monitoring the sales process and client experience, the level achieved is evaluated via the Post Sales Calls process. It is a key control element of the sales process and the quality of product and/or service settings at MONETA, including third party products and also reduces the risk of defective sales in terms of applicable legislation. This tool is our indicator of customer satisfaction with product parameters and level of service.

Responsible Marketing

MONETA exercises a strict commitment towards fair and honest marketing and advertising. As our Code of Ethics stipulates, the Bank will only use true, correct and clear information in all its information and marketing materials and will avoid giving any type of misleading information. Internal regulations are set up to support this practice.

In 2018, we developed Brand language guidelines that set rules for style and tonality of all our client communication. Brand language guidelines stipulate, for instance, that we address our clients only in a formal way and when writing the word "You", we use capital letter at the beginning. It also defines that to our retail clients we primarily speak in a simple and understandable way, avoiding expressions out of Czech origin as well as professional terms that are difficult to understand.

6.7 GRI INDEX TABLE

Responsible Bank: Our Economic, Social, Civic, Environmental and Customer Responsibility chapter of this Annual Report has been presented in line with the Global Reporting Initiative (GRI) Standards, option Core. All data is calculated for the period of 1 January – 31 December 2018. This is the second non-financial report compiled for the Group and we expect to continue to keep reporting on its progress on an annual basis.

[8] Source: NPS retail survey, agency Ipsos, sample of 1,113 clients, 10/2018

In order to improve our sustainability performance, we welcome all feedback regarding MONETA sustainability activities and this report. Please contact csr@moneta.cz with any comments and enquiries.

Indicator	Description	Reference: Annual Report 2018
	GENERAL INDICATORS	
	Organisational Profile	
102-1	Name of the organisation	1.1
102-2	Activities, brands, products, and services	2.3
102-3	Location of headquarters	1.1
102-4	Countries of operations	1.1
102-5	Ownership and legal form	1.1
102-6	Markets served (geographic locations, sectors served, types of customers)	2.3
102-7	Scale of the organisation	4.1, 6.3
102-8	Information on employees and other workers	6.3 Note: Majority of organisation's activities are carried out by MONETA employees.
102-9	Supply chain	6.2.2
102-10	Significant changes to the organisation's size, structure, ownership, or supply chain	Note: See "Provisions" in Financial section
102-11	Precautionary principle or approach	6.2.1
102-12	External initiatives	6.2.1
102-13	A list of the main memberships of industry or other associations, and national or international advocacy organisations	10., 6.2.1
	Strategy	
102-14	A statement from the most senior decision-maker of the organisation	Note: See "Letter from the Chairman of the Supervisory Board"
	Ethics and Integrity	
102-16	Values, principles, standards, and norms of behaviour	6.1
	Governance	
102-18	Governance structure of the organisation, including committees of the highest governance body	4.1
	Stakeholder Engagement	
102-40	List of stakeholder groups	6.1.1
102-42	Identifying and selecting stakeholders	6.1.1
102-43	Approach to stakeholder engagement	6.1.1
102-44	Key topics and concerns raised	6.1.1
	Reporting Practice	
102-45	A list of all entities included in the organisation's consolidated financial statements or equivalent documents	4.1
102-46	Defining report content and topic boundaries	6.1.1
102-47	List of material topics	6.1.1
102-48	Restatements of information	None
102-49	Changes in reporting	None
102-50	Reporting period	1. 1. 2018 – 31. 12. 2018
102-51	Date of most recent report	March 2018
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	6.7
102-54	Claims of reporting in accordance with the GRI Standards	6.7
102-55	GRI content index	6.7
102-56	A description of the organisation's policy and current practice with regard to seeking external assurance for the report	Note: See "Auditor's report on Consolidated Financial Statements"

Indicator	Description	Reference: Annual Report 2018
	MATERIAL TOPICS	
103	Management Approach	6.1 Note: Management Approach is further explained in each corresponding section of the report.
	ECONOMIC DISCLOSURES	
	Economical Results	
201-2	Financial implications and other risks and opportunities due to climate change	6.2.1
	Indirect Economic Impacts	
203-2	Significant indirect economic impacts	6.2.1
	Procurement Practices	
204-1	Proportion of spending on local suppliers	6.2.2
	Anti-Corruption	
205-2	Communication and training about anti-corruption policies and procedures	6.2.1, 6.2.3 Note: 100% employees attended anti-corruption training sessions. Anti-corruption Policy is communicated to all organisation's suppliers.
205-3	Confirmed incidents of corruption and actions taken	Note: There were no confirmed incidents of corruption.
	Anti-Competitive Behaviour	
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Note: There were no legal actions for anti-competitive behaviour, anti-trust, and monopoly practices.
	ENVIRONMENTAL CRITERIA	
	Emissions	
305-4	GHG emissions intensity	6.5.1
	Environmental Compliance	
307-1	Non-compliance with environmental laws and regulations	Note: There were no instances of non-compliance with environmental laws and regulations during the reporting period.
	Supplier Environmental Assessment	
308-2	Negative environmental impacts in the supply chain and actions taken	6.2.2 Note: MONETA suppliers do not pose significant risk of negative environmental impacts.
	SOCIAL CRITERIA	
	Employment	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	6.3
401-3	Parental leave	6.3.2
	Training and Education	
404-1	Average hours of training per year per employee	6.3.2
404-2	Programmes for upgrading employee skills and transition assistance programmes	6.3.2
	Diversity and Equal Opportunity	
405-1	Percentage of individuals within the organisation's governance bodies in diversity categories: Gender; Age group and other indicators of diversity where relevant	4.1, 6.3
	Non-Discrimination	
406-1	Incidents of discrimination and corrective actions taken	6.3.2 Note: There were no incidents of discrimination at MONETA during the reporting period

Indicator	Description	Reference: Annual Report 2018
	Freedom of Association and Collective Bargaining	
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Note: Freedom of Association and Collective Bargaining is guaranteed by law. Number of operations at risk: 0
	Child Labour	
408-1	Operations and suppliers at significant risk for incidents of child labour	Note: There is no significant risk of child labour at MONETA. MONETA suppliers are located in developed countries where risk of child labour is minimal.
	Forced or Compulsory Labour	
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	Note: MONETA suppliers are located in developed countries where risk of forced or compulsory labour is minimal.
	Local Communities	
413-2	Operations with significant actual and potential negative impacts on local communities	0
FSSS	Access points in low-populated or economically disadvantaged areas by type	2.3
FSSS	Initiatives to improve access to financial services for disadvantaged people	6.6.1
	Supplier Social Assessment	
414-1	New suppliers that were screened using social criteria	6.2.2 Note: 100 % signs MONETA Code of Ethics.
414-2	Negative social impacts in the supply chain and actions taken	6.2.2 Note: MONETA suppliers do not pose significant risk of negative social impacts.
	Marketing and Labelling	
417-1	Requirements for product and service information and labelling	6.6.3
	Customer Privacy	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	6.6.2
	Socioeconomic Compliance	
419-1	Non-compliance with laws and regulations in the social and economic area	Note: There were no significant incidents against law and banking regulation in the Bank during the reporting period.

Our awards

The Best
Mortgage
2018 [1]

1st place
Banking Innovator
voted by public [2]

The Best
SME bank
in the Czech Republic [3]

Innovations 2018
Mobile payments [4]

Best Innovator 2018
Mobile payments
and wearables [5]

1st place
The most interesting
achievement of the year [6]

The Bronze level
certificate Top Responsible
Large Company 2018 [7]

1st place
Online application [8]

3st place
Public Award [9]

1. https://www.bankaroku.cz/predchozi-rocniky/
2. https://www.moneta.cz/servis-pro-media/tiskove-zpravy/detail/moneta-money-bank-zvolena-verejnosti-bankovnim-inovatorem-2018-v-soutezi-nejlepsi-banka-2018
3. https://bv.world/awards/2018/04/moneta-money-bank-best-sme-bank-czech-republic-2018/
4. https://newsroom.mastercard.com/eu/cs/press-releases/mastercard-ocenila-banky-za-projekty-v-oblasti-platebnich-karet-2018-2/
5. https://www.visa.cz/visaawards.html
6. https://finparada.cz/4823-Nejlepsi-financni-produkty-roku-2017-podle-Finparady.aspx
7. http://www.odpovednefirmy.cz/pages/serve.php?file=1542354838_11_top-2018_v%C3%BDsledky-pdf.pdf
8. https://www.moneta.cz/documents/3370787/4397510/MMB_ENG_Zlata_koruna_Awards_2018.pdf
9. https://www.moneta.cz/documents/3370787/4397510/MMB_ENG_Zlata_koruna_Awards_2018.pdf

7. OPINIONS OF THE SUPERVISORY BOARD

The Supervisory Board of the Bank fulfilled all its duties stipulated by law and the Articles of Association throughout its activities conducted in 2018.

Having reviewed the Bank's consolidated and separate financial statements as at and for the year ended 31 December 2018 and considering the auditor's report on such financial statements, the Supervisory Board reports that the accounts and financial documents were kept in a transparent manner and in accordance with all relevant generally binding regulations and laws applicable to banks and their book-keeping.

The accounts and financial documents show all important aspects of the financial situation of the Bank, and the financial statements prepared on their basis present a true and fair view of the Bank's and the Group's accounting and financial situation.

The Supervisory Board recommends that the General Meeting approves the Bank's consolidated and separate financial statements as at and for the year ended 31 December 2018 and the distribution of profit as proposed by the Management Board of the Bank.

The Supervisory Board reviewed the Bank's consolidated financial statements as at and for the year ended 31 December 2018 that show profit after tax for the year 2018 of CZK 4,199,682,152.57 and the Bank's separate financial statements as at and for the year ended 31 December 2018 that show profit after tax for the year 2018 of CZK 4,407,770,846.75.

The Supervisory Board reviewed the Management Board's proposal for the distribution of profit and recommends that the General Meeting approves the distribution of the profit after tax for the year 2018 per the separate financial statements of the Bank as at and for the year ended 31 December 2018 in the total amount of CZK 4,407,770,846.75 as follows:

(i) to be distributed to the shareholders of the Bank as dividend: CZK 3,142,650,000.00

(ii) to be transferred to the account of retained earnings: CZK 1,265,120,846.75

The amount of the profit to be distributed to the shareholders of the Bank (dividend) is CZK 6.15 before taxation per share.

The Supervisory Board throughout 2018 maintained its supervision over the exercise of powers by the Management Board, reviewed the accounts and other financial documents of the Bank, ascertained the effectiveness of the management and control system and made regular assessments.

In Prague, on 13 March 2019

On behalf of the Supervisory Board:

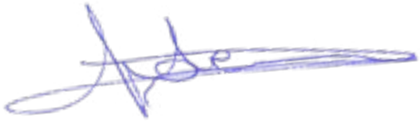
Gabriel Eichler
Chairman of the Supervisory Board
of MONETA Money Bank, a.s.

8. MANAGEMENT AFFIDAVIT

To the best of our knowledge, we believe that this annual report gives a fair and true view of the Bank's and the Group's financial position, business activities and results from the year 2018, as well as of the outlook for the development of the Bank's and the Group's financial situation, business activities and results.

In Prague, on 27 February 2019

Tomáš Spurný
CEO and Chairman of the Management Board
of MONETA Money Bank, a.s.



Philip Holemans
CFO and Vice-chairman of the Management Board
of MONETA Money Bank, a.s.

9. FINANCIAL SECTION

AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

KPMG Česká republika Audit, s.r.o.
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Czech Republic
+420 222 123 111
www.kpmg.cz

Independent Auditor's Report to the Shareholders of MONETA Money Bank, a.s.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of MONETA Money Bank, a.s. and its subsidiaries (together referred as "the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Group is set out in Note 1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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,

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

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Key Audit Matters

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

Loss allowances for loans and receivables to customers

Key audit matter	How the audit matter was addressed
We focused on this matter because of the highly subjective and complex judgements made by the Group's management in determining the necessity for, and then estimating the size of, loss allowances for loans and receivables to customers (further only as "loans"). Loss allowances for loans and receivables to customers at CZK 4,100 million as at 31 December 2018 represented estimate of the expected credit losses (ECL) for loans at the balance sheet date. The loans segmented into retail and commercial portfolios and within them further by type of product. In order to estimate the loss allowances, the individual loans are assigned into one of three stages in line with IFRS 9 Financial instruments. Stage 1 and Stage 2 loans are performing loans. Stage 2 loans are loans where significant increase in credit risk since origination has been observed. Stage 3 loans are non-performing, i.e. credit-impaired loans. The calculation of loss allowances for all Stage 1 and Stage 2 loans is based on statistical models, which estimate inputs into the calculation primarily from Group's historical data. Loss allowances for retail and commercial Stage 3 loans are calculated differently for portfolio and individually managed exposures.	We performed, among others, the procedures outlined below to address this key audit matter: Applying our knowledge, experience and market standards in the industry, we critically assessed and challenged the Group's credit and accounting policies and evaluated the processes related to calculation of expected credit losses by involving the our credit risk specialists. We tested the design, implementation and operating effectiveness of system-based and manual controls over identification of significant increase in credit risk and identification of impairment for credit-impaired loans. The tested controls comprise tests over calculation of days past due of loans, matching of borrowers' repayments to loan instalments, calculation of relative increase in life-time PD since origination and classification of loans into stages. We tested these controls by inquiry in combination with observation, inspection and re-calculation. Furthermore, we tested the design, implementation and operating effectiveness of controls over calculation of expected credit losses (ECL) and its inputs estimated by statistical models. Our credit risk specialists - critically assessed methodology of ECL calculation, - re-performed a key parts of construction of the statistical models for a selected product (i.e. cumulative PD curves, cure rate curves, cumulative recovery curves used for LGD estimation, EAD models including repayment

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Key audit matter	How the audit matter was addressed
Loss allowances for Stage 3 portfolio managed exposures are determined based on the statistical models. Loss allowances for stage 3 commercial individually managed loans are determined by estimating the probability-weighted discounted future cash flows for each exposure. The key judgments and assumptions are estimating future cash repayment scenarios and assigning probabilities to these scenarios taking into account the estimated value and timing of cash flows including estimating the recoverable value of underlying collateral. Key inputs, assumptions and judgments relevant for the calculation of loss allowances based on statistical models comprise: - definition of default, definition of significant increase in credit risk (SICR) and estimation of probability of default (PD) and cure rates, - estimation of loss given default (LGD), - estimation of exposure at default (EAD) including prepayments and utilizations at default, - forward-looking information (FLI) based on three scenarios of expected development of selected macroeconomic indicators. Refer to further information in the note 5.7.11 (Summary of significant accounting policies), 22 (Loans and receivables to customers) and 42.2 (Credit risk) to the consolidated financial statements.	schemes, calculation of conditions for SICR and staging, etc.) and compared them with those used by the Group - and checked implementation of the model outputs into ECL calculation. Credit risk specialists critically assessed statistical models used for estimation of expected development of the macro-economic indicators selected as forward-looking information used for calculation of ECL and also evaluated results of back-testing of statistical models performed by the Group. On the selected credit portfolios, we applied a data analytics approach to re-calculate ECL based on inputs generated by core banking system and the statistical models. For a sample of credit-impaired commercial individually managed loans, we examined the probability-weighted estimated cash flow scenarios as prepared by the credit risk department of the Group. In particular, we challenged the key assumptions in relation to the probabilities assigned to each scenario and both the amount and timing of estimated cash flows. During our assessment we considered also the latest developments in relation to the borrower. Finally, we re-calculated specific allowances calculated by the credit risk department of the Group in order to check the accuracy of data captured in the accounting records. We assessed the adequacy of the Group's disclosures on the loss allowances and credit risk management in the notes to the consolidated financial statements.

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Litigation and claims

Key audit matter	How the audit matter was addressed
The recognition and measurement of provisions and the measurement and disclosure of contingent liabilities in respect of litigation and claims require significant judgement by the Group's management. Therefore, we consider this a key audit matter. We paid particular attention to the following: - litigation risks in respect of the 1998 acquisition of a part of Agrobanka's banking business, - administrative proceedings initiated by Czech Trade Inspection Authority ("CTI") against MONETA Auto, s.r.o. Refer to further information in the note 5.10 (Summary of significant accounting policies), 33 (Provisions) and 38 (Contingent liabilities) to the consolidated financial statements.	Our audit procedures included, among others, the assessment of management's judgement regarding the most significant litigation and claims. For such litigation and claims, we considered whether an obligation exists, the appropriateness of provisioning and disclosure based on the facts and circumstances available. In order to assess the facts and circumstances, we obtained and assessed the relevant litigation and claims documents, including lawyer's letters. We also interviewed the Group's internal and external legal counsel in order to update our understanding of the latest development and key inputs, to assess completeness and accuracy of information applied in a calculation of the related provisions. We also critically assessed and challenged the assumptions made and key judgements applied by management. Additionally, we considered whether the Group's disclosures of the application of judgement in estimating provisions and contingent liabilities adequately reflects the uncertainties associated with the identified litigation and claims.

IT systems and controls over financial reporting

Key audit matter	How the audit matter was addressed
We identified IT systems and controls over financial reporting as an area of focus as the Group's financial accounting and reporting systems are dependent on complex systems and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed or operating effectively.	We assessed and tested the design, implementation and operating effectiveness of the controls over the information systems that are critical to financial reporting. We, among others, tested the controls over the access to programs and data and change management procedures including compensating controls where required by inquiry in combination with observation and inspection. We also assessed certain aspects of the security of the IT systems including access management and segregation of duties.

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any

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significant deficiencies in internal control that we identify during our audit.

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

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

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor´s report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of MONETA Money Bank, a.s. by the General Meeting of Shareholders on 25 April 2018 and our uninterrupted engagement has lasted for 21 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the Additional report to the Audit Committee of MONETA Money Bank, a.s., which we issued on 13 March 2019 in accordance with Article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament of the Council were provided.

Except for the statutory audit we did not provide MONETA Money Bank, a.s. and its controlled undertakings with any other services that have not been disclosed in notes to the consolidated financial statements or consolidated annual report.

Statutory Auditor Responsible for the Engagement

Vladimír Dvořáček is the statutory auditor responsible for the audit of the consolidated financial statements of MONETA Money Bank, a.s. as at 31 December 2018, based on which this independent auditor's report has been prepared.

Prague
13 March 2019

KPMG Česká republika Audit

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

Vladimír Dvořáček
Partner
Registration number 2332

CONSOLIDATED FINANCIAL STATEMENTS OF MONETA MONEY BANK, a.s.

As at and for the Year Ended 31 December 2018
Prepared according to IFRS as adopted by EU

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

CZK m	Note	2018*	2017
Interest and similar income**		7,820	7,582
Interest expense and similar charges		(411)	(218)
Net interest income	**6**	**7,409**	**7,364**
Fee and commission income		2,191	2,223
Fee and commission expense		(299)	(290)
Net fee and commission income	**7**	**1,892**	**1,933**
Dividend income	8	3	0
Net income from financial operations	9	396	709
Other operating income	10	462	329
Total operating income		**10,162**	**10,335**
Personnel expenses	11	(2,324)	(2,456)
Administrative expenses	12	(1,646)	(1,893)
Depreciation and amortisation	13	(610)	(414)
Other operating expenses	14	(272)	(184)
Total operating expenses		**(4,852)**	**(4,947)**
Profit for the period before tax and net impairment of financial assets		**5,310**	**5,388**
Net impairment of financial assets***	15	(274)	(381)
Goodwill impairment	26	0	(104)
Profit for the period before tax		5,036	4,903
Taxes on income	16	(836)	(980)
Profit for the period after tax		**4,200**	**3,923**
Items that may be reclassified subsequently to profit or loss			
- Change in fair value of AFS investments recognised in OCI	36.2	n/a	(176)
- Change in fair value of AFS investments recognised in P&L	36.2	n/a	(343)
- Deferred tax	36.2	n/a	99
Items that will not be reclassified subsequently to profit or loss			
- Change in fair value of equity instruments designated at FVTOCI		0	n/a
- Deferred tax		0	n/a
Other comprehensive income, net of tax		**0**	**(420)**
Total comprehensive income attributable to the equity holders		**4,200**	**3,503**
Profit for the year after tax attributable to the equity holders		**4,200**	**3,923**
Weighted average of ordinary shares (millions of shares)		511	511
Basic and Diluted earnings per share (in CZK)	17	8.22	7.68

* The financial instruments as at 31 December 2018 have been recognised and presented in accordance with IFRS 9; prior period balances have not been restated.
** Calculated using effective interest method with the exception of hedging derivatives.
*** Impairment of investment securities has been added in 2018 as a result of the application of IFRS 9.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

CZK m	Note	31 Dec 2018*	31 Dec 2017
Assets			
Cash and balances with the central bank	18	8,139	7,127
Derivative financial instruments**	24	28	48
Investment securities	23	20,780	n/a
Financial assets available for sale	23	n/a	57
Financial assets held to maturity	23	n/a	11,723
Hedging derivatives with positive fair values	24	53	4
Change in fair value of items hedged on portfolio basis		30	(6)
Loans and receivables to banks	21	33,436	53,380
Loans and receivables to customers	22	140,123	123,680
Intangible assets	25	1,789	1,301
Property and equipment	27	1,296	871
Investments in associates	35	2	2
Current tax assets	28	16	308
Deferred tax assets	29	127	386
Other assets	30	1,113	853
TOTAL ASSETS		**206,932**	**199,734**
Liabilities			
Derivative financial instruments**	24	44	68
Due to banks	31	10,716	29,643
Due to customers	32	168,792	141,469
Hedging derivatives with negative fair values	24	167	4
Provisions	33	261	364
Current tax liabilities	28	107	2
Deferred tax liabilities	29	177	267
Other liabilities	34	1,431	2,154
Total liabilities		**181,695**	**173,971**
Equity			
Share capital	36	511	511
Share premium	36	5,028	5,028
Statutory reserve	36	102	102
Reserve from revaluation of FVTOCI	36	0	n/a
Available for sale reserve	36	n/a	(57)
Share based payment reserve		(2)	(2)
Retained earnings		19,598	20,181
Total equity		**25,237**	**25,763**
TOTAL LIABILITIES AND EQUITY		**206,932**	**199,734**

* The financial instruments as at 31 December 2018 have been recognised and presented in accordance with IFRS 9; prior period balances have not been restated.

** Lines "Financial assets at fair value through profit and loss" and "Financial liabilities at fair value through profit and loss" disclosed in 2017 and earlier periods have been renamed to "Derivative financial instruments" since 1 January 2018.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

CZK m	Share capital	Share premium	Statutory reserve	AFS reserve	Reserve from revaluation of FVTOCI	Share based payment reserve	Retained earnings	Total
Balance as reported 31 December 2017	**511**	**5,028**	**102**	**(57)**	**n/a**	**(2)**	**20,181**	**25,763**
Cumulative effect of adopting of IFRS 9	**0**	**0**	**0**	**57**	**0**	**0**	**(695)**	**(638)**
Restated balance 1 January 2018	**511**	**5,028**	**102**	**0**	**0**	**(2)**	**19,486**	**25,125**
Transactions with owners of the company								
- Dividends	0	0	0	n/a	0	0	(4,088)	(4,088)
Total comprehensive income								
Profit for the year after tax	0	0	0	n/a	0	0	4,200	4,200
Other comprehensive income after tax								
- Change in fair value of FVTOCI investment securities	0	0	0	n/a	0	0	0	0
- Deferred tax	0	0	0	n/a	0	0	0	0
Balance 31 December 2018	**511**	**5,028**	**102**	**n/a**	**0**	**(2)**	**19,598**	**25,237**

CZK m	Share capital	Share premium	Statutory reserve	AFS reserve	Reserve from revaluation of FVTOCI	Share based payment reserve	Retained earnings	Total
Balance 1 January 2017	**511**	**5,028**	**102**	**363**	**n/a**	**(2)**	**21,266**	**27,268**
Transactions with owners of the company								
- Dividends	0	0	0	0	n/a	0	(5,008)	(5,008)
Total comprehensive income								
Profit for the year after tax	0	0	0	0	n/a	0	3,923	3,923
Other comprehensive income after tax								
Change in fair value of AFS assets								
- Change in fair value of AFS investments recognised in OCI	0	0	0	(176)	n/a	0	0	(176)
- Change in fair value of AFS investments recognised in P&L	0	0	0	(343)	n/a	0	0	(343)
- Deferred tax	0	0	0	99	n/a	0	0	99
Balance 31 December 2017	**511**	**5,028**	**102**	**(57)**	**n/a**	**(2)**	**20,181**	**25,763**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

CZK m	Note	2018	2017
Cash flows from operating activities			
Profit for the year after tax		**4,200**	**3,923**
Adjustments for:			
Depreciation and amortisation	13	610	414
Net impairment of financial assets	15	274	381
Net gain on sale of available for sale financial assets	9	n/a	(343)
Amortisation of coupon of financial assets available for sale	6	n/a	(38)
Amortisation of coupon of financial assets held to maturity	6	n/a	(25)
Net gain on revaluation of investment securities		(10)	n/a
Amortisation of coupon of investment securities		(208)	n/a
Net interest income from hedging derivatives	6	51	5
Net gain/ loss from revaluation of hedging derivatives	9	37	(5)
Net gain/ loss from revaluation of items hedged on portfolio basis	9	(35)	6
Goodwill impairment	26	0	104
Change in provision for restructuring not recognised in depreciation and amortisation		(74)	99
Net loss on sale and other disposal of tangible and intangible assets	25, 27	13	7
Dividend income	8	(3)	0
Tax expense	16	836	980
		5,691	**5,508**
Changes in:			
Loans and receivables to customers	15, 22	(17,393)	(12,201)
Other assets	30	(273)	(104)
Due to banks	31	(18,927)	26,986
Due to customers	32	27,323	25,217
Other liabilities and provisions	33, 34	(747)	(470)
		(4,326)	**44,975**
Income taxes paid		(279)	(541)
Net cash used in operating activities		**(4,605)**	**44,434**
Cash flows from investing activities			
Proceeds from financial assets available for sale		n/a	8,292
Acquisition of financial assets held to maturity		n/a	(6,448)
Proceeds from financial assets held to maturity		n/a	12
Acquisition of investment securities		(9,481)	n/a
Proceeds from investment securities		768	n/a
Proceeds from hedging derivatives		25	0
Acquisition of property and equipment and intangible assets	25, 27	(1,557)	(1,216)
Proceeds from the sale of property and equipment and intangible assets	25, 27	3	0
Dividends received		3	0
Net cash used in investing activities		**(10,239)**	**640**

CZK m	Note	2018	2017
Cash flows from financing activities			
Dividends paid		(4,088)	(5,008)
Net cash used in financing activities		**(4,088)**	**(5,008)**
Net change in cash and cash equivalents		**(18,932)**	**40,066**
Cash and cash equivalents at beginning of period	19	**60,490**	**20,424**
Cash and cash equivalents at end of period	19	**41,558**	**60,490**
Interest received*		7,830	7,781
Interest paid*		(238)	(204)

* Lines "Interest received" and "Interest paid" represent interest as per contractual rate and are included in cash flows from operating activities.

Foreign exchange gains relating to average balance of cash and cash equivalents in foreign currencies in 2018 amount to CZK 27 million (2017: loss of CZK 50 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF MONETA MONEY BANK, a.s.

As at and for the Year Ended 31 December 2018
Prepared according to IFRS as adopted by EU

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1. GENERAL INFORMATION

MONETA Group (the Group) consists of the parent company MONETA Money Bank, a.s. (the Bank), and its subsidiaries and associates listed in the note 35. Until 10 May 2016, the Bank was a wholly owned subsidiary of GE Capital International Holdings Limited (GECIHL). The ultimate parent of GECIHL was General Electric Company (GE).

Following the strategy announced by GE in April 2015 to sell most of its financial services businesses and focus on its industrial businesses, the sole shareholder of the Bank GECIHL offered all shares in the Bank to trading on the Prime Market of Prague Stock Exchange (the "Offering"). The Offering was completed and settled on 10 May 2016.

As part of the overall separation from GE, the Bank ceased using the GE corporate brand. On 1 May 2016 the Bank was officially renamed from GE Money Bank, a.s., to MONETA Money Bank, a.s. The legal and commercial names of the Bank and its three consolidated subsidiaries were changed on 1 May 2016 as follows:

Old name until 30 April 2016	New name from 1 May 2016
GE Money Bank, a.s.	MONETA Money Bank, a.s.
GE Money Auto, s.r.o.	MONETA Auto, s.r.o.
GE Money Leasing, s.r.o.	MONETA Leasing, s.r.o.
GE Money Leasing Services, s.r.o.	MONETA Leasing Services, s.r.o

The latest available list of entities recorded in the registry of book-entry shares of the Bank kept by the Central Securities Depository in Prague (Centrální depozitář cenných papírů, a.s.) with a shareholding interest of more than 1% of the Bank's registered share capital is available in the investor relations section of the Bank's website at: https://investors.moneta.cz/shareholder-structure. Such entities may not necessarily be the beneficial shareholders of the Bank but may hold shares of the Bank for the beneficial shareholders (such as securities brokers, banks, custodians or nominees).

Please refer to the chapter 4 to the section "Other legal requirements" for the information on the shareholder structure of the Bank as at 31 December 2018. As far as the Bank is aware, no shareholder was a controlling person of the Bank as of 31 December 2018.

The Bank's registered office is at Vyskočilova 1442/1b, Michle, 140 00 Prague 4, Delivery number 140 28, Czech Republic and its ID number 25672720, ISIN number: CZ0008040318.

The Group operates in the Czech Republic and focuses primarily on secured and unsecured consumer lending and commercial financing. The consumer portfolio consists of secured and unsecured lending. Unsecured lending products include consumer and auto loans, credit cards, personal overdrafts. Secured lending is provided in the form of mortgages and finance leases. Commercial lending products range from working capital, investment loans, finance and operating leases, auto loans, inventory financing, financing of small businesses and entrepreneurs through guarantees, letters of credits and foreign exchange transactions. The Group provides a wide range of deposit and transactional products to retail and commercial customers.

The Group issues debit and credit cards in cooperation with VISA and MasterCard and cooperates with EVO Paymens International in acquiring services. In addition, the Group intermediates additional payment protection insurance which covers the customer's monthly loan payment in the event of unemployment, accident or sickness. The Group also acts as the intermediary to provide its customers with other insurance and investment products.

The Group's consolidated financial statements were authorised for issue by the Management Board on the 27 February 2019. In addition, the financial statements are subject to approval at the General Meeting of shareholders.

All press releases, financial reports and other information are available on the Bank's website: www.moneta.cz.

2. BASIS OF PREPARATION

2.1 BASIS OF PRESENTATION

The financial statements contained herein are consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

International Financial Reporting Standards comprise accounting standards issued or adopted by the International Accounting Standards Board (IASB) as well as interpretations issued or adopted by the IFRS Interpretations Committee (IFRIC).

2.2 GOING CONCERN

The consolidated financial statements are prepared on a going concern basis, as the Management Board is satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Management Board have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

The Group's financial statements are presented in Czech Koruna (CZK) which is the Group's functional currency. All amounts have been rounded to the nearest million, except where otherwise indicated.

2.4 MEASUREMENT

The consolidated financial statements have been prepared on a historical cost basis, except for investment securities measured at fair value though other comprehensive income (FVTOCI), investment securities measured at fair value through profit or loss (FVTPL), derivative financial instruments and financial assets classified as available for sale during 2017 which have been measured at fair value. The carrying values of recognised assets that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged, and this adjustment is reported on a separate line of the statement of financial position because of application of portfolio fair value hedges.

3. USE OF ESTIMATES AND JUDGEMENTS

The preparation of the Group's financial statements in conformity with IFRS requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2018 Consolidated Financial Statements.

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

Information about critical judgements and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the Group's financial statements is included in the following notes:

- Deferred tax assets and liabilities – note 29;
- Impairment of financial assets – notes 15 and 42;
- Provisions – note 33;
- Fair value – note 43;
- Goodwill impairment assessment – note 5.13 and 26;
- Classification of leases – note 5.11.

4. NEW STANDARDS AND INTERPRETATIONS

4.1 STANDARDS AND AMENDMENTS EFFECTIVE AFTER 31 DECEMBER 2018 ISSUED BY THE IASB AND ENDORSED BY EU

(a) IFRS 16 Leases

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

The contract is identified as a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

Right-of-use shall be depreciated for the shorter of the economic useful life of the underlying asset or the lease term. Interest expense arising from lease liability shall be recognised separately from the depreciation charge in the statement of profit and loss.

A lessor shall classify each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

The Group, as a lessee, leases mainly head office premises, branches, places for ATMs located outside of the branches and other real estate, such as data centers, that should be recognised in Property and equipment under IFRS 16 since 1 January 2019. As allowed by IFRS 16, the Group will not apply IFRS 16 on Intangible assets.

The Group applies IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

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

To assess the transition impact the Group applied the following recognition exceptions as permitted by IFRS 16:

- exemption for short-term leases (with a remaining lease term of 12 months or less) by class of underlying assets; and
- exemption for low-value assets on a lease-by-lease basis.

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

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of CZK 1,877 mil. with corresponding recognition of the right-of use assets of CZK 2,070 mil. as at 1 January 2019. The difference CZK 192 mil. is represented by rentals prepaid in 2018 already recognised in "Other assets" and CZK 1 mil. should be recognised in Retained earnings as a result of disposal of low-vale assets.

The further expected impact for 2019 is as follows:

- annual increase in the line "Interest expense and similar charges" by CZK 22 mil. with a corresponding decrease in the line "Administrative expenses" for 2019;
- annual increase in the line "Depreciation and amortisation" by CZK 302 mil. with a corresponding decrease in the line "Administrative expenses" for 2019.

(b) Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation

In October 2017, IASB issued "Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation". The EU endorsed this amendment in March 2018 with an effective date consistent with the IASB effective date of 1 January 2019.

The amendments modify the existing requirements of IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments i.e. when the borrower is permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Under the amendments, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

The Group has assessed the possible impact of these amendments to the measurement of financial assets in the Group's portfolio. The assessment has not identified prepayment features with negative compensation in the Group's portfolio, and therefore these amendments are expected to have no influence on the Group's financial statements.

(c) IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty

reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

The Group does not expect that the Interpretation, when initially applied, will have a material impact on the financial statements as the Group does not operate in a complex multinational tax environment and does not have material uncertain tax positions.

4.2 STANDARDS AND AMENDMENTS EFFECTIVE AFTER 31 DECEMBER 2018 ISSUED BY THE IASB AND NOT ENDORSED BY EU

Certain new accounting standards and interpretations have been published by the IASB that are not mandatory for 31 December 2018 reporting periods and have not been adopted by the European Union. The Group intends to adopt these standards, if applicable, when they become effective as endorsed by the EU. The Group's assessment of the impact of these new standards and interpretations is set out below.

(a) Amendments to IAS 28: Investments in Associates and Joint Ventures

In October 2017, IASB issued "Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures".

Amendments were introduced to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These amendments are effective from 1 January 2019 subject to endorsement by the EU. These amendments will not have a material influence on the Group's financial statements.

(b) Conceptual Framework for Financial Reporting

In March 2018, IASB issued the revised Conceptual Framework for Financial Reporting, replacing the previous version of the Conceptual Framework issued in 2010. The revised Conceptual Framework is effective from 1 January 2020 - with earlier application permitted - for companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction.

The revised Framework consists of eight chapters as follows:

- The objective of financial reporting;
- Qualitative characteristics of useful financial information;
- Financial statements and the reporting entity;
- The elements of financial statements;
- Recognition and derecognition;
- Measurement;
- Presentation and disclosure;
- Concepts of capital and capital maintenance.

The revised Framework reintroduces concepts such as stewardship and prudence, in the meaning of caution when making judgements under conditions of uncertainty. In the third chapter of the revised Framework definition of reporting entity as an entity that chooses, or is required, to prepare financial statements, and is not necessarily a legal entity is provided.

The revised Framework also adjusts definition of asset and liability. The new definition of the asset clarifies that an asset is an economic resource, and that the potential economic benefits no longer need to be expected to flow to the entity, however, may have potential to produce economic benefits. The definition of a liability clarifies that a liability is the obligation to transfer an economic resource, and not the ultimate outflow of economic benefits. The outflow also no longer needs to be expected, similar to the change in the definition of an asset. Income and expenses definitions have been also changed to reflect changes in the definition of an asset and liability.

Chapter five of the revised Framework introduces derecognition as the removal of all or part of a recognised asset or liability from an entity's statement of financial statements. Chapter six focusing on the measurement basis differentiates between the historical cost basis and the current value basis for which provides for definitions in-line with other IFRS standards such as IFRS 13 Fair Value Measurement and IAS 36 Impairment of Assets.

The Group does not expect any material impact from possible introduction of the revised Framework, however, detailed analysis will be

performed once the EU endorsement process will be started.

(c) Amendments to IFRS 3 "Business Combinations" - Definition of a Business

In October 2018, IASB issued "Amendments to IFRS 3 "Business combinations" – Definition of a Business". The amendments should clarify decisions whether transaction is an acquisition of a business or group of assets. This decision influences disclosure of goodwill, acquisition costs and deferred tax. The amendments especially emphasise that acquisition of a business is connected with significant contribution to the ability to create outputs from the acquirer point of view, taking into account goods and services provided to customers. The reference to reduce costs has been removed as well as replacing any missing inputs or processes for transaction participants.

The amendments are effective for business combinations with the acquisition date beginning on or after 1 January 2020 and should be endorsed by EU. The Group will consider these amendments during assessment of business combinations' accounting treatment thereafter.

(d) Other amendments to standards with minor or without impact on the Group:

- IFRS 17 Insurance Contracts;
- Annual Improvements to IFRS Standards 2015-2017 Cycle;
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement;
- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IAS 1 and IAS 8: Definition of Material.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Group applies accounting policies consistently with the exception described in chapter 5.1 Changes in accounting policies. These changes resulted from the adoption of IFRS 9 Financial instruments (IFRS 9) since 1 January 2018.

5.1 CHANGES IN ACCOUNTING POLICIES

The transition to IFRS 9 has been applied by adjusting the opening statement of the financial position at the date of initial application i.e. 1 January 2018. Comparative periods have not been restated, differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in the Retained earnings. The impact from the transition to IFRS 9 to the opening statement of the financial position as at 1 January 2018 was described in the Group's 2017 financial statements, note 4.1.

In terms of capital adequacy requirements, the Group has decided not to apply the transitional arrangements specified in Article 473a of Regulation (EU) No 575/2013 for mitigating the impact of the introduction of IFRS 9 and analogous expected credit losses (ECLs), and therefore its own funds, capital and leverage ratios will already reflect the full impact of IFRS 9 and analogous ECLs.

IFRS 9 divides all financial assets into two classification categories - those measured at amortised cost and those measured at fair value. Where assets are measured at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, FVTPL), or recognised in other comprehensive income (fair value through other comprehensive income, FVTOCI). Equity instruments are measured at FVTPL, unless irrevocable election at initial recognition to classify such instrument as at FVTOCI, with all subsequent changes in fair value being recognised in the Other comprehensive income (OCI), is made by the Group.

The classification of debt instruments depends on the Group's business model and financial asset's contractual cash flow characteristics. IFRS 9 does not use categories "Loans and receivables" "Held to maturity" and "Available for sale". For more information about classification of financial assets according to IFRS 9 see the note 5.7.2.

Impairment

The impairment model in IFRS 9 is based on the premise of providing for expected losses, while IAS 39 is based on an incurred loss model. The IFRS 9 impairment model applies to financial assets measured at amortised cost; debt instruments measured at FVTOCI; loan commitments when there is a present obligation to extend credit, financial guarantee contracts and other receivables. For more information about the impairment of financial assets according to IFRS 9 see the note 5.7.11.

The Group continues to apply the hedge accounting requirements of IAS 39 as permitted by IFRS 9.

Following table shows reclassification of financial assets between measurement categories and adjustments in carrying values due to transition to IFRS 9:

IAS 39			Transition to IFRS 9		IFRS 9		
Statement of financial position as at 31 Dec 2017	**Measurement basis IAS 39**	**Carrying amount IAS 39**	**Changes in carrying amounts due to reclassification between measurement categories**	**Changes in carrying amounts due to IFRS 9 transition**	**Statement of financial position as at 1 Jan 2018**	**Measurement basis IFRS 9**	**Carrying amount IFRS 9**
Cash and balances with the central bank	Amortised cost	7,127	0	0	Cash and balances with the central bank	Amortised cost	7,127
Financial assets at fair value through profit or loss	FVTPL	48	0	0	Derivative financial instruments	FVTPL	48
Financial assets available for sale	FVTOCI	57	(9)	0	Investment securities		11,846
	FVTOCI	47	0	0	Investment securities	FVTPL	47
	FVTOCI	1	0	0	Investment securities	FVTOCI	1
	FVTOCI	9	(9)	0	Other assets	Amortised cost	0
Financial assets held to maturity	Amortised cost	11,723	0	75	Investment securities	Amortised cost	11,798
Hedging derivatives with positive fair values	FVTPL	4	0	0	Hedging derivatives with positive fair values	FVTPL	4
Change in fair value of items hedged on portfolio basis	FVTPL	(6)	0	0	Change in fair value of items hedged on portfolio basis	FVTPL	(6)
Loans and receivables to banks	Amortised cost	53,380	0	0	Loans and receivables to banks	Amortised cost	53,380
Loans and receivables to customers	Amortised cost	123,680	0	(676)	Loans and receivables to customers	Amortised cost	123,004
Intangible assets		1,301	0	0	Intangible assets		1,301
Property and equipment		871	0	0	Property and equipment		871
Investments in associates		2	0	0	Investments in associates		2
Current tax assets		308	0	0	Current tax assets		308
Deferred tax assets		386	0	(14)	Deferred tax assets		372
Other assets	Amortised cost	853	9	1	Other assets	Amortised cost	863
Total Assets		**199,734**	**0**	**(614)**			**199,120**

IAS 39			Transition to IFRS 9		IFRS 9		
Statement of financial position as at 31 Dec 2017	**Measurement basis IAS 39**	**Carrying amount IAS 39**	**Changes in carrying amounts due to reclassification between measurement categories**	**Changes in carrying amounts due to IFRS 9 transition**	**Statement of financial position as at 1 Jan 2018**	**Measurement basis IFRS 9**	**Carrying amount IFRS 9**
Due to banks	Amortised cost	29,643	0	0	Due to banks	Amortised cost	29,643
Due to customers	Amortised cost	141,469	0	0	Due to customers	Amortised cost	141,469
Financial liabilities at fair value through profit or loss	FVTPL	68	0	0	Derivative financial instruments	FVTPL	68
Hedging derivatives with negative fair values	FVTPL	4	0	0	Hedging derivatives with negative fair values	FVTPL	4
Provisions		364	0	19	Provisions		383
Current tax liabilities		2	0	0	Current tax liabilities		2
Deferred tax liabilities		267	0	0	Deferred tax liabilities		267
Other liabilities		2,154	0	5	Other liabilities		2,159
Total Liabilities		**173,971**	**0**	**24**			**173,995**
Share capital		511	0	0	Share capital		511
Share premium		5,028	0	0	Share premium		5,028
Statutory reserve		102	0	0	Statutory reserve		102
Available for sale reserve		(57)	0	57	n/a		n/a
Share based payment reserve		(2)	0	0	Share based payment reserve		(2)
Retained earnings		20,181	0	(695)	Retained earnings		19,486
Total Equity		**25,763**	**0**	**(638)**			**25,125**
Total Liabilities and Equity		**199,734**	**0**	**(614)**			**199,120**

Following table shows reconciliation of allowances and provisions between IAS 39 and IFRS 9 amounts:

CZK m	31 Dec 2017	Remeasurement due to transition to IFRS 9	1 Jan 2018
Allowances			
Loans and receivables to customers	4,062	676	4,738
Financial assets held to maturity (IAS 39) reclassified to Investment securities at amortised cost (IFRS 9)	0	4	4
Total allowances	**4,062**	**680**	**4,742**
Provisions			
Loan commitments and financial guarantee contracts issued	**38**	**19**	**57**
Total Provisions	**38**	**19**	**57**
Total	**4,100**	**699**	**4,799**

5.2 FOREIGN CURRENCY

The consolidated financial statements are presented in Czech Koruna (CZK) which is the Group's functional currency. Transactions in foreign currencies are translated into the functional currency of the Group at the exchange rates at the date of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in the profit or loss in "Net income from financial operations".

5.3 BASIS OF CONSOLIDATION

5.3.1 Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is measured at the fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see the note 5.13). Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest and the fair value of any previously held equity interest in the acquiree, if any, over the net of the fair values of the identifiable assets and liabilities assumed. Any gain on a bargain purchase is recognised in profit or loss immediately. Acquisition-related costs are recognised as an expense in the profit or loss in the period in which they are incurred.

Any contingent consideration payable is measured at fair value at the acquisition date.

5.3.2 Non-Controlling Interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

5.3.3 Subsidiaries

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

5.3.4 Associates

Associates are all entities over which the Group has significant influence but no control or joint control. This is generally the case where the Group holds between 20-50% of the voting rights.

The consolidated financial statements of the Group also include the attributable share of the results and other comprehensive income of associates determined using the equity method and based on either financial statements for the annual period ended 31 December or on pro-rated amounts adjusted for any material transactions or events occurring between the date of the financial statements available and 31 December.

5.3.5 Loss of Control

When the Group loses control over a subsidiary it derecognises the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

5.3.6 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

5.4 INTEREST

Interest income or expense from all interest-bearing financial instruments recognised using the effective interest rate including derivatives is reported in the profit or loss in the line items "Interest and similar income" and "Interest expense and similar charges" respectively as part of revenue and expenses from continuing operations.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability. The effective interest rate is a rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to their carrying amount. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument and includes transaction costs and fees paid or received that are an integral part of the effective interest rate but excludes future credit losses.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Interest income and expense presented in the profit or loss include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis;
- Interest on investment securities calculated on an effective interest rate basis;
- Interest on interest rate derivatives designated as hedging derivatives using contractual interest rate of the corresponding derivative.

If the financial receivable is considered impaired, the interest income representing the time value of money between the impairment event and the estimated recovery date continues to be recognised using the effective interest rate method (unwinding) and the effective interest rate is applied on the financial asset's net carrying amount. The Group calculates the unwinding for the period using an individual deal-by-deal approach and individual effective interest rates.

5.5 FEES AND COMMISSIONS

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised when the related services are performed. Fees and commissions income are earned mainly from providing payment services, intermediary and investment services.

Fee income on impaired financial assets is recognised on receipt of cash or performance of the service obligation, whichever is later.

5.6 DIVIDENDS

Dividend income is recognised when the right to receive the payment is established. Dividend income is reported in the profit or loss in the line item "Dividend income".

5.7 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.7.1 Recognition

The Group initially recognises financial assets measured at amortised cost on the date on which they are originated. All other financial instruments are recognised on the trade date which is the date the Group becomes a party to the contractual provisions of the instrument.

All financial instruments are initially recognised at their fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

5.7.2 Classification of Financial Assets (Policy Applicable from 1 January 2018)

5.7.2.1 Debt Instruments

Debt instruments include loans and receivables (disclosed especially in the lines "Loans and receivables to banks", "Loans and receivables to customers") and debt securities (disclosed in the line "Investment securities"). They are classified into one of the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVTOCI); or
- Fair value through profit or loss (FVTPL).

Classification is based on the assessment of the business model under which the asset is held and on the assessment of the contractual cash flow characteristics of the instrument.

The Group has defined its business models as follows:

- Held to collect (HTC) business model for financial assets acquired with the intention to be held until maturity and to collect contractual cash flows. Sales, which are insignificant or infrequent, related to the management of increased credit risk of the asset, or close to maturity of the financial assets are considered to be consistent with the HTC business model;
- Held to collect and sell (HTCS) business model for financial assets acquired with the intention to be held to collect contractual cash flows and to be sold. More frequent sales within this portfolio are expected, mainly for the purpose of managing the Group's liquidity needs;
- Other business models for financial assets neither classified as HTC nor HTCS.

Currently, the Group holds all debt financial assets within the HTC business model.

Contractual cash flow characteristics are assessed by analysing the contractual features of the financial asset to determine whether they are connected with cash flows consistent with a basic lending arrangement, i. e. comprising solely payments of principal and interest from the principal amount outstanding (SPPI test). Principal is the fair value of a financial asset at the initial recognition and it changes due to repayments over time. Interest represents a consideration for the time value of money, profit margin, credit risk and other basic lending risks. If a financial asset does not pass the SPPI test it is measured at fair value through profit or loss (FVTPL). Currently the Group does not classify any non-derivative debt instrument in the FVTPL.

Debt instruments measured at amortised cost

Debt instruments are measured at amortised cost if they are held within a business model whose objective is held to collect (HTC) contractual cash flows where those cash flows represent solely payments of principal and interest. After the initial measurement, debt instruments in this category are carried at amortised cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the carrying amount. Amortised cost is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Interest income from debt instruments measured at amortised cost is recorded in profit or loss in the line "Interest and similar income".

Impairment on debt instruments measured at amortised cost is calculated using the expected credit loss approach. Loans and receivables and debt securities measured at amortised cost are presented net of the allowance for credit losses in the statement of financial position.

Debt instruments measured at FVTOCI

Debt instruments are measured at FVTOCI if they are held within a business model held to collect and sell (HTCS), where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealised gains and losses on debt instruments measured at FVTOCI (excl. the related expected credit losses which are directly recognised in the profit or loss) are recorded in other comprehensive Income (OCI). Upon derecognition, realised gains and losses are reclassified from OCI to profit or loss. Currently, the Group does not classify any debt instrument in FVTOCI.

5.7.2.2 Equity Instruments

Equity instruments are disclosed in the line "Investment securities". They are measured at FVTPL, unless an election is made to designate them at FVTOCI at the initial recognition or at the date of transition to IFRS 9.

For equity instruments measured at FVTPL, changes in fair value are recognised in the profit or loss in the line "Net income from financial operations".

A major part of the current equity securities portfolio is classified as FVTPL. For the residual minor part, the Group elected the irrevocable option provided by IFRS 9 to classify it as at the date of transition as FVTOCI. All Gains and losses resulting from FVTOCI equity instruments including when derecognised or sold are recorded in OCI and are not subsequently reclassified to profit or loss. Nevertheless, dividends received from FVTOCI equity instruments are disclosed in the profit or loss in the line "Dividend income".

5.7.2.3 Derivatives

Derivatives are measured at FVTPL, changes in fair value are recognised in the profit or loss in the line "Net income from financial operations". For more details see chap. 5.7.10.

5.7.3 Classification of Financial Assets (Policy Applicable before 1 January 2018)

The Group classified its non-derivative financial assets into one of the following categories:

- Loans and receivables;
- Held to maturity;
- Available for sale financial assets;
- Financial assets at fair value through profit or loss:
  - Held for trading; or
  - Designated at fair value through profit or loss.

Management determined the classification based upon management's intent for acquiring a particular asset and the cash flow characteristics of that asset.

The Group did not hold any non-derivative assets classified as designated at fair value through profit or loss.

In 3Q 2017 management approved a new investment strategy for the Group. According to this strategy the Group established a held to maturity portfolio for securities intended to be held until maturity that has been used since 1 August 2017. Hence , all bonds comprised in the available for sale portfolio as at 1 August 2017 were reclassified into the held to maturity portfolio and started to be measured at amortised cost rather than at fair value. Total carrying value of the reclassified portfolio was CZK 5,287 million. For more details see the note 23.

(a) Loans and receivables

Loans and receivables comprised non-derivative financial assets with fixed or determinable payments that were not quoted in an active market other than:

- Financial assets designated as held for trading that the Group intended to sell immediately or in the near term and those assets designated as at fair value through profit or loss;
- Those financial assets that the Group upon initial recognition designated as available for sale; or
- Those financial assets for which the Group did not expect to recover the majority of its initial investment for a reason other than deterioration of credit quality. These assets were classified as available for sale.

Loans and receivables were subsequently measured at the amortised cost using the effective interest rate method.

Financial assets in this category are reported in the line "Loans and receivables to banks" or "Loans and receivables to customers" for the periods before 1 January 2018.

(b) Available for sale financial assets

Available for sale (AFS) financial assets comprised non-derivative investments that were designated as AFS or were not classified as another category of financial assets.

Available for sale financial assets included equity and debt securities. However, the majority of debt securities were reclassified into the held to maturity portfolio as at 1 August 2017 due to the change in the Group's investment strategy. For more details see the note 23.

Fair value changes other than impairment losses were recognised in other comprehensive income and reported in the "Available for sale reserve". When the AFS asset was disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income was reclassified to profit or loss. Disposal gains/losses were recorded in "Net income from financial operations".

Details on how the fair value of financial instruments is determined are disclosed in note 5.9.

(c) Held to maturity financial assets

Held to maturity (HTM) financial assets comprised non-derivative debt instruments with fixed or determinable payments and fixed maturity that the Group intended and was able to hold to maturity. Investments in equity shares could not have been classified as held to maturity due to its indefinite maturity. HTM financial assets were

measured initially at fair values including directly attributable transaction costs.

HTM financial assets were measured at amortised costs after the initial recognition. Interest income was recognised in the profit or loss using the effective interest method. Foreign exchange gains or losses on HTM debt securities investments were recognised in profit or loss.

5.7.4 Classification of Financial Liabilities

The Group classifies its non-derivative financial liabilities, other than financial guarantees and loan commitments, at amortised cost. Non-derivative financial liabilities are contractual arrangements resulting in the Group having an obligation to either deliver cash or another financial asset to the holder.

5.7.5 Reclassification

Generally, the Group does not reclassify any financial asset or liabilities after initial recognition with the exception of changes in investment strategy in August 2017 described in the note 5.7.3.

5.7.6 Derecognition

The Group derecognises a financial asset when the contractual rights to receive cash flows from the financial assets expire or the rights to receive the contractual cash flows and substantially all the risks and rewards of ownership have been transferred.

On derecognition, the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss recognised in other comprehensive income is recognised in profit or loss. From 1 January 2018 any cumulative gain or loss recognised in other comprehensive income relating to equity investment securities designated at FVTOCI is not recognised in profit or loss on the derecognition but remains recognised in other comprehensive income.

A financial liability is derecognised when the obligation under the liability as specified in the contract is discharged, cancelled or expired.

5.7.7 Modifications

In terms of modification of conditions of a financial asset (e.g. change in interest rate not at refix date or renegotiation of the contractual terms) the Group evaluates whether the cash flows of the modified financial asset are substantially different. If they are substantially different (net present value of the modified financial asset differs by more than 5% from net present value of the original financial asset) then the original financial asset is derecognised and the new financial asset is recognised.

If the cash flows of a modified financial asset are not substantially different from cash flows from the original financial asset, then the original financial asset remains to be recognised but the gross carrying amount is recalculated using the modified cash flows. The resulting difference between the original gross carrying amount and the recalculated gross carrying amount is recognised as modification gain or loss in profit or loss.

5.7.8 Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

5.7.9 Amortised Cost Measurement

The amortised cost of a financial asset or financial liability is the amount at which the asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

5.7.10 Derivatives and Hedge Accounting

Derivatives are initially recognised, and are subsequently remeasured, at fair value. Fair values of derivatives are obtained by using valuation techniques. Since 3Q 2017 the Group designates at inception certain derivatives as hedging instruments according to IAS 39 and other derivatives are held for trading despite being held for risk management purposes rather than speculative purposes.

(a) Derivatives classified as held for trading

A derivative that is not designated and effective as a hedging instrument is reported in the category financial assets at fair value through profit or loss. These derivatives include currency derivatives (swaps and forwards) and are carried as assets

when their fair value is positive and as liabilities when their fair value is negative.

From January 2018, derivatives which are not designated as hedging instruments are presented in the statement of financial position in the lines "Derivative financial instruments" (derivatives with positive fair values within assets, derivatives with negative fair values within liabilities). Before 1 January 2018 these derivatives were disclosed in the lines "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss". Changes in the fair value of derivatives and any interest income/expense related to these derivatives are recorded in "Net income from financial operations".

(b) Derivatives designated as hedging instruments

The Group continues to apply the hedge accounting requirements of IAS 39 as allowed by IFRS 9.

The Group designates at initial recognition interest rate swap derivatives as hedging instruments to hedge its exposure to the change in the fair value of a defined part of portfolio of loans to customers or loan commitments related to interest rate risk, that could affect profit or loss. On the initial recognition of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedge relationship at the inception and ongoing bases. The Group applies for hedge relationships fair value hedge of defined hedged item (micro hedge) as well as portfolio fair value hedge (macro hedge).

Hedge accounting is applied if, and only if, all of the following conditions are met:

- The hedge is in-line with the approved Group Hedging Strategy;
- The hedging relationship is formally documented at the inception;
- The hedge effectiveness can be objectively and reliably measured;
- The hedge is expected to be highly effective at inception and throughout its life.

The hedge is considered to be effective when a change in the fair value of the hedged item compared to the change in the fair value of the hedging instrument is within a range of 80-125%.

Change in clean fair value excluding accrued interest of a derivative, which is designated as a fair value hedge is booked daily to the profit or loss and presented in the line "Net income from financial operations" to match the change in fair value of the hedged portfolio. Accrued interest from hedging derivatives is recognised in the profit or loss in the line "Interest and similar income" to match the interest income from hedged portfolio, respectively hedged item.

In the statement of financial position, derivatives with positive fair values (total fair value including accrued interest) are presented in the line item "Hedging derivatives with positive fair values", derivatives with negative fair values (total fair value including accrued interest) are disclosed in the line "Hedging derivatives with negative fair values".

If the hedging instrument expires, is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued. In this case, the fair value adjustment to the carrying amount of hedged item is amortised to profit or loss under the line "Interest and similar income".

5.7.11 Impairment of Financial Assets
(Policy Applicable from 1 January 2018)

The Group measures allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments:

- Amortised cost financial assets;
- Debt securities classified as measured at FVTOCI;
- Undrawn loan commitments.

Financial assets migrate through three stages based on the change in credit risk since initial recognition.

Expected credit loss impairment model

The Group's allowance for credit loss calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – If there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, a loss allowance at an amount equal to 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) is recorded. Interest revenue is recognised using the effective interest rate method applied on the financial asset's gross carrying amount.
- Stage 2 – When a financial instrument experiences an SICR subsequent to origination but is not considered to be in default, a loss allowance at an amount equal to full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument) is recorded. Interest revenue is recognised using the effective interest rate method applied on the financial asset's gross carrying amount.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, a loss allowance at an amount equal to the full lifetime expected credit losses is recorded. Interest revenue is recognised using the effective interest rate method applied on the financial asset's net carrying amount.

Measurement of expected credit loss

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an 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, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

Presentation of allowance for credit losses (ACL) in the statement of financial position

- Financial assets measured at amortised cost: ACL is deducted from the gross carrying amount of the financial assets;
- Debt instruments measured FVTOCI: no ACL is recognised in the statement of financial position because the carrying value of these assets is their fair value. However, the ACL is presented in the accumulated OCI;
- Off-balance sheet credit risks (e.g. lending commitments): In the case determined expected credit loss exceeds gross carrying value of the financial asset the excess is recognised as a provision.

Purchased or originated credit - impaired financial assets (POCI)

POCI loans should be included in Stage 3 and are always subject to lifetime allowance for credit losses. According to the analysis provided, the Group does not recognise any POCI financial assets in its portfolio.

5.7.12 Impairment of Financial Aassets (Policy Applicable before 1 January 2018)

Financial assets carried at amortised cost

An assessment was made at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets was impaired and impairment losses were incurred if, and only if, there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets was impaired included observable data about the following events:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties;
- Breach of loan covenants;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- External downgrade below an acceptable level;
- Initiation of bankruptcy proceedings;
- Granting a concession to a borrower for economic or legal reasons relating to the borrower's financial difficulty that would not otherwise be considered.

In terms of the individually assessed financial assets which were primarily represented by individually managed commercial loans (see the individually managed exposures defined in the section 42.2.3), the Group first assessed whether objective evidence of impairment exists individually for these financial assets. If the Group determined that no objective impairment exists for an individually assessed financial asset, the Group included the financial asset in a group of financial assets with similar credit risk characteristics and collectively measured them for impairment. Financial assets that were individually assessed for impairment and for which an impairment loss was or continued to be recognised, were not included in a collective assessment of impairment.

If there was objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset was reduced through the use of an allowance account and the amount of the loss was recognised in the profit or loss.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflected the cash flows resulting from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

For the purposes of a collective evaluation of impairment (see the note 42.2.3), financial assets were grouped on the basis of similar credit risk characteristics. Those characteristics were relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that were collectively evaluated for impairment were estimated on the basis of the contractual cash flows of the assets in the group and the historical loss experience for assets with credit risk characteristics similar to those in the group. The methodology (see the note 42.2) and assumptions (see the note 15) used for estimating future cash flows were reviewed regularly to reduce the difference between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in the profit or loss.

When the Group did not expect material recovery cash flow from the loan it was deemed uncollectible. This loan was derecognised and the loan loss allowance for impairment is utilised.

Available for sale financial assets

Available for sale financial assets were assessed at each balance sheet date for objective evidence of impairment. Where such evidence existed an impairment loss was recognised. In addition to the factors set out above, a prolonged (i.e. 12 consecutive months) or significant (i.e. 30%) decline in the fair value of an investment in an available for sale equity instrument below its cost was considered in determining whether an impairment loss had been incurred.

If an impairment loss had been incurred, the cumulative loss that had been recognised in other comprehensive income was removed from equity and recognised in the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increased, and the increase related to an event occurring after the impairment loss was recognised, the impairment loss was reversed through the profit or loss.

Impairment losses on equity instruments that were recognised in the profit or loss were not reversed through profit or loss in a subsequent period.

5.8 REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

The Group enters into contracts to sell and buy back financial instruments at a specific future date (repo) or to buy and sell back financial instruments at a specific future date (reverse repo).

In repo transactions the securities provided by the Group continue to be recognised and reported in the statement of financial position as the Group retains substantially all the risks and rewards of ownership together with all coupons and other income payments received during the period of repo transaction. The corresponding cash received is recognised in the statement of financial position and a corresponding obligation to return it (including accrued interest) is recorded as a liability.

Securities purchased as a reverse repo transaction are not recognised in the statement of financial position. The consideration paid (including accrued interest) is recorded in the statement of financial position as "Loans and receivables to banks" or "Loans and receivables to customers". The Group is allowed to provide securities received in reverse repo transactions as collateral or sell them, even in the absence of default by their owner.

The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

5.9 FAIR VALUE MEASUREMENT

Fair value is the price the Group would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 – Significant inputs to the valuation model are unobservable.

The Group maintains policies and procedures to value instruments. In addition, the Group has risk management teams that review valuation, including independent price validation for certain instruments (e.g. treasury bills). With regard to Level 3 valuations, the Group performs a variety of procedures to assess the reasonableness of the valuations. Such reviews, which may be performed quarterly, monthly or weekly, include an evaluation of instruments whose fair value change exceeds predefined thresholds (and/or does not change) and consider the current interest rate, currency and credit environment, as well as other published data, such as rating agency market reports and current appraisals.

Fair values of financial assets and liabilities that are not presented in the Group's balance sheet at fair values are shown in the note 43.

5.10 PROVISIONS

A provision is recognised by the Group when:

- It has a present obligation (legal or constructive) as a result of a past event; and
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- The Group can reliably estimate the amount of the obligation.

Provisions are reported on the statement of financial position and include provisions for credit risk (loan commitments) and provisions for litigation and other obligations. Expenses or income related to provisions are reported based on substance of the expense. Provisions are disclosed in note 33.

5.11 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. All other leases are classified as operating leases. Classification is made at

the inception of the lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form.

(i) Group as a Lessee

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Any lease incentives received are recognised as an integral part of the total lease expense over the term of the lease. Operating lease payments made by the Group are recorded in "Administrative expenses" in the profit or loss.

As a lessee, operating leased assets are not recognised in the statement of financial position of the Group.

Assets subject to a finance lease are recognised in the Group's statement of financial position initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The asset is recorded in "Property and Equipment" and the corresponding liability to the lessor is included in "Other liabilities". Impairment losses are recognised to the extent that the carrying values are not fully recoverable.

(ii) Group as a Lessor

The amount due from the lessee under a finance lease is recognised in the Group's statement of financial position as a receivable at an amount equal to the lessor's net investment in the lease and presented in "Loans and receivables to customers". The underlying asset is not recognised on the balance sheet.

The finance income from finance lease is recognised in "Interest and similar income" based on a pattern reflecting a constant periodic rate of return on the net investment, i.e. using the effective interest method.

Payments received by the Group as a lessor under operating leases are recognised in profit or loss on a straight line basis over the term of the lease in "Other operating income". Any lease incentives paid are recognised as an integral part of the total lease income over the term of the lease.

As a lessor, operating leased assets are recognised in the statement of financial position of the Group in "Property and Equipment" and corresponding depreciation is recorded in the statement of profit or loss line "Amortisation and depreciation".

5.12 PROPERTY AND EQUIPMENT

Items of property and equipment are measured at cost less accumulated depreciation less impairment losses over their estimated useful lives.

Cost includes the purchase price of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item.

Property and equipment is depreciated on a straight-line basis over their estimated useful lives as follows:

Technical Improvements related to real estate	5–15	years
Furniture	4–10	years
Equipment	5	years
Cars	5	years
Computers and servers	3–5	years
ATM	8	years

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease terms or their remaining useful lives.

Assets leased by the Group to third parties under operating lease contracts are depreciated over the estimated useful lives in the same way as other Property and equipment.

Assets' residual values and useful lives are monitored and adjusted if appropriate at each financial statement date. Property and equipment are subject to quarterly impairment reviews (see the note 5.15). If the carrying amount of the asset exceeds its estimated recoverable amount, the asset is adjusted accordingly. Its estimated recoverable amount is the higher of fair value including costs to sell and its value in use.

Gains and losses on disposals are determined by deducting the carrying value from the consideration received. Any gain/loss on sale is recognised in the profit or loss.

5.13 IMPAIRMENT OF GOODWILL

The Group tests goodwill for impairment annually or whenever there is an indication of possible impairment during the year.

The impairment test involves determination of the recoverable amount for cash-generating unit (CGU), see the note 26. A cash-generating unit is

the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

The recoverable amount is the higher of its fair value less costs of disposal and its value in use. The Group determines the recoverable amount of CGU as a value in use which is estimated using the income approach based on the present value of estimated future cash flows discounted at an appropriate risk-adjusted rate. The Group uses internal forecasts to estimate future cash flows and includes an estimate of long-term future growth rates based on the most recent views of the long-term outlook for each business. Actual results may differ from those assumed in the forecasts.

For the purposes of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's CGU that is expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of CGU exceeds its recoverable amount. In other words, the recoverable amount of CGU is compared with the sum of the carrying amount of the CGU for the purposes of consolidation and the relevant goodwill.

The impairment loss shall

- First reduce the carrying amount of any goodwill allocated to CGU; and
- Then to other assets of CGU pro rata on the basis of the carrying amount of each asset in CGU.

The impairment test consists of two steps: in step one, the carrying value of the cash generating unit is compared with its recoverable amount; in step two, which is applied when the carrying value of the cash generating unit is more than its recoverable amount, the amount of goodwill impairment, if any, is derived by deducting the recoverable amount of the cash generating unit from the carrying value of the cash generating unit including the amount of goodwill.

5.14 INTANGIBLE ASSETS

Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software to generate future economic benefits and the costs to complete the development can be reliably measured.

Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Purchased software and internally developed software is amortised over its expected useful life that is usually considered to be 5 years when recognised initially. During its useful life the development is done on the software. This development prolongs the useful life of the software, which can be extended in exceptional cases up to 22 years from the initial recognition.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

5.15 IMPAIRMENT OF NON-FINANCIAL ASSETS

At the end of each reporting date the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists then the assets recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's fair value less costs of disposal and its value in use. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognised in the profit or loss in the "Other operating expenses" (see the note 14). An impairment loss may be reversed to the extent it does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

5.16 EMPLOYEE BENEFITS

Employee benefits include short term bonus payments, flexible benefits (Cafeteria), bonuses for loyalty, retention bonuses and bonuses tied to equity and the stock option plan. In 2017, remuneration policy relevant for the Management Board members and other Material Risk Takers that is subject to the terms and conditions described in the Executive Variable Incentive Plan (EVIP) was introduced under which bonuses are partly linked to the share price and the dividend paid over the longer term.

In November 2018, the Supervisory Board of the Bank adopted Rules of Long-Term Incentive Plan internal policy (LTIP). Members of the Management Board are eligible to be granted with the LTIP awards in the form of actual shares in the Bank as part of their variable remuneration, where the proportion of the award that vests is conditional on the satisfaction of medium-term performance targets set by the Supervisory Board. No awards have been made under the LTIP as of 31 December 2018.

Executive Variable Incentive Plan (EVIP) for the Management Board members and other Material Risk Takers

The amount of the incentive compensation that a participant receives under the EVIP incentive programme is based on the basis of the participant's performance and the Bank's performance; including the achievement of goals and objectives set by the Supervisory Board and the Chief Executive Officer (although the Chief Executive Officer is not involved in the decision-making regarding the setting of his own goals and objectives). A portion of the compensation is paid in cash (partially the year after the performance year and partially it is deferred to three annual instalments in the following years) and the remainder is linked to the total shareholders return (TSR) and deferred also to three annual instalments. This part of the variable deferred bonus represents a share-based payment and is disclosed in-line with IFRS 2 Share-based payments, specifically as cash settled share-based payments. For more detail about this programme see section 4.10 of the Annual report.

Bonus payments are accrued over time when earned and represent the best estimate of the amount that will be paid.

Sales, collection and customer service incentives

Sales incentives represent a performance benefit to retail employees at branches and sales-related employees in commercial banking. The size of the sales incentives for retail sales depends on the fulfilment of performance targets, which are evaluated and paid quarterly. Employees providing telesales are evaluated and paid on a monthly basis. In Commercial Banking (part SME), performance is evaluated quarterly and the payment is partially made in the subsequent quarter and in the first quarter after the end of the year. Incentives in the Real Estate department are paid on an annual basis with the mid-year advance payment.

Collection incentives represent a performance benefit for employees participating on collection of debts. Performance of collection from people is evaluated and paid on a monthly basis, in case of collection from companies on a quarterly basis.

The Group also provides an Origination and Customer Service incentive programme where the performance is evaluated and paid on monthly basis.

The Group recognises a liability as of the reporting date representing the sum of the sales incentives in the fourth quarter and the amounts deferred from the previous reporting periods.

Award for Loyalty

The Award for Loyalty is a programme that rewards employees for loyalty. Employees are eligible for an award every five years of employment with the Group. A liability is recognised for the benefit reflecting the probability of each eligible employee attaining each anniversary. The Group records a provision for a loyalty based on an actuarial model that is in line with IAS 19 and is recognised in the statement of financial position in the line item "Provisions".

Flexible benefits (Cafeteria)

Each employee of the Group, is granted each year with a certain number of points, which may be redeemed for free time activities, contribution to pension insurance or meal vouchers. Costs of granted points are recognised into the profit or loss line "Personnel expenses" on the straight-line basis over the accounting period.

Retention Programmes connected to the IPO

At the time of IPO, employees were able to participate in a virtual share programme (the Virtual Share Programme). Under this programme, each of the Group's employees actively employed on the date of Listing received a number of virtual shares. The number of virtual shares was based on the relevant employee's level of job seniority. The expense of this initial allocation was borne by GECIHL (the sole shareholder of the Bank prior to the IPO). Each virtual share under the Virtual Share Programme tracks the share price of the Bank and was paid out in cash on the second anniversary of the First Day of Official Trading, provided that the relevant employee was still employed by the Group on such date. In the event of an employee's voluntary termination on or prior to such vesting and settlement date, the virtual shares were forfeited. The Virtual Share

Programme was classified as a cash-settled share-based payment under the scope of IFRS 2 (see the note 37).

Retention programme with performance motivation character

Employees, who participate in specific long-term projects can receive a motivation award, when the programme is successfully completed. The liablility is accrued annually on the earned part of the bonus taking into account the probability of payment.

5.17 CASH AND CASH BALANCES WITH THE CENTRAL BANK

Cash and balances with the central bank include current accounts and time deposits with the Czech National Bank (CNB), cash in ATMs and in branches. Cash and balances are reported in the statement of financial position in "Cash and balances with the central bank". The Group's mandatory minimum reserve held by the CNB is also included within "Cash and balances with the central bank".

5.18 INCOME TAX AND DEFERRED TAX

Income tax expense comprises current and deferred tax. It is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current Tax

Current tax represents the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Group intends to settle on a net basis and the legal right to offset exists.

Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Significant temporary and timing differences arise mainly from different accounting and tax value adjustments to receivables, provisions and from the revaluation of financial assets.

5.19 SEGMENT REPORTING

The Group's operating businesses are organised based on the nature of markets and customers.

Operating segments are reported in accordance with the internal reports prepared on a regular basis and presented to the members of the Management Board.

The Group has identified the following segments:

- Commercial clients – includes individually and portfolio managed commercial loans, finance leases. Clients are mainly entrepreneurs and business corporations.
- Retail clients – this segment covers most of the Group's consumer products (consumer loans, mortgages, auto financing including finance leases etc.). Products in the Group's consumer portfolio have similar characteristics. They consist mainly of term loans offered through a network of individual branches, call centers, online channels and external partners. The products are primarily targeted at consumers and households.
- Treasury/Other – includes mainly investment banking and equity investments and other areas that are not included in the above segments.

The Management Board of the Bank (the chief operating decision maker) does not use the above described segmental view on all items of the Consolidated Statement of Profit and Loss. For this reason, Operating expenses, Taxes and consequently Profit for the year before tax and Profit for the year after tax is not reported for segments but only on the Total level.

Information about the reported segments is described in note 41.

5.20 FINANCIAL GUARANTEES AND LOAN COMMITMENTS

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. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. From 1 January 2018, financial guarantee liabilities are subsequently measured at the higher of the initial fair value, less cumulative amortisation and the amount equalling the expected credit loss determined in accordance with IFRS 9 (see the note 5.7.11). Before 1 January 2018, financial guarantee liabilities were measure at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

The provided guarantees are shown in note 38.

6. NET INTEREST INCOME

CZK m	2018	2017
Interest income from financial assets measured at amortised cost*	7,871	7,549
Loans to customers**	7,301	7,419
out of which interest income from impaired loans	196	249
out of which penalty interest	89	149
Loans to banks	335	93
out of which arising from repurchase and reverse repurchase agreements***	333	91
Cash and deposit with the central bank and other banks	27	12
Interest income from investment securities at amortised cost	208	n/a
Interest income from held to maturity financial assets	n/a	25
Interest income from hedging derivatives	(51)	(5)
Interest income from available for sale financial assets*	n/a	38
Interest income and similar income	**7,820**	**7,582**
Interest expense from financial liabilities measured at amortised cost*	(411)	(218)
Due to banks	(62)	(16)
Due to customers	(349)	(202)
out of which arising from repurchase agreements	(96)	(6)
Interest expense and similar expense	**(411)**	**(218)**
Net interest income	**7,409**	**7,364**

* All interest income and expense from financial instruments at amortised cost are calculated using the effective interest method. There are no FVTOCI interest bearing instruments.
** Of which Interest Income from repurchase agreements with a negative interest rate at CZK 12 million in 2018 (2017: CZK 5 million).
*** Of which Interest Income from repurchase agreements with a negative interest rate at CZK 17 million in 2018 (2017: CZK 41 million).

7. NET FEE AND COMMISSION INCOME

CZK m	2018	2017
Insurance*	503	396
Investment funds**	115	109
Penalty fees (incl. early termination fees)	340	398
Deposit servicing fees	394	483
Lending servicing fees	198	217
Transactional and other fees	641	620
Fee and commission income	**2,191**	**2,223**
Fee and commission expense	**(299)**	**(290)**
Net fee and commission income	**1,892**	**1,933**

* The line "Insurance" includes especially commissions on payment protection insurance, car insurance (casco and third party liability insurance), travel insurance, accident insurance, life insurance and pension funds.
** The amount of received fees serves as base for calculation of contribution of the Group to the Investor Compensation Fund.

8. DIVIDEND INCOME

CZK m	2018	2017
Dividends from investments in associates	3	0
Dividend income	**3**	**0**

9. NET INCOME FROM FINANCIAL OPERATIONS

CZK m	2018	2017
Net gain on investment securities at FVTOCI	0	n/a
Net gain on available for sale financial assets	n/a	343
Net gain/(loss) from hedging instruments	(37)	5
Net gain/(loss) from hedged instruments	35	(6)
Net income from financial assets and liabilities at FVTPL	254	(135)
Revaluation of FVTPL equity securities to fair value	10	n/a
Expense on currency derivative instruments	(111)	(266)
Income from currency derivative instruments	355	131
Exchange rate differences	144	502
Net income from financial operations	**396**	**709**

10. OTHER OPERATING INCOME

CZK m	2018	2017
Income from leases*	33	40
Rent income**	7	10
Other collection income***	383	213
Other incomes	39	66
Total other operating income	**462**	**329**

* The line "Income from leases" includes income from operating lease contracts provided by MONETA Leasing s.r.o. Assets leased under operating leases are shown in the category "Assets leased under operating lease" (see the note 27).

** The line "Rent income" comprises primarily accretion of unamortised rent incentive in 2018 as well as in 2017.

*** The line "Other collection income" includes the balance of CZK 335 million for 2018 (2017: CZK 54 million) which represents recoveries arising from written-off receivables exceeding the write-off which is recognised in the line "Net impairment of financial assets" out of which CZK 320 million for 2018 results from legacy NPL sales. The residual balance of CZK 15 million represents legal costs paid by clients being collected by solicitor offices.

11. PERSONNEL EXPENSES

	2018	2017
The average number of employees during the period*	3,188	3,304
out of which: Management Board	5	5
out of which: Supervisory Board**	7	7
out of which: other Key Executive Managers	2	2

CZK m	2018	2017
Salaries and bonuses* **	**(1,718)**	**(1,765)**
Salaries and bonuses actuals	(1,546)	(1,547)
Salaries and bonuses accruals	(172)	(218)
Social security and health insurance***	(545)	(551)
Restructuring costs	20	(52)
Other employee related expenses	(81)	(88)
Total personnel expenses	**(2,324)**	**(2,456)**

* The average number of employees during the period is an average of the figures reported to Czech Statistical Authority (CSA) on a monthly basis in accordance with Article 15 of Czech Act No. 518/2004. The figures reported to the CSA equal the quotient of the following nominator and the following denominator. The nominator is defined as all hours worked by all employees, their related leaves/holidays and their related sick days. The denominator represents a standard working hours per an employee and a month.

** As of 1 August 2018, after resignation of Maria Luisa Cicognani from her position of Chair and member of Supervisory Board, the number of Supervisory Board members decreased from 7 to 6.

*** Includes the bonuses for the Virtual Share Programme as described in the note 37 which were compensated in 2018 by GE Capital International Holding Limited as a former shareholder in the amount of CZK 48 million. Remuneration to members of Supervisory Board, Management Board and other Key Executive Managers are described in the note 40.1.

12. ADMINISTRATIVE EXPENSES

CZK m	2018	2017
IT and software expense	(381)	(408)
Regulatory charges*	(86)	(96)
Rent expense	(283)	(369)
Rent-related services	(134)	(136)
Advisory services	(64)	(68)
Auditor's fees	(11)	(14)
out of that: audit	(8)	(7)
out of that: other services	(3)	(7)
Marketing	(208)	(261)
Travel cost	(49)	(37)
Other expenses**	(430)	(504)
out of that: services provided by previous majority shareholder	0	(43)
Total administrative expenses	**(1,646)**	**(1,893)**

* The line "Regulatory charges" includes annual contribution to the Deposit Insurance Fund in the amount of CZK 41 million in 2018 (2017: CZK 44 million) and to the Resolution and Recovery Fund in the amount of CZK 45 million in 2018 (2017: CZK 52 million).

** The line "Other expenses" comprises expenses on other services provided by 3rd parties not disclosed separately, e.g. subscription fees, support of ATMs, transport of cash, postage,training, cleaning services, car expense, etc.

Non-audit services provided by the statutory auditor amount to CZK 3 million excluding VAT in 2018 (2017: CZK 7 million).

Line "Administrative expenses" includes in 2018 release of provisions for collection services resulting from legacy NPL sales of amout CZK 13 million.

13. DEPRECIATION AND AMORTISATION

CZK m	2018	2017
Depreciation of property and equipment	(258)	(208)
Amortisation of intangible assets	(352)	(206)
Total depreciation and amortisation	**(610)**	**(414)**

Impairment losses are shown in the note 14.

14. OTHER OPERATING EXPENSES

CZK m	2018	2017
Damages	(10)	(11)
Unrecoverable VAT	(337)	(244)
Other collection costs*	103	84
Other expenses**	(28)	(13)
of that: impairment of non-financial assets	(5)	(4)
Total other operating expenses	**(272)**	**(184)**

* Line "Other collection costs" comprises in 2018 release of liability to Solicitor's office connected with sales of legacy NPL portfolio of amount CZK 81 million.

** Line "Other expenses" includes annual contribution to the Investor Compensation Fund of CZK 2.2 million in 2018 (2017: 1.2 million).

15. NET IMPAIRMENT OF FINANCIAL ASSETS

CZK m	2018	2017
Additions and release of loan loss allowances	(759)	(618)
Additions and release of allowances/provisions to unused commitments	13	9
Use of loan loss allowances*	1,303	2,593
Income from previously written-off receivables	834	473
Write-offs of uncollectable receivables*	(1,344)	(2,701)
Change in allowances to Investment securities	1	n/a
Change in allowances to operating receivables	(5)	0
Collection costs	(317)	(137)
Net impairment of financial assets	**(274)**	**(381)**

* Decrease in lines "Use of loan loss allowances" and "Write-offs of uncollectable receivables" in 2018 compared to 2017 is mainly driven by strategy of reduction of legacy NPLs in previous years.

Line "Net impairment of financial assets" includes CZK 678 million recovery resulting from legacy NPL sales.

The Group reflects external collection costs in determining impairment loss of loans and receivables and these costs are disclosed in the line "Net impairment of financial assets" when they are incurred. An estimate of these costs also reduces the present value of recovery cash flows expected from related, defaulted receivables.

At each financial statement date financial assets not measured at fair value through profit or loss are assessed for impairment. The Group determines whether as a result from event or events occurring alone or in combination, a financial asset is considered in default (Stage 3).

For individually managed loans and receivables a judgment is required to determine if there is objective evidence of default. The identification of the evidence of impairment is based on the analysis of the financial status, payment history, collateral value, industry conditions and other relevant factors. For defaulted loans the estimate is done by determining the future amount and timing of the expected recovery cash flows. These estimates are made by taking into account a range of factors, including prospects for the business model, the collateral fair value, expected proceeds from a bankruptcy or liquidation and other relevant factors.

Portfolio managed loans and receivables are subject to estimation uncertainty as the identification of default at the individual contract level is not practical due to the large number of such exposures. The loss is measured using statistical models with inputs based on historically observed data by the Group such as historical credit losses and default rates. Judgment is required to determine prospective macroeconomic scenarios used in forward looking models. For further detail see the Risk management section (see the note 42).

If loss given default (LGD) (in the either the individual assessment or statistical models) changes by ±10% in relative terms, then the loan loss allowances would change by ± CZK 253 million as at 31 December 2018 and by ± CZK 246 million as at 31 December 2017.

16. TAXES ON INCOME

Tax expense from the Group's profit before tax can be analysed as follows:

CZK m	2018	2017
Current income tax for the year	(681)	(500)
Income tax related to prior years	(2)	26
Change in deferred tax recognised in profit or loss	(153)	(506)
Taxes on income	**(836)**	**(980)**

The chart below shows the reconciliation of the actual tax charge and the tax charge based on applying the standard corporate income tax rate according to Czech Republic income tax law:

CZK m	2018	2017
Profit for the period before tax	**5,036**	**4,903**
Theoretical income tax accounted for into expenses, calculated at the rate of 19%	(957)	(932)
Income tax related to the prior years	(2)	0
Impact of the tax non-deductible expenses	(72)	(28)
Impact of the tax non-taxable income	62	0
Impact of IFRS 9 adoption	133	n/a
Loss on goodwill impairment, which is tax non-deductible expense*	0	(20)
Taxes on income	**(836)**	**(980)**
Effective income tax rate**	16.6%	20.0%

* For further detail related to goodwill impairment see the note 26.
** Decrease in effective income tax rate in 2018 in comparison with 2017 was caused especially by adjustment of loss allowances to loans and receivables to customers and provisions for loan commitments due to the transition to IFRS 9 recognised directly in the equity as at 1 January 2018. This effect was partly netted off by goodwill impairment of investment in MONETA Leasing in 2017 which was tax non-deductible expense.

17. EARNINGS PER SHARE

Earnings per share amounts are calculated by dividing the net profit for the year after tax attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

CZK m	2018	2017
Profit for the year after tax attributable to the equity holders	4,200	3,923
Weighted average of ordinary shares (millions of shares)	511	511
Basic earnings per share (CZK)	**8.22**	**7.68**

As the Group has not issued any potentially dilutive instruments, the basic earnings per share equals to diluted earnings per share.

18. CASH AND BALANCES WITH THE CENTRAL BANK

CZK m	31 Dec 2018	31 Dec 2017
Cash and cash in transit	4,729	4,673
Balances with the central bank other than mandatory minimum reserves	1	1
Mandatory minimum reserve requirement with the central bank	3,409	2,453
Total cash and balances with the central bank	**8,139**	**7,127**

The Group includes a mandatory minimum reserve with the Czech National Bank into "Cash and balances with the central bank". The Group may draw funds from the mandatory minimum reserve at any point in time provided that the average balance over the relevant period meets the minimum levels required according to the regulations of the Czech National Bank.

19. CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with maturities from the acquisition of less than 3 months:

CZK m	31 Dec 2018	31 Dec 2017
Cash and deposits with the central bank	8,139	7,127
Loans and receivables to banks	33,419	53,363
Total cash and cash equivalents	**41,558**	**60,490**

20. TRANSFER OF FINANCIAL ASSETS – REPURCHASE TRANSACTIONS

31 Dec 2018 CZK m	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities
Liabilities arising from repurchase agreements				
with clients	0	19,564	0	19,564
with banks	0	7,204	0	7,204
Total liabilities arising from repurchase agreements	**0**	**26,768**	**0**	**26,768**
Financial assets transferred as collateral in repurchase agreements				
Financial assets measured at amortised cost	7,711	0	7,449	0
Financial assets received in reverse repos	19,598	0	19,598	0
Total financial assets transferred as collateral in repurchase agreements	**27,309**	**0**	**27,047**	**0**

31 Dec 2017 CZK m	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities
Liabilities arising from repurchase agreements				
with clients	0	9,445	0	9,445
with banks	0	23,155	0	23,155
Total liabilities arising from repurchase agreements	**0**	**32,600**	**0**	**32,600**
Financial assets transferred as collateral in repurchase agreements				
Financial assets held to maturity	3,371	0	3,206	0
Financial assets received in reverse repos	29,201	0	29,201	0
Total financial assets transferred as collateral in repurchase agreements	**32,572**	**0**	**32,407**	**0**

Liabilities from repurchase agreements represent the obligation to repay the borrowing and are shown in the lines "Due to banks" (see the note 31) and "Due to customers" (see the note 32).

Financial assets transferred as collateral consist of Government bonds (see the note 23) of CZK 7,711 mil. as at 31 December 2018 (31 December 2017: CZK 3,371 mil.).

Financial assets received as collateral in reverse repos transferred further as collateral represent treasury bills of CZK 19,598 mil. as at 31 December 2018 (31 December 2017: CZK 29,201 mil.) not disclosed in the statement of financial position but only as the off-balance sheet.

21. LOANS AND RECEIVABLES TO BANKS

Loans and receivables to banks include:

CZK m	31 Dec 2018	31 Dec 2017
Current accounts at banks	48	170
Term deposits at banks payable within 3 months	0	0
Receivables arising from reverse repurchase agreements*	33,241	53,107
Cash collateral granted**	130	86
Other***	17	17
Included in cash equivalents	33,419	53,363
Total loans and receivables to banks	**33,436**	**53,380**

* The Group provides reverse repo operations with the Czech National Bank. The collateral received as at 31 December 2018 of CZK 32,583 million (31 December 2017: CZK 52,033 million) is represented by treasury bills that are not recognised in the statement of financial position.

** Comprises collateral granted for repo operations and derivative transactions.

*** Represents an unsolicited dividend for the year 2016 and 2017 respectively transferred to Komerční banka, a.s. that is administering the payment.

The Group estimated expected credit loss resulting from loans and receivables to banks at 31 December 2018 in the amount of CZK 0 million (31 December 2017: CZK 0 million under IAS 39 incurred loss model).

22. LOANS AND RECEIVABLES TO CUSTOMERS

(a) Loans and receivables to customers by sector

CZK m	31 Dec 2018	31 Dec 2017
Financial organisations	584	525
Non-financial organisations	50,032	49,536
Government sector	64	44
Non-profit organisations	198	204
Entrepreneurs	13,747	12,166
Resident individuals	77,063	64,600
Non-residents	2,535	667
Gross loans and receivables to customers	**144,223**	**127,742**
Loss allowance for loans and advances to customers	(4,100)	(4,062)
Net loans and receivables to customers	**140,123**	**123,680**
Gross loans and receivables to customers without impairment	140,119	122,468
Loss allowance for loans and advances to customers without impairment*	(1,380)	(683)
Net loans and receivables to customers without impairment	**138,739**	**121,785**

* Loss allowance for loans and advances to customers without impairment increased in 2018 in comparison with 2017 due to the transition from incurred loss model (IAS 39) to expected credit loss model (IFRS 9).

(b) Loans and receivables to customers by product

	31 Dec 18			31 Dec 17		
CZK m	Gross carrying amount	Allowance	Carrying amount	Gross carrying amount	Allowance	Carrying amount
Retail loan balances						
Consumer Loans	39,148	(2,263)	36,885	36,813	(1,844)	34,969
Mortgages	31,615	(109)	31,506	20,495	(157)	20,338
Credit Cards & Overdrafts	3,823	(350)	3,473	4,228	(283)	3,945
Auto Loans and Financial Leases	2,977	(135)	2,842	2,840	(108)	2,732
Other	135	(135)	0	505	(505)	0
Total Retail	**77,698**	**(2,992)**	**74,706**	**64,881**	**(2,897)**	**61,984**
Commercial loan balances						
Investment Loans	36,826	(223)	36,603	34,893	(260)	34,633
Working Capital	9,821	(191)	9,630	9,503	(216)	9,287
Auto & Equipment Loans and Financial Leases	14,068	(434)	13,634	14,374	(406)	13,968
Unsecured Instalment Loans and Overdraft	4,636	(148)	4,488	2,925	(167)	2,758
Inventory Financing and Other	1,174	(112)	1,062	1,166	(116)	1,050
Total Commerical	**66,525**	**(1,108)**	**65,417**	**62,861**	**(1,165)**	**61,696**
Total Loans and receivables to customers	**144,223**	**(4,100)**	**140,123**	**127,742**	**(4,062)**	**123,680**

(c) Loss allowances for loans and receivables to customers by sectors

CZK m	Financial organisations	Non-financial organisations	Non-profit organisations	Entrepreneurs	Resident individuals	Non-residents	Total
1 Jan 2018*	**1**	**946**	**5**	**278**	**3,496**	**12**	**4,738**
Net change of allowances	1	35	(2)	63	560	7	664
Effect of written off receivables	0	(170)	0	(58)	(1,072)	(3)	(1,303)
Exchange rate variances	0	1	0	0	0	0	1
31 Dec 2018	**2**	**812**	**3**	**283**	**2,984**	**16**	**4,100**

CZK m	Financial organisations	Non-financial organisations	Non-profit organisations	Entrepreneurs	Resident individuals	Non-residents	Total
1 Jan 2017	**6**	**948**	**2**	**507**	**4,693**	**19**	**6,175**
Net change of allowances	(2)	226	1	16	249	(10)	480
Effect of written off receivables	(3)	(273)	(1)	(264)	(2,052)	0	(2,593)
31 Dec 2017	**1**	**901**	**2**	**259**	**2,890**	**9**	**4,062**

* Difference between balances of loss allowances as at 31 December 2017 and 1 January 2018 is due to the transition to IFRS 9.

23. INVESTMENT SECURITIES

CZK m	31 Dec 2018	31 Dec 2017
Debt securities measured at amortised cost	20,721	n/a
Government bonds	20,470	n/a
Corporate bonds	251	n/a
Held to maturity investment securities	n/a	11,723
Government bonds	n/a	11,723
Equity securities measured at FVTOCI	1	n/a
Equity securities measured at FVTPL	58	n/a
Available for sale investment securities	n/a	57
Equity investments	n/a	48
Other investments designated as AFS	n/a	9
Total investment securities	**20,780**	**11,780**
By listing:		
- listed	20,721	11,723
- unlisted	59	57

On 1 August 2017 all bonds comprised in the available for sale portfolio (Czech government bonds) with total carrying value of CZK 5,287 million were reclassified into the held to maturity portfolio in compliance with change in the Group's investment strategy under which these investments were intended to be held until maturity. Related Available for sale reserve from revaluation of reclassified bonds remained recognised in the equity, because the fair value of these bonds as at the date of reclassification was considered to be their carrying value on the date of reclassification.

On 1 January 2018 the portfolio previously classified as held to maturity was considered as held within the held to collect business model. The available for sale reserve was derecognised from equity against the carrying value of the portfolio as it had been always measured at amortised cost since the first recognition.

Expected credit losses related to Debt securities measured at amortised cost at 31 December 2018 amounts to CZK 3 million (31 December 2017: CZK 0 million under IAS 39 incured loss model).

Equity securities measured at FVTOCI includes investment in SWIFT. The Group elected the irrevocable option provided by IFRS 9 to classify its investment in SWIFT as at the date of transition to IFRS 9 as FVTOCI as the Group intends to hold it in the long term and they were measured in the same way according to IAS 39 until transition to IFRS 9. All gains and losses resulting from FVTOCI equity instruments including when derecognised or sold are recorded in OCI and are not subsequently reclassified to profit or loss. The Group received dividends relating to FVTOCI equity instruments in 2018 of CZK 3 million. There have been no derecognitions from FVTOCI equity securities in 2018.

Equity securities measured at FVTPL consists of the share in VISA Inc. that can be sold in the future when it is possible.

As at 31 December 2018 Debt securities measured at amortised cost with a carrying amount CZK 7,711 million are transferred as collateral under repurchase transactions (31 December 2017: CZK 3,371 million classified as held to maturity under IAS 39).

24. FINANCIAL DERIVATIVES

Financial derivatives include Over the Counter (OTC) derivatives.

The Group enters into foreign exchange derivatives (currency swaps, currency forwards) to economically hedge its foreign currency risk but these derivatives are not designated at initial recognition as hedging derivatives, they are held under Other business model (Derivatives classified as held for trading) and measured at FVTPL and presented in the line "Derivative financial instruments".

In line with the IAS 39 policy applicable before 1 January 2018 those derivatives were classified as held for trading for accounting purposes and presented in the line "Financial assets at fair value through profit or loss", respectively "Financial liabilities at fair value through profit or loss". Hence, the portfolio of financial assets at fair value through profit or loss had included positive fair value for foreign exchange derivatives and the portfolio of financial liabilities at fair value through profit or loss had only included a negative fair value for foreign exchange derivatives.

Since 2017, the Group designates at initial recognition interest rate swaps derivatives as hedging instruments according to IAS 39, in order to hedge its exposure to the change of the fair value of a defined part of portfolio of loans to customers or loan commitments related to interest rate risk (see the note 5.7.10).

In the statement of financial position, derivatives with positive fair values (total fair value including accrued interest) are presented in the line item "Hedging derivatives with positive fair values", derivatives with negative fair values (total fair value including accrued interest) are disclosed in the line "Hedging derivatives with negative fair values".

Financial derivatives classified as held for trading

31 Dec 2018	Nominal value		Fair value	
CZK m	Assets	Liabilities	Assets	Liabilities
CURRENCY DERIVATIVES				
Currency swaps	7,318	7,345	1	22
Currency forwards	4,010	4,005	27	22
Total derivatives for trading	**11,328**	**11,350**	**28**	**44**

31 Dec 2017	Nominal value		Fair value	
CZK m	Assets	Liabilities	Assets	Liabilities
CURRENCY DERIVATIVES				
Currency swaps	2,472	2,498	1	25
Currency forwards	3,972	3,968	47	43
Total derivatives for trading	**6,444**	**6,466**	**48**	**68**

Financial derivatives designated at initial recognition as hedging derivatives

31 Dec 2018	Nominal value		Fair value	
CZK m	Assets	Liabilities	Assets	Liabilities
INTEREST RATE DERIVATIVES				
Interest rate swaps	18,040	18,040	53	167
Total hedging derivatives	**18,040**	**18,040**	**53**	**167**

31 Dec 2017	Nominal value		Fair value	
CZK m	Assets	Liabilities	Assets	Liabilities
INTEREST RATE DERIVATIVES				
Interest rate swaps	5,980	5,980	4	4
Total hedging derivatives	**5,980**	**5,980**	**4**	**4**

25. INTANGIBLE ASSETS

CZK m	Software purchased	Software internally developed	Intangibles not in use	Total
Carrying amount as at 31 Dec 2016	**117**	**389**	**238**	**744**
Additions to assets*	178	502	764	1,444
Transfers of assets	0	0	(679)	(679)
Amortisation for period	(69)	(137)	0	(206)
Impairment of assets	0	(2)	0	(2)
Carrying amount as at 31 Dec 2017	**226**	**752**	**323**	**1,301**
Additions to assets*	60	772	842	1,674
Transfers of assets	0	0	(832)	(832)
Amortisation for period	(86)	(266)	0	(352)
Impairment of assets	0	(2)	0	(2)
Carrying amount as at 31 Dec 2018	**200**	**1,256**	**333**	**1,789**

* Significant amounts in the line "Additions to assets" are caused primarily by higher investments into the IT systems connected especially with the digitalisation strategy of the Group.

CZK m	Software purchased	Software internally developed	Intangibles not in use	Total
Cost as at 31 Dec 2016	738	3,796	238	4,772
Accumulated Amortisation 2016	(621)	(3,407)	0	(4,028)
Carrying amount as at 31 Dec 2016	**117**	**389**	**238**	**744**
Cost as at 31 Dec 2017	1,069	3,707	323	5,099
Accumulated Amortisation 2017	(843)	(2,955)	0	(3,798)
Carrying amount as at 31 Dec 2017	**226**	**752**	**323**	**1,301**
Cost as at 31 Dec 2018	795	4,728	333	5,856
Accumulated Amortisation 2018	(595)	(3,472)	0	(4,067)
Carrying amount as at 31 Dec 2018	**200**	**1,256**	**333**	**1,789**

Annual costs related to research and development (that did not meet capitalisation criteria) amounted to CZK 36.8 million in 2018 (2017: CZK 49.3 million).

26. GOODWILL AND NEWLY ACQUIRED ENTITIES

Reconciliation of Goodwill on the following entities:

CZK m	2018	2017
MONETA Leasing, s.r.o. & MONETA Leasing Services, s.r.o.		
Goodwill as of 1 Jan	**0**	**104**
Additions arising from business combinations	0	0
Less Impairment	0	(104)
Goodwill as of 31 Dec	**0**	**0**

Goodwill as at 1 January 2017 was related to the acquisition of MONETA Leasing, s.r.o. and MONETA Leasing Services, s.r.o. Both entities represented a single cash generating unit (CGU) for goodwill impairment testing. These were included into the consolidated financial statements of the Group using the acquisition method.

Goodwill impairment assessment was made in 2017 with the following assumptions: value in use had been determined using cash flow predictions based on financial budgets covering a three-year period, with a terminal growth rate of 1% applied thereafter. The forecast cash flows had been discounted at a pre-tax rate of 10% and the resulting net present value of future cash flows had been lower than carrying value of CGU including goodwill. Hence, the whole balance of goodwill of CZK 104 million was impaired in 2017. Other assets of CGU should be impaired pro-rata on the basis of the carrying amount of each asset in CGU but the carrying amount of each asset should not be reduced below its individual fair value. The fair value of assets of CGU was significantly higher (by CZK 132 million as at the date of testing) than their book value, hence no further impairment has been recognised. Nevertheless, the Group continues in monitoring these assets for potential impairment.

27. PROPERTY AND EQUIPMENT

CZK m	Capital improvements of leased assets	Equipment and machinery	Fixtures and other tangibles	Assets leased under operating lease	Property and equipment not in use	Total
Carrying amount as at 31 Dec 2016	**119**	**292**	**14**	**145**	**79**	**649**
Additions to assets	58	224	30	30	452	794
Disposals/transfers of assets	(1)	(4)	(1)	(15)	(342)	(363)
Depreciation for period	(57)	(110)	(7)	(34)	0	(208)
Impairment of assets	(1)	0	0	0	0	(1)
Carrying amount as at 31 Dec 2017	**118**	**402**	**36**	**126**	**189**	**871**
Additions to assets*	98	372	45	12	718	1,245
Disposals/transfers of assets	(3)	(15)	(1)	(16)	(527)	(562)
Depreciation for period	(64)	(155)	(11)	(28)	0	(258)
Impairment of assets	0	0	0	0	0	0
Carrying amount as at 31 Dec 2018	**149**	**604**	**69**	**94**	**380**	**1,296**

* Increase in item "Property and equipment not in use" is mainly driven by investments in fit outs of new headquarter building of amount CZK 286 million.

CZK m	Capital improvements of leased assets	Equipment and machinery	Fixtures and other tangibles	Assets leased under operating lease	Property and equipment not in use	Total
Cost as at 31 Dec 2016	892	1,490	68	176	79	2,705
Accumulated Depreciation 2016	(773)	(1,198)	(54)	(31)	0	(2,056)
Carrying amount as at 31 Dec 2016	**119**	**292**	**14**	**145**	**79**	**649**
Cost as at 31 Dec 2017	756	1,616	93	191	189	2,845
Accumulated Depreciation 2017	(638)	(1,214)	(57)	(65)	0	(1,974)
Carrying amount as at 31 Dec 2017	**118**	**402**	**36**	**126**	**189**	**871**
Cost as at 31 Dec 2018	769	1,646	131	168	380	3,094
Accumulated Depreciation 2018	(620)	(1,042)	(62)	(74)	0	(1,798)
Carrying amount as at 31 Dec 2018	**149**	**604**	**69**	**94**	**380**	**1,296**

Net book value of assets leased under finance lease is CZK 23 million as at 31 December 2018 (31 December 2017: CZK 24 million). Assets leased under operating lease contracts are not comprised in line "Property and equipment" in accordance with requirements of IAS 17 Leases (see the note 39).

28. CURRENT TAX ASSETS AND CURRENT TAX LIABILITIES

CZK m	31 Dec 2018	31 Dec 2017
Current tax assets	16	308
Curent tax liabilities	107	2

Increase in "Current tax liabilities" in 2018 is due to the fact that the corporate income tax advances were lower than final income tax duty for 2018. Conversely, in 2017 corporate income tax advances were higher than income tax finally measured. Corporate income tax advances will be offset with current income tax payable in 2018 tax return and the difference will be settled with tax authority in 2019.

29. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is determined based on all temporary and timing differences between the tax residual values of assets and liabilities and their residual book values in the Group's financial statements. Deferred tax is determined using the tax rate enacted by the balance sheet date. The applicable rate is 19%.

The recognition of deferred tax assets relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

Deferred tax assets and liabilities consist of the following differences:

CZK m	31 Dec 2018	31 Dec 2017
Deferred tax liabilities	**(177)**	**(267)**
Loss allowances for loans and receivables to customers	(170)	(260)
of which the impact of IFRS 9 adoption	8	n/a
Difference between book value and tax residual value of long-lived assets	(5)	(3)
Other temporary variances	(2)	(4)
Deferred tax assets	**127**	**386**
Loss allowances for loans and receivables to customers*	173	320
Difference between book value and tax residual value of long-lived assets	(129)	(58)
Revaluation of available for sale financial assets	n/a	14
Other temporary variances	83	109
Net deferred tax asset/liability	**(50)**	**118**

* Decrease in deferred tax asset relating to loss allowance for loans and receivables to customers was due to sale of significant part of NPL portfolio in 2018 for which tax-deductible allowances were recognised.

The following table shows the movement of the net deferred tax asset:

CZK m	2018	2017
Net deferred tax assets at the beginning of period	**118**	**525**
Change in net deferred tax - total profit and loss impact	**(154)**	**(506)**
- Loss allowance for loans and receivables to customers	(57)	(504)
- Difference between book value and tax residual value of long-lived assets	(73)	(48)
- Other temporary variances	(24)	46
Change in net deferred tax - equity impact	**(14)**	**99**
- Revaluation of available for sale financial assets	(14)	99
- Revaluation of financial assets	0	n/a
Net deferred tax receivable at the end of period	**(50)**	**118**

30. OTHER ASSETS

CZK m	31 Dec 2018	31 Dec 2017
Accounts receivable*	60	86
Advances and guarantees for rent related services	298	277
Receivables to finance authorities	99	125
Other receivables net of allowances	78	56
of that allowances	(87)	(84)
Prepayments**	307	96
Clearing account of payment settlement	54	0
Other accruals	217	213
of that accruals to former shareholder***	0	42
Total Other assets	**1,113**	**853**

* As at 31 December 2017 included a receivable to former shareholder (GE Capital International Holding Limited) arising from reimbursement of retention bonuses of CZK 7 million (31 December 2018: CZK 0 million).

** The line "Prepayments" in 2018 comprises prepaid rentals for new headquarter building in the amount of CZK 174 million.

*** As at 31 December 2017 includes accruals to former shareholder (GE Capital International Holding Limited) arising from the Virtual Share Programme as described in the note 37.

31. DUE TO BANKS

The Group has the following liabilities to other banks:

CZK m	31 Dec 2018	31 Dec 2017
Deposits on demand	357	445
Term deposits	0	970
Liabilities arising from repurchase agreements*	7,204	23,155
Cash collateral received**	96	29
Other due to banks***	3,059	5,044
Total Due to banks	**10,716**	**29,643**
Type of rate:		
Fixed interest rate	10,263	29,170
Floating interest rate	453	473

* For more details about financial assets granted as collateral for Liabilities arising from repurchase agreements see the note 20.

** Cash collaterals received represent CSA[1] Collaterals of other financial institutions for derivative transactions in the amount of CZK 83 million at 31 December 2018 (CZK 29 million at 31 December 2017).

*** Other due to banks comprises:

- Loan provided by Komerční banka, a.s. to MONETA Leasing, s.r.o. in April 2017. Simultaneously, MONETA Money Bank, a.s. guaranteed the repayment of this loan. This loan amounts to CZK 0 million at 31 December 2018 (CZK 1,750 million at 31 December 2017).
- Loan provided by ING Bank N.V. to MONETA Leasing s.r.o. in September 2017. To secure this loan, MONETA Leasing s.r.o., pledged its loan receivables (to the value of 125% of financed amount). This loan amounts to CZK 1,000 million at 31 December 2018 (CZK 1,250 million at 31 December 2017).
- Loan provided by the European Investment Bank in September 2017 to MONETA Money Bank, a.s. that will be used for the financing of SME loans. This loan amounts to CZK 2,059 million at 31 December 2018 (CZK 2,044 million at 31 December 2017).

32. DUE TO CUSTOMERS

Breakdown of due to customers by sector:

CZK m	31 Dec 2018	31 Dec 2017
Financial organisations	10,520	7,445
Non-financial organisations	24,804	23,804
Insurance organisations	8,768	7,148
Government sector	4,570	4,506
Non-profit organisations	2,726	2,564
Entrepreneurs	12,406	11,642
Resident individuals	93,500	82,195
Non-residents	11,498	2,165
Total Due to customers	**168,792**	**141,469**
Rate type:		
Fixed interest rate	30,257	15,905
Floating interest rate	138,184	125,064
Non-interest bearing	351	500
Total Due to customers	**168,792**	**141,469**

[1] Credit Support Annex (CSA) is a legal document which regulates credit support (collateral) for derivative transactions.

Breakdown of due to customers by product is as follows:

CZK m	31 Dec 2018	31 Dec 2017
Retail Current Accounts	49,569	42,586
Retail Savings Accounts and Term Deposits	44,879	40,435
Commercial Current Accounts	35,906	33,822
Commercial Savings Accounts and Term Deposits	18,522	14,681
Liabilities arising from repurchase agreements*	19,564	9,445
Other liabilities towards customers	352	500
Total Due to customers	**168,792**	**141,469**

* For more details about financial assets granted as collateral for Liabilities arising from repurchase agreements see the note 20.

33. PROVISIONS

CZK m	2018	2017
Provisions for undrawn loan commitments		
1 Jan*	**57**	**47**
Additions to provisions	190	98
Use of provisions	0	0
Release of unused provisions	(202)	(107)
31 Dec	**45**	**38**
Provisions for legal claims		
1 Jan	**112**	**269**
Additions to provisions	0	1
Use of provisions**	(9)	(158)
Release of unused provisions	0	0
31 Dec	**103**	**112**
Other provisions		
1 Jan	**214**	**100**
Additions to provisions***	42	127
Use of provisions	(70)	(2)
Release of unused provisions	(73)	(11)
31 Dec	**113**	**214**
Total provisions	**261**	**364**

* Difference between balances of "Provisions for undrawn loan commitments" as at 31 December 2017 and 1 January 2018 is due to the transition to IFRS 9.

** The payment of the liquidation balance to Agrobanka shareholders was commenced in March 2017 and simultaneously provision recorded by the Bank for Agrobanka was used in the amount of CZK 143 million that equals the amount paid.

*** Creation of provision for restructuring in the amount of CZK 30 million in 2018 (2017: CZK 102 million) discussed under the following table.

Provisions for undrawn loan commitments are created for irrevocable loan commitments (refer to the note 38).

The provision created for Agrobanka Praha, a.s. v likvidaci settlement is included in the line "Provisions for legal claims". The balance as at 31 December 2018 of CZK 69 million (2017: CZK 72 million) should be used to complete the settlement.

The Group created other provisions for the legal obligation of the Group associated with the retirement of the premises leased for operation, for restructuring, for the long-term employee bonuses that entitles employees to receive an award after specified years of service and for collection services.

Other provisions

CZK m	31 Dec 2018	31 Dec 2017
Provisions for assets retirement obligation	45	49
Provisions for restructuring*	30	102
Provisions for employee bonuses and awards	26	35
Provisions for collection services	4	17
Other provisions	8	11
Total other provisions	**113**	**214**

* Provision for restructuring created in 2017 related to the restructuring of the Bank and related severance payment (CZK 9 million), restructuring of the branch network of the Bank (CZK 60 million) and restructuring of MONETA Leasing, s.r.o. and related severance payment (CZK 33 million). As of 31 December 2018 the balance of restructuring provision created in 2017 was CZK 0 mil. In 2018, the Bank decided to optimise the branch network and the provision for restructuring of CZK 30 million was created.

34. OTHER LIABILITIES

CZK m	31 Dec 2018	31 Dec 2017
Trade payables	495	577
of which payables to solicitors	2	118
Payables to employees	113	129
Payables for social and health insurance	59	65
Payables to the state	74	26
Accruals for uninvoiced services/ goods	375	406
Accruals for employees bonuses*	212	266
Clearing account of payment settlement**	0	569
Deferred income and accrued expenses	39	44
of that rental services and cards services	0	20
Other***	64	72
Total other liabilities	**1,431**	**2,154**

* Accruals for employees bonuses as at 31 December 2018 includes bonuses to members of the Management Board under the EVIP policy of CZK 73 million (2017: CZK 72 million) described in the note 37, liability from the Virtual share programme at amount of CZK 0 million (2017: CZK 49 million) described in the note 37 and other management, retention or sales bonuses.

** Line "Clearing account of payment settlement" comprises especially balances from settlement of card transactions and payments transactions processed via CNB clearing system. The line may result either as asset or liability. In the case, the closing balance is an asset, it is recognised within "Other assets".

*** Line "Other" as at 31 December 2018 includes an unsolicited dividend for the year 2016 and 2017 in the amount of CZK 17 million.

35. CONSOLIDATION GROUP

The Group's companies included in consolidation as at 31 December 2018, together with their ownership were as follows:

31 Dec 2018
CZK m

Name	Registered office	Business activity	Equity as at 31 Dec 2018	Bank's share of equity	Method of consolidation
MONETA Auto, s.r.o.	Vyskočilova 1442/1b, 140 00 Prague 4*	Auto financing (Loans and Leases)	1,694	100%	Full
MONETA Leasing Services, s.r.o.	Holandská 1006/10, 639 00 Brno, Štýřice	Lease and rental of movables	21	100%	Full
MONETA Leasing, s.r.o.	Holandská 1006/10, 639 00 Brno, Štýřice	Financing of loans and leasing	1,509	100%	Full
CBCB - Czech Banking Credit Bureau, a.s.**	Štětkova 1638/18, 140 00 Prague 4***	Banking Credit Register	2	20%	Equity
Inkasní Expresní Servis s.r.o.****	Vyskočilova 1442/1b, 140 00 Prague 4	Debt recovery services	4	100%	Full

31 Dec 2017
CZK m

Name	Registered office	Business activity	Equity as at 31 Dec 2017	Bank's share of equity	Method of consolidation
MONETA Auto, s.r.o.	Vyskočilova 1422/1a, 140 00 Prague 4*	Auto financing (Loans and Leases)	1,900	100%	Full
MONETA Leasing Services, s.r.o.	Holandská 1006/10, Štýřice, 639 00 Brno	Lease and rental of movables	19	100%	Full
MONETA Leasing, s.r.o.	Holandská 1006/10, Štýřice, 639 00 Brno	Financing of loans and leasing	1,520	100%	Full
CBCB - Czech Banking Credit Bureau, a.s.**	Na Vítězné pláni 1719/4, 140 00 Prague 4***	Banking Credit Register	2	20%	Equity
Inkasní Expresní Servis s.r.o.****	Vyskočilova 1422/1a, 140 28 Prague 4	Debt recovery services	46	100%	Full

* On 26 November 2018 MONETA Auto, s.r.o. changed its registered office from: Vyskočilova 1422/1a, 140 00 Prague 4 to Vyskočilova 1442/1b, 140 00 Prague 4 due to relocation to another office building.

** The Group holds its share in CBCB - Czech Banking Credit Bureau, a.s. in order to obtain information related to the credit quality of current and potential customers.

*** On 1 October 2018 CBCB - Czech Banking Credit Bureau, a.s. changed its registered office from: Na Vítězné pláni 1719/4, 140 00 Prague 4 to: Štětkova 1638/18, 140 00 Prague 4.

**** The Bank as the sole shareholder of Inkasní Expresní Servis s.r.o. decided on the dissolution of this company with liquidation starting from 1 January 2019. For the duration of the liquidation process the company uses business name with the appendix "v likvidaci" (Inkasní Expresní Servis s.r.o. v likvidaci).

36. EQUITY

36.1 SHARE CAPITAL AND SHARE PREMIUM OF THE GROUP

In order to establish the Bank, GE Capital International Holdings Corporation subscribed for 500 shares of the Bank's original share capital with a nominal value of CZK 1 million per share and paid the subscription price of CZK 2,000 million for such shares.

In 1998, the Bank issued additional 10 (ten) ordinary shares with a nominal value of CZK 1 million each and in 2015 an additional 1 (one) ordinary share with the same nominal value. The increases in the Bank's registered capital were recorded in the Commercial Register on 25 March 2003 and on 23 November 2015, respectively.

All of the Bank's shares are ordinary freely transferable shares with no special rights or restrictions attached. The ordinary shares carry, among other rights provided for in law and the Bank's Articles of Association, the right to participate in the General Meeting of the Bank through exercising voting rights (with one vote per share) and the right to share in profits. Since 23 November 2015, the registered capital of the Bank has been CZK 511 million, is fully paid up and is presented as Share capital in the statement of financial position.

On 11 April 2016, 511 ordinary registered book-entry shares in the Bank with a par value of CZK 1,000,000 each were split into 511,000,000 fully paid ordinary registered book-entry shares with a par value of CZK 1.00 each.

Since then, the Bank has not issued any ordinary or other shares. The Group did not acquire any of its own shares.

The latest available list of entities recorded in the registry of book-entry shares of the Bank kept by the Central Securities Depository Prague (Centrální depozitář cenných papírů, a.s.) with a shareholding interest of more than 1% of the Bank's registered share capital is available in the investor relations section of the Bank's website at: https://investors.moneta.cz/shareholder-structure. Such entities may not necessarily be the beneficial shareholders of the Bank but may hold shares of the Bank for the beneficial shareholders (as securities brokers, banks, custodians or nominees).

Please refer to the chapter 4 to the section "Other legal requirements" for the information on the shareholder structure of the Bank as at 31 December 2018. As far as the Bank is aware, no shareholder was a person controlling the Bank as of 31 December 2018.

Overview of related parties holding shares of the Bank as at 31 December 2018:

	2018		2017	
Shareholder	Number of shares	Ownership in%	Number of shares	Ownership in%
Tomáš Spurný, Chairman of the Management Board	87,626	0.017%	74,426	0.015%

No other related person or other related party with a relationship to the Bank held any shares of the Bank as at 31 December 2018 or 31 December 2017.

36.2 STATUTORY RESERVE AND RESERVE FROM REVALUATION OF FINANCIAL ASSETS OF THE GROUP

Statutory reserve

Legal and statutory reserve at CZK 102 million as at 31 December 2018 (2017: CZK 102 million) represents Legal and statutory reserve of MONETA Money Bank, a.s.

Reserve from revaluation of FVTOCI (from 1 January 2018)

CZK m	Bonds	Shares	Deferred Tax	Total
31 Dec 2017*	**(80)**	**9**	**14**	**(57)**
Transition to IFRS 9 (derecognition of Available for sale reserve against related carrying amounts of Investment securities formerly reclassified from AFS to HTM)	80	0	(14)	66
Transition to IFRS 9 (reclassification to Investment securities at FVTPL and derecognition of Available for sale reserve against Retained earnings)	0	(9)	0	(9)
1 Jan 2018*	**0**	**0**	**0**	**0**
Gains and losses in the period recognised in the income statement**	0	0	0	0
Gains and losses in the period recognised in Reserve from revaluation of FVTOCI***	0	0	0	0
31 Dec 2018	**0**	**0**	**0**	**0**

Available for sale reserve (until 31 December 2017)

CZK m	Bonds	Shares	Deferred Tax	Total
1 Jan 2017	**447**	**1**	**(85)**	**363**
Gains and losses in the period recognised in the income statement*	(343)	0	0	(343)
Gains and losses in the period recognised in AFS reserve**	(184)	8	99	(77)
31 Dec 2017* **	**(80)**	**9**	**14**	**(57)**

* On 1 January 2018 part of the Available for sale reserve relating to bonds (incl. deferred tax) was released against investment securities, part relating to shares subseqently measured at FVTPL (incl. deferred tax) was released against retained earnings and part relating to shares subsequently measured at FVTOCI (incl. deferred tax) was released against Reserve from revaluation of FVTOCI.

** Represents net gain from sale of FVTOCI, resp. available for sale financial assets, recognised in the profit or loss line "Net income from financial operations".

*** Comprises revaluation of FVTOCI, resp. available for sale financial assets to fair values including revaluation of debt instruments until reclassification to held to maturity (see the note 5.7.3).

37. BONUSES TIED TO THE EQUITY

Virtual Share Programme

The following table shows inputs used in the determination of the fair value of virtual shares under the Virtual Share Programme (as described in the accounting policy note 5.16):

in CZK	2018	2017
Weighted average fair value	**n/a**	**82.40**
Information on how fair value was determined		
Valuation model	n/a	Black-Scholes
Share price	n/a	82.40
Expected volatility	n/a	12.75%
Risk-free interest rate	n/a	0.58%
Weighted average remaining life of options outstanding (in years)	0.00	0.33

The following table reconciles the number of virtual shares outstanding:

	Units in thousands	Weighted average share price in CZK
Outstanding at 1 Jan 2017	**631**	**82.80**
Granted	0	0
Exercised	11	80.47
Forfeited	74	79.59
Outstanding at 31 Dec 2017	**546**	**82.40**
Exercisable at 31 Dec 2017	**0**	**0**
Granted	0	0
Exercised	515	76.20
Forfeited	30	82.40
Outstanding at 31 Dec 2018	**0**	**n/a**
Exercisable at 31 Dec 2018	**0**	**0**

The table below reconciles the outstanding liability resulting from cash-settled share-based payments under the Virtual Share Programme recognised within the line "Other liabilities":

CZK m	
Outstanding liability to employees at 1 Jan 2017	**20**
Total expense recognised in 2017	2
of which Personnel expenses recognised in 2017	29
of which Personnel expenses compensation from GECIHL	(27)
Outstanding liability to employees at 31 Dec 2017	**49**
Total expense recognised in 2018	(4)
of which Personnel expenses recognised in 2018	(1)
of which Personnel expenses compensation from GECIHL	(3)
Payment of liability	**(48)**
Outstanding liability to employees at 31 Dec 2018	**0**

As at 31 December 2018 the receivable from GECIHL for the Virtual Share Programme was fully repaid (31 December 2017: CZK 45 million). For further details about the Virtual Shares Programme see the note 5.16.

Executive Variable Incentive Plan (EVIP)

In 2017, the Supervisory Board adopted the Executive Variable Incentive Plan (EVIP) remuneration policy relevant for the Management Board members and other so-called Material Risk Takers for performance in (fiscal) year 2017 and onward. For more details about EVIP (esp. total benefits awarded and paid in 2017 and 2018) see section 4.10 of the Annual report.

The total balance of accrual for EVIP disclosed in "Other liabilities" as at 31 December 2018 is CZK 73 million (31 December 2017: CZK 72 million), of which CZK 42 million (31 December 2017: CZK 38 million) relates to cash settled share based payment remuneration that will be paid in the following years in three cash instalments as defined in EVIP conditions regardless potential termination. This variable part of EVIP bonuses is tied to the total shareholders return (TSR), hence the amount paid will vary according to changes in the market price of the Bank's shares and profit distributions of the Bank (dividend paid).

The TSR is calculated as follows:

$$\text{MMB TSR} = 1 + \frac{(\text{MMB Share Price End} - \text{MMB Share Price Begin}) + \text{Dividend per Share}}{\text{MMB Share Price Begin}}$$

Where:

- Adjusted for relative capital change (e.g. dilution of total MMB shares traded).
- MMB fiscal and performance evaluation year defined as January 1 - December 31.
- MMB Share Price End means the average daily closing price of the Bank's shares at the Prague Stock Exchange for the first 20 trading days of January in the respective year in the period from the performance (fiscal) year + 1 through to the performance (fiscal) year + 4.
- MMB Share Price Begin means the average daily closing price of the Bank's shares at the Prague Stock Exchange for the first 20 trading days of January in the year preceding the year for which the MMB Share Price End is calculated.
- Dividend per Share shall mean all dividends paid out in the period from 1 January through 31 December in the year for which the MMB Share Price Begin is calculated, expressed as CZK per share.

For accruals as at 31 December 2018, TSR 0.966 was applied to the variable part of EVIP bonuses (2017: TSR 1.093).

For the variable part of EVIP bonuses actually paid in 2019 TSR 0.973 (2018: TSR 1.14) will be applied.

38. CONTINGENT LIABILITIES

38.1 LOAN COMMITMENTS AND ISSUED GUARANTEES

CZK m	31 Dec 2018	31 Dec 2017
Irrevocable loan commitment	23,419	20,109
Issued guarantees	1,089	853
Credit limits on issued guarantees*	588	807
Issued letter of credit	37	1
Total loan commitments and issued guarantees – gross carrying value	**25,133**	**21,770**
Provisions to expected credit losses	(50)	(39)
Total loan commitments and issued guarantees – netto carrying value	**25,083**	**21,731**

* This line represents committed limits on guarantees that can be withdrawn by customers.

38.2 SIGNIFICANT LEGAL DISPUTES

The significant legal disputes include the following pending legal disputes against MONETA Group: (i) the court actions by Serbina Consulting a.s. (formerly ARC equity services a.s., and previously, Arca Services a.s., hereafter "Serbina Consulting") against the Bank in connection with the 1998 acquisition of a part of banking business of Agrobanka Praha, a.s., currently Agrobanka Praha, a.s. v likvidaci ("Agrobanka"; the "Acquisition") and (ii) the administrative proceedings initiated by the Czech Trade Inspection Authority ("CTI") against MONETA Auto, s.r.o. ("MONETA Auto").

38.2.1 Litigation Risks in Respect of the 1998 Acquisition of a Part of Banking Business of Agrobanka

In connection with the court actions by Serbina Consulting, the Bank notes that it is subject to the risks set out below in connection with the Acquisition and the ongoing liquidation of Agrobanka which could have a material adverse effect on the reputation, business, results of operations and financial condition of the Bank and the value of its shares.

Following the completion of the Acquisition in 1998, certain Agrobanka shareholders and members of its supervisory board filed claims against the Bank and Agrobanka in the Czech courts, alleging that the Acquisition was not legal, valid and enforceable. If this had been found to have been the case at the time, the consequences could have been the unwinding of the Acquisition and the return by the Bank to Agrobanka of all assets and/or liabilities deemed to belong to Agrobanka or, alternatively, a payment by the Bank of their financial equivalent to Agrobanka.

In 2010, the Bank and certain other entities affiliated with GE (the sole shareholder of the Bank at that time) reached a general settlement with Agrobanka and shareholders holding in aggregate more than 60 per cent of the shares in Agrobanka as a result of which: (i) the claims set out above against the Bank were withdrawn and terminated; and (ii) Agrobanka and its shareholders bound by the settlement waived any claims against the Bank in connection with the Acquisition (the "2010 Settlement"). In September 2014, the general meeting of Agrobanka approved the liquidation balance of Agrobanka in the aggregate amount of approx. CZK 177.5 million by more than 96% majority of present Agrobanka shareholders in line with the 2010 Settlement.

Legal Challenges by Serbina Consulting (formerly Arca Group)

In October 2016, Serbina Consulting (at that time operating under the name Arca Services a.s.), a minority shareholder of Agrobanka not bound by the 2010 Settlement and, to our best knowledge, a member of Arca Group at that time, filed court action against the Bank, Agrobanka and Mr. Jiří Klumpar (the forced administrator of Agrobanka in 1998) challenging the legality, validity and enforceability of the Acquisition. According to public records, Serbina Consulting is currently solely managed by 23-year old Kamila Serbinová, who was apparently appointed to the company in 2018, when the company was renamed, and its seat moved from Prague to northern Moravia.

In August 2018, the court action brought by Serbina Consulting challenging the legality, validity and enforceability of the Acquisition was dismissed in full by the Municipal Court in Prague. The Municipal Court stated in its reasoning that, inter alia, Serbina Consulting does not have any interest let alone a compelling legal interest to file such a claim and that with respect to the circumstances the litigation claim of Serbina Consulting might be of a frivolous nature. Serbina Consulting appealed against the decision of the Municipal Court in Prague and the Bank will continue to vigorously contest the action of Serbina Consulting on appeal.

Shortly after dismissal of the above described claim of Serbina Consulting by the Municipal Court in Prague, Serbina Consulting filed another court action challenging again the legality, validity and enforceability of the Acquisition, with the Municipal Court in Prague against Agrobanka, VALUE ADDED, a.s. (the liquidator of Agrobanka) and the Bank. In the court action, Serbina Consulting seeks a court declaration that, as a result of the alleged invalidity of the Acquisition, (i) the liquidation balance of Agrobanka shall include also (a) the part of Agrobanka's business acquired by the Bank in the Acquisition (or its financial equivalent) and (b) a receivable which Agrobanka allegedly has against the Bank due to an asserted unjust enrichment on the Bank's part resulting from the Bank's use of the said part of Agrobanka's business and, hence, (ii) the aggregate amount of Agrobanka's liquidation balance shall be increased from approx. CZK 177.5 million to approx. CZK 42 billion. In December 2018, the Bank responded to the court action and rejected all Serbina Consulting's claims, including the fictitious and completely unfounded calculation of the aggregate amount of Agrobanka's liquidation balance made by Serbina Consulting, as entirely baseless, frivolous and abusive.

In this respect, the Bank points out that Serbina Consulting (at that time under the name Arca Services a.s.) acquired shares in Agrobanka only in the course of 2016, i.e., (i) two years after the liquidation balance of Agrobanka was approved by its shareholders and (ii) almost twenty years after the Acquisition was completed. Accordingly, the information concerning the final amount of Agrobanka's liquidation balance as approved by Agrobanka's shareholders had been available to Serbina Consulting before it decided to acquire shares in Agrobanka. The circumstances suggest that the court actions of Serbina Consulting are driven by an ulterior purpose, and not by a genuine Agrobanka's liquidation-related claim. The Bank also notes that according to data from the Czech Central Securities Depository Serbina Consulting is not a shareholder of the Bank.

The Bank is convinced (as the Bank and Agrobanka also declared in their joint submission to the Municipal Court in Prague of October 2017) that the Acquisition is legal, valid and enforceable, Serbina Consulting, as well as any Agrobanka shareholders, directors and members of the supervisory board, does not have the standing to take legal action to claim otherwise, and that both court actions of Serbina Consulting are entirely baseless. Likewise, the Czech National Bank declared the same in its statement dated 11 August 2017 and published on its official webpage that it considers the Acquisition valid.

The Bank notes that the Municipal Court in Prague (as the trial court) and the High Court in Prague (as the appellate court) have also already dismissed similar court actions filed by other Agrobanka's shareholders.

In any event, any unwinding of the Acquisition would be difficult in practice given that more than 20 years have elapsed since the completion of the Acquisition and substantially all assets and liabilities that were originally acquired by the Bank from Agrobanka no longer exist. Similarly, if any payment by the Bank of a financial equivalent of such assets and/or liabilities to Agrobanka was awarded, it is unclear how the actual amount of such payment would be determined by court.

Other potential risks

Furthermore, there is a risk that also other Agrobanka shareholders not bound by the 2010 Settlement may attempt to challenge the Acquisition and, even though the 2010 Settlement documents provide that neither Agrobanka nor shareholders bound by the 2010 Settlement may challenge the legality, validity and enforceability

of the Acquisition, there is no guarantee that the 2010 Settlement parties will not do so in breach of the terms and conditions of the 2010 Settlement. No such claims have been notified to the Bank until the date of these financial statements.

Finally, negative developments in relation to Agrobanka, may generate negative publicity which may, in turn, have a material adverse effect on the reputation, business, results of operations, financial condition and/or prospects of the Bank and the value of its shares. The Bank follows any such negative publicity and thoroughly reacts to any attempts to harm its good reputation, business and prospects.

Current status of Agrobanka liquidation

Agrobanka is in the final phase of its liquidation, its shares were cancelled in 2016 and, as at the date hereof, almost all Agrobanka shareholders have received their respective payments of the liquidation balance either directly or by its depositing in court escrow.

In this connection, we note that, under the applicable corporate law, it is possible to revive even an entity which was fully liquidated and ceased to legally exist in case any unknown assets are discovered. The Bank believes that the risks associated with renewal of the liquidation of Agrobanka after its deregistration will lessen over time.

38.2.2 Administrative Proceedings Initiated by CTI Against MONETA Auto

In August 2015, the CTI issued a decision imposing a fine of CZK 5 million on MONETA Auto for alleged breach of Czech consumer credit law by MONETA Auto. According to the CTI, consumer credit agreements entered into from 2011 to 2014 between MONETA Auto and its consumer clients and related credit documents did not include correct information regarding the annual percentage rate of the loan ("APR") and the total amount repayable by the consumer to MONETA Auto in connection with the loan agreement.

MONETA Auto lodged an appeal against this decision with the General Director of the CTI. In July 2016, the General Director of the CTI decreased the amount of fine to CZK 4 million and affirmed the opinion of the CTI. MONETA Auto believes that the relevant consumer credit agreements concluded by MONETA Auto from 2011 to 2014 are in compliance with Czech consumer credit law and filed a court action against the decision of the General Director of the CTI in August 2016. In August 2017, the court dismissed the action of MONETA Auto and, consequently, MONETA Auto filed an appeal against this court decision with the Czech Supreme Administrative Court. The proceedings before the Czech Supreme Administrative court are pending.

Consumers which are parties to the relevant consumer credit agreements concluded by MONETA Auto from 2011 to 2014 may attempt to bring legal proceedings in light of the CTI decision alleging that (i) they are not liable to pay to MONETA Auto the interest rate and other fees agreed in the relevant consumer credit agreements and (ii) they are liable to pay only a discount rate published by the CNB and that MONETA Auto may be required to return to customers an amount of already paid interest and fees insofar as those interest and fees exceeded the CNB's discount rate.

The CTI initiated several additional administrative proceedings and reviews of MONETA Auto's compliance with Czech consumer credit law. As a result, the CTI imposed on MONETA Auto, (i) in October 2015, a fine of CZK 100,000, decreased by the General Director of the CTI to CZK 80,000, (ii) in April 2017, a fine of CZK 900,000, and (iii) in August 2017, a fine of CZK 800,000 for an alleged breach of Czech consumer credit law. MONETA Auto believes that it complied with all legal requirements and has challenged the above decisions of the CTI in administrative proceedings and, where relevant, before courts. None of the above matters has been finally resolved.

Consumers which were parties to the relevant consumer credit agreements may attempt to bring legal proceedings in light of the CTI decisions alleging that (i) the relevant consumer agreements are not valid and enforceable and (ii) that they are not liable to pay to MONETA Auto the interest rate and other fees agreed in the relevant consumer credit agreements and they are liable to only return the principal amount of the loan (or only a discount rate published by the CNB) and MONETA Auto may be required to return to customers an amount of already paid interest and fees.

38.2.3 Legal Challenges of General Meeting Resolutions by Arca Group

38.2.3.1 Legal Challenge of Resolutions of General Meeting Held on 26 October 2017

On 16 January 2018, Arca Capital Bohemia, a.s., a minority shareholder of the Bank holding

according to data from the Czech Central Securities Depository 10 shares of the Bank and, to our best knowledge, a member of Arca Group, filed with the Municipal Court in Prague action against the Bank challenging the validity of the resolutions adopted by the General Meeting of the Bank held on 26 October 2017 concerning approval of the internal regulation on remuneration of the Supervisory Board and Audit Committee members and respective template service contracts. The Bank believes that the concerned General Meeting resolutions are valid and were adopted in compliance with applicable law, the Articles of Association of the Bank and good morals, and that the court action is entirely baseless.

In September 2018, the Municipal Court in Prague dismissed in full the claims of Arca Capital Bohemia, a.s. and confirmed that the General Meeting of the Bank held on 26 October 2017 was conducted in full accordance with law and Articles of Association of the Bank and that all resolutions adopted at the General Meeting of the Bank held on 26 October 2017 are valid and effective.

Arca Capital Bohemia, a.s. appealed against the decision of the Municipal Court in Prague. In January 2019, the Bank responded to the appeal and rejected all the claims asserted by Arca Capital Bohemia, a.s. in the appeal as entirely baseless. The Bank will continue to vigorously contest the court action of Arca Capital Bohemia, a.s. on appeal.

38.2.3.2 Legal Challenge of Resolutions of the Annual General Meeting Held on 25 April 2018

On 24 July 2018, a minority shareholder-individual, to our best knowledge associated with Arca Group and holding according to data from the Czech Central Securities Depository 5 shares of the Bank, filed with the Municipal Court in Prague action against the Bank challenging the validity of all resolutions adopted at the Annual General Meeting held on 25 April 2018. The claimant asserts that the Annual General Meeting was allegedly inquorate and the resolutions were allegedly not adopted by the requisite percentage of the votes.

The Bank believes that the Annual General Meeting was quorate, all resolutions were duly adopted by the Annual General Meeting in compliance with applicable law, the Bank's Articles of Association and good morals, and has made several submissions to the Municipal Court in Prague rejecting all the plaintiff's claims as entirely baseless. The Bank will continue to vigorously contest the court action.

39. LEASES

Operating leases – the Group as a Lessee

The Group leases mainly office or branch property. A majority of vehicles leases were terminated during 2018. Property leases are both for indefinite and definite period (usually 5 years). Vehicles were leased for maximum for 5 years.

The following table summarises non-cancellable operating lease commitments not disclosed in the financial statements:

Non-cancellable operating lease commitments

CZK m	31 Dec 2018	31 Dec 2017
No later than one year	236	252
Later than one year but not later than five years	309	659
Later than five years	3	542
Total minimum lease payments	**548**	**1,453**

Expenses resulting from non-cancellable operating leases recognised in profit or loss:

CZK m	2018	2017
Lease payments expensed within the period	308	334
Less received sub-lease payments	0	0
Total administrative expenses for period	**308**	**334**

Finance leases – the Group as a Lessee

The Group leases various banking equipment such as bill counters and some IT equipment with an average lease term of 5 years. Such leases are classified as finance leases at inception. The lessor is the legal owner of the leased asset during the lease term according to Czech law, and after the end of the lease term legal ownership is transferred to the Bank.

Minimum Lease Payments – Finance leases

CZK m	31 Dec 2018	31 Dec 2017
No later than one year	4	1
Later than one year but not later than five years	8	3
Total minimum lease payments	**12**	**4**
Total outstanding liability	**12**	**4**

Finance leases – the Group as a Lessor

Minimum Lease Payments – Finance leases

CZK m	31 Dec 2018	31 Dec 2017
No later than one year	1,843	2,325
Later than one year but not later than five years	2,181	2,932
Later than five years	36	27
Total minimum lease payments	**4,060**	**5,284**
Less unearned income	(79)	(104)
Present value of lease receivable	**3,981**	**5,180**
Less allowances	(104)	(124)
Carrying value of lease receivable	**3,877**	**5,056**

The carrying value of lease receivable is presented under Loans and receivables to customers in the consolidated statement of financial position.
The Group mainly leases machinery, vehicles and equipment to SMEs or entrepreneurs with typical lease term between 3 and 6 years.

Operating leases - The Group as a Lessor

Operating leases are provided by the Group to commercial customers. The carrying value of leased assets is shown in note 27.

Minimum Lease Payments - Operating leases

CZK m	31 Dec 2018	31 Dec 2017
No later than one year	49	50
Later than one year but not later than five years	37	77
Later than five years	0	0
Total minimum lease payments	**86**	**127**

40. TRANSACTIONS WITH RELATED PARTIES

The Group's related parties include associates, key management personnel, Supervisory Board and their close family members.

Transactions provided by the Group to related parties represent bank services (esp. loans and interest bearing deposits); expenses from transactions with related parties comprise remuneration to members of Supervisory Board, Management Board and other Key Executive Managers. The former ultimate parent (GECIHL) irrevocably and unconditionally guaranteed the due and punctual payments due to the landlord under the terms and conditions of lease agreement of the Group's headquarter buildings. The unconditional guarantee was terminated in January 2017.

Transactions with related parties are carried out in the normal course of business operations and conducted under normal market conditions. The balances at year-end are unsecured.

The following transactions were undertaken with related parties in 2018:

2018 CZK m	Key members of the management* and Supervisory Board
Loans and receivables to customers	16
Due to customers	19
Operating expenses	(108)

The following transactions were undertaken with related parties in 2017:

2017 CZK m	Key members of the management* and Supervisory Board
Loans and receivables to customers	17
Due to customers	24
Operating expenses	(115)

* Includes members of Management Board and other Key Executive Managers.

The line "Operating expenses" from transactions with key members of the management and Supervisory Board includes wages, compensation and benefits that were paid to or accrued by members of the Management Board, Supervisory Board and other Key Executive Managers during the year.

40.1 REMUNERATION TO MEMBERS OF SUPERVISORY BOARD, MANAGEMENT BOARD AND OTHER KEY EXECUTIVE MANAGERS

The following remuneration was paid or accrued to the key members of the management and Supervisory Board during the year:

CZK m	2018	2017
Short-term employee benefits, including:	**82**	**87**
Members of the Management Board and Other Key Executive Managers	69	76
Members of the Supervisory Board	13	11
Other long-term employee benefits, including:	**26**	**43**
Members of the Management Board and Other Key Executive Managers	26	43
Pay-outs from stock option plans	**0**	**5**
Members of the Management Board and Other Key Executive Managers	0	5
Total remuneration	**108**	**135**

This table shows wages, compensation, benefits and payments relating to retention programmes that were paid to or accrued by members of the Management Board, Supervisory Board and other Key Executive Managers during the year. It also includes long-term benefits paid during the year that were granted in previous years.

41. SEGMENT REPORTING

The segment reporting is prepared in accordance with IFRS 8 Operating segments.

Operating segments are reported in a manner consistent with reporting to the Management Board and other Key Executive Managers who are responsible for allocating resources and assessing performance of operating segments.

The Group's operating segments are the following: Commercial, Retail, Other/Treasury.

The Commercial segment consists of deposits, investment loans, revolving products, financing of real estate, finance leases and other services related to transactions with small and medium-sized enterprises, corporate clients, financial institutions, and public sector institutions. Services are provided through the branch network, online channels or external sales channels.

The Retail segment focuses on deposits, loans, revolving products, credit cards, mortgages, finance leases and other transactions with retail customers. Retail customers are comprised of private individuals, the Group's employees and employees of Group's partners. This segment provides services to citizens through the branch network, online channels and external sales channels.

The Other/Treasury segment provides primarily the treasury function. The focus of this segment is on foreign exchange transactions, interest rate swaps, investment in debt securities, equity investments, other non-interest bearing assets and other operations that cannot be associated with above mentioned segments.

The Group has no client or economic group for which the proceeds of realised transactions exceeded 10% of the income of the Group. Segment reported revenues, below, represent only revenues realised with external customers.

Cross-funding among operating segments is not material, because most of the liabilities are represented by customers' current accounts which bear no interest or only 0.1% p.a.

The Group's income is generated within the territory of the Czech Republic and there are no intersegment revenues.

CZK m	Commercial	Retail	Other/ Treasury	Total
2018				
Interest and similar income	2,252	5,036	532	7,820
Interest expense and similar charges	(72)	(187)	(152)	(411)
Net fee and commission income	523	1,319	50	1,892
Dividend income	0	0	3	3
Net income from financial operations	0	0	396	396
Other operating income	71	391	0	462
Total operating income	**2,774**	**6,559**	**829**	**10,162**
Net impairment of financial assets	(120)	(150)	(4)	(274)
Risk adjusted operating income	**2,654**	**6,409**	**825**	**9,888**
Total operating expenses				**(4,852)**
Profit for the year before tax				**5,036**
Taxes on income				(836)
Profit for the year after tax				**4,200**
Total assets of the segment	**69,802**	**79,440**	**57,690**	**206,932**
Net value of loans and receivables to customers	**65,417**	**74,706**	**0**	**140,123**
Total liabilities of the segment	**56,013**	**95,548**	**30,134**	**181,695**

CZK m	Commercial	Retail	Other/ Treasury	Total
2017				
Interest and similar income	2,077	5,337	168	7,582
Interest expense and similar charges	(40)	(157)	(21)	(218)
Net fee and commission income	516	1,393	24	1,933
Dividend income	0	0	0	0
Net income from financial operations	0	0	709	709
Other operating income	107	222	0	329
Total operating income	**2,660**	**6,795**	**880**	**10,335**
Net impairment of financial assets	(128)	(253)	0	(381)
Risk adjusted operating income	**2,532**	**6,542**	**880**	**9,954**
Total operating expenses				**(4,947)**
Goodwill Impairment				**(104)**
Profit for the year before tax				**4,903**
Taxes on income				(980)
Profit for the year after tax				**3,923**
Total assets of the segment	**66,010**	**66,233**	**67,491**	**199,734**
Net value of loans and receivables to customers	**61,696**	**61,984**	**0**	**123,680**
Total liabilities of the segment	**51,654**	**84,571**	**37,746**	**173,971**

42. RISK MANAGEMENT

The Group aims to achieve competitive returns at an acceptable risk level as part of its business activities. Risk management covers the control of risks associated with all business activities in the environment in which the Group operates and ensures that the risks taken are in compliance with regulatory limits, as well as falling within its risk appetite.

When managing risks, the Group relies on three pillars:

- people (the qualifications and experience of its employees);
- risk governance (including well-defined information flows, processes, model governance and responsibilities); and
- risk data (including the use of sophisticated analytical instruments and technologies).

This combination has supported the Group's success and the stability of its economic results.

The Group's risk management processes are underpinned by advanced analytics based on an enterprise-wide data warehouse and centralised underwriting process. This allows the Group to price on a risk basis, according to its in-house scoring and rating models.

The level of risk is measured in terms of its impact on the value of assets and/or capital as well as on the profitability of the Group. To determine this, the Group evaluates potential effects on its business of changes in political, economic, market and operational conditions, as well as changes in clients' creditworthiness on its business.

The Bank provides centralised risk management for the Group wherever possible and practical. It does this primarily through outsourcing or by providing methodology guidance to other Group members.

42.1 CAPITAL MANAGEMENT

The framework used for capital management involves monitoring and complying with the capital adequacy limit in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended. Furthermore, from a local perspective, the regulatory framework is given by Banking Act No. 21/1992 Coll., as amended, and CNB Decree No. 163/2014 Coll., as amended.

On a consolidated basis, the Group manages its capital to meet the regulatory capital adequacy requirements prescribed in the abovementioned regulations and allow the Group to continue its operations on a going concern basis while maximising the return to shareholders through the optimisation of the debt and equity balances.

The minimum regulatory capital requirement (Pillar I) is equal to 8% of risk weighted assets. Additionally, in 2018 the Group was obliged to maintain the Pillar II capital requirement in the amount of 3%. At the end of 2018, the Group was also obliged to maintain a mandatory capital conservation buffer of 2.5% and a countercyclical capital buffer of 1% that were applied for the whole Czech market. Therefore, the overall capital requirement on an individual and a consolidated basis was 14.5% as of 31 December 2018.

The Group decided to maintain as a target a capital adequacy ratio at 15.5%.

Since 1 January 2019 the Group is obliged to maintain the Pillar II capital requirement in the amount of 2.6% and a countercyclical buffer of 1.25%, thus the overall capital requirement on an individual and a consolidated basis of 14.35%. Since 1 July 2019 a countercyclical buffer will increase to 1.5%, which means the overall capital requirement on an individual and a consolidated basis of 14.6%.

To calculate the regulatory capital requirement for credit risk, both on an individual and a consolidated basis, the Bank and the Group uses the standardised approach. To calculate the capital requirement for operational risk, the Bank uses the alternative standardised approach on an individual basis. However, the Czech National Bank has prescribed that the capital requirement for operational risk on an individual basis shall not fall below 75% of the capital requirement for operational risk per the standardised approach. The standardised approach is used to calculate the capital requirement for operational risk on a consolidated basis for the rest of the consolidated Group. The Group has started to calculate regulatory capital requirements against market risk of the Trading book since 3Q 2018.

In addition to Pillar I and to ensure a robust capital management framework, the Group performs under Pillar II a calculation of internal capital requirements, regular capital planning and stress testing. To calculate the internal capital requirement, the Group applied methods similar to advanced approaches according to regulatory Pillar I on a probability level at least 99.9%.

The Group creates a mid-term capital outlook on a regular basis which predicts capital adequacy based on the predicted development of external environment, financial markets and the Group's portfolio characteristics. Next to the base capital plan, the Group assesses the capital position under several stress scenarios. These are usually based on a worsening of the macroeconomic environment and key risks, which are identified during a Pillar II workshop with the senior management of the Bank.

The Group's capital on a consolidated basis primarily consists of share capital, share premium and unallocated profit from prior years that is the highest quality Common Equity Tier 1 capital.

The Group met all regulatory requirements regarding capital adequacy on an individual and a consolidated basis in 2017 and 2018 even after the payment of the dividends in 2017 and 2018.

Regulatory capital and its components:

CZK m	31 Dec 2018	31 Dec 2017
Common Equity Tier 1 capital CET1		
Subscribed share capital	511	511
Share premium	5,028	5,028
Statutory reserve and Retained earnings excl. profit for the year	16,136	16,360
Reserve from revaluation of FVTOCI	0	n/a
Available for sale reserve	n/a	(57)
Items deductible from Tier 1 capital	(1,612)	(1,189)
Regulatory Capital	**20,063**	**20,653**
Total Risk Exposure (Total Risk Weighted Assets)	**122,202**	**118,547**
Regulatory capital adequacy requirement	14.5%	14.0%
Capital requirement	17,719	16,597
Capital adequacy ratio	16.4%	17.4%

42.2 CREDIT RISK

Credit risk is the risk of loss for a party resulting from the failure of a counterparty to meet its obligations arising from the terms and conditions of the contract under which the party became the creditor of this counterparty. The Group is exposed to credit risk in particular in the case of credits granted, non-approved debits, guarantees provided, letters of credit issued and interbank deals.

42.2.1 Credit Risk Management (Policies Applied after 1 January 2018)

Credit risk management is organised along the following approval processes:

Individually-managed exposures represent exposures to entrepreneurs and SMEs where loans and lines of credit are approved based on an individual assessment of the borrower's creditworthiness in connection with the loan size. Portfolio-managed exposures include exposures to natural persons, natural persons acting as entrepreneurs, and SMEs where loans and lines of credit are approved using an automated credit scoring process. Mortgages have a specific position as mortgages form a part of the retail exposures (usually portfolio managed) but a number of the processes and methods used fall within the category of individually-managed exposures.

The exposures to counterparties on the financial markets include the exposures to financial institutions and governments. These exposures primarily arise as a part of liquidity management and market risks management. Transactions on financial markets are performed only by the Bank. Other companies in the Group have only insignificant receivables to banks in respect of current account balances. The credit risk of these exposures is managed through limits to countries and counterparties approved based on external ratings.

Individually-managed exposures

(a) Internal Rating

The Group uses internal statistical rating models, which use the most recent available qualitative and quantitative information to estimate the probability that a commercial borrower will default in the following 12 months. The rating models assign an obligor rating (OR) grade from zero to twenty-one to borrowers that are not in default. Borrowers in default are given the internal rating grade twenty-two (OR22).

In order to ensure methodological and factual accuracy, models are monitored on a regular basis. Internal rating is used for the definition of approval authorities and categorisation (42.2.2).

(b) Approval Process

The approval process is based on an individual evaluation of a borrower and is executed at the Bank. Approval authorities are set on an individual basis and are determined by combining

the level of exposure, the borrower's internal rating, maturity, product and collateral.

As part of the approval process, the Group assesses the financial situation of the prospective borrower, the persons economically related to the borrower and the collateral being offered using internal and external data sources, including credit registers.

(c) Monitoring

All SME clients are monitored both individually and on a portfolio basis.

Reports on the quality of the commercial portfolio across the Group are discussed by the Credit Committee (CRCO) each month.

Individually-managed exposures above a certain threshold are also subject to at least a yearly credit review, which follows the approval process similar to new exposures.

(d) Recovery of Debtors' Receivables

The Group manages the Group's loans where recoverability of the exposure is not reasonably assured with the aim of achieving maximum recovery. The Group engages affected borrowers with a view to recovering the Group's exposure. This may involve taking legal action against the borrower, restructuring the loans, taking relevant legal steps to realise collateral, debt sale or representing the Group in insolvency proceedings.

The Bank manages collection process for MONETA Leasing and MONETA Auto according the same principles as for Bank's loans. MONETA Leasing and MONETA Auto also use the assistance of external agencies in collecting their receivables.

Portfolio-managed exposures

(a) Scoring Instruments

When approving portfolio-managed exposures, internal or external scoring models are used. These statistical models classify individual borrowers into categories of homogeneous exposures using socio-demographic and behavioural data. The development of internal scoring models and monitoring of predictive power of all scoring models is carried out by the Bank. The calculated score for the commercial portfolio-managed exposures is, similarly to individually managed exposures, mapped to the OR scale. The calculated score for retail portfolio-managed perfoming exposures is grouped into five credit rating (CR) grades with associated OR grades as outlined below:

- CR1: OR13 and better;
- CR2: OR14 – OR15;
- CR3: OR16 – OR17;
- CR4: OR18 – OR19;
- CR5: OR20 – OR21.

Borrowers in default are given the internal rating grade twenty-two (OR22).

In order to ensure methodological and factual accuracy, models are monitored on a regular basis.

(b) Approval Process

The approval process is based on the use of internally or externally developed scoring models and access to external data sources (in particular credit registers). Approval strategies are set by the Bank.

The Bank underwriters may approve individual exposures that do not pass the automatic approval process. For auto financing products, the automated approval process is almost always supplemented with individual assessment.

Mortgages are approved based on an individual assessment of the prospective borrower supported by input from internally-developed scoring models with approval required from an authorised underwriter from the Bank.

(c) Monitoring

The Group regularly monitors segments of the portfolio managed exposures, which are reported to the Credit Committee (CRCO).

(d) Collection

The Group has a comprehensive collection process which includes an automated collection system. The Group optimises its overall recovery capacity and performance by using external capabilities (collection agencies and law offices) as well as debt sales of non-performing receivables.

The Bank manages the collection process for MONETA Leasing and MONETA Auto according the same principles as for Bank's loans. MONETA Auto and MONETA Leasing also use the assistance of external agencies in collecting their receivables.

Counterparties in the Financial Market

(a) External Rating

The main tool for measuring the credit risk of countries and counterparties (financial institutions and governments) with respect to transactions in financial markets is the rating set by international rating agencies: Standard & Poor's, Moody's and Fitch. The Group sets individual limits for individual countries and counterparties for which it requires a minimum short-term rating of A-1/P-1/F1 (exceptions must be properly approved).

(b) Approval Process

The approval of limits is based on an individual assessment with approval required from the Chief Risk Officer (CRO) or an authorised approver from the Bank. The approval levels are determined individually and are based primarily on the combination of the limit, external rating, maturity and product. In selected cases, the prior approval of the Credit Committee (CRCO) is required.

(c) Monitoring

All counterparties and countries with a determined limit are monitored individually. The subject of the monitoring is primarily the external rating. Remedial measures (in particular a decrease/cancellation of the limit, categorisation of receivables) are approved by an authorised approver from the Bank.

The Bank monitors compliance with limits. Any breach of limits is escalated to the Treasurer and Chief Risk Officer (CRO). In addition, intentional material limit breaches are escalated also to the Chief Financial Officer (CFO) and breaches over CZK 100 mil. to the Asset and Liability Committee (ALCO).

42.2.2 Categorisation of Exposures

The Group assigns exposures to individual categories in compliance with CNB Decree No. 163/2014 Coll. The categorisation is used for regulatory reporting and calculation of loan loss allowances. The categorisation is as follows:

- exposures without borrower default are classified as performing;
- exposures where the borrower has defaulted are classified as non-performing.

A default of a borrower is recognised if, given the borrower's financial and economic situation, full repayment of exposures toward such a borrower is unlikely. The Group considers a borrower to be in default mainly if

- the material part of principal, interest or fees of any borrower's exposure is more than 90 days past due;
- any material exposure was forborne in the past 6 months due to a deterioration in the borrower's financial situation;
- the borrower's internal rating is OR22;
- a competent court has issued a decision on settling the borrower's bankruptcy via a discharge from debts or reorganisation;
- a borrower is subject to bankruptcy or settlement proceedings.

Exposures within other entities of the Group are categorised according to the similar principles.

42.2.3 Credit Risk Management
(Policies Applied before 1 January 2018)

Individually-managed exposures

(a) Internal Rating

The Group used an internal statistical rating model, which used the most recent available qualitative and quantitative information to estimate the probability that a commercial borrower would default in the following 12 months. The rating calculation was based on an assessment of ratios of two types. The ratios of first type (financial) were derived from financial statements and reflected the financial strength of a borrower. The ratios of second type (non-financial) were used to assess the borrower based on qualitative information, which reflected non-financial attributes of the borrower's business. The financial ratios were more significant. The rating model assigned an obligor rating (OR) grade from zero to twenty-one to borrowers that were not in default. Borrowers in default were given the internal rating grade twenty-two (OR22 or ORD). The 23 ORs and their associated probabilities of default were:

a. OR0 to 5: 0% to 0.07%;
b. OR6 to 10: 0.08% to 0.39%;
c. OR11 to 15: 0.59% to 3.03%;
d. OR16 to 21: 4.55% to 35.00%;
e. ORD: 100%.

The predictive power of the rating model was reviewed periodically and significant changes in the model, if any, were approved by the Enterprise Risk Management Committee (ERMC).

Portfolio-managed exposures

(a) Scoring Instruments

When approving portfolio-managed exposure, internal scoring models were used. These statistical models classified individual borrowers into categories of homogeneous exposures using socio-demographic and behavioural data. The development of these scoring models and monitoring of their predictive power was carried out by the Planning, Reserving & Models department of the Risk Division. The calculated score for the commercial portfolio-managed exposures was, similarly to individually-managed exposures, mapped to the OR scale. The calculated score for retail portfolio managed exposures was grouped into five credit rating (CR) grades with associated probabilities of default in the following 12 months as outlined below:

a. CR1: 1.3% and lower;
b. CR2: 1.3% to 3.2%;
c. CR3: 3.2% to 7.7%;
d. CR4: 7.7% to 15.8%;
e. CR5: 15.8% and greater.

For reporting of the overall portfolio quality, the commercial OR grades were mapped to the above-mentioned five CR grades. In order to ensure methodological and factual accuracy, models were monitored on a regular basis.

Categorisation of Receivables

The Group assigned receivables to individual categories in compliance with CNB Decree No. 163/2014 Coll. The categorisation was used for regulatory reporting, impairment testing and calculation of loan loss allowances. The categorisation was as follows:

Receivables without Borrower Default

The receivables without borrower default were classified as performing and without impairment. The Group assigned receivables without borrower default to the following sub-categories:

(a) Standard Receivables

A receivable was regarded as "standard" if there was no reason to doubt that it would be repaid in full. The Group included in this category receivables where the principal, interest and fees were being duly paid, with none of them being more than 30 days past due. None of the receivables from the borrower had been forborne in the last two years due to the deterioration in the borrower's financial situation. In the case of individually managed commercial receivables the current value of the borrower's internal rating was better than OR18 and receivables were not in work-out process.

(b) Watch Receivables

A receivable was regarded as "watch" if, given the borrower's financial and economic situation, it was likely to be repaid in full. The Group included in this category receivables where the principal or interest and fees were being paid with some problems, but none of them are more than 90 days past due. None of the receivables from the borrower were forborne in the last six months due to the deterioration in the borrower's financial situation. In addition, this category included individually-managed commercial receivables with the borrower's internal rating from OR18 to OR21 (including).

Receivables with Borrower Default

Receivables where the borrower had defaulted were classified as non-performing and impaired and assigned to one of three sub-categories:

(a) Sub-standard Receivables

A receivable was regarded as "sub-standard" if, given the borrower's financial and economic situation, its full repayment was uncertain, although its partial settlement was highly likely. The Group included in this category receivables where the principal, interest or fees were being paid with problems, but with none of them more than 180 days past due. In addition, sub-standard receivables included receivables that were forborne in the past 6 months due to the deterioration in the borrower's financial situation, and a commercial individually managed receivable with the borrower's internal rating of OR22.

(b) Doubtful Receivables

A receivable was regarded as "doubtful" if, given the borrower's financial and economic situation, its full repayment was highly unlikely, although its partial settlement was possible and likely. The Group included in this category receivables where the principal, interest or fees were being paid with problems, but with none of them being more than 360 days past due. A receivable was also considered doubtful if a competent court has issued a decision on settling the borrower's bankruptcy via a discharge from debts or reorganisation.

(c) Loss Receivables

A receivable was regarded as "loss" if, given the borrower's financial and economic situation, its full repayment was impossible. The expectation was that such receivable would not be repaid or would only be repaid in part in a very small amount. The Group included in this category receivables where principal, interest or fees were more than 360 days past due. A receivable from a borrower who was subject to bankruptcy or settlement proceedings was also considered to be a loss receivable.

Receivables within other entities of the Group were categorised according to the similar principles, except of internal rating criteria, which were not used for receivables of MONETA Leasing.

The Group automatically assessed the following criteria for this categorisation on a daily basis:

- The fulfilment of debt service (not assessed in non-approved debits on current accounts up to CZK 2,000 and receivables of MONETA Leasing up to CZK 5,000);
- The borrower's internal rating (in respect of individually-managed commercial receivables);
- Completed/not completed forbearance of the debt; and
- The announcement of a bankruptcy or allowed discharge from debt or reorganisation or settlement to the borrower's assets.

42.2.4 Collateral Assessment

The Group determines the nature and extent of collateral that is required either by individually assessing a prospective borrower's creditworthiness or as an integral part of the given credit product. The Group considers the following types of collateral acceptable for mitigating the credit risk on a loan or line of credit:

- cash;
- securities;
- account receivables;
- bank guarantees;
- guarantee of a reliable third party;
- insurance;
- real estate properties; and
- movable assets (machinery, equipment, breeding stock).

For mortgages real estate colletaral is used, for Auto loans and financial leases mainly movable assets are used as collateral, for commercial loans all types of collateral may be used. Retail consumer loans and credit cards and overdraft are unsecured.

To determine the realisable value of a collateral, the Group uses external expert appraisals or internal assessments made by the Collateral Management department of the Risk Division, which is a department operating independently of the Bank's sales departments. The ultimate realisable value of the collateral is then set by applying collateral acceptance ratios reflecting the Group's ability to realise the collateral in case of default. Maximum values of collateral acceptance ratios are approved by the Credit Committee (CRCO).

In determining the realisable value, MONETA Leasing uses a discount on the acquisition cost derived from model depreciation curves (describing the relation between fair value as a percentage of acquisition cost and time) for individual asset classes. Curves are reassessed yearly and approved by the Credit Committee (CRCO).

The collateral quality has not changed during 2018.

The Group did not hold financial instruments for which an entity has not recognised a loss allowance because of the collateral during 2018.

42.2.5 Allowances Calculation
(Policy Applied after 1 January 2018)

Allowances for credit losses are determined using an expected credit loss approach as required under IFRS 9.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

To calculate allowances, the portfolio is divided into three stages, which are further segmented into commercial and retail exposures by product. Exposures with borrower default belong to Stage 3. Performing exposures are assigned into Stage 2 when significant increase in credit risk (SICR) occurred. The Group considers as SICR mainly the following situations:

- days past due are higher than 30;
- similar qualitative criteria suggest deterioration in credit risk; or
- a relative change of remaining lifetime probability of default (PD) at origination and at reporting is higher than relative threshold and lifetime PD at reporting is higher than absolute threshold. Thresholds are set by the Bank.

Exposures that are not assigned into Stage 3 or 2 belongs to Stage 1.

The Group estimates 12 months expected credit loss (ECL) for Stage 1 exposures and lifetime expected credit loss for Stage 2 and Stage 3. The Group also uses multiple macroeconomic forecasts for estimation of future losses, thus future development of macroeconomic variables is reflected in risk parameters.

The calculation of allowances is based on statistical models. These models are used for calculation of probability of default (PD), loss given default (LGD), exposure at default (EAD) and the cure rate (CR). Some commercial exposures have expected discounted cash flows set individually.

PD and CR calculation

The PD and CR are calculated based on transition matrices model. Transition matrices track migration between rating grades, defaulted and cured status. They provide an intuitive and comprehensive overview of portfolio movements across time. From these matrices are created through-the-cycle (TTC) matrices for each segment that are independent of the economy's position within the macro-economic cycle. PIT (point-in-time) matrices for each segment and month are created by conditioning the TTC matrices with an adjustment for the current and expected state of the macro-economy. PD and CR are then derived from PIT matrices.

LGD calculation

For the majority of exposures without collateral and for the unsecured part of collateralised exposures historical recoveries discounted by the original effective interest rate are used to derive the LGD parameters. LGD for the collateralised part of the exposure is based on forward expected collateral value (macro-conditioned using all macro scenarios forecasted), which is discounted by the effective interest rate.

EAD calculation

The exposure at default is an 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, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

There is a provision created for undrawn loan commitments by using estimate of utilisation in case of default that determines the amount of loan drawn.

The following table shows reconciliations from the opening to the closing balance of allowances to loans and receivables to customers* (IFRS 9):

CZK m	Stage 1	Stage 2	Stage 3	Total
Retail				
Balance 1 January 2018*	**708**	**305**	**2,493**	**3,506**
Purchases and originations	264	9	18	291
Derecognition and maturities	(154)	(35)	(242)	(431)
Transfer to (out) Stage 1	138	(103)	(35)	0
Transfer to (out) Stage 2	(41)	64	(23)	0
Transfer to (out) Stage 3	(70)	(132)	202	0
Remeasurements, changes in models and methods	(53)	145	609	701
Use of allowances (write offs)	0	0	(1,076)	(1,076)
out of which debt sales	0	0	(600)	(600)
Foreign exchange adjustments	0	0	1	1
Balance 31 December 2018	**792**	**253**	**1,947**	**2,992**
Commercial				
Balance 1 January 2018*	**180**	**76**	**976**	**1,232**
Purchases and originations	159	5	28	192
Derecognition and maturities	(23)	(15)	(64)	(102)
Transfer to (out) Stage 1	43	(25)	(18)	0
Transfer to (out) Stage 2	(9)	67	(58)	0
Transfer to (out) Stage 3	(4)	(23)	27	0
Remeasurements, changes in models and methods	(103)	7	109	13
Use of allowances (write offs)	0	0	(227)	(227)
out of which debt sales	0	0	(132)	(132)
Foreign exchange adjustments	0	0	0	0
Balance 31 December 2018	**243**	**92**	**773**	**1,108**
Total Balance 31 December 2018	**1,035**	**345**	**2,720**	**4,100**

* The Group did not recognise any allowances to Loans and receivables to banks during 2018.

There have been no material movements in allowances to other financial assets (such as Loans and receivables to banks, debt securities at amortised cost, operating receivables) for the year 2018 than disclosed above.

42.2.6 Allowances Calculation (Policy Applied before 1 January 2018)

Allowances were determined in accordance with IAS 39.

To calculate allowances, the portfolio was divided into non-impaired receivables and impaired receivables, which were further segmented into commercial and retail exposures by product.

The calculation of allowances for the non-impaired portfolio was based on statistical models. These models were used for calculation of the probability of default (PD), the loss given default (LGD) and the cure rate (CR). These were calculated directly from statistical models. For some receivables discounted anticipated cash flows from collection (effective interest rate was used as the discount rate) were used to derive the LGD.

Allowances for the impaired part of the portfolio were split into individual and portfolio allowances. Individual allowances were determined for impaired commercial individually managed exposures by calculating the discounted future cash flows. Portfolio allowances based on the LGD statistical approach were determined for remaining portfolios. For these, the LGD was adjusted to correspond to remaining anticipated cash flows. The expected discounted external collection costs were also included in the LGD.

A provision was recognised for irrevocable loan commitments using CCF (credit conversion factor) coefficients that determined which part of the loan commitment was brought onto the balance sheet until the receivable impairment moment.

Back testing was performed no less than annually; it assesses the adequacy of the volume of recognised allowances given the actual losses in the portfolio.

(a) The following table shows movement of individual and portfolio-managed allowances during 2017 – comparative information according to IAS 39

CZK m	Individual allowances	Portfolio allowances	Total allowances
1 Jan 2017	**406**	**5,769**	**6,175**
Additions and release of allowances	126	492	618
Effect of written off receivables	(133)	(2,460)	(2,593)
Interest income from impaired loans (unwinding)	(3)	(135)	(138)
Net movement of allowances	**(10)**	**(2,103)**	**(2,113)**
31 Dec 2017	**396**	**3,666**	**4,062**

42.2.7 Credit Concentration Risk

As part of managing credit risk, the Group regularly monitors and actively manages the credit concentration risk of the Group through the limits to countries, counterparties, collateral providers and economic sectors. Regional concentration is not relevant as most income is generated within the territory of the Czech Republic.

The main collateral providers (via guarantees) are Českomoravská záruční a rozvojová banka, a.s. and European Investment Fund.

(a) The exposures to top 10 groups of customers

CZK m	31 Dec 2018	31 Dec 2017
Top 10 exposures*	6,946	6,454

* Exposure includes gross loans and receivables, unused commitments including credit lines, and guarantees.

(b) The structure of the Group's commercial credit portfolio by economic sectors

	31 Dec 2018		31 Dec 2017	
Sector	CZK m*	%	CZK m*	%
1 Agriculture	21,007	32%	20,237	32%
2 Mining	44	0%	56	0%
3 Food industry	1,719	3%	1,787	3%
4 Textile industry	569	1%	409	1%
5 Wood processing industry	479	1%	520	1%
6 Chemical industry	1,248	2%	1,228	2%
7 Metal processing industry	2,615	4%	2,350	4%
8 Electric and optical equipment	170	0%	142	0%
9 Manufacturing of equipment, including transportation	1,966	3%	2,093	3%
10 Construction industry and construction modifications	3,654	5%	3,057	5%
11 Wholesale	5,717	9%	5,334	8%
12 Retail sale	3,442	5%	3,358	5%
13 Transport and telecommunication	4,357	7%	5,115	8%
14 Finance	720	1%	639	1%
15 Services	16,250	24%	13,838	22%
16 Public sector	85	0%	58	0%
17 Health industry	1,013	2%	1,122	2%
18 Power sector	1,399	2%	1,436	3%
Total	**66,454**	**100%**	**62,779**	**100%**

* The amounts represent the relevant gross loans and receivables to customers. Exposures of Other loans are excluded.

(c) Maximum credit risk exposure

31 Dec 2018 CZK m	Statement of financial position	Off-balance sheet	Total credit risk exposure	Available collateral*
Cash and balances with the central bank	**8,139**	**0**	**8,139**	**0**
Derivative financial instruments**	**28**	**0**	**28**	**19**
Investment securities measured at FVTPL	**58**	**0**	**58**	**0**
Equity investments	58	0	58	0
Investment securities measured at FVTOCI	**1**	**0**	**1**	**0**
Equity investments	1	0	1	0
Investment securities measured at amortised cost	**20,721**	**0**	**20,721**	**0**
Treasury and corporate bonds	20,721	0	20,721	0
Hedging derivatives with positive fair values	**53**	**0**	**53**	**0**
Interest rate swaps	53	0	53	0
Change in fair value of items hedged on portfolio basis	**30**	**0**	**30**	**0**
Loans and receivables to banks	**33,436**	**0**	**33,436**	**32,583**
Current accounts at banks	48	0	48	0
Overnight deposits	0	0	0	0
Term deposits in banks payable within 3 months	0	0	0	0
Receivables arising from reverse repurchase agreements	33,241	0	33,241	32,583***
Cash collaterals granted	130	0	130	0
Other	17	0	17	0
Loans and receivables to customers	**140,123**	**23,419**	**163,542**	**65,649**
Consumer authorised overdrafts and credit cards	3,473	4,796	8,269	0
Consumer loans	36,885	1,318	38,203	0
Mortgages	31,506	7,305	38,811	30,967
Commercial loans	51,782	9,919	61,701	27,342
Auto & Equipment Financial Lease	3,878	0	3,878	3,346
Commercial	3,878	0	3,878	3,346
Retail	0	0	0	0
Auto & Equipment Loans	12,599	81	12,680	3,994
Commercial	9,757	81	9,838	3,994
Retail	2,842	0	2,842	0
Other loans	0	0	0	0
Commercial	0	0	0	0
Retail	0	0	0	0
Issued guarantees and credit limits on guarantees	**0**	**1,677**	**1,677**	**275**
Issued letter of credit	**0**	**37**	**37**	**1**
Other assets	**4,342**	**0**	**4,342**	**0**

* Available collateral represents realisable value of collateral relevant for each loan exposure. The realisable value of collateral is capped up to the Total exposure presented in the statement of financial position on a loan-by-loan basis for the purpose of the presentation in these breakdowns.

** Line "Financial assets at fair value through profit and loss" used in 2017 and earlier reports has been renamed to "Derivative financial instruments" since 1 January 2018.

*** Thereof securities obtained in reverse repurchase agreements as collateral in the amount of CZK 19,598 million were transferred as collateral according to repo from reverse repurchase agreements as at 31 December 2018 (31 Dec 2017: CZK 29,201 million).

31 Dec 2017 CZK m	Statement of financial position	Off-balance sheet	Total credit risk exposure	Available collateral*
Cash and balances with the central bank	**7,127**	**0**	**7,127**	**0**
Financial assets at fair value through profit or loss	**48**	**0**	**48**	**28**
Financial assets available for sale	**57**	**0**	**57**	**0**
Treasury and corporate bonds	0	0	0	0
Equity investments	57	0	57	0
Financial assets held to maturity	**11,723**	**0**	**11,723**	**0**
Treasury and corporate bonds	11,723	0	11,723	0
Hedging derivatives with positive fair values	**4**	**0**	**4**	**0**
Interest rate swaps	4	0	4	0
Change in fair value of items hedged on portfolio basis	**(6)**	**0**	**(6)**	**0**
Loans and receivables to banks	**53,380**	**0**	**53,380**	**52,033**
Current accounts at banks	170	0	170	0
Term deposits at banks payable within 3 months	0	0	0	0
Receivables arising from reverse repo agreements	53,107	0	53,107	52,033
Cash collaterals provided	86	0	86	0
Other	17	0	17	0
Loans and receivables to customers	**123,680**	**20,109**	**143,789**	**52,942**
Consumer authorised overdrafts and credit cards	3,945	5,039	8,984	0
Consumer loans	34,969	910	35,879	0
Mortgages	20,338	3,775	24,113	20,207
Commercial loans	47,728	10,333	58,061	24,230
Auto & Equipment Financial Lease	5,057	0	5,057	4,378
Commercial	5,057	0	5,057	4,378
Retail	0	0	0	0
Auto & Equipment Loans	11,643	52	11,695	4,127
Commercial	8,911	52	8,963	4,127
Retail	2,732	0	2,732	0
Other loans	0	0	0	0
Commercial	0	0	0	0
Retail	0	0	0	0
Issued guarantees and credit limits on guarantees	**0**	**1,660**	**1,660**	**160**
Issued letter of credit	**0**	**1**	**1**	**1**
Other assets	**3,721**	**0**	**3,721**	**0**

* Available collateral represents realisable value of collateral relevant for each exposure. The realisable value of collateral for Loans and receivables is capped up to the gross loans and receivables exposures on loan-by-loan basis for the purpose of the presentation in these breakdowns. The realisable value of collateral for guarantees and letter of credits is capped up to the exposure presented in the column "Off-balance sheet".

(d) Quantitative information about available collateral for impaired financial assets (Stage 3)

CZK m	2018
LTV* lower than 50%	158
LTV* 51 - 70%	121
LTV* more than 70%	514
Total	**793**

* The LTV (Loan to Value) represents ratio of gross carrying value of loan to fair value of collateral available at the reporting date .

42.2.8 Credit Portfolio and Its Quality

(a) Break down of allowances and provisions according to loan type and stages (IFRS 9)

The following table comprises information about allowances to Loans and receivables to customers and provisions to off-balance sheet items according to type of loan/off-balance sheet position and related stage:

	31 Dec 2018			
CZK m	Stage 1	Stage 2	Stage 3	Total
Retail loans	792	253	1,947	2,992
Consumer Loans	604	171	1,488	2,263
Mortgages	17	5	87	109
Credit Cards & Overdrafts	114	65	171	350
Auto Loans and Financial Leases	39	11	85	135
Other	18	1	116	135
Commercial loans	**243**	**92**	**773**	**1,108**
Investment Loans	66	22	135	223
Working Capital	23	13	155	191
Auto & Equipment Loans and Financial Leases	78	34	322	434
Unsecured Instalment Loans and Overdraft	72	22	54	148
Inventory Financing and Other	4	1	107	112
Total allowances to loans	**1,035**	**345**	**2,720**	**4,100**
Debt instruments measured at amortised costs	3	0	0	3
Total allowances	**1,038**	**345**	**2,720**	**4,103**
Financial guarantees	3	1	0	4
Loan commitments - Retail	24	4	0	28
Loan commitments - Commercial	16	2	0	18
Provisions to off-balance sheet items	**43**	**7**	**0**	**50**

(b) Loans and receivables to banks and customers according the categorisation according to to internal rating grade and stages (IFRS 9)

The following table sets out information about credit quality of financial assets measured at amortised cost classified according to the internal credit rating grade and stages:

	31 Dec 2018				31 Dec 2017
CZK m	Stage 1	Stage 2	Stage 3	Total	
Loans and receivables to customers at amortised costs					
CR 1	119,817	947	0	120,764	91,065
CR 2	11,088	310	0	11,398	17,042
CR 3	3,873	409	0	4,282	4,627
CR 4	1,036	1,173	0	2,209	7,940
CR 5	789	656	0	1,445	1,775
Not graded*	20	1	0	21	7
NPL	0	0	4,104	4,104	5,286
Reverse repos**	0	0	0	0	0
Gross carrying value	136,623	3,496	4,104	144,223	127,742
Allowance	(1,035)	(345)	(2,720)	(4,100)	(4,062)
Netto carrying value	135,588	3,151	1,384	140,123	123,680

	31 Dec 2018				31 Dec 2017
CZK m	Stage 1	Stage 2	Stage 3	Total	
Loans and receivables to banks at amortised cost without rating*					
Gross carrying value	33,436	0	0	33,436	53,380
Allowance	0	0	0	0	0
Netto carrying value	33,436	0	0	33,436	53,380
Debt investment securities at amortised cost					
CR 1	20,724	0	0	20,724	11,723
Gross carrying value	20,724	0	0	20,724	11,723
Allowance	(3)	0	0	(3)	0
Netto carrying value	20,721	0	0	20,721	11,723
Other receivables from operating activities without rating*					
Gross carrying value	184	5	87	276	322
Allowance	0	0	(87)	(87)	(84)
Netto carrying value	184	5	0	189	238
Loan commitments					
CR 1	22,458	11	0	22,469	18,928
CR 2	658	1	0	659	760
CR 3	144	50	0	194	238
CR 4	9	48	0	57	67
CR 5	4	18	0	22	26
Not graded*	0	0	0	0	73
NPL	0	0	18	18	17
Gross carrying value	23,273	128	18	23,419	20,109
Provision	(40)	(6)	0	(46)	(39)
Netto carrying value	23,233	122	18	23,373	20,070
Financial guarantee contracts					
CR 1	1,683	0	0	1,683	1,619
CR 2	22	1	0	23	24
CR 3	1	2	0	3	15
CR 4	0	5	0	5	3
Gross carrying value	1,706	8	0	1,714	1,661
Provision	(3)	(1)	0	(4)	0
Netto carrying value	1,703	7	0	1,710	1,661

* Loans and receivables to banks and Other receivables from operating activities are not subject to internal grading system. Other receivables from operating activities do not include receivables from subsidiaries that are immaterial.

** Reverse repos are not subject to internal grading system.

(c) Loans and receivables to banks and customers according the categorisation – comparative information according to IAS 39

31 Dec 2017 CZK m	Receivables to banks	Loans and receivables to customers	Total
Non-impaired before due date	53,380	118,699	172,079
Non-impaired past due date	0	3,769	3,769
Total non-impaired	53,380	122,468	175,848
Total impaired	0	5,274	5,274
Gross loans and receivables	**53,380**	**127,742**	**181,122**
Allowances	0	(4,062)	(4,062)
Net loans and receivables	**53,380**	**123,680**	**177,060**
Individual allowances	0	(396)	(396)
Portfolio allowances	0	(3,666)	(3,666)
Total allowances	**0**	**(4,062)**	**(4,062)**

(d) Gross loans and receivables to customers that are not impaired according to the probability of default – comparative information according to IAS 39

The quality of the credit portfolio in respect of gross loans and receivables that are not impaired can be analysed according to the probability of default* as follows:

31 Dec 2017 CZK m	Retail						Commercial				
Probability of default	Authorised overdrafts and credit cards	Consumer loans	Mortgages	Auto and equipment financial leases	Auto and equipment loans	Other loans	Commercial loans	Auto and equipment financial leases	Auto and equipment loans	Other loans	Total
1 (PD<=1.3%)	2,836	20,020	19,622	0	1,541	0	38,355	2,788	6,512	0	91,674
2 (1.3%<PD<=3.2%)	651	10,528	193	0	1,032	0	6,675	1,368	1,650	0	22,097
3 (3.2%<PD<=7.7%)	190	1,484	142	0	39	0	1,729	597	430	0	4,611
4 (7.7%<PD<=15.8%)	94	1,031	63	0	39	0	601	205	163	0	2,196
5 (PD>15.8%)	152	1,378	116	0	60	0	59	5	63	2	1,835
unrated	0	0	0	0	13	18	0	0	24	0	55
Total loans and receivables	**3,923**	**34,441**	**20,136**	**0**	**2,724**	**18**	**47,419**	**4,963**	**8,842**	**2**	**122,468**

* Probability of default is defined as a probability that a customer will default (mostly by being more than 90 days past due with repayments) in the following 12 months.

(e) Gross loans and receivables to customers that are not impaired according to due dates – comparative information according to IAS 39

As of 31 December 2017 the Group reported the following gross loans and receivables to customers with their due dates that are not individually impaired:

31 Dec 2017 CZK m	Retail						Commercial				
Days past due	Authorised overdrafts and credit cards	Consumer loans	Mortgages	Auto and equipment financial leases	Auto and equipment loans	Other loans	Commercial loans	Auto and equipment financial leases	Auto and equipment loans	Other loans	Total
Not past due	3,766	32,749	19,813	0	2,610	0	47,067	4,348	8,346	0	118,699
1 - 30 days past due	129	1,424	281	0	88	1	306	390	384	0	3,003
31 - 60 days past due	19	184	30	0	17	1	30	128	76	0	485
61+ days past due	9	84	12	0	9	16	16	97	36	2	281
Total	**3,923**	**34,441**	**20,136**	**0**	**2,724**	**18**	**47,419**	**4,963**	**8,842**	**2**	**122,468**

(f) Loans and receivables to customers that are individually impaired – comparative information according to IAS 39

As of 31 December 2017 the Group reported the following amounts of loans and receivables to customers that are individually impaired and to which individual allowances are created (commercial individually-managed loans):

CZK m	31 Dec 2017
Gross individually-impaired loans and receivables, to which an individual loss allowances are created	826
Individual allowances	(396)
Net individually-impaired loans and receivables to which an individual loss allowances are created	430

42.2.9 Modified Financial Assets

The following table provides information about financial assets with a loss allowance at an amount equal to full lifetime expected credit losses that were modified during the accounting period:

CZK m	2018	2017
Financial assets modified during the period		
Amortised cost before modification	(240)	n/a
Net modification gain/loss	1	n/a
Financial assets modified since initial recognition		
Gross carrying amount at 31 Dec of financial assets for which loss allowance has changed to 12-month measurement during the period	(64)	n/a

The modification in the form of the forbearance is reflected in the categorisation of receivables in accordance with the exposures categorisation rules (see the note 42.2.2).

Forborne Receivables

Forborne receivables are receivables for which the Group provided the debtor with relief as it assessed that it would likely incur a loss if it did not do so. For economic or legal reasons associated with the debtor's financial position, the Group granted it relief that it would not otherwise have granted. Reliefs primarily include the reworking of the repayment plan, decrease in the interest rate, waiver of default interest, deferral of principal or accrued interest repayments. Forborne receivables do not include receivables arising from the roll-over of a short-term loan for current assets if the debtor met all of its payment and non-payment obligations arising from the loan contract.

The Group applies the following general principles for forbearance:

- the customer demonstrably lost ability to repay the loan according to original loan contract;
- the customer demonstrates willingness and ability to pay his debts;
- specific product/customer criteria must be met;
- the loan was not restructured more than once in last 12 months and more than twice during last 5 years.

For commercial loan/leases and mortgages, only instalments not past due are subject to rescheduling. The customer is obliged to repay all past due payments in full and delinquency status is calculated according the oldest unpaid instalment.

For retail products, the Group offers the customer a new loan contract. The customer's original (delinquent) loans are, by signature of this new contract, repaid and closed and a new (restructured) loan with different monthly instalments, interest rate and maturity is opened as non-delinquent (current).

(a) All gross loans and receivables to customers with forbearance:

31 Dec 2018 CZK m	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans	Total
Forborne receivables	57	159	64	81	9	370
Total	**57**	**159**	**64**	**81**	**9**	**370**

31 Dec 2017 CZK m	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans	Total
Forborne receivables	74	274	83	111	20	562
Total	**74**	**274**	**83**	**111**	**20**	**562**

(b) Impaired loans out of all gross loans and receivables to customers with forbearance:

31 Dec 2018 CZK m	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans	Total
Forborne receivables	14	42	61	43	3	163
Total	**14**	**42**	**61**	**43**	**3**	**163**

31 Dec 2017 CZK m	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans	Total
Forborne receivables	24	84	77	73	8	266
Total	**24**	**84**	**77**	**73**	**8**	**266**

(c) Loans and receivables to customers forborne within the reporting year:

2018	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans	Total
Number of incrementally forborne receivables within the reporting year	1	54	1	38	3	97
Balance of the incrementally forborne gross receivables within the reporting year measured at the end of the reporting year (CZK m)	0	13	1	32	1	47

2017	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans	Total
Number of incrementally forborne receivables within the reporting year	0	55	5	53	12	125
Balance of the incrementally forborne gross receivables within the reporting year measured at the end of the reporting year (CZK m)	0	11	18	23	8	60

42.3 INTEREST RATE RISK

Interest rate risk is the risk of a loss arising from changes in interest rates on financial markets. The Group is exposed to interest rate risk as interest-bearing assets and liabilities have different maturity periods or interest rate readjustment periods.

The Bank strives to minimise the Group's interest rate risk by setting limits and keeping positions within these limits. The interest rate risk management activities are aimed at reducing the risk of losses. The Group's interest rate risk management is centralised in the Bank.

The Group's interest rate risk for the Trading and Banking book is managed separately. The interest rate risk of Trading book is managed by requirement to close each FX swap and FX forward transaction on back-to-back basis. To monitor and measure interest rate risk of the Banking book, a model of interest rate sensitivity is used which serves to determine the sensitivity of the Group to changes in the market interest rates. The Bank carries out stress testing of the Banking book positions in CZK and EUR (both on the individual and consolidated basis) based on stress scenarios for management of interest rate risk arising from non-trading activities in line with the relevant European Banking Authority Guideline EBA/GL/2018/02. The set of limits is used to manage and monitor the impacts of all stress scenarios stipulated in the Guideline.

The tables below show sensitivity of the Group to changes in interest rates.

CZK

% change in annual net interest income	31 Dec 2018	31 Dec 2017
Impact of an interest rate movement +200 basis points	6.45%	3.41%
Impact of an interest rate movement -200 basis points	(5.83)%	(1.06)%

Change in economic value of equity as a % of capital	31 Dec 2018	31 Dec 2017
Impact of an interest rate movement +200 basis points	(5.71)%	(2.71)%
Impact of an interest rate movement -200 basis points	6.27%	2.40%

EUR

% change in annual net interest income	31 Dec 2018	31 Dec 2017
Impact of an interest rate movement +200 basis points	(0.36)%	(1.19)%
Impact of an interest rate movement -200 basis points	(0.07)%	(0.22)%

Change in economic value of equity as a % of capital	31 Dec 2018	31 Dec 2017
Impact of an interest rate movement +200 basis points	(0.62)%	(0.46)%
Impact of an interest rate movement -200 basis points	0.06%	0.06%

The percentage change in annual net interest income shows the impact of interest rate movements on net interest income on a 12-month horizon. The change in the economic value of equity shows the impact of interest rate movements on the difference between the present value of assets and liabilities (i.e. the value of equity), so this metric works with a long-term horizon. Given the mentioned differences between the two metrics, the two kinds of impact can have different signs and follow different trends. Interest rates are floored at 0% for the purpose of calculation of these metrics.

The below table summarises the Group's exposure to interest rate risk. Balances are allocated to the buckets based on the following parameters: for assets, the next repricing date or principal payment dates, whichever occurs earlier; for non-maturity deposits, the expected maturity/repricing behaviour; and for term deposits, the maturity date.

31 Dec 2018 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Cash and balances with the central bank	3,409	0	0	0	0	4,730	8,139
Derivative financial instruments	0	0	0	0	0	28	28
Investment securities	0	0	1,490	250	19,098	(58)	20,780
Loans and receivables to banks	33,237	0	0	0	0	199	33,436
Loans and receivables to customers	29,102	7,678	26,003	64,668	7,997	4,675	140,123
Other assets	0	0	0	0	0	4,426	4,426
Total assets	**65,748**	**7,678**	**27,493**	**64,918**	**27,095**	**14,000**	**206,932**
Due to banks	7,391	12	541	2,629	0	143	10,716
Due to customers	37,975	21,764	29,349	57,896	20,386	1,422	168,792
Derivative financial instruments	0	0	0	0	0	44	44
Other liabilities (without equity)	0	0	0	0	0	2,143	2,143
Total liabilities	**45,366**	**21,776**	**29,890**	**60,525**	**20,386**	**3,752**	**181,695**
Off-balance sheet assets	1,371	108	790	8,754	3,708	0	14,731
Off-balance sheet liabilities	0	0	0	0	0	0	0
Interest Rate Swaps assets*	9,580	15,324	0	0	0	0	24,904
Interest Rate Swaps liabilities*	61	0	1,150	14,988	1,902	0	18,101
Net interest rate exposure	**31,272**	**1,334**	**(2,757)**	**(1,841)**	**8,515**	**10,248**	**46,771**

31 Dec 2017 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Cash and balances with the central bank	2,564	0	0	0	0	4,563	7,127
Financial assets at fair value through profit or loss	0	0	0	0	0	48	48
Financial assets available for sale	0	0	0	0	0	57	57
Financial assets held to maturity	0	0	1,110	910	9,848	(145)	11,723
Loans and receivables to banks	53,224	0	0	0	0	156	53,380
Loans and receivables to customers	30,003	6,823	24,729	57,900	5,265	(1,040)	123,680
Other assets	0	0	0	0	0	3,719	3,719
Total assets	**85,791**	**6,823**	**25,839**	**58,810**	**15,113**	**7,358**	**199,734**
Due to banks	23,682	220	2,567	3,154	14	6	29,643
Due to customers	59,108	4,897	23,092	39,997	13,913	462	141,469
Financial liabilities at fair value through profit or loss	0	0	0	0	0	68	68
Other liabilities (without equity)	0	0	0	0	0	2,791	2,791
Total liabilities	**82,790**	**5,117**	**25,659**	**43,151**	**13,927**	**3,327**	**173,971**
Interest Rate Swaps assets*	486	5,494	0	0	0	0	5,980
Interest Rate Swaps liabilities*	0	0	0	5,568	412	0	5,980
Net interest rate exposure	**3,487**	**7,200**	**180**	**10,091**	**774**	**4,031**	**25,763**

* In case of interest rate swaps, the individual cash flows are used instead of accounting balances.

The data for the individual time buckets except the "Unspecified" column follows the interest rate gap from the model of interest rate sensitivity. In case of interest rate swaps notional amounts are used instead of accounting balances.

42.4 FOREIGN EXCHANGE RISK

Foreign exchange risk covers the risk of a loss due to changes in exchange rates. The Group is exposed to foreign exchange risk primarily due to the provision of foreign exchange loan products to commercial borrowers and foreign exchange deposits.

The management of the Group's foreign exchange risk is centralised in the Bank. The Bank strives to minimise the foreign exchange risk of the Group. For this purpose, the Bank maintains a balance of assets and liabilities in foreign currencies (by using a mix of FX spots, forwards and swaps transactions).

To measure the foreign exchange risk on an individual basis, the Bank calculates, on a daily basis, net currency positions and an FX Value at Risk (maximum expected loss per business day for the foreign currency portfolio at the 99% confidence level). The Bank uses the set of limits for the net currency positions and FX VaR.

On top of that, the foreign exchange risk of Trading book is managed by limits (intraday and end-of-day) for open FX spot position and by requirement to close each FX swap and FX forward transaction on back-to-back basis.

As MONETA Auto provides loans only in CZK and MONETA Leasing in EUR and CZK, the Bank measures on a consolidated basis only the net currency position in EUR (monthly frequency).

The foreign exchange risk at MONETA Leasing at an individual level is managed primarily by the funding structure (natural hedging due to EUR funding) and MONETA Leasing regularly closes its open FX position with the Bank.

The table below shows the FX VaR of the Bank.

CZK ths	31 Dec 2018	Average of daily values in 2018	31 Dec 2017	Average of daily values in 2017
FX VaR	231	244	124	45

The exposure of the Bank to foreign exchange risk

31 Dec 2018 CZK m	CZK	EUR	USD	Other currencies	Total CZK
Cash and balances with the central bank	7,779	223	48	89	8,139
Derivative financial instruments	28	0	0	0	28
Investment securities	20,721	1	58	0	20,780
Hedging derivatives with positive fair values	53	0	0	0	53
Change in fair value of items hedged on portfolio basis	30	0	0	0	30
Loans and receivables to banks	33,261	145	8	22	33,436
Loans and receivables to customers	134,394	5,727	2	0	140,123
Other assets	4,242	101	0	0	4,343
Total assets	**200,508**	**6,197**	**116**	**111**	**206,932**
Deposits from banks	1,041	9,666	9	0	10,716
Deposits from customers	164,958	3,243	543	48	168,792
Derivative financial instruments	44	0	0	0	44
Hedging derivatives with negative fair values	167	0	0	0	167
Other liabilities (including equity)	27,170	37	5	1	27,213
Total liabilities	**193,380**	**12,946**	**557**	**49**	**206,932**
Net exchange rate balance sheet position	**7,128**	**(6,749)**	**(441)**	**62**	**0**
Receivables from spot and derivatives	2,108	8,830	92	8	11,038
Liabilities from spot and derivatives	9,309	2,096	6	16	11,427
Net exchange rate off-balance sheet position	**(7,201)**	**6,734**	**86**	**(8)**	**(389)**
Net exchange rate position	**(73)**	**(15)**	**(355)**	**54**	**(389)**

31 Dec 2017 CZK m	CZK	EUR	USD	Other currencies	Total CZK
Cash and balances with the central bank	6,813	211	43	60	7,127
Financial assets at fair value through profit or loss	48	0	0	0	48
Financial assets available for sale	0	10	47	0	57
Financial assets - held to maturity	11,723	0	0	0	11,723
Hedging derivatives with positive fair values	4	0	0	0	4
Change in fair value of items hedged on portfolio basis	(6)	0	0	0	(6)
Loans and receivables to banks	53,136	193	30	21	53,380
Loans and receivables to customers	116,950	6,722	8	0	123,680
Other assets	3,572	148	1	0	3,721
Total assets	**192,240**	**7,284**	**129**	**81**	**199,734**
Due to banks	23,065	6,567	11	0	29,643
Due to customers	138,157	2,767	491	54	141,469
Financial liabilities at fair value through profit or loss	68	0	0	0	68
Hedging derivatives with negative fair values	4	0	0	0	4
Other liabilities (including equity)	28,462	88	6	(6)	28,550
Total liabilities	**189,756**	**9,422**	**508**	**48**	**199,734**
Net exchange rate balance sheet position	**2,484**	**(2,138)**	**(379)**	**33**	**0**
Receivables from spot and derivatives	2,064	4,129	404	4	6,601
Liabilities from spot and derivatives	4,613	1,958	27	25	6,623
Net exchange rate off-balance sheet position	**(2,549)**	**2,171**	**377**	**(21)**	**(22)**
Net exchange rate position	**(65)**	**33**	**(2)**	**12**	**(22)**

42.5 LIQUIDITY RISK

Liquidity risk represents the risk of inability to meet financial liabilities when due or to finance increase in assets.

The Bank measures and monitors the Group's liquidity risk by the following set of metrics, including the liquidity position based on the liquidity gap model (under a business-as-usual scenario and under stressed liquidity terms), the Liquidity Coverage Ratio, the Net Stable Funding Ratio, the concentration in deposits, the liquidity buffer (under a liquidity stress test), and it manages the liquidity risk by set of limits for these metrics. In addition, the Early Warnings Indicators for liquidity risk are monitored on daily basis.

For the purpose of liquidity management under extraordinary circumstances, the Group has a contingency plan containing measures for recovering liquidity. The Treasury regularly reviews the contingency plan and forwards it to the Asset and Liability Committee (ALCO) for approval.

As other companies of the Group are either financed exclusively by the Bank or have only partial funding from banks (MONETA Leasing), the Group's liquidity management is executed as part of the Bank's liquidity management by including credit exposures to other companies of the Group.

(a) The table below summarises the remaining maturity of carrying amounts of assets, liabilities and equity according to their contractual maturity.

31 Dec 2018 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Cash and balances with the central bank	8,139	0	0	0	0	0	8,139
Derivative financial instruments	3	5	12	8	0	0	28
Investment securities	0	12	1,055	843	18,811	59	20,780
Hedging derivatives with positive fair values	0	0	9	44	0	0	53
Change in fair value of items hedged on portfolio basis	0	0	0	0	0	30	30
Loans and receivables to banks	33,289	0	0	0	0	147	33,436
Loans and receivables to customers*	10,774	4,693	18,839	55,365	47,340	3,112	140,123
Investments in associates	0	0	0	0	0	2	2
Current tax assets	0	0	0	0	0	16	16
Deferred tax assets	0	0	0	0	0	127	127
Other assets	236	0	221	26	3	3,712	4,198
Total Assets	**52,441**	**4,710**	**20,136**	**56,286**	**66,154**	**7,205**	**206,932**
Due to banks	7,561	0	501	2,558	0	96	10,716
Due to customers	149,297	14,954	4,151	62	171	157	168,792
Derivative financial instruments	24	4	10	6	0	0	44
Hedging derivatives with negative fair values	0	0	0	112	55	0	167
Provisions	0	0	261	0	0	0	261
Current tax liabilities	0	0	0	0	0	107	107
Deferred tax liabilities	0	0	0	0	0	177	177
Other liabilities	1,301	0	90	10	2	28	1,431
Equity	0	0	0	0	0	25,237	25,237
Total liabilities and equity	**158,183**	**14,958**	**5,013**	**2,748**	**228**	**25,802**	**206,932**
Net liquidity position of assets and liabilities and equity**	**(105,742)**	**(10,248)**	**15,123**	**53,538**	**65,926**	**(18,597)**	**0**
Issued guarantees and credit limits on guarantees	**1,677**	**0**	**0**	**0**	**0**	**0**	**1,677**
Loan commitments***	**9,875**	**0**	**0**	**0**	**0**	**0**	**9,875**

31 Dec 2017 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Cash and balances with the central bank	7,127	0	0	0	0	0	7,127
Financial assets at fair value through profit or loss	6	12	22	8	0	0	48
Financial assets available for sale	0	0	0	0	0	57	57
Financial assets held to maturity	0	12	600	954	10,157	0	11,723
Hedging derivatives with positive fair values	0	0	0	3	1	0	4
Change in fair value of items hedged on portfolio basis	0	0	0	0	0	(6)	(6)
Loans and receivables to banks	53,294	0	0	0	0	86	53,380
Loans and receivables to customers*	10,086	3,551	19,089	51,779	35,174	4,001	123,680
Investments in associates	0	0	0	0	0	2	2
Current tax assets	0	0	0	0	0	308	308
Deferred tax assets	0	0	0	0	0	386	386
Other assets	241	0	46	0	0	2,738	3,025
Total Assets	**70,754**	**3,575**	**19,757**	**52,744**	**45,332**	**7,572**	**199,734**
Due to banks	23,855	204	2,511	3,043	0	30	29,643
Due to customers	135,251	272	5,386	79	311	170	141,469
Financial liabilities at fair value through profit or loss	25	16	20	7	0	0	68
Hedging derivatives with negative fair values	0	0	0	4	0	0	4
Provisions	0	0	364	0	0	0	364
Current tax liabilities	0	0	0	0	0	2	2
Deferred tax liabilities	0	0	0	0	0	267	267
Other liabilities	1,830	0	127	11	0	186	2,154
Equity	0	0	0	0	0	25,763	25,763
Total liabilities and equity	**160,961**	**492**	**8,408**	**3,144**	**311**	**26,418**	**199,734**
Net liquidity position of assets and liabilities and equity**	**(90,207)**	**3,083**	**11,349**	**49,600**	**45,021**	**(18,846)**	**0**
Issued guarantees and credit limits on guarantees	**1,660**	**0**	**0**	**0**	**0**	**0**	**1,660**
Loan commitments***	**6,467**	**0**	**0**	**0**	**0**	**0**	**6,467**

* Loans and receivables to customers presented under "Unspecified" category as at 31 December 2018 CZK 3,112 million (31 December 2017 CZK 4,001 million), represent the loans and receivables that are overdue more than 1 month.

** Net liquidity position of assets and liabilities and equity within 1 month at CZK (158,183) million as at 31 December 2018 (as at 31 December 2017 at CZK (90,207) million) is primarily due to the fact that contractual maturity of current accounts falls within 1 month.

*** The loan commitments represent irrevocable loan commitments only relating to commercial investment loans, commercial auto & equipment loans, commercial auto & equipment leases and mortgages. Total undrawn commitments on credit cards are not included in the table above as, historically, average limit usage is significantly below 100 % and this behaviour is expected to continue.

(b) The table below shows the remaining contractual maturity of non-derivative financial liabilities and issued financial guarantees and loan commitments held for the Group's liquidity management purposes. The amounts include contractual non-discounted cash flows.

31 Dec 2018 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Due to banks	7,564	0	511	2,565	0	96	10,736
Due to customers	149,297	14,961	4,160	63	171	157	168,809
Provisions	0	0	261	0	0	0	261
Other liabilities	1,301	0	90	10	2	28	1,431
Total non-derivative financial liabilities	**158,162**	**14,961**	**5,022**	**2,638**	**173**	**281**	**181,237**
Issued guarantees and credit limits on guarantees	**1,677**	**0**	**0**	**0**	**0**	**0**	**1,677**
Loan commitments*	**9,875**	**0**	**0**	**0**	**0**	**0**	**9,875**

31 Dec 2017 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Due to banks	23,860	207	2,529	3,066	0	29	29,691
Due to customers	135,251	272	5,387	80	311	170	141,471
Provisions	0	0	364	0	0	0	364
Other liabilities	1,830	0	127	11	0	455	2,423
Total non-derivative financial liabilities	**160,941**	**479**	**8,407**	**3,157**	**311**	**654**	**173,949**
Issued guarantees and credit limits on guarantees	**1,660**	**0**	**0**	**0**	**0**	**0**	**1,660**
Loan commitments*	**6,467**	**0**	**0**	**0**	**0**	**0**	**6,467**

* The loan commitments represent irrevocable loan commitments only relating to commercial investment loans, commercial auto & equipment loans, commercial auto & equipment leases and mortgages.

(c) The table below shows the remaining contractual maturity of liabilities from financial derivatives:

31 Dec 2018 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Total
Held for trading derivatives						
Currency swaps	22	0	0	0	0	22
Currency forwards	2	4	10	6	0	22
Hedging derivatives						
Interest rate swaps	0	0	0	112	55	167
Total financial derivatives	**24**	**4**	**10**	**118**	**55**	**211**

31 Dec 2017 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Total
Held for trading derivatives						
Currency swaps	21	4	0	0	0	25
Currency forwards	4	12	20	7	0	43
Hedging derivatives						
Interest rate swaps	0	0	0	4	0	4
Total financial derivatives	**25**	**16**	**20**	**11**	**0**	**72**

(d) The table below shows the remaining expected maturity of assets and liabilities as follows:

31 Dec 2018 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Cash and balances with the central bank	8,139	0	0	0	0	0	8,139
Derivative financial instruments	3	5	12	8	0	0	28
Investment securities	0	12	1,056	842	18,811	59	20,780
Inflows from hedging derivatives*	0	0	8	45	0	0	53
Change in fair value of items hedged on portfolio basis	0	0	0	0	0	30	30
Loans and receivables to banks	33,289	0	0	0	0	147	33,436
Loans and receivables to customers	10,774	4,693	18,839	55,365	47,340	3,112	140,123
Investments in associates	0	0	0	0	0	2	2
Current tax assets	0	0	0	0	0	16	16
Deferred tax assets	0	0	0	0	0	127	127
Other assets	236	0	220	26	3	3,713	4,198
Total Assets	**52,441**	**4,710**	**20,135**	**56,286**	**66,154**	**7,206**	**206,932**
Due to banks	7,696	49	661	2,701	0	(391)	10,716
Due to customers**	24,207	22,863	33,448	63,912	23,307	1,055	168,792
Derivative financial instruments	24	4	10	6	0	0	44
Outflows from hedging derivatives*	0	0	0	112	55	0	167
Provisions	0	0	261	0	0	0	261
Current tax liability	0	0	0	0	0	107	107
Deferred tax liability	0	0	0	0	0	177	177
Other liabilities	1,301	0	90	10	2	28	1,431
Equity	0	0	0	0	0	25,237	25,237
Total liabilities and equity	**33,228**	**22,916**	**34,470**	**66,741**	**23,364**	**26,212**	**206,932**
Net liquidity position	**19,213**	**(18,206)**	**(14,335)**	**(10,455)**	**42,790**	**(19,007)**	**0**

* In case of interest rate swaps, the individual cash flows are used instead of accounting balances.

** Balances are allocated to the buckets based on expected maturity of non-maturity deposits and contractual maturity date of term deposits. Expected maturity of non-maturity deposits is a function of deposits' volatility and average life of the non-volatile part.

31 Dec 2017 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Cash and balances with the central bank	7,127	0	0	0	0	0	7,127
Financial assets at fair value through profit or loss	5	12	23	8	0	0	48
Financial assets available for sale	0	0	0	0	0	57	57
Financial assets held to maturity	0	12	600	954	10,157	0	11,723
Inflows from hedging derivatives*	0	8	29	141	14	0	192
Change in fair value of items hedged on portfolio basis	0	0	0	0	0	(6)	(6)
Loans and receivables to banks	53,294	0	0	0	0	86	53,380
Loans and receivables to customers	10,086	3,551	19,089	51,779	35,174	4,001	123,680
Investments in associates	0	0	0	0	0	2	2
Current tax assets	0	0	0	0	0	308	308
Deferred tax assets	0	0	0	0	0	386	386
Other assets	242	0	46	0	0	2,737	3,025
Total assets	**70,754**	**3,583**	**19,787**	**52,882**	**45,345**	**7,571**	**199,922**
Due to banks	23,673	222	2,573	3,164	15	(4)	29,643
Due to customers**	36,180	7,413	31,273	51,299	15,196	108	141,469
Financial liabilities at fair value through profit or loss	25	16	20	7	0	0	68
Outflows from hedging derivatives*	0	5	51	357	36	0	449
Provisions	0	0	364	0	0	0	364
Current tax liability	0	0	0	0	0	2	2
Deferred tax liability	0	0	0	0	0	267	267
Other liabilities	1,830	0	127	11	0	186	2,154
Equity	0	0	0	0	0	25,763	25,763
Total liabilities and equity	**61,708**	**7,656**	**34,408**	**54,838**	**15,247**	**26,322**	**200,179**
Net liquidity position	**9,046**	**(4,073)**	**(14,621)**	**(1,956)**	**30,098**	**(18,751)**	**(257)**

* In case of interest rate swaps, the individual cash flows are used instead of accounting balances.
** Balances are allocated to the buckets based on expected maturity of non-maturity deposits and contractual maturity date of term deposits. Expected maturity of non-maturity deposits is a function of deposits' volatility and average life of the non-volatile part.

42.6 OPERATIONAL RISK

Operational risk represents the risk of a loss resulting from inadequate or failed internal processes, people or systems, or from external events, including the risk of loss due to a breach of or failure to comply with a legal or regulatory requirement or a threat to the Group's reputation. It also includes legal and outsourcing risk.

The Group implemented standardised tools and processes for operational risk management, including Risk & Control Self-Assessment (RCSA), Loss Data Collection of actual internal operational risk losses, monitoring of external operational risk events and Key Risk Indicators. The Group continually develops and improves these tools and processes.

The Bank's Management Board specifically approves the operational risk governance structure and framework, and the Group's objectives for operational risk management.

The Enterprise Risk Management Committee (ERMC) oversees the Group's operational risk management process and approves methods, limits and Key Risk Indicators, monitors adherence to approved limits and Key Risk Indicators and approves remedial measures.

More details about operational risk and its management is comprised in section 5.5 of the Annual report.

42.6.1 Legal Risk

The Group continuously monitors legal disputes as described in chapter 38 and provision is created for the estimated amount of payment if it is more probable than not that the cash outflow will have to be made. Further, legal risk is controlled by the Legal departments esp. by assessment of new legal contracts.

43. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table shows the carrying value and fair values of financial assets and liabilities that are not presented at fair value in the Group's consolidated statement of financial position. The fair value includes anticipated future losses while the carrying value (amortised cost and related impairment) includes only losses arising at the end of the reporting period.

The Group uses the following inputs and techniques to estimate the fair value for asset and liability categories shown both in 2018 (IFRS 9) and 2017 (IAS 39):

- **Cash and balances with the central bank**
  The carrying value of cash and balances with the central bank approximates their fair value.

- **Loans and receivables to banks**
  The carrying value of receivables to banks approximates their fair values due to the short maturity of those receivables.

- **Loans and receivables to customers**
  The fair value of loans is estimated on the basis of discounted future expected cash flows using the interest rate common for loans with similar credit risk and interest risk conditions profile and maturity dates (discounted rate technique according to IFRS 13). For impaired loans the present value of future expected cash flows including the expected proceeds from a collateral foreclosure, if any.

- **Due to banks**
  The carrying value of Due to banks in principle approximates their fair value due to the short maturity of these deposits.

- **Due to customers**
  The fair value of deposits repayable on demand at request and term deposits bearing a variable interest rate are equal to their carrying value as of the balance sheet date. The fair value of term deposits with a fixed interest rate is estimated on the basis of discounted cash flows using the market interest rates.

The Group uses the following inputs and techniques to estimate the fair value for asset and liability categories shown in 2018 (IFRS 9):

- **Investment securities at amortised cost**
  The difference between fair value and carrying value of investment securities measured at amortised cost is mainly driven by different market and effective interest rates of government bonds included in this portfolio.

The Group used the following inputs and techniques to estimate the fair value for asset and liability categories shown in 2017 (IAS 39):

- **Financial assets held to maturity**
  The difference between fair value and carrying value of financial assets held to maturity is mainly driven by different market and effective interest rates of government bonds included in this portfolio.

	31 Dec 2018		31 Dec 2017	
CZK m	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Cash and balances with the central bank	8,139	8,139	7,127	7,127
Investment securities at amortised cost*	20,721	19,957	n/a	n/a
Financial assets held to maturity	n/a	n/a	11,723	11,238
Loans and receivables to banks	33,436	33,436	53,380	53,380
Loans and receivables to customers	140,123	140,794	123,680	125,555
FINANCIAL LIABILITIES				
Due to banks	10,716	10,712	29,643	29,631
Due to customers	168,792	168,792	141,469	141,469

* Difference between fair value and carrying value is mainly driven by different market and effective interest rates of the government bonds.

Investment securities measured at amortised cost (2017: "Financial assets held to maturity") are classified as level 1 because fair value is based on quoted prices on active market. Cash and balances with the central bank, Loans and receivables to banks and Due to banks are classified as level 2 and all other fair values presented above are classified as level 3 as the data used for the estimation of the discount rate are not based on the data from the active market. There are assumptions applied for the estimation of the cash flows used for discounting taking into account expected repayment profile of the particular pool or product. The discount rates used for discounting are based on the rates of the major competitors or other benchmark rates for similar type of assets.

The following table summarises the hierarchy of fair values of financial assets and financial liabilities that are carried at fair value in the statement of financial position:

	31 Dec 2018			31 Dec 2017		
CZK m	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
FINANCIAL ASSETS						
Derivative financial instruments*	0	28	0	0	48	0
Investment securities measured at FVTPL	0	0	58	n/a	n/a	n/a
Investment securities measured at FVTOCI	0	0	1	n/a	n/a	n/a
Financial assets available for sale	n/a	n/a	n/a	0	0	57
Hedging derivatives with positive fair values	0	53	0	0	4	0
Change in fair value of items hedged on portfolio basis	0	0	30	0	0	(6)
FINANCIAL LIABILITIES						
Derivative financial instruments*	0	44	0	0	68	0
Hedging derivatives with negative fair values	0	167	0	0	4	0

* Lines "Financial assets at fair value through profit and loss" and "Financial liabilities at fair value through profit and loss" disclosed in 2017 and earlier periods have been renamed to "Derivative financial instruments" since 1 January 2018.

There were no transfers between level 1 and 2 during the year 2018 nor 2017.

The Group uses the following inputs and techniques to determine fair value under level 2 and level 3:

The level 2 assets include mainly financial derivatives, corporate bonds and treasury bills. For derivative exposures the fair value is estimated using the present value of the cash flows resulting from the transactions taking into account market inputs like FX spot and forward rates, benchmark interest rates, swap rates, etc. The fair value of corporate bonds, treasury bills is calculated as the present value of cash flows using the benchmark interest rates.

The level 3 assets include equity instruments not traded on the market where the fair value is calculated using the valuation techniques including expert appraisals.

Movement analysis of level 3 financial assets and liabilities:

CZK m	As at 1 Jan 2018*	Purchases/ Sales in the period	Total gains and losses in the period recognised in the income statement	Total gains and losses in the period recognised in OCI	As at 31 Dec 2018
Investment securities at FVTOCI	1	0	0	0	1
Investment securities at FVTPL	47	0	11	0	58
Total	**48**	**0**	**11**	**0**	**59**

CZK m	As at 1 Jan 2017	Purchases/ Sales in the period	Total gains and losses in the period recognised in the income statement	Total gains and losses in theperiod recognised in OCI	As at 31 Dec 2017
Available for sale					
Equity investments	40	0	0	8	48
Other investments designated as AFS*	9	0	0	0	9*
Total	**49**	**0**	**0**	**8**	**57**

* Other investments designated as AFS were transferred to Other assets as at 1 January 2018 due to transition to IFRS 9.

44. MANDATORY PUBLISHED INFORMATION

The Group publishes the mandatory information according to the CNB Decree No. 163/2014 Coll. and Part 8 of Regulation of the European Parliament and the Council (EU) No. 575/2013 of 26 June 2013 on its website in the section 'Mandatory information' at the following address: www.moneta.cz/o-nas/informacni-povinnost.

45. SUBSEQUENT EVENTS

In January 2019, the Group sold portfolio of receivables in insolvency proceedings with positive impact on profit or loss of around CZK 100 million.

On 21 January 2019 the Bank's employees elected their 3 representatives into the Supervisory Board. The new members of the Supervisory Board are subject to a standard regulatory assessment by the Czech National Bank.

On 6 February 2019 the Supervisory Board of the Bank appointed Mr. Jan Friček as the member of the Management Board and the Chief Financial Officer for a four-year term, both with effect from 1 March 2019. Appointment of Mr. Jan Friček is subject to pending regulatory review by the Czech National Bank.

Signature of statutory representatives
In Prague, 27 February 2019

Tomáš Spurný
Chairman of the Management Board

Philip Holemans
Vice-chairman of the Management Board

9. FINANCIAL SECTION

AUDITOR'S REPORT AND SEPARATE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

KPMG Česká republika Audit, s.r.o.
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Independent Auditor's Report to the Shareholders of MONETA Money Bank, a.s.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the accompanying separate financial statements of MONETA Money Bank, a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the separate financial statements.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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Key Audit Matters

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

Loss allowances for loans and receivables to customers

Key audit matter	How the audit matter was addressed
We focused on this matter because of the highly subjective and complex judgements made by the Company's management in determining the necessity for, and then estimating the size of, loss allowances for loans and receivables to customers (further only as "loans"). Loss allowances for loans and receivables to customers at CZK 3,490 million as at 31 December 2018 represented estimate of the expected credit losses (ECL) for loans at the balance sheet date. The loans segmented into retail and commercial portfolios and within them further by type of product. In order to estimate the loss allowances, the individual loans are assigned into one of three stages in line with IFRS 9 Financial instruments. Stage 1 and Stage 2 loans are performing loans. Stage 2 loans are loans where significant increase in credit risk since origination has been observed. Stage 3 loans are non-performing, i.e. credit-impaired loans. The calculation of loss allowances for all Stage 1 and Stage 2 loans is based on statistical models, which estimate inputs into the calculation from Company's historical data. Loss allowances for retail and commercial Stage 3 loans are calculated differently for portfolio and individually managed exposures.	We performed, among others, the procedures outlined below to address this key audit matter: Applying our knowledge, experience and market standards in the industry, we critically assessed and challenged the Company's credit and accounting policies and evaluated the processes related to calculation of expected credit losses by involving the our credit risk specialists. We tested the design, implementation and operating effectiveness of system-based and manual controls over identification of significant increase in credit risk and identification of impairment for credit-impaired loans. The tested controls comprise tests over calculation of days past due of loans, matching of borrowers' repayments to loan instalments, calculation of relative increase in life-time PD since origination and classification of loans into stages. We tested these controls in cooperation with our credit risk specialists by inquiry, observation, inspection and re-calculation. Furthermore, we tested the design, implementation and operating effectiveness of controls over calculation of expected credit losses (ECL) and its inputs estimated by statistical models. Our credit risk specialists - critically assessed methodology of ECL calculation, - re-performed a key parts of construction of the statistical models for a selected product (i.e. cumulative PD curves, cure rate curves, cumulative recovery curves used for LGD estimation,

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Key audit matter	How the audit matter was addressed
Loss allowances for Stage 3 portfolio managed exposures are determined based on the statistical models. Loss allowances for stage 3 commercial individually managed loans are determined by estimating the probability-weighted discounted future cash flows for each exposure. The key judgments and assumptions are estimating future cash repayment scenarios and assigning probabilities to these scenarios taking into account the estimated value and timing of cash flows including estimating the recoverable value of underlying collateral. Key inputs, assumptions and judgments relevant for the calculation of loss allowances based on statistical models comprise: - definition of default, definition of significant increase in credit risk (SICR) and estimation of probability of default (PD) and cure rates, - estimation of loss given default (LGD), - estimation of exposure at default (EAD) including prepayments and utilizations at default, - forward-looking information (FLI) based on three scenarios of expected development of selected macroeconomic indicators. Refer to further information in the note 5.6.11 (Summary of significant accounting policies), 22 (Loans and receivables to customers) and 41.2 (Credit risk) to the separate financial statements.	EAD models including repayment schemes, calculation of conditions for SICR and staging, etc.) and compared them with those used by the Company - and checked implementation of the model outputs into ECL calculation. Credit risk specialists critically assessed statistical models used for estimation of expected development of the macro-economic indicators selected as forward-looking information used for calculation of ECL and also evaluated results of back-testing of statistical models performed by the Company. On the selected credit portfolios, we applied a data analytics approach to re-calculate ECL based on inputs generated by core banking system and the statistical models. For a sample of credit-impaired commercial individually managed loans, we examined the probability-weighted estimated cash flow scenarios as prepared by the credit risk department of the Company. In particular, we challenged the key assumptions in relation to the probabilities assigned to each scenario and both the amount and timing of estimated cash flows. During our assessment we considered also the latest developments in relation to the borrower. Finally, we re-calculated specific allowances calculated by the credit risk department of the Company in order to check the accuracy of data captured in the accounting records. We assessed the adequacy of the Company' disclosures on the loss allowances and credit risk management in the notes to the separate financial statements.

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Litigation and claims

Key audit matter	How the audit matter was addressed
The recognition and measurement of provisions and the measurement and disclosure of contingent liabilities in respect of litigation and claims require significant judgement by the Company's management. Therefore, we consider this a key audit matter. We paid particular attention to the following: - litigation risks in respect of the 1998 acquisition of a part of Agrobanka's banking business, Refer to further information in the note 5.9 (Summary of significant accounting policies), 33 (Provisions) and 37 (Contingent liabilities) to the separate financial statements.	Our audit procedures included, among others, the assessment of management's judgement regarding the most significant litigation and claims. For such litigation and claims, we considered whether an obligation exists, the appropriateness of provisioning and disclosure based on the facts and circumstances available. In order to assess the facts and circumstances, we obtained and assessed the relevant litigation and claims documents, including lawyer's letters. We also interviewed the Company's internal and external legal counsel in order to update our understanding of the latest development and key inputs, to assess completeness and accuracy of information applied in a calculation of the related provisions. We also critically assessed and challenged the assumptions made and key judgements applied by management. Additionally, we considered whether the Company's disclosures of the application of judgement in estimating provisions and contingent liabilities adequately reflects the uncertainties associated with the identified litigation and claims.

IT systems and controls over financial reporting

Key audit matter	How the audit matter was addressed
We identified IT systems and controls over financial reporting as an area of focus as the Company's financial accounting and reporting systems are dependent on complex systems and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed or operating effectively.	We assessed and tested the design, implementation and operating effectiveness of the controls over the information systems that are critical to financial reporting. We, among others, tested the controls over the access to programs and data and change management procedures including compensating controls where required by inquiry in combination with observation and inspection. We also assessed certain aspects of the security of the IT systems including access management and segregation of duties.

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

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

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

- the other information describing matters that are also presented in the separate financial statements is, in all material respects, consistent with the separate 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 Company 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 Separate Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial

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

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 25 April 2018 and our uninterrupted engagement has lasted for 21 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the Additional report to the Audit Committee of the Company, which we issued on 13 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit, we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the separate financial statements or annual report.

Statutory Auditor Responsible for the Engagement

Vladimír Dvořáček is the statutory auditor responsible for the audit of the separate financial statements of MONETA Money Bank, a.s. as at 31 December 2018, based on which this independent auditor's report has been prepared.

Prague
13 March 2019

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

Vladimír Dvořáček
Partner
Registration number 2332

SEPARATE FINANCIAL STATEMENTS OF MONETA MONEY BANK, a.s.

As at and for the Year Ended 31 December 2018
Prepared according to IFRS as adopted by EU

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

CZK m	Note	2018*	2017
Interest and similar income**		7,218	6,845
Interest expense and similar charges		(387)	(205)
Net interest income	**6**	**6,831**	**6,640**
Fee and commission income		2,057	2,090
Fee and commission expense		(289)	(278)
Net fee and commission income	**7**	**1,768**	**1,812**
Dividend income	8	512	1,468
Net income from financial operations	9	394	706
Other operating income	10	490	272
Total operating income		**9,995**	**10,898**
Personnel expenses	11	(2,206)	(2,225)
Administrative expenses	12	(1,576)	(1,832)
Depreciation and amortisation	13	(572)	(381)
Other operating expenses	14	(250)	(160)
Total operating expenses		**(4,604)**	**(4,598)**
Profit for the period before tax and net impairment of financial assets		**5,391**	**6,300**
Net impairment of financial assets***	15	(167)	(489)
Impairment of investments in subsidiaries and associates	27	0	(1,286)
Profit for the period before tax		5,224	4,525
Taxes on income	16	(816)	(865)
Profit for the period after tax		**4,408**	**3,660**
Items that may be reclassified subsequently to profit or loss			
- Change in fair value of AFS investments recognised in OCI	35.2	n/a	(176)
- Change in fair value of AFS investments recognised in P&L	35.2	n/a	(343)
- Deferred tax	35.2	n/a	99
Items that will not be reclassified subsequently to profit or loss			
- Change in fair value of equity instruments designated at FVTOCI		0	n/a
- Deferred tax		0	n/a
Other comprehensive income, net of tax		**0**	**(420)**
Total comprehensive income attributable to the equity holders		**4,408**	**3,240**
Profit for the year after tax attributable to the equity holders		**4,408**	**3,660**
Weighted average of ordinary shares (millions of shares)		511	511
Basic and Diluted earnings per share (in CZK)	17	8.63	7.16

* The financial instruments as at 31 December 2018 have been recognised and presented in accordance with IFRS 9; prior period balances have not been restated.
** Calculated using effective interest method with the exception of hedging derivatives.
*** Impairment of investment securities has been added in 2018 as a result of the application of IFRS 9.

SEPARATE STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

CZK m	Note	31 Dec 2018*	31 Dec 2017
Assets			
Cash and balances with the central bank	18	8,139	7,126
Derivative financial instruments**	24	28	48
Investment securities	23	20,780	n/a
Financial assets available for sale	23	n/a	57
Financial assets held to maturity	23	n/a	11,723
Hedging derivatives with positive fair values	24	53	4
Change in fair value of items hedged on portfolio basis		30	(6)
Loans and receivables to banks	21	33,435	53,367
Loans and receivables to customers	22	135,695	117,035
Intangible assets	25	1,731	1,273
Property and equipment	26	1,179	749
Investments in subsidiaries and associates	27	4,554	4,554
Current tax assets	28	0	286
Deferred tax assets	29	131	388
Other assets	30	1,073	807
TOTAL ASSETS		**206,828**	**197,411**
Liabilities			
Derivative financial instruments**	24	44	68
Due to banks	31	9,716	26,643
Due to customers	32	168,817	141,656
Hedging derivatives with negative fair values	24	167	4
Provisions	33	251	325
Current tax liability	28	75	0
Other liabilities	34	1,186	1,869
Total liabilities		**180,256**	**170,565**
Equity			
Share capital	35	511	511
Share premium	35	5,028	5,028
Statutory reserve	35	102	102
Reserve from revaluation of FVTOCI	35	0	n/a
Available for sale reserve	35	n/a	(57)
Share based payment reserve		(2)	(2)
Retained earnings		20,933	21,264
Total equity		**26,572**	**26,846**
TOTAL LIABILITIES AND EQUITY		**206,828**	**197,411**

* The financial instruments as at 31 December 2018 have been recognised and presented in accordance with IFRS 9; prior period balances have not been restated.

** Lines "Financial assets at fair value through profit and loss" and "Financial liabilities at fair value through profit and loss" disclosed in 2017 and earlier periods have been renamed to "Derivative financial instruments" since 1 January 2018.

SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

CZK m	Share capital	Share premium	Statutory reserve	AFS reserve	Reserve from revaluation of FVTOCI	Share based payment reserve	Retained earnings	Total
Balance as reported 31 December 2017	**511**	**5,028**	**102**	**(57)**	**n/a**	**(2)**	**21,264**	**26,846**
Cumulative effect of adopting of IFRS 9	**0**	**0**	**0**	**57**	**0**	**0**	**(650)**	**(593)**
Restated balance 1 January 2018	**511**	**5,028**	**102**	**0**	**0**	**(2)**	**20,614**	**26,253**
Transactions with owners of the company								
- Dividends	0	0	0	n/a	0	0	(4,088)	(4,088)
- Other changes	0	0	0	n/a	0	0	(1)	(1)
Total comprehensive income								
Profit for the year after tax	0	0	0	n/a	0	0	4,408	4,408
Other comprehensive income after tax								
- Change in fair value of FVTOCI investment securities	0	0	0	n/a	0	0	0	0
- Deferred tax	0	0	0	n/a	0	0	0	0
Balance 31 December 2018	**511**	**5,028**	**102**	**n/a**	**0**	**(2)**	**20,933**	**26,572**

CZK m	Share capital	Share premium	Statutory reserve	AFS reserve	Reserve from revaluation of FVTOCI	Share based payment reserve	Retained earnings	Total
Balance 1 January 2017	**511**	**5,028**	**102**	**363**	**n/a**	**(2)**	**22,612**	**28,614**
Transactions with owners of the company								
- Dividends	0	0	0	0	n/a	0	(5,008)	(5,008)
Total comprehensive income								
Profit for the year after tax	0	0	0	0	n/a	0	3,660	3,660
Other comprehensive income after tax								
Change in fair value of AFS assets								
- Change in fair value of AFS investments recognised in OCI	0	0	0	(176)	n/a	0	0	(176)
- Change in fair value of AFS investments recognised in P&L	0	0	0	(343)	n/a	0	0	(343)
- Deferred tax	0	0	0	99	n/a	0	0	99
Balance 31 December 2017	**511**	**5,028**	**102**	**(57)**	**n/a**	**(2)**	**21,264**	**26,846**

SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

CZK m	Note	2018	2017
Cash flows from operating activities			
Profit for the year after tax		**4,408**	**3,660**
Adjustments for:			
Depreciation and amortisation	13	572	381
Net impairment of financial assets	15	167	489
Net gain on sale of available for sale financial assets	9	n/a	(343)
Amortisation of coupon of financial assets available for sale	6	n/a	(38)
Amortisation of coupon of financial assets held to maturity	6	n/a	(25)
Net gain on revaluation of investment securities		(10)	n/a
Amortisation of coupon of investment securities		(208)	n/a
Net interest income from hedging derivatives	6	51	5
Net gain/loss from revaluation of hedging derivatives	9	37	(5)
Net gain/loss from revaluation of items hedged on portfolio basis	9	(35)	6
Impairment of investments in subsidiaries and associates	27	0	1,286
Change of provision for restructuring not recognised in depreciation and amortisation		(42)	67
Net loss on sale and other disposal of tangible and intangible assets		13	7
Dividend income	8	(512)	(1,468)
Tax expense	16	816	865
		5,257	**4,887**
Changes in:			
Loans and receivables to customers	15, 22	(19,458)	(10,171)
Other assets	30	(270)	(170)
Due to banks	31	(16,927)	23,986
Due to customers	32	27,162	25,307
Other liabilities	33, 34	(688)	(521)
		(4,924)	**43,357**
Income taxes paid		(212)	(428)
Net cash used in operating activities		**(5,136)**	**42,929**
Cash flows from investing activities			
Proceeds from financial assets available for sale		n/a	8,292
Acquisition of financial assets held to maturity		n/a	(6,448)
Proceeds from financial assets held to maturity		n/a	12
Acquisition of investment securities		(9,481)	n/a
Proceeds from investment securities		768	n/a
Proceeds from hedging derivatives		25	0
Acquisition of property and equipment and intangible assets	26, 27	(1,519)	(1,167)
Proceeds from the sale of property and equipment and intangible assets	26, 27	0	0
Dividends received	8	512	1,468
Net cash used in investing activities		**(9,695)**	**2,157**

CZK m	Note	2018	2017
Cash flows from financing activities			
Dividends paid		(4,088)	(5,008)
Net cash used in financing activities		**(4,088)**	**(5,008)**
Net change in cash and cash equivalents		**(18,919)**	**40,078**
Cash and cash equivalents at beginning of period	**19**	**60,476**	**20,398**
Cash and cash equivalents at end of period	**19**	**41,557**	**60,476**
Interest received*		6,716	6,508
Interest paid*		(238)	(204)

* Lines "Interest received" and "Interest paid" represent interest as per contractual rate and are included in cash flows from operating activities.

Foreign exchange gains relating to average balance of cash and cash equivalents in foreign currencies in 2018 amount to CZK 27 million (2017: loss of CZK 50 million).

NOTES TO SEPARATE FINANCIAL STATEMENTS OF MONETA MONEY BANK, a.s.

As at and for the Year Ended 31 December 2018
Prepared according to IFRS as adopted by EU

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1. GENERAL INFORMATION

MONETA Money Bank (the Bank) is a joint-stock company incorporated and domiciled in the Czech Republic, its registered office and principal place of business is Vyskočilova 1442/1b, Michle, 140 00 Prague 4, Delivery number 140 28, Czech Republic, ID Number: 25672720, incorporated in the Commercial Register by the Municipal Court in Prague, Section B, Entry No. 5403, ISIN number: CZ0008040318.

Until 10 May 2016, the Bank was a wholly owned subsidiary of GE Capital International Holdings Limited (GECIHL). The ultimate parent of GECIHL was General Electric Company (GE).

Following the strategy announced by GE in April 2015 to sell most of its financial services businesses and focus on its industrial businesses, the sole shareholder of the Bank GECIHL offered all shares in the Bank to trading on the Prime Market of Prague Stock Exchange (the Offering). The Offering was completed and settled on 10 May 2016.

As part of the overall separation from GE, the Bank ceased using the GE corporate brand. On 1 May 2016 the Bank was officially renamed from GE Money Bank, a.s., to MONETA Money Bank, a.s. The legal and commercial names of the Bank and its three subsidiaries were changed on 1 May 2016 as follows:

Old name until 30 April 2016	New name from 1 May 2016
GE Money Bank, a.s.	MONETA Money Bank, a.s.
GE Money Auto, s.r.o.	MONETA Auto, s.r.o.
GE Money Leasing, s.r.o.	MONETA Leasing, s.r.o.
GE Money Leasing Services, s.r.o.	MONETA Leasing Services, s.r.o.

The latest available list of entities recorded in the registry of book-entry shares of the Bank kept by the Central Securities Depository in Prague (Centrální depozitář cenných papírů, a.s.) with a shareholding interest of more than 1% of the Bank's registered share capital is available in the investor relations section of the Bank's website at: https://investors.moneta.cz/shareholder-structure. Such entities may not necessarily be the beneficial shareholders of the Bank but may hold shares of the Bank for the beneficial shareholders (such as securities brokers, banks, custodians or nominees).

Please refer to the chapter 4 to the section "Other legal requirements" for the information on the shareholder structure of the Bank as at 31 December 2018. As far as the Bank is aware, no shareholder was a controlling person of the Bank as of 31 December 2018.

The Bank operates in the Czech Republic and focuses primarily on secured and unsecured consumer lending and commercial financing. The consumer portfolio consists of secured and unsecured lending. Unsecured lending products include consumer loans, credit cards and personal overdrafts. Secured lending is provided in the form of mortgages. Commercial lending products range from working capital, investment loans, financing of small businesses and entrepreneurs through guarantees, letters of credits and foreign exchange transactions. The Bank provides a wide range of deposit and transactional products to retail and commercial customers.

The Bank issues debit and credit cards in cooperation with VISA and MasterCard and cooperates with EVO Payments International in acquiring services. In addition, the Bank intermediates additional payment protection insurance which covers the customer's monthly loan payment in the event of unemployment, accident or sickness. The Bank also acts as the intermediary to provide its customers with other insurance and investment products.

The Bank's separate financial statements were authorised for issue by the Management Board on the 27 February 2019. In addition, the financial statements are subject to approval at the General Meeting of shareholders.

All press releases, financial reports and other information are available on the Bank's website: www.moneta.cz.

The Bank has not prepared a separate annual report, because the Bank includes the respective information in the consolidated annual report.

2. BASIS OF PREPARATION

2.1 BASIS OF PRESENTATION

The financial statements contained herein are separate financial statements of the Bank prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

International Financial Reporting Standards comprise accounting standards issued or adopted by the International Accounting Standards Board (IASB) as well as interpretations issued or adopted by the IFRS Interpretations Committee (IFRIC).

2.2 GOING CONCERN

The separate financial statements are prepared on a going concern basis, as the Management Board are satisfied that the Bank has the resources to continue in business for the foreseeable future. In making this assessment, the Management Board have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

The Bank's financial statements are presented in Czech Koruna (CZK) which is the Bank's functional currency. All amounts have been rounded to the nearest million, except where otherwise indicated.

2.4 MEASUREMENT

The separate financial statements have been prepared on a historical cost basis, except for, investment securities measured at fair value though other comprehensive income (FVTOCI), investment securities measured at fair value through profit or loss (FVTPL), derivative financial instruments and financial assets classified as available for sale during 2017 which have been measured at fair value. The carrying values of recognised assets that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged, and this adjustment is reported on a separate line of the statement of financial position because of application of portfolio fair value hedges.

3. USE OF ESTIMATES AND JUDGEMENTS

The preparation of the Bank's financial statements in conformity with IFRS requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2018 Separate Financial Statements.

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

Information about critical judgements and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the Bank's financial statements is included in the following notes:

- Deferred tax assets and liabilities – note 29;
- Impairment of financial assets – notes 15 and 41;
- Provisions – note 33;
- Fair value – note 42;
- Classification of leases – note 5.10.

4. NEW STANDARDS AND INTERPRETATIONS

4.1 STANDARDS AND AMENDMENTS EFFECTIVE AFTER 31 DECEMBER 2018 ISSUED BY THE IASB AND ENDORSED BY EU

(a) IFRS 16 Leases

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

The contract is identified as a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

Right-of-use shall be depreciated for the shorter of the economic useful life of the underlying asset or the lease term. Interest expense arising from lease liability shall be recognised separately from the depreciation charge in the statement of profit and loss.

A lessor shall classify each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

The Bank, as a lessee, leases mainly head office premises, branches, places for ATMs located outside of the branches and other real estate, such as data centres, that should be recognised in Property and equipment under IFRS 16 since 1 January 2019. As allowed by IFRS 16, the Bank will not apply IFRS 16 on Intangible assets.

The Bank applies IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

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

To assess the transition impact the Bank applied the following recognition exceptions as permitted by IFRS 16:

- exemption for short-term leases (with a remaining lease term of 12 months or less) by class of underlying assets; and
- exemption for low-value assets on a lease-by-lease basis.

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

Based on the information currently available, the Bank estimates that it will recognise additional lease liabilities of CZK 1,849 mil. with corresponding recognition of the right-of use assets of CZK 2,041 mil. as at 1 January 2019. The difference CZK 192 mil. is represented by rentals prepaid in 2018 already recognised in "Other assets" and CZK 1 mil. should be recognised in Retained earnings as a result of disposal of low-vale assets.

The further expected impact for 2019 is as follows:

- annual increase in the line "Interest expense and similar charges" by CZK 21 mil. with a corresponding decrease in the line "Administrative expenses" for 2019;
- annual increase in the line "Depreciation and amortisation" by CZK 296 mil. with a corresponding decrease in the line "Administrative expenses" for 2019.

(b) Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation

In October 2017, IASB issued "Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation". The EU endorsed this amendment in March 2018 with an effective date consistent with the IASB effective date of 1 January 2019.

The amendments modify the existing requirements of IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments i.e. when the borrower is permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Under the amendments, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

The Bank has assessed the possible impact of these amendments to the measurement of financial assets in the Bank's portfolio. The assessment has not identified prepayment features with negative compensation in the Bank's portfolio, and therefore these amendments are expected to have no influence on the Bank's financial statements.

(c) IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments

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

The Bank does not expect that the Interpretation, when initially applied, will have a material impact on the financial statements as the Bank does not operate in a complex multinational tax environment and does not have material uncertain tax positions.

4.2 STANDARDS AND AMENDMENTS EFFECTIVE AFTER 31 DECEMBER 2018 ISSUED BY THE IASB AND NOT ENDORSED BY EU

Certain new accounting standards and interpretations have been published by the IASB that are not mandatory for 31 December 2018 reporting periods and have not been adopted by the European Union. The Bank intends to adopt these standards, if applicable, when they become effective as endorsed by the EU. The Bank's assessment of the impact of these new standards and interpretations is set out below.

(a) Amendments to IAS 28: Investments in Associates and Joint Ventures

In October 2017, IASB issued "Amendments to IAS 28" Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures".

Amendments were introduced to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These amendments are effective from 1 January 2019 subject to endorsement by the EU. These amendments will not have a material influence on the Bank's financial statements.

(b) Conceptual Framework for Financial Reporting

In March 2018, IASB issued the revised Conceptual Framework for Financial Reporting, replacing the previous version of the Conceptual Framework issued in 2010. The revised Conceptual Framework is effective from 1 January 2020 - with earlier application permitted - for companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction.

The revised Framework consists of eight chapters as follows:

- The objective of financial reporting;
- Qualitative characteristics of useful financial information;
- Financial statements and the reporting entity;
- The elements of financial statements;
- Recognition and derecognition;
- Measurement;
- Presentation and disclosure;
- Concepts of capital and capital maintenance.

The revised Framework reintroduces concepts such as stewardship and prudence, in the meaning of caution when making judgements under conditions of uncertainty. In the third chapter of the revised Framework definition of reporting entity as an entity that chooses, or is required, to prepare financial statements, and is not necessarily a legal entity is provided.

The revised Framework also adjusts definition of asset and liability. The new definition of the asset clarifies that an asset is an economic resource, and that the potential economic benefits no longer need to be expected to flow to the entity, however, may have potential to produce economic benefits. The definition of a liability clarifies that a liability is the obligation to transfer an economic resource, and not the ultimate outflow of economic benefits. The outflow also no longer needs to be expected, similar to the change in the definition of an asset. Income and expenses definitions have been also changed to reflect changes in the definition of an asset and liability.

Chapter five of the revised Framework introduces derecognition as the removal of all or part of a recognised asset or liability from an entity's statement of financial statements. Chapter six focusing on the measurement basis differentiates between the historical cost basis and the current value basis for which provides for definitions in-line with other IFRS standards such as IFRS 13 Fair Value Measurement and IAS 36 Impairment of Assets.

The Bank does not expect any material impact from possible introduction of the revised Framework, however, detailed analysis will be performed once the EU endorsement process will be started.

(c) Amendments to IFRS 3 "Business Combinations" - Definition of a Business

In October 2018, IASB issued "Amendments to IFRS 3 "Business combinations" – Definition of a Business". The amendments should clarify decisions whether transaction is an acquisition of a business or group of assets. This decision influences disclosure of goodwill, acquisition costs and deferred tax. The amendments especially emphasise that acquisition of a business is connected with significant contribution to the ability to create outputs from the acquirer point of view,

taking into account goods and services provided to customers. The reference to reduce costs has been removed as well as replacing any missing inputs or processes for transaction participants.

The amendments are effective for business combinations with the acquisition date beginning on or after 1 January 2020 and should be endorsed by EU. The Group will consider these amendments during assessment of business combinations' accounting treatment thereafter.

(d) Other amendments to standards with minor or without impact on the Bank

- IFRS 17 Insurance Contracts
- Annual Improvements to IFRS Standards 2015–2017 Cycle;
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement;
- Amendments to References to the Conceptual Framework in IFRS Standards;
- Amendments to IAS 1 and IAS 8: Definition of Material.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank applies accounting policies consistently with the exception described in chapter 5.1 Changes in accounting policies. These changes resulted from the adoption of IFRS 9 Financial instruments (IFRS 9) since 1 January 2018.

5.1 CHANGES IN ACCOUNTING POLICIES

The transition to IFRS 9 has been applied by adjusting the opening statement of the financial position at the date of initial application i.e. 1 January 2018. Comparative periods have not been restated, differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in the Retained earnings. The impact from the transition to IFRS 9 to the opening statement of the financial position as at 1 January 2018 was described in the Bank's separate financial statements 2017, note 4.1.

In terms of capital adequacy requirements, the Bank has decided not to apply the transitional arrangements specified in Article 473a of Regulation (EU) No 575/2013 for mitigating the impact of the introduction of IFRS 9 and analogous expected credit losses (ECLs), and therefore its own funds, capital and leverage ratios will already reflect the full impact of IFRS 9 and analogous ECLs.

IFRS 9 divides all financial assets into two classification categories - those measured at amortised cost and those measured at fair value. Where assets are measured at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, FVTPL), or recognised in other comprehensive income (fair value through other comprehensive income, FVTOCI). Equity instruments are measured at FVTPL, unless irrevocable election at initial recognition to classify such instrument as at FVTOCI, with all subsequent changes in fair value being recognised in the Other comprehensive income (OCI), is made by the Bank.

The classification of debt instruments depends on the Bank's business model and financial asset's contractual cash flow characteristics. IFRS 9 does not use categories "Loans and receivables" "Held to maturity" and "Available for sale". For more information about classification of financial assets according to IFRS 9 see the note 5.6.2.

Impairment

The impairment model in IFRS 9 is based on the premise of providing for expected losses, while IAS 39 is based on an incurred loss model. The IFRS 9 impairment model applies to financial assets measured at amortised cost; debt instruments measured at FVTOCI; loan commitments when there is a present obligation to extend credit, financial guarantee contracts and other receivables. For more information about the impairment of financial assets according to IFRS 9 see the note 5.6.11.

The Bank continues to apply the hedge accounting requirements of IAS 39 as permitted by IFRS 9.

Following table shows reclassification of financial assets between measurement categories and adjustments in carrying values due to transition to IFRS 9:

IAS 39			Transition to IFRS 9		IFRS 9		
Statement of financial position as at 31 Dec 2017	**Measurement basis IAS 39**	**Carrying amount IAS 39**	**Changes in carrying amounts due to reclassification between measurement categories**	**Changes in carrying amounts due to IFRS 9 transition**	**Statement of financial position as at 1 Jan 2018**	**Measurement basis IFRS 9**	**Carrying amount IFRS 9**
Cash and balances with the central bank	Amortised cost	7,126	0	0	Cash and balances with the central bank	Amortised cost	7,126
Financial assets at fair value through profit or loss	FVTPL	48	0	0	Derivative financial instruments	FVTPL	48
Financial assets available for sale	FVTOCI	57	(9)	0	Investment securities		11,846
	FVTOCI	47	0	0	Investment securities	FVTPL	47
	FVTOCI	1	0	0	Investment securities	FVTOCI	1
	FVTOCI	9	(9)	0	Other assets	Amortised cost	0
Financial assets held to maturity	Amortised cost	11,723	0	75	Investment securities	Amortised cost	11,798
Hedging derivatives with positive fair values	FVTPL	4	0	0	Hedging derivatives with positive fair values	FVTPL	4
Change in fair value of items hedged on portfolio basis	FVTPL	(6)	0	0	Change in fair value of items hedged on portfolio basis	FVTPL	(6)
Loans and receivables to banks	Amortised cost	53,367	0	0	Loans and receivables to banks	Amortised cost	53,367
Loans and receivables to customers	Amortised cost	117,035	0	(631)	Loans and receivables to customers	Amortised cost	116,404
Intangible assets		1,273	0	0	Intangible assets		1,273
Property and equipment		749	0	0	Property and equipment		749
Investments in associates		4,554	0	0	Investments in associates		4,554
Current tax assets		286	0	0	Current tax assets		286
Deferred tax assets		388	0	(14)	Deferred tax assets		374
Other assets	Amortised cost	807	9	1	Other assets	Amortised cost	817
Total Assets		**197,411**	**0**	**(569)**			**196,842**

IAS 39			Transition to IFRS 9		IFRS 9		
Statement of financial position as at 31 Dec 2017	**Measurement basis IAS 39**	**Carrying amount IAS 39**	**Changes in carrying amounts due to reclassification between measurement categories**	**Changes in carrying amounts due to IFRS 9 transition**	**Statement of financial position as at 1 Jan 2018**	**Measurement basis IFRS 9**	**Carrying amount IFRS 9**
Due to banks	Amortised cost	26,643	0	0	Due to banks	Amortised cost	26,643
Due to customers	Amortised cost	141,656	0	0	Due to customers	Amortised cost	141,656
Financial liabilities at fair value through profit or loss	FVTPL	68	0	0	Derivative financial instruments	FVTPL	68
Hedging derivatives with negative fair values	FVTPL	4	0	0	Hedging derivatives with negative fair values	FVTPL	4
Provisions		325	0	19	Provisions		344
Current tax liabilities		0	0	0	Current tax liabilities		0
Deferred tax liabilities		0	0	0	Deferred tax liabilities		0
Other liabilities		1,869	0	5	Other liabilities		1,874
Total Liabilities		**170,565**	**0**	**24**			**170,589**
Share capital		511	0	0	Share capital		511
Share premium		5,028	0	0	Share premium		5,028
Statutory reserve		102	0	0	Statutory reserve		102
Available for sale reserve		(57)	0	57	n/a		n/a
Share based payment reserve		(2)	0	0	Share based payment reserve		(2)
Retained earnings		21,264	0	(650)	Retained earnings		20,614
Total Equity		**26,846**	**0**	**(593)**			**26,253**
Total Liabilities and Equity		**197,411**	**0**	**(569)**			**196,842**

Following table shows reconciliation of allowances and provisions between IAS 39 and IFRS 9 amounts:

CZK m	31 Dec 2017	Remeasurement due to transition to IFRS 9	1 Jan 2018
Allowances			
Loans and receivables to customers	3,512	631	4,143
Financial assets held to maturity (IAS 39) reclassified to Investment securities at amortised cost (IFRS 9)	0	4	4
Total allowances	**3,512**	**635**	**4,147**
Provisions			
Loan commitments and financial guarantee contracts issued	**38**	**19**	**57**
Total provisions	**38**	**19**	**57**
Total	**3,550**	**654**	**4,204**

5.2 FOREIGN CURRENCY

The separate financial statements are presented in Czech Koruna (CZK) which is the Bank's functional currency. Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rates at the date of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end's exchange rates are recognised in the profit or loss in "Net income from financial operations".

5.3 INTEREST

Interest income or expense from all interest-bearing financial instruments recognised using the effective interest rate including derivatives is reported in the profit or loss in the line items "Interest and similar income" and "Interest expense and similar charges" respectively as part of revenue and expenses from continuing operations.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability. The effective interest rate is a rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to their carrying amount. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument and includes transaction costs and fees paid or received that are an integral part of the effective interest rate but excludes future credit losses.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Interest income and expense presented in the profit or loss include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis;
- Interest on investment securities calculated on an effective interest rate basis;
- Interest on interest rate derivatives designated as hedging derivatives using contractual interest rate of the corresponding derivative.

If the financial receivable is considered impaired, the interest income representing the time value of money between the impairment event and the estimated recovery date continues to be recognised using the effective interest rate method (unwinding) and the effective interest rate is applied on the financial asset's net carrying amount. The Bank calculates the unwinding for the period using an individual deal-by-deal approach and individual effective interest rates.

5.4 FEES AND COMMISSIONS

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised when the related services are performed. Fees

and commissions income are earned mainly from providing payment services, intermediary and investment services.

Fee income on impaired financial assets is recognised on receipt of cash or performance of the service obligation, whichever is later.

5.5 DIVIDENDS

Dividend income is recognised when the right to receive the payment is established. Dividend income is reported in the profit or loss in the line item "Dividend income".

5.6 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.6.1 Recognition

The Bank initially recognises financial assets measured at amortised cost on the date on which they are originated. All other financial instruments are recognised on the trade date which is the date the Bank becomes a party to the contractual provisions of the instrument.

All financial instruments are initially recognised at their fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

5.6.2 Classification of Financial Assets (Policy Applicable from 1 January 2018)

5.6.2.1 Debt Instruments

Debt instruments include loans and receivables (disclosed especially in the lines "Loans and receivables to banks", "Loans and receivables to customers") and debt securities (disclosed in the line "Investment securities"). They are classified into one of the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVTOCI); or
- Fair value through profit or loss (FVTPL).

Classification is based on the assessment of the business model under which the asset is held and on the assessment of the contractual cash flow characteristics of the instrument.

The Bank has defined its business models as follows:

- Held to collect (HTC) business model for financial assets acquired with the intention to be held until maturity and to collect contractual cash flows. Sales, which are insignificant or infrequent, related to the management of increased credit risk of the asset, or close to maturity of the financial assets are considered to be consistent with the HTC business model;
- Held to collect and sell (HTCS) business model for financial assets acquired with the intention to be held to collect contractual cash flows and to be sold. More frequent sales within this portfolio are expected, mainly for the purpose of managing the Bank's liquidity needs;
- Other business models for financial assets neither classified as HTC nor HTCS.

Currently, the Bank holds all debt financial assets within the HTC business model.

Contractual cash flow characteristics are assessed by analysing the contractual features of the financial asset to determine whether they are connected with cash flows consistent with a basic lending arrangement, i. e. comprising solely payments of principal and interest from the principal amount outstanding (SPPI test). Principal is the fair value of a financial asset at the initial recognition and it changes due to repayments over time. Interest represents a consideration for the time value of money, profit margin, credit risk and other basic lending risks. If a financial asset does not pass the SPPI test it is measured at fair value through profit or loss (FVTPL). Currently the Bank does not classify any non-derivative debt instrument in the FVTPL.

Debt instruments measured at amortised cost

Debt instruments are measured at amortised cost if they are held within a business model whose objective is held to collect (HTC) contractual cash flows where those cash flows represent solely payments of principal and interest. After the initial measurement, debt instruments in this category are carried at amortised cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the carrying amount. Amortised cost is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Interest income from debt instruments measured at amortised cost is recorded in profit or loss in the line "Interest and similar income".

Impairment on debt instruments measured at amortised cost is calculated using the expected credit loss approach. Loans and receivables and debt securities measured at amortised cost are presented net of the allowance for credit losses in the statement of financial position.

Debt instruments measured at FVTOCI

Debt instruments are measured at FVTOCI if they are held within a business model held to collect and sell (HTCS), where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealised gains and losses on debt instruments measured at FVTOCI (excl. the related expected credit losses which are directly recognised in the profit or loss) are recorded in other comprehensive Income (OCI). Upon derecognition, realised gains and losses are reclassified from OCI to profit or loss. Currently, the Bank does not classify any debt instrument in FVTOCI.

5.6.2.2 Equity Instruments

Equity instruments are disclosed in the line "Investment securities". They are measured at FVTPL, unless an election is made to designate them at FVTOCI at the initial recognition or at the date of transition to IFRS 9.

For equity instruments measured at FVTPL, changes in fair value are recognised in the profit or loss in the line "Net income from financial operations".

A major part of the current equity securities portfolio is classified as FVTPL. For the residual minor part, the Bank elected the irrevocable option provided by IFRS 9 to classify it as at the date of transition as FVTOCI. All Gains and losses resulting from FVTOCI equity instruments including when derecognised or sold are recorded in OCI and are not subsequently reclassified to profit or loss. Nevertheless, dividends received from FVTOCI equity instruments are disclosed in the profit or loss in the line "Dividend income".

5.6.2.3 Derivatives

Derivatives are measured at FVTPL, changes in fair value are recognised in the profit or loss in the line "Net income from financial operations". For more details see chap. 5.6.10.

5.6.3 Classification of Financial Assets (Policy Applicable before 1 January 2018)

The Bank classified its non-derivative financial assets into one of the following categories:

- Loans and receivables;
- Held to maturity;
- Available for sale financial assets;
- Financial assets at fair value through profit or loss:
  - Held for trading; or
  - Designated at fair value through profit or loss.

Management determined the classification based upon management's intent for acquiring a particular asset and the cash flow characteristics of that asset.

The Bank did not hold any non-derivative assets classified as designated at fair value through profit or loss.

In 3Q 2017 management approved a new investment strategy for the Bank. According to this strategy the Bank established a held to maturity portfolio for securities intended to be held until maturity that has been used since 1 August 2017. Hence, all bonds comprised in the available for sale portfolio as at 1 August 2017 were reclassified into the held to maturity portfolio and started to be measured at amortised cost rather than at fair value. Total carrying value of the reclassified portfolio was CZK 5,287 million. For more details see the note 23.

(a) Loans and receivables

Loans and receivables comprised non-derivative financial assets with fixed or determinable payments that were not quoted in an active market other than:

- financial assets designated as held for trading that the Bank intended to sell immediately or in the near term and those assets designated as at fair value through profit or loss;
- those financial assets that the Bank upon initial recognition designated as available for sale; or
- those financial assets for which the Bank did not expect to recover the majority of its initial investment for a reason other than deterioration of credit quality. These assets were classified as available for sale.

Loans and receivables were subsequently measured at the amortised cost using the effective interest rate method.

Financial assets in this category are reported in the line "Loans and receivables to banks" or "Loans and receivables to customers" for the periods before January 2018.

(b) Available for sale financial assets

Available for sale (AFS) financial assets comprised non-derivative investments that were designated as AFS or were not classified as another category of financial assets.

Available for sale financial assets included equity and debt securities. However, the majority of debt securities were reclassified into the held to maturity portfolio as at 1 August 2017 due to the change in the Bank's investment strategy. For more details see the note 23.

Fair value changes other than impairment losses were recognised in other comprehensive income and reported in the "Available for sale reserve". When the AFS asset was disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income was reclassified to profit or loss. Disposal gains/losses were recorded in "Net income from financial operations".

Details on how the fair value of financial instruments is determined are disclosed in note 5.8.

(c) Held to maturity financial assets

Held to maturity (HTM) financial assets comprised non-derivative debt instruments with fixed or determinable payments and fixed maturity that the Bank intended and was able to hold to maturity. Investments in equity shares could not have been classified as held to maturity due to its indefinite maturity. HTM financial assets were measured initially at fair values including directly attributable transaction costs.

HTM financial assets were measured at amortised costs after the initial recognition. Interest income was recognised in the profit or loss using the effective interest method. Foreign exchange gains or losses on HTM debt securities investments were recognised in profit or loss.

5.6.4 Classification of Financial Liabilities

The Bank classifies its non-derivative financial liabilities, other than financial guarantees and loan commitments, at amortised cost. Non-derivative financial liabilities are contractual arrangements resulting in the Bank having an obligation to either deliver cash or another financial asset to the holder.

5.6.5 Reclassification

Generally, the Bank does not reclassify any financial asset or liabilities after initial recognition with the exception of changes in investment strategy in August 2017 described in the note 5.6.3.

5.6.6 Derecognition

The Bank derecognises a financial asset when the contractual rights to receive cash flows from the financial assets expire or the rights to receive the contractual cash flows and substantially all the risks and rewards of ownership have been transferred.

On derecognition the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss recognised in other comprehensive income is recognised in profit or loss. From 1 January 2018 any cumulative gain or loss recognised in other comprehensive income relating to equity investment securities designated at FVTOCI is not recognised in profit or loss on the derecognition but remains recognised in other comprehensive income.

A financial liability is derecognised when the obligation under the liability as specified in the contract is discharged, cancelled or expired.

5.6.7 Modifications

In terms of modification of conditions of a financial asset (e.g. change in interest rate not at refix date or renegotiation of the contractual terms) the Bank evaluates whether the cash flows of the modified financial asset are substantially different. If they are substantially different (net present value of the modified financial asset differs by more than 5% from net present value of the original financial asset) then the original financial asset is derecognised and the new financial asset is recognised.

If the cash flows of a modified financial asset are not substantially different from cash flows from the original financial asset, then the original financial asset remains to be recognised but the gross carrying amount is recalculated using the modified cash flows. The resulting difference between the original gross carrying amount and the recalculated gross carrying amount is recognised as modification gain or loss in profit or loss.

5.6.8 Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

5.6.9 Amortised Cost Measurement

The amortised cost of a financial asset or financial liability is the amount at which the asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

5.6.10 Derivatives and Hedge Accounting

Derivatives are initially recognised, and are subsequently remeasured, at fair value. Fair values of derivatives are obtained by using valuation techniques. Since 3Q 2017, the Bank designates at inception certain derivatives as hedging instruments according to IAS 39 and other derivatives are held for trading despite being held for risk management purposes rather than speculative purposes.

(a) Derivatives classified as held for trading

A derivative that is not designated and effective as a hedging instrument is reported in the category financial assets at fair value through profit or loss. These derivatives include currency derivatives (swaps and forwards) and are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

From January 2018, derivatives which are not designated as hedging instruments are presented in the statement of financial position in the lines "Derivative financial instruments" (derivatives with positive fair values within assets, derivatives with negative fair values within liabilities). Before 1 January 2018 these derivatives were disclosed in the lines "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss". Changes in the fair value of derivatives and any interest income/expense related to these derivatives are recorded in "Net income from financial operations".

(b) Derivatives designated as hedging instruments

The Bank continues to apply the hedge accounting requirements of IAS 39 as allowed by IFRS 9.

The Bank designates at initial recognition interest rate swap derivatives as hedging instruments to hedge its exposure to the change of the fair value of a defined part of portfolio of loans to customers or loan commitments related to interest rate risk, that could affect profit or loss. On the initial recognition of the hedge, the Bank formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedge relationship at the inception and ongoing bases. The Bank applies for hedge relationships fair value hedge of defined hedged item (micro hedge) as well as portfolio fair value hedge (macro hedge).

Hedge accounting is applied if, and only if, all of the following conditions are met:

- The hedge is in-line with the approved Bank's Hedging Strategy;
- The hedging relationship is formally documented at the inception;
- The hedge effectiveness can be objectively and reliably measured;
- The hedge is expected to be highly effective at inception and throughout its life.

The hedge is considered to be effective when change in the fair value of the hedged item compared to the change in the fair value of the hedging instrument is within a range of 80-125%.

Change in clean fair value excluding accrued interest of a derivative, which is designated as a fair value hedge is booked daily to the profit or loss and presented in the line "Net income from financial operations" to match the change in fair value of the hedged portfolio. Accrued interest from hedging derivatives is recognised in the profit or loss in the line "Interest and similar income" to match the interest income from hedged portfolio, respectively hedged item.

In the statement of financial position, derivatives with positive fair values (total fair value including accrued interest) are presented in the line item "Hedging derivatives with positive fair values", derivatives with negative fair values (total fair value including accrued interest) are disclosed in the line "Hedging derivatives with negative fair values".

If the hedging instrument expires, is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued. In this case, the fair value adjustment to the carrying amount of hedged item is amortised to profit or loss under the line "Interest and similar income".

5.6.11 Impairment of Financial Assets (Policy Applicable from 1 January 2018)

The Bank measures allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments:

- Amortised cost financial assets;
- Debt securities classified as measured at FVTOCI;
- Undrawn loan commitments.

Financial assets migrate through three stages based on the change in credit risk since initial recognition.

Expected credit loss impairment model

The Bank's allowance for credit loss calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – If there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, a loss allowance at an amount equal to 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) is recorded. Interest revenue is recognised using the effective interest rate method applied on the financial asset's gross carrying amount.
- Stage 2 – When a financial instrument experiences an SICR subsequent to origination but is not considered to be in default, a loss allowance at an amount equal to full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument) is recorded. Interest revenue is recognised using the effective interest rate method applied on the financial asset's gross carrying amount.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, a loss allowance at an amount equal to the full lifetime expected credit losses is recorded. Interest revenue is recognised using the effective interest rate method applied on the financial asset's net carrying amount.

Measurement of expected credit loss

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an 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, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

Presentation of allowance for credit losses (ACL) in the statement of financial position

- Financial assets measured at amortised cost: ACL is deducted from the gross carrying amount of the financial assets;
- Debt instruments measured FVTOCI: no ACL is recognised in the statement of financial position

because the carrying value of these assets is their fair value. However, the ACL is presented in the accumulated OCI;
- Off-balance sheet credit risks (e.g. lending commitments): In the case determined expected credit loss exceeds gross carrying value of the financial asset the excess is recognised as a provision.

Purchased or originated credit-impaired financial assets (POCI)

POCI loans should be included in Stage 3 and are always subject to lifetime allowance for credit losses. According to the analysis provided, the Bank does not recognise any POCI financial assets in its portfolio.

5.6.12 Impairment of Financial Assets (Policy Applicable before 1 January 2018)

Financial assets carried at amortised cost

An assessment was made at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets was impaired and impairment losses were incurred if, and only if, there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets was impaired included observable data about the following events:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties;
- Breach of loan covenants;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- External downgrade below an acceptable level;
- Initiation of bankruptcy proceedings;
- Granting a concession to a borrower for economic or legal reasons relating to the borrower's financial difficulty that would not otherwise be considered.

In terms of the individually assessed financial assets which were primarily represented by individually managed commercial loans (see the individually managed exposures defined in the section 41.2.3), the Bank first assessed whether objective evidence of impairment exists individually for these financial assets. If the Bank determined that no objective impairment exists for an individually assessed financial asset, the Bank included the financial asset in a group of financial assets with similar credit risk characteristics and collectively measured them for impairment. Financial assets that were individually assessed for impairment and for which an impairment loss was or continued to be recognised, were not included in a collective assessment of impairment.

If there was objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset was reduced through the use of an allowance account and the amount of the loss was recognised in the profit or loss.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflected the cash flows resulting from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

For the purposes of a collective evaluation of impairment (see the note 41.2.3), financial assets were grouped on the basis of similar credit risk characteristics. Those characteristics were relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that were collectively evaluated for impairment were estimated on the basis of the contractual cash flows of the assets in the group and the historical loss experience for assets with credit risk characteristics similar to those in the group. The methodology (see the note 41.2) and assumptions (see the note 15) used for estimating future cash flows were reviewed regularly to reduce the difference between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in the profit or loss.

When the Bank did not expect material recovery cash flow from the loan it was deemed uncollectible. This loan was derecognised and the loan loss allowance for impairment is utilised.

Available for sale financial assets

Available for sale financial assets were assessed at each balance sheet date for objective evidence of impairment. Where such evidence existed an impairment loss was recognised. In addition to the factors set out above, a prolonged (i.e. 12 consecutive months) or significant (i.e. 30%) decline in the fair value of an investment in an available for sale equity instrument below its cost was considered in determining whether an impairment loss had been incurred.

If an impairment loss had been incurred, the cumulative loss that had been recognised in other comprehensive income was removed from equity and recognised in the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increased, and the increase related to an event occurring after the impairment loss was recognised, the impairment loss was reversed through the profit or loss.

Impairment losses on equity instruments that were recognised in the profit or loss were not reversed through profit or loss in a subsequent period.

5.7 REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

The Bank enters into contracts to sell and buy back financial instruments at a specific future date (repo) or to buy and sell back financial instruments at a specific future date (reverse repo).

In repo transactions the securities provided by the Bank continue to be recognised and reported in the statement of financial position as the Bank retains substantially all the risks and rewards of ownership together with all coupons and other income payments received during the period of repo transaction. The corresponding cash received is recognised in the statement of financial position and a corresponding obligation to return it (including accrued interest) is recorded as a liability.

Securities purchased as a reverse repo transaction are not recognised in the statement of financial position. The consideration paid (including accrued interest) is recorded in the statement of financial position as "Loans and receivables to banks" or "Loans and receivables to customers". The Bank is allowed to provide securities received in reverse repo transactions as collateral or sell them, even in the absence of default by their owner.

The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

5.8 FAIR VALUE MEASUREMENT

Fair value is the price the Bank would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 – Significant inputs to the valuation model are unobservable.

The Bank maintains policies and procedures to value instruments. In addition, the Bank has risk management teams that review valuation, including independent price validation for certain instruments (e.g. treasury bills). With regard to Level 3 valuations, the Bank performs a variety of procedures to assess the reasonableness of the valuations. Such reviews, which may be performed quarterly, monthly or weekly, include an evaluation of instruments whose fair value change exceeds predefined thresholds (and/or does not change) and consider the current interest rate, currency and credit environment, as well as other published data, such as rating agency market reports and current appraisals.

Fair values of financial assets and liabilities that are not presented in the Bank's balance sheet at fair values are shown in the note 42.

5.9 PROVISIONS

A provision is recognised by the Bank when:

- It has a present obligation (legal or constructive) as a result of a past event; and
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- The Bank can reliably estimate the amount of the obligation.

Provisions are reported on the statement of financial position and include provisions for credit risk (loan commitments) and provisions for litigation and other obligations. Expenses or income related to provisions are reported based on substance of the expense. Provisions are disclosed in note 33.

5.10 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. All other leases are classified as operating leases. Classification is made at the inception of the lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form.

(i) Bank as a Lessee

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Any lease incentives received are recognised as an integral part of the total lease expense over the term of the lease. Operating lease payments made by the Bank are recorded in "Administrative expenses" in the profit or loss.

As a lessee, operating leased assets are not recognised in the statement of financial position of the Bank.

Assets subject to a finance lease are recognised in the Bank's statement of financial position initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The asset is recorded in "Property and Equipment" and the corresponding liability to the lessor is included in "Other liabilities". Impairment losses are recognised to the extent that the carrying values are not fully recoverable.

(ii) Bank as a Lessor

The Bank only subleases office premises to other entities. Rentals receivable from clients with operating leases are spread on a straight-line basis over the lease periods and are recognised in "Other operating income". The majority of operating lease income is derived from subleasing office premises to other companies.

5.11 PROPERTY AND EQUIPMENT

Items of property and equipment are measured at cost less accumulated depreciation less impairment losses over their estimated useful lives.

Cost includes the purchase price of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item.

Property and equipment is depreciated on a straight-line basis over their estimated useful lives as follows:

Technical Improvements related to real estate	5–15	years
Furniture	4–10	years
Equipment	5	years
Cars	5	years
Computers and servers	3–5	years
ATM	8	years

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease terms or their remaining useful lives.

Assets' residual values and useful lives are monitored and adjusted if appropriate at each financial statement date. Property and equipment are subject to quarterly impairment reviews (see the note 5.14). If the carrying amount of the asset exceeds its estimated recoverable amount, the asset is adjusted accordingly. Its estimated recoverable amount is the higher of fair value including costs to sell and its value in use.

Gains and losses on disposals are determined by deducting the carrying value from the consideration received. Any gain/loss on sale is recognised in the profit or loss.

5.12 INTANGIBLE ASSETS

Software

Software acquired by the Bank is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software to generate future economic benefits and the costs to complete the development can be reliably measured.

Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Purchased software and internally developed software is amortised over its expected useful life that is usually considered to be 5 years when recognised initially. During its useful life the development is done on the software. This development prolongs the useful life of the software, which can be extended in exceptional cases up to 22 years from the initial recognition.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

5.13 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

A subsidiary is an entity in which the Bank has control, i.e. it directly or indirectly owns more than 50% of the voting rights or it has the power to govern this entity as a result of another circumstances. An associate is an entity in which the Bank has significant influence, i.e. directly or indirectly owns 20% to 50% of the voting rights. If the Bank owns directly or indirectly less than 20% of the voting rights the investment is disclosed in the line "Financial assets available for sale".

Investments in subsidiaries and associates are measured at historical decreased by potential accumulated impairment losses. The Bank assesses regularly whether there is any impairment loss by comparing the carrying values of the investment with its recoverable amount. If the recoverable amount is lower, the Bank recognises the impairment loss.

5.14 IMPAIRMENT OF NON-FINANCIAL ASSETS

At the end of each reporting date the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists then the assets recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's fair value less costs of disposal and its value in use. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognised in the profit or loss in the "Other operating expenses" (see the note 14). An impairment loss may be reversed to the extent it does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

5.15 EMPLOYEE BENEFITS

Employee benefits include short term bonus payments, flexible benefits (Cafeteria), bonuses for loyalty, retention bonuses and bonuses tied to equity and the stock option plan. In 2017, a remuneration policy relevant for the Management Board members and other Material Risk Takers that is subject to the terms and conditions described in the Executive Variable Incentive Plan (EVIP) was introduced under which bonuses are partly linked to the share price and the dividend paid over the longer term.

In November 2018, the Supervisory Board of the Bank adopted Rules of Long-Term Incentive Plan internal policy (LTIP). Members of the Management Board are eligible to be granted with the LTIP awards in the form of actual shares in the Bank as part of their variable remuneration, where the proportion of the award that vests is conditional on the satisfaction of medium-term performance targets set by the Supervisory Board. No awards have been made under the LTIP as of 31 December 2018.

Executive Variable Incentive Plan (EVIP) for the Management Board members and other Material Risk Takers

The amount of the incentive compensation that a participant receives under the EVIP incentive programme is based on the basis of the participant's performance and the Bank's performance; including the achievement of goals and objectives set by the Supervisory Board and the Chief Executive Officer (although

the Chief Executive Officer is not involved in the decision-making regarding the setting of his own goals and objectives). A portion of the compensation is paid in cash (partially the year after the performance year and partially it is deferred to three annual instalments in the following years) and the remainder is linked to the total shareholders return (TSR) and deferred also to three annual instalments. This part of the variable deferred bonus represents a share-based payment and is disclosed in-line with IFRS 2 Share-based payments, specifically as cash settled share-based payments. For more detail about this programme see section 4.10 of the Annual report.

Bonus payments are accrued over time when earned and represent the best estimate of the amount that will be paid.

Sales, collection and customer service incentives

Sales incentives represent a performance benefit to retail employees at branches and sales-related employees in commercial banking. The size of the sales incentives for retail sales depends on the fulfilment of performance targets, which are evaluated and paid quarterly. Employees providing telesales are evaluated and paid on a monthly basis. In Commercial Banking (part SME), performance is evaluated quarterly and the payment is partially made in the subsequent quarter and in the first quarter after the end of the year. Incentives in the Real Estate department are paid on an annual basis with the mid-year advance payment.

Collection incentives represent a performance benefit for employees participating on collection of debts. Performance of collection from people is evaluated and paid on a monthly basis, in case of collection from companies on a quarterly basis.

The Bank also provides an Origination and Customer Service incentive programme where the performance is evaluated and paid on monthly basis.

The Bank recognises a liability as of the reporting date representing the sum of the sales incentives in the fourth quarter and the amounts deferred from the previous reporting periods.

Award for Loyalty

The Award for Loyalty is a programme that rewards employees for loyalty. Employees are eligible for an award every five years of employment with the Bank. A liability is recognised for the benefit reflecting the probability of each eligible employee attaining each anniversary. The Bank records a provision for a loyalty based on an actuarial model that is in line with IAS 19 and is recognised in the statement of financial position in the line item "Provisions".

Flexible benefits (Cafeteria)

Each employee of the Bank is granted each year with a certain number of points, which may be redeemed for free time activities, contribution to pension insurance or meal vouchers. Costs of granted points are recognised into profit or loss line "Personnel expenses" on the straight-line basis over the accounting period.

Retention Programmes connected to the IPO

At the time of IPO, employees were able to participate in a virtual share programme (the Virtual Share Programme). Under this programme, each of the Bank's employees actively employed on the date of Listing received a number of virtual shares. The number of virtual shares was based on the relevant employee's level of job seniority. The expense of this initial allocation was borne by GECIHL (the sole shareholder of the Bank prior to the IPO). Each virtual share under the Virtual Share Programme tracks the share price of the Bank and was paid out in cash on the second anniversary of the First Day of Official Trading, provided that the relevant employee was still employed by the Group on such date. In the event of an employee's voluntary termination on or prior to such vesting and settlement date, the virtual shares were forfeited. The Virtual Share Programme was classified as cash-settled share-based payment under the scope of IFRS 2 (see the note 36).

Retention programme with performance motivation character

Employees, who participate in specific long-term projects can receive a motivation award, when programme is successfully completed. The liability is accrued annually on the earned part of the bonus taking into account the probability of payment.

5.16 CASH AND CASH BALANCES WITH THE CENTRAL BANK

Cash and balances with the central bank include current accounts and time deposits with the Czech National Bank (CNB), cash in ATMs and in branches. Cash and balances are reported in the statement of financial position in "Cash

and balances with the central bank". The Bank's mandatory minimum reserve held by the CNB is also included within "Cash and balances with the central bank".

5.17 INCOME TAX AND DEFERRED TAX

Income tax expense comprises current and deferred tax. It is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current Tax

Current tax represents the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Bank intends to settle on a net basis and the legal right to offset exists.

Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Significant temporary and timing differences arise mainly from different accounting and tax value adjustments to receivables, provisions and from the revaluation of financial assets.

5.18 SEGMENT REPORTING

The Bank's operating businesses are organised based on the nature of markets and customers.

Operating segments are reported in accordance with the internal reports prepared on a regular basis and presented to the members of the Management Board.

The Bank has identified the following segments:

- Commercial clients – includes individually and portfolio managed commercial loans. Clients are mainly entrepreneurs and business corporations.
- Retail clients – this segment covers most of the Bank's consumer products (consumer loans, mortgages etc.). Products in the Bank's consumer portfolio have similar characteristics. They consist mainly of term loans offered through a network of individual branches, call centres, online channels and external partners. The products are primarily targeted at consumers and households.
- Treasury/Other – includes mainly investment banking and equity investments and other areas that are not included in the above segments.

The Management Board of the Bank (the chief operating decision maker) does not use the above described segmental view on all items of the separate Statement of Profit and Loss. For this reason, Operating expenses, Taxes and consequently Profit for the year before tax and Profit for the year after tax is not reported for segments but only on the Total level.

Information about the reported segments is described in note 40.

5.19 FINANCIAL GUARANTEES AND LOAN COMMITMENTS

Financial guarantees are contracts that require the Bank 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. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. From 1 January 2018, financial guarantee liabilities are subsequently measured at the higher of the initial fair value, less cumulative amortisation and the amount equalling the expected credit loss determined in accordance with IFRS 9 (see the note 5.6.11). Before

1 January 2018, financial guarantee liabilities were measure at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

The provided guarantees are shown in note 37.

6. NET INTEREST INCOME

CZK m	2018	2017
Interest income from financial assets measured at amortised cost*	7,269	6,812
Loans to customers**	6,699	6,683
out of which interest income from impaired loans	169	215
out of which penalty interest	62	97
Loans to banks	335	92
out of which arising from repurchase and reverse repurchase agreements***	333	91
Cash and deposit with the central bank and other banks	27	12
Interest income from investment securities at amortised cost	208	n/a
Interest income from held to maturity financial assets	n/a	25
Interest income from hedging derivatives	(51)	(5)
Interest income from available for sale financial assets*	n/a	38
Interest income and similar income	**7,218**	**6,845**
Interest expense from financial liabilities measured at amortised cost*	(387)	(205)
Due to banks	(38)	(2)
Due to customers	(349)	(203)
out of which arising from repurchase agreements	(96)	(6)
Interest expense and similar expense	**(387)**	**(205)**
Net interest income	**6,831**	**6,640**

* All interest income and expense from financial instruments at amortised cost are calculated using the effective interest method. There are no FVTOCI interest bearing instruments.

** Of which Interest Income from repurchase agreements with a negative interest rate at CZK 12 million in 2018 (2017: CZK 5 million).

*** Of which Interest Income from repurchase agreements with a negative interest rate at CZK 17 million in 2018 (2017: CZK 41 million).

7. NET FEE AND COMMISSION INCOME

CZK m	2018	2017
Insurance*	446	337
Investment funds**	115	109
Penalty fees (incl. early termination fees)	262	315
Deposit servicing fees	395	483
Lending servicing fees	198	217
Transactional and other fees	641	629
Fee and commission income	**2,057**	**2,090**
Fee and commission expense	**(289)**	**(278)**
Net fee and commission income	**1,768**	**1,812**

* The line "Insurance" includes especially commissions on payment protection insurance, car insurance (Casco and third party liability insurance), travel insurance, accident insurance, life insurance and pension funds.

** The amount of received fees serves as base for calculation of contribution of the Bank to the Investor Compensation Fund.

8. DIVIDEND INCOME

CZK m	2018	2017
Dividends from investments in subsidiaries and associates*	512	1,468
Dividend income	**512**	**1,468**

* Dividends from investments in subsidiaries MONETA Leasing, s.r.o. in the amount of CZK 205 million in 2018 (2017: CZK 1,466 million) MONETA Auto, s.r.o. in the amount of CZK 249 million in 2018 (2017: CZK 0 million), Inkasní Expresní Servis s.r.o. in the amount of CZK 46 million in 2018 (2017: CZK 0 million) and MONETA Leasing Services, s.r.o. in the amount of CZK 9 million in 2018 (2017: CZK 0 million) as described in the note 27.

9. NET INCOME FROM FINANCIAL OPERATIONS

CZK m	2018	2017
Net gain on investment securities at FVTOCI	0	n/a
Net gain on available for sale financial assets	n/a	343
Net gain/(loss) from hedging instruments	(37)	5
Net gain/(loss) from hedged instruments	35	(6)
Net income from financial assets and liabilities at FVTPL	255	(135)
Revaluation of FVTPL equity securities to fair value	10	n/a
Expense on currency derivative instruments	(111)	(266)
Income from currency derivative instruments	356	131
Exchange rate differences	141	499
Net income from financial operations	**394**	**706**

10. OTHER OPERATING INCOME

CZK m	2018	2017
Income from services and leases*	74	57
Rent income	14	18
out of that accretion of unamortised rent incentive	7	10
Other collection income**	382	166
Other incomes	20	31
Total other operating income	**490**	**272**

* The line "Income from services and leases" include primarily services provided by the Bank to its subsidiaries MONETA Auto, s.r.o., and MONETA Leasing, s.r.o.

** The line "Other collection income" includes the balance of CZK 335 million in 2018 (2017: CZK 54 million) which represents recoveries arising from written-off receivables exceeding the write-off recognised in the line "Net impairment of financial assets" of out of which CZK 316 million results from legacy NPL sales. The residual amount CZK 19 million represents legal costs paid by clients being collected by solicitor offices.

11. PERSONNEL EXPENSES

	2018	2017
The average number of employees during the period*	2,970	3,021
out of which: Management Board	5	5
out of which: Supervisory Board**	7	7
out of which: other Key Executive Managers	2	2

CZK m	2018	2017
Salaries and bonuses* **	**(1,617)**	**(1,622)**
Salaries and bonuses actuals	(1,449)	(1,409)
Salaries and bonuses accruals	(168)	(213)
Social security and health insurance***	(510)	(504)
Restructuring costs	(3)	(19)
Other employee related expenses	(76)	(80)
Total personnel expenses	**(2,206)**	**(2,225)**

* The average number of employees during the period is an average of the figures reported to Czech Statistical Authority (CSA) on a monthly basis in accordance with Article 15 of Czech Act No. 518/2004. The figures reported to the CSA equal the quotient of the following nominator and the following denominator. The nominator is defined as all hours worked by all employees, their related leaves/holidays and their related sick days. The denominator represents a standard working hours per an employee and a month.

** As of 1 August 2018, after resignation of Maria Luisa Cicognani from her position of Chair and member of Supervisory Board, the number of Supervisory Board members decreased from 7 to 6.

*** Includes the bonuses for the Virtual Share Programme as described in the note 36 which were compensated in 2018 by GE Capital International Holding Limited as a former shareholder in the amount of CZK 48 million. Remuneration to members of Supervisory Board, Management Board and other Key Executive Managers are described in the note 39.1.

12. ADMINISTRATIVE EXPENSES

CZK m	2018	2017
IT and software expense	(375)	(399)
Regulatory charges*	(86)	(96)
Rent expense	(268)	(361)
Rent-related services	(130)	(134)
Advisory services	(62)	(65)
Auditor's fees	(9)	(13)
out of that: audit	(6)	(6)
out of that: other services	(3)	(7)
Marketing	(200)	(246)
Travel cost	(47)	(31)
Other expenses**	(399)	(487)
out of that: services provided by subsidiaries	(18)	(33)
out of that: services provided by previous majority shareholder	0	(41)
Total administrative expenses	**(1,576)**	**(1,832)**

* The line "Regulatory charges" includes annual contribution to the Deposit Insurance Fund in the amount of CZK 41 million in 2018 (2017: CZK 44 million) and to the Resolution and Recovery Fund in the amount of CZK 45 million in 2018 (2017: CZK 52 million).

** The line "Other expenses" comprises expenses on other services provided by 3rd parties not disclosed separately, e.g. subscription fees, support of ATMs, transport of cash, postage, training, cleaning services, car expense, etc.

Non-audit services provided by the statutory auditor amount to CZK 3 million excluding VAT in 2018 (2017: CZK 7 million).

Line "Administrative expenses" includes in 2018 release of provisions for collection services resulting from legacy NPL sales of amount CZK 13 million.

13. DEPRECIATION AND AMORTISATION

CZK m	2018	2017
Depreciation of property and equipment	(233)	(179)
Amortisation of intangible assets	(339)	(202)
Total depreciation and amortisation	**(572)**	**(381)**

Impairment losses are shown in the note 14.

14. OTHER OPERATING EXPENSES

CZK m	2018	2017
Damages	(10)	(10)
Unrecoverable VAT	(318)	(228)
Other collection costs*	103	84
Other expenses**	(25)	(6)
of that: impairment of non-financial assets	(5)	(4)
Total other operating expenses	**(250)**	**(160)**

* Line "Other collection costs" comprises in 2018 release of liability to Solicitor's office connected with sales of legacy NPL portfolio CZK 81 million.

** Line "Other expenses" includes annual contribution to the Investor Compensation Fund of CZK 2.2 million in 2018 (2017: 1.2 million).

15. NET IMPAIRMENT OF FINANCIAL ASSETS

CZK m	2018	2017
Additions and release of loan loss allowances	(660)	(589)
Additions and release of allowances/provisions to unused commitments	12	6
Use of loan loss allowances*	1,220	2,468
Income from previously written-off receivables	827	320
Write-offs of uncollectable receivables*	(1,261)	(2,575)
Change in allowances to Investment securities	1	n/a
Change in allowances to operating receivables	(5)	0
Collection costs	(301)	(119)
Net impairment of financial assets	**(167)**	**(489)**

* Decrease in lines "Use of loan loss allowances" and "Write-offs of uncollectable receivables" in 2018 compared to 2017 is mainly driven by strategy of reduction of legacy NPLs in previous years.

Line "Net impairment of financial assets" includes CZK 677 million recovery resulting from legacy NPL sales.

The Bank reflects external collection costs in determining impairment loss of loans and receivables and these costs are disclosed in the line "Net impairment of financial assets" when they are incurred. An estimate of these costs also reduces the present value of recovery cash flows expected from related defaulted receivables.

At each financial statement date financial assets not measured at fair value through profit or loss are assessed for impairment. The Bank determines whether as a result from event or events occurring alone or in a combination, a financial asset is considered in default (Stage 3).

For individually managed loans and receivables a judgment is required to determine if there is objective evidence of default. The identification of the evidence of impairment is based on the analysis of the financial status, payment history, collateral value, industry conditions and other relevant factors. For defaulted loans the estimate is done by determining the future amount and timing of the expected recovery cash flows. These estimates are made by taking into account a range of factors, including prospects for the business model, the collateral fair value, expected proceeds from a bankruptcy or liquidation and other relevant factors.

Portfolio managed loans and receivables are subject to estimation uncertainty as the identification of default at the individual contract level is not practical due to the large number of such exposures. The loss is measured using statistical models with inputs based on historically observed data by the Bank such as historical credit losses and default rates. Judgment is required to determine prospective macroeconomic scenarios used in forward looking models. For further detail see the Risk management section (see the note 41).

If loss given default (LGD) (in the either the individual assessment or statistical models) changes by ±10% in relative terms, then the loan loss allowances would change by ± CZK 215 million as at 31 December 2018 and by ± CZK 212 million as at 31 December 2017.

16. TAXES ON INCOME

Tax expense from the Bank's profit before tax can be analysed as follows:

CZK m	2018	2017
Current income tax for the year	(569)	(404)
Income tax related to prior years	(4)	15
Change in deferred tax recognised in profit or loss	(243)	(476)
Taxes on income	**(816)**	**(865)**

The chart below shows the reconciliation of the actual tax charge and the tax charge based on applying the standard corporate income tax rate according to Czech Republic income tax law:

CZK m	2018	2017
Profit for the period before tax	**5,224**	**4,525**
Theoretical income tax accounted for into expenses, calculated at the rate of 19%	(993)	(860)
Income tax related to the prior years	(5)	(10)
Impact of the tax non-deductible expenses	(36)	(6)
Impact of the tax non-taxable income	94	11
Impact of IFRS 9 adoption	124	n/a
Taxes on income	**(816)**	**(865)**
Effective income tax rate*	15.6%	19.1%

* Decrease in effective income tax rate in 2018 in comparison with 2017 was caused especially by adjustment of loss allowances to loans and receivables to customers and provisions for loan commitments due to the transition to IFRS 9 recognised directly in the equity as at 1 January 2018, year-to-year decrease in dividend income which is non-taxable income. These two effects were partly netted off by impairment of investment in MONETA Leasing in 2017 which was tax non-deductible expense.

17. EARNINGS PER SHARE

Earnings per share amounts are calculated by dividing the net profit for the year after tax attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

CZK m	2018	2017
Profit for the year after tax attributable to the equity holders	4,408	3,660
Weighted average of ordinary shares (millions of shares)	511	511
Basic earnings per share (CZK)	**8.63**	**7.16**

As the Bank has not issued any potentially dilutive instruments, the basic earnings per share equals to diluted earnings per share.

18. CASH AND BALANCES WITH THE CENTRAL BANK

CZK m	31 Dec 2018	31 Dec 2017
Cash and cash in transit	4,729	4,673
Balances with the central bank other than mandatory minimum reserves	1	1
Mandatory minimum reserve requirement with the central bank	3,409	2,452
Total cash and balances with the central bank	**8,139**	**7,126**

The Bank includes a mandatory minimum reserve with the Czech National Bank into "Cash and balances with the central bank". The Bank may draw funds from the mandatory minimum reserve at any point in time provided that the average balance over the relevant period meets the minimum levels required according to the regulations of the Czech National Bank.

19. CASH AND CASH EQUIVALENTS

For the purposes of the separate statement of cash flows, cash and cash equivalents comprise the following balances with maturities from the acquisition of less than 3 months:

CZK m	31 Dec 2018	31 Dec 2017
Cash and deposits with the central bank	8,139	7,126
Loans and receivables to banks	33,418	53,350
Total cash and cash equivalents	**41,557**	**60,476**

20. TRANSFER OF FINANCIAL ASSETS – REPURCHASE TRANSACTIONS

31 Dec 2018 CZK m	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities
Liabilities arising from repurchase agreements				
with clients	0	19,564	0	19,564
with banks	0	7,204	0	7,204
Total liabilities arising from repurchase agreements	**0**	**26,768**	**0**	**26,768**
Financial assets transferred as collateral in repurchase agreements				
Financial assets measured at amortised cost	7,711	0	7,449	0
Financial assets received in reverse repos	19,598	0	19,598	0
Total financial assets transferred as collateral in repurchase agreements	**27,309**	**0**	**27,047**	**0**

31 Dec 2017 CZK m	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities
Liabilities arising from repurchase agreements				
with clients	0	9,445	0	9,445
with banks	0	23,155	0	23,155
Total liabilities arising from repurchase agreements	**0**	**32,600**	**0**	**32,600**
Financial assets transferred as collateral in repurchase agreements				
Financial assets held to maturity	3,371	0	3,206	0
Financial assets received in reverse repos	29,201	0	29,201	0
Total financial assets transferred as collateral in repurchase agreements	**32,572**	**0**	**32,407**	**0**

Liabilities from repurchase agreements represent the obligation to repay the borrowing and are shown in the lines "Due to banks" (see the note 31) and "Due to customers" (see the note 32).

Financial assets transferred as collateral consist of Government bonds (see the note 23) of CZK 7,711 mil. as at 31 December 2018 (31 December 2017: CZK 3,371 mil.).

Financial assets received as collateral in reverse repos transferred further as collateral represent treasury bills of CZK 19,598 mil. as at 31 December 2018 (31 December 2017: CZK 29,201 mil.) not disclosed in the statement of financial position but only as the off-balance sheet.

21. LOANS AND RECEIVABLES TO BANKS

Loans and receivables to banks include:

CZK m	31 Dec 2018	31 Dec 2017
Current accounts at banks	47	157
Term deposits at banks payable within 3 months	0	0
Receivables arising from reverse repurchase agreements*	33,241	53,107
Cash collateral granted**	130	86
Other***	17	17
Included in cash equivalents	33,418	53,350
Total loans and receivables to banks	**33,435**	**53,367**

* The Bank provides reverse repo operations with the Czech National Bank. The collateral received as at 31 December 2018 of CZK 32,583 million (31 December 2017: CZK 52,033 million) is represented by treasury bills that are not recognised in the statement of financial position.

** Comprises collateral granted for repo operations and derivative transactions.

*** Represents an unsolicited dividend for the year 2016 and 2017 respectively transferred to Komerční banka, a.s. that is administering the payment.

The Bank estimated expected credit loss resulting from loans and receivables to banks at 31 December 2018 in the amount of CZK 0 million (31 December 2017: CZK 0 million under IAS 39 incurred loss model).

22. LOANS AND RECEIVABLES TO CUSTOMERS

(a) Loans and receivables to customers by sector

CZK m	31 Dec 2018	31 Dec 2017
Financial organisations*	13,654	11,573
Non-financial organisations	38,684	37,896
Government sector	55	36
Non-profit organisations	167	174
Entrepreneurs	10,062	8,540
Resident individuals	74,035	61,670
Non-residents	2,528	658
Gross loans and receivables to customers	**139,185**	**120,547**
Loss allowance for loans and advances to customers	(3,490)	(3,512)
Net loans and receivables to customers	**135,695**	**117,035**
Gross loans and receivables to customers without impairment	135,739	115,991
Loss allowance for loans and advances to customers without impairment**	(1,215)	(599)
Net loans and receivables to customers without impairment	**134,524**	**115,392**

* The balance of gross loans and receivables to financial organisations includes exposures to MONETA Leasing, s.r.o., and MONETA Auto, s.r.o. in total amount of CZK 13,111 million as at 31 December 2018 (as at 31 December 2017 CZK 11,104 million).

** Loss allowance for loans and advances to customers without impairment increased in 2018 in comparison with 2017 due to the transition from incurred loss model (IAS 39) to expected credit loss model (IFRS 9).

(b) Loans and receivables to customers by product

CZK m	31 Dec 18 Gross carrying amount	31 Dec 18 Allowance	31 Dec 18 Carrying amount	31 Dec 17 Gross carrying amount	31 Dec 17 Allowance	31 Dec 17 Carrying amount
Retail loan balances						
Consumer Loans	39,149	(2,264)	36,885	36,813	(1,844)	34,969
Mortgages	31,615	(109)	31,506	20,495	(157)	20,338
Credit Cards & Overdrafts	3,823	(350)	3,473	4,228	(283)	3,945
Other	135	(135)	0	505	(505)	0
Total Retail	**74,722**	**(2,858)**	**71,864**	**62,041**	**(2,789)**	**59,252**
Commercial loan balances						
Investment Loans	49,511	(223)	49,288	45,592	(260)	45,332
Working Capital	10,247	(191)	10,056	9,908	(216)	9,692
Unsecured Instalment Loans and Overdraft	4,634	(147)	4,487	2,926	(167)	2,759
Inventory Financing and Other	71	(71)	0	80	(80)	0
Total Commercial	**64,463**	**(632)**	**63,831**	**58,506**	**(723)**	**57,783**
Total Loans and receivables to customers	**139,185**	**(3,490)**	**135,695**	**120,547**	**(3,512)**	**117,035**

(c) Loss allowances for loans and receivables to customers by sectors

CZK m	Financial organisations	Non-financial organisations	Non-profit organisations	Entrepreneurs	Resident individuals	Non-residents	Total
1 Jan 2018*	**1**	**563**	**3**	**204**	**3,361**	**11**	**4,143**
Net change of allowances	0	(31)	(1)	42	550	7	567
Effect of written off receivables	0	(106)	0	(49)	(1,062)	(3)	(1,220)
31 Dec 2018	**1**	**426**	**2**	**197**	**2,849**	**15**	**3,490**

CZK m	Financial organisations	Non-financial organisations	Non-profit organisations	Entrepreneurs	Resident individuals	Non-residents	Total
1 Jan 2017	**6**	**555**	**2**	**408**	**4,529**	**17**	**5,517**
Net change of allowances	(2)	197	(1)	29	249	(9)	463
Effect of written off receivables	(3)	(221)	0	(247)	(1,997)	0	(2,468)
31 Dec 2017	**1**	**531**	**1**	**190**	**2,781**	**8**	**3,512**

* Difference between balances of loss allowances as at 31 December 2017 and 1 January 2018 is due to the transition to IFRS 9.

23. INVESTMENT SECURITIES

CZK m	31 Dec 2018	31 Dec 2017
Debt securities measured at amortised cost	20,721	n/a
Government bonds	20,470	n/a
Corporate bonds	251	n/a
Held to maturity investment securities	n/a	11,723
Government bonds	n/a	11,723
Equity securities measured at FVTOCI	1	n/a
Equity securities measured at FVTPL	58	n/a
Available for sale investment securities	n/a	57
Equity investments	n/a	48
Other investments designated as AFS	n/a	9
Total investment securities	**20,780**	**11,780**
By listing:		
- listed	20,721	11,723
- unlisted	59	57

On 1 August 2017 all bonds comprised in the available for sale portfolio (Czech government bonds) with total carrying value of CZK 5,287 million were reclassified into the held to maturity portfolio in compliance with change in the Bank's investment strategy under which these investments were intended to be held until maturity. Related Available for sale reserve from revaluation of reclassified bonds remained recognised in the equity, because the fair value of these bonds as at the date of reclassification was considered to be their carrying value on the date of reclassification.

On 1 January 2018 the portfolio previously classified as held to maturity was considered as held within the held to collect business model. The available for sale reserve was derecognised from equity against the carrying value of the portfolio as it had been always measured at amortised cost since the first recognition.

Expected credit losses related to Debt securities measured at amortised cost at 31 December 2018 amounts to CZK 3 million (31 December 2017: CZK 0 million under IAS 39 incurred loss model).

Equity securities measured at FVTOCI includes investment in SWIFT. The Bank elected the irrevocable option provided by IFRS 9 to classify its investment in SWIFT as at the date of transition to IFRS 9 as FVTOCI as the Bank intends to hold it in the long term and they were measured in the same way according to IAS 39 until transition to IFRS 9. All gains and losses resulting from FVTOCI equity instruments including when derecognised or sold are recorded in OCI and are not subsequently reclassified to profit or loss. The Bank received dividends relating to FVTOCI equity instruments in 2018 of CZK 3 million. There have been no derecognitions from FVTOCI equity securities in 2018.

Equity securities measured at FVTPL consists of the share in VISA Inc. that can be sold in the future when it is possible.

As at 31 December 2018 Debt securities measured at amortised cost with a carrying amount CZK 7,711 million are transferred as collateral under repurchase transactions (31 December 2017: CZK 3,371 million classified as held to maturity under IAS 39).

24. FINANCIAL DERIVATIVES

Financial derivatives include Over the Counter (OTC) derivatives.

The Bank enters into foreign exchange derivatives (currency swaps, currency forwards) to economically hedge its foreign currency risk but these derivatives are not designated at initial recognition as hedging derivatives, they are held under Other business model (Derivatives classified as held for trading) and measured at FVTPL and presented in the line "Derivative financial instruments".

In line with the IAS 39 policy applicable before 1 January 2018 those derivatives were classified as held for trading for accounting purposes and presented in the line "Financial assets at fair value through profit or loss", respectively "Financial liabilities at fair value through profit or loss". Hence, the portfolio of financial assets at fair value through profit or loss had included positive fair value for foreign exchange derivatives and the portfolio of financial liabilities at fair value through profit or loss had only included a negative fair value for foreign exchange derivatives.

Since 2017, the Bank designates at initial recognition interest rate swaps derivatives as hedging instruments according to IAS 39, in order to hedge its exposure to the change of the fair value of a defined part of portfolio of loans to customers or loan commitments related to interest rate risk (see the note 5.6.10).

In the statement of financial position, derivatives with positive fair values (total fair value including accrued interest) are presented in the line item "Hedging derivatives with positive fair values", derivatives with negative fair values (total fair value including accrued interest) are disclosed in the line "Hedging derivatives with negative fair values".

Financial derivatives classified as held for trading

31 Dec 2018	Nominal value		Fair value	
CZK m	Assets	Liabilities	Assets	Liabilities
CURRENCY DERIVATIVES				
Currency swaps	7,318	7,345	1	22
Currency forwards	4,010	4,005	27	22
Total derivatives for trading	**11,328**	**11,350**	**28**	**44**

31 Dec 2017	Nominal value		Fair value	
CZK m	Assets	Liabilities	Assets	Liabilities
CURRENCY DERIVATIVES				
Currency swaps	2,472	2,498	1	25
Currency forwards	3,972	3,968	47	43
Total derivatives for trading	**6,444**	**6,466**	**48**	**68**

Financial derivatives designated at initial recognition as hedging derivatives

31 Dec 2018	Nominal value		Fair value	
CZK m	Assets	Liabilities	Assets	Liabilities
INTEREST RATE DERIVATIVES				
Interest rate swaps	18,040	18,040	53	167
Total hedging derivatives	**18,040**	**18,040**	**53**	**167**

31 Dec 2017	Nominal value		Fair value	
CZK m	Assets	Liabilities	Assets	Liabilities
INTEREST RATE DERIVATIVES				
Interest rate swaps	5,980	5,980	4	4
Total hedging derivatives	**5,980**	**5,980**	**4**	**4**

25. INTANGIBLE ASSETS

CZK m	Software purchased	Software internally developed	Intangibles not in use	Total
Carrying amount as at 31 Dec 2016	**109**	**389**	**238**	**736**
Additions to assets*	168	501	741	1,410
Transfers of assets	0	0	(669)	(669)
Amortisation for period	(65)	(137)	0	(202)
Impairment of assets	0	(2)	0	(2)
Carrying amount as at 31 Dec 2017	**212**	**751**	**310**	**1,273**
Additions to assets*	46	731	799	1,576
Transfers of assets	0	0	(777)	(777)
Amortisation for period	(78)	(261)	0	(339)
Impairment of assets	0	(2)	0	(2)
Carrying amount as at 31 Dec 2018	**180**	**1,219**	**332**	**1,731**

* Significant amounts in the line "Additions to assets" are caused primarily by higher investments into the IT systems connected especially with the digitalisation strategy of the Bank.

CZK m	Software purchased	Software internally developed	Intangibles not in use	Total
Cost as at 31 Dec 2016	722	3,730	238	4,690
Accumulated Amortisation 2016	(613)	(3,341)	0	(3,954)
Carrying amount as at 31 Dec 2016	**109**	**389**	**238**	**736**
Cost as at 31 Dec 2017	1,029	3,648	310	4,987
Accumulated Amortisation 2017	(817)	(2,897)	0	(3,714)
Carrying amount as at 31 Dec 2017	**212**	**751**	**310**	**1,273**
Cost as at 31 Dec 2018	741	4,635	332	5,708
Accumulated Amortisation 2018	(561)	(3,416)	0	(3,977)
Carrying amount as at 31 Dec 2018	**180**	**1,219**	**332**	**1,731**

Annual costs related to research and development (that did not meet capitalisation criteria) amounted to CZK 36.8 million in 2018 (2017: CZK 49.3 million).

26. PROPERTY AND EQUIPMENT

CZK m	Capital improvements of leased assets	Equipment and machinery	Fixtures and other tangibles	Property and equipment not in use	Total
Carrying amount as at 31 Dec 2016	**115**	**311**	**15**	**79**	**520**
Additions to assets	58	217	30	415	720
Disposals/transfers of assets	(1)	(4)	(1)	(305)	(311)
Depreciation for period	(57)	(115)	(7)	0	(179)
Impairment of assets	(1)	0	0	0	(1)
Carrying amount as at 31 Dec 2017	**114**	**409**	**37**	**189**	**749**
Additions to assets*	98	344	45	678	1,165
Disposals/transfers of assets	(1)	(12)	(2)	(487)	(502)
Depreciation for period	(64)	(158)	(11)	0	(233)
Impairment of assets	0	0	0	0	0
Carrying amount as at 31 Dec 2018	**147**	**583**	**69**	**380**	**1,179**

* Increase in item "Property and equipment not in use" is mainly driven by investments in fit outs of new headquarter building of amount CZK 286 million.

CZK m	Capital improvements of leased assets	Equipment and machinery	Fixtures and other tangibles	Property and equipment not in use	Total
Cost as at 31 Dec 2016	888	1,485	68	79	2,520
Accumulated Depreciation 2016	(773)	(1,174)	(53)	0	(2,000)
Carrying amount as at 31 Dec 2016	**115**	**311**	**15**	**79**	**520**
Cost as at 31 Dec 2017	754	1,611	93	189	2,648
Accumulated Depreciation 2017	(640)	(1,202)	(56)	0	(1,899)
Carrying amount as at 31 Dec 2017	**114**	**409**	**37**	**189**	**749**
Cost as at 31 Dec 2018	767	1,649	130	380	2,926
Accumulated Depreciation 2018	(620)	(1,066)	(61)	0	(1,747)
Carrying amount as at 31 Dec 2018	**147**	**583**	**69**	**380**	**1,179**

Net book value of assets leased under finance lease is CZK 23 million as at 31 December 2018 (2017: CZK 24 million). Assets leased under operating lease contracts are not comprised in line "Property and equipment" in accordance with requirements of IAS 17 Leases (see the note 38).

27. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

31 Dec 2018
CZK m

Name	Registered office	Business activity	Equity 31 Dec 2018	Share of voting rights	Share in equity	Cost	Book value
MONETA Auto, s.r.o.	Vyskočilova 1442/1b, 140 00 Prague 4*	Auto financing (Loans and Leases)	1,694	100%	100%	6,787	2,860
MONETA Leasing Services, s.r.o.	Holandská 1006/10, 639 00 Brno, Štýřice	Lease and rental of movables	21	100%	100%	10	10
MONETA Leasing, s.r.o.	Holandská 1006/10, 639 00 Brno, Štýřice	Financing of loans and leasing	1,509	100%	100%	2,938	1,652
CBCB - Czech Banking Credit Bureau, a.s.	Štětkova 1638/18, 140 00 Prague 4***	Banking Credit Register	2	20%	20%	0	0
Inkasní Expresní Servis s.r.o.****	Vyskočilova 1442/1b, 140 00 Prague 4	Debt recovery services	4	100%	100%	32	32
Total investments in subsidiaries and associates as of 31 Dec 2018						**9,767**	**4,554**

31 Dec 2017
CZK m

Name	Registered office	Business activity	Equity 31 Dec 2017	Share of voting rights	Share in equity	Cost	Book value
MONETA Auto, s.r.o.	Vyskočilova 1422/1a, 140 00 Prague 4*	Auto financing (Loans and Leases)	1,900	100%	100%	6,787	2,860
MONETA Leasing Services, s.r.o.	Holandská 1006/10, Štýřice, 639 00 Brno	Lease and rental of movables	19	100%	100%	10	10
MONETA Leasing, s.r.o.**	Holandská 1006/10, Štýřice, 639 00 Brno	Financing of loans and leasing	1,520	100%	100%	2,938	1,652
CBCB - Czech Banking Credit Bureau, a.s.	Na Vítězné pláni 1719/4, 140 00 Prague 4***	Banking Credit Register	2	20%	20%	0	0
Inkasní Expresní Servis s.r.o.	Vyskočilova 1422/1a, 140 28 Prague 4	Debt recovery services	46	100%	100%	32	32
Total investments in subsidiaries and associates as of 31 Dec 2017						**9,767**	**4,554**

* On 26 November 2018 MONETA Auto, s.r.o. changed its registered office from: Vyskočilova 1422/1a, 140 00 Prague 4 to: Vyskočilova 1442/1b, 140 00 Prague 4 due to relocation to another office building.

** The General Meeting approved on 31 March 2017 the payment of retained earnings of CZK 1,465 million to the shareholders of the company based on their share in equity.

*** On 1 October 2018 CBCB - Czech Banking Credit Bureau, a.s. changed its registered office from: Na Vítězné pláni 1719/4, 140 00 Prague 4 to: Štětkova 1638/18, 140 00 Prague 4.

**** The Bank as the sole shareholder of Inkasní Expresní Servis s.r.o. decided on the dissolution of this company with liquidation starting from 1 January 2019. For the duration of the liquidation process the company uses business name with the appendix "v likvidaci" (Inkasní Expresní Servis s.r.o. v likvidaci).

In 2018 after the approval of the new operational plan for MONETA Leasing, s.r.o. and MONETA Leasing Services, s.r.o., the Bank provided tests of these investments for potential impairment. Both entities represent single cash generating unit. The assessments have been made with the following assumptions: value in use (recoverable amount) has been determined using cash flow predictions based on financial budgets covering a three-year period, with a terminal growth rate of 2% applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 9% and resulting net present value of future cash flows was higher than carrying value of these investments and no impairment of these investments was recognised in 2018.

In 2017 the Bank provided tests of MONETA Leasing, s.r.o. and MONETA Leasing Services, s.r.o. for potential impairment as well. The assessment has been made with the following assumptions: value in use (recoverable amount) has been determined using cash flow predictions based on financial budgets covering a three-year period, with a terminal growth rate of 1% applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 10% and resulting net present value of future cash flows was lower than carrying value of these investments. The minimum recoverable amount was stated to be book value of assets less book value of liabilities of these entities because their fair value was higher (by CZK 132 million as at the date of testing) than their book value and the same assumption was used in consolidated financial statements of the Bank for assessment of related goodwill impairment. As a result, the impairment of investments in mentioned entities was recognised of CZK 1,286 million in 2017.

Changes in investments in subsidiaries and associates in 2018

CZK m	Book value 1 Jan 2018	Change	Book value 31 Dec 2018
Inkasní Expresní Servis s.r.o.	32	0	32
MONETA Auto, s.r.o.	2,860	0	2,860
MONETA Leasing Services, s.r.o.	10	0	10
MONETA Leasing, s.r.o.	1,652	0	1,652
CBCB - Czech Banking Credit Bureau, a.s.*	0	0	0
Total	**4,554**	**0**	**4,554**

* The book value of CBCB - Czech Banking Credit Bureau is CZK 240,000 as at 31 December 2018.

Changes in investments in subsidiaries and associates in 2017

CZK m	Book value 1 Jan 2017	Change	Book value 31 Dec 2017
Inkasní Expresní Servis s.r.o.	32	0	32
MONETA Auto, s.r.o.	2,860	0	2,860
MONETA Leasing Services, s.r.o.	10	0	10
MONETA Leasing, s.r.o.	2,938	(1,286)	1,652
CBCB - Czech Banking Credit Bureau, a.s.*	0	0	0
Total	**5,840**	**(1,286)**	**4,554**

* The book value of CBCB - Czech Banking Credit Bureau is CZK 240,000 as at 31 December 2017.

28. CURRENT TAX ASSETS AND CURRENT TAX LIABILITIES

CZK m	31 Dec 2018	31 Dec 2017
Income tax receivable	0	286
Income tax liabilities	**75**	**0**

Increase in "Current tax liabilities" in 2018 is due to the fact that the corporate income tax advances were lower than final income tax duty for 2018. Conversely, in 2017 corporate income tax advances were higher than income tax finally measured. Corporate income tax advances will be offset with current income tax payable in 2018 tax return and the difference will be settled with tax authority in 2019.

29. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is determined based on all temporary and timing differences between the tax residual values of assets and liabilities and their residual book values in the Bank's financial statements. Deferred tax is determined using the tax rate enacted by the balance sheet date. The applicable rate is 19%.

The recognition of deferred tax assets relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

Deferred tax assets and liabilities consist of the following differences:

CZK m	31 Dec 2018	31 Dec 2017
Deferred tax liabilities	**(173)**	**(112)**
Difference between book value and tax residual value of long-lived assets	(173)	(112)
Deferred tax assets	**304**	**500**
Loss allowance for loans and receivables to customers*	173	320
Difference between book value and tax residual value of long-lived assets	44	54
Revaluation of available for sale financial assets	n/a	14
Other temporary variances	87	112
Net deferred tax asset/liability	**131**	**388**

* Decrease in deferred tax asset relating to loss allowance for loans and receivables to customers was due to sale of significant part of NPL portfolio in 2018 for which tax-deductible allowances were recognised.

The following table shows the movement of the net deferred tax asset:

CZK m	2018	2017
Net deferred tax assets at the beginning of period	**388**	**765**
Change in net deferred tax - total profit and loss impact	**(243)**	**(476)**
- Loss allowance for loans and receivables to customers	(147)	(427)
- Difference between book value and tax residual value of long-lived assets	(71)	(49)
- Other temporary variances	(25)	0
Change in net deferred tax - equity impact	**(14)**	**99**
- Revaluation of available for sale financial assets	(14)	99
Net deferred tax receivable at the end of period	**131**	**388**

30. OTHER ASSETS

CZK m	31 Dec 2018	31 Dec 2017
Accounts receivable*	22	73
Advances and guarantees for rent related services	282	227
Receivables to finance authorities	98	148
Other receivables net of allowances	73	52
of that allowances	(81)	(75)
Prepayments**	300	89
Clearing account of payment settlement	54	0
Other accruals	244	218
of that accruals to former shareholder***	0	42
of that accruals to subsidiaries	78	61
Total other assets	**1,073**	**807**

* As at 31 December 2017 included a receivable to former shareholder (GE Capital International Holding Limited) arising from reimbursement of retention bonuses of CZK 6 million (31 December 2018: CZK 0 million).

** The line "Prepayments" in 2018 comprises prepaid rentals for new headquarter building in the amount of CZK 174 million.

*** As at 31 December 2017 includes accruals to former shareholder (GE Capital International Holding Limited) arising from the Virtual Share Programme as described in the note 36.

31. DUE TO BANKS

The Bank has the following liabilities to other banks:

CZK m	31 Dec 2018	31 Dec 2017
Deposits on demand	357	445
Term deposits	0	970
Liabilities arising from repurchase agreements*	7,204	23,155
Cash collaterals received**	96	29
Other due to banks***	2,059	2,044
Total due to banks	**9,716**	**26,643**
Type of rate:		
Fixed interest rate	9,263	26,170
Floating interest rate	453	473

* For more details about financial assets granted as collateral for Liabilities arising from repurchase agreements see the note 20.

** Cash collaterals received represent CSA[1] Collaterals of other financial institutions for derivative transactions in the amount of CZK 83 million at 31 December 2018 (CZK 29 million at 31 December 2017).

*** Other due to banks comprises:

- Loan provided by the European Investment Bank in September 2017 to MONETA Money Bank, a.s. that will be used for the financing of SME loans. This loan amounts to CZK 2,059 million at 31 December 2018 (CZK 2,044 million at 31 December 2017).

32. DUE TO CUSTOMERS

Breakdown of due to customers by sector:

CZK m	31 Dec 2018	31 Dec 2017
Financial organisations	10,618	7,660
Non-financial organisations	24,766	23,825
Insurance organisations	8,768	7,148
Government sector	4,570	4,506
Non-profit organisations	2,726	2,564
Entrepreneurs	12,388	11,617
Resident individuals	93,483	82,171
Non-residents	11,498	2,165
Total due to customers	**168,817**	**141,656**
Rate type:		
Fixed interest rate	30,257	15,905
Floating interest rate	138,290	125,332
Non-interest bearing	270	419
Total due to customers	**168,817**	**141,656**

Breakdown of due to customers by product is as follows:

CZK m	31 Dec 2018	31 Dec 2017
Retail Current Accounts	49,569	42,586
Retail Savings Accounts and Term Deposits	44,879	40,435
Commercial Current Accounts	36,012	34,090
Commercial Savings Accounts and Term Deposits	18,522	14,681
Liabilities arising from repurchase agreements*	19,564	9,445
Other liabilities towards customers	271	419
Total due to customers	**168,817**	**141,656**

* For more details about financial assets granted as collateral for Liabilities arising from repurchase agreements see the note 20.

[1] Credit Support Annex (CSA) is a legal document which regulates credit support (collateral) for derivative transactions.

33. PROVISIONS

CZK m	2018	2017
Provisions for undrawn loan commitments		
1 Jan*	**57**	**44**
Additions to provisions	181	91
Use of provisions	0	0
Release of unused provisions	(193)	(97)
31 Dec	**45**	**38**
Provisions for legal claims		
1 Jan	**108**	**266**
Additions to provisions	0	0
Use of provisions**	(9)	(158)
Release of unused provisions	0	0
31 Dec	**99**	**108**
Other provisions		
1 Jan	**179**	**91**
Additions to provisions***	36	93
Use of provisions	(55)	(2)
Release of unused provisions	(53)	(3)
31 Dec	**107**	**179**
Total provisions	**251**	**325**

* Difference between balances of "Provisions for undrawn loan commitments" as at 31 December 2017 and 1 January 2018 is due to the transition to IFRS 9.

** The payment of the liquidation balance to Agrobanka shareholders was commenced in March 2017 and simultaneously provision recorded by the Bank for Agrobanka was used in the amount of CZK 143 million that equals the amount paid.

*** Creation of provision for restructuring in the amount of CZK 30 million in 2018 (2017: CZK 70 million) discussed under the following table.

Provisions for undrawn loan commitments are created for irrevocable loan commitments (refer to the note 37).

The provision created for Agrobanka Praha, a.s. v likvidaci settlement is included in the line "Provisions for legal claims". The balance as at 31 December 2018 of CZK 69 million (2017: CZK 72 million) should be used to complete the settlement.

The Bank created other provisions for the legal obligation of the Bank associated with the retirement of the premises leased for operation, for restructuring, for the long-term employee benefit that entitles employees to receive an award after specified years of service and for collection services.

Other provisions

CZK m	31 Dec 2018	31 Dec 2017
Provisions for assets retirement obligation	46	49
Provisions for restructuring*	30	70
Provisions for employee bonuses and awards	25	33
Provisions for collection services	4	17
Other provisions	2	10
Total other provisions	**107**	**179**

* Provision for restructuring created in 2017 relates to the restructuring of the Bank and related severance payment (CZK 9 million) and restructuring of the branch network of the Bank (CZK 60 million). As of 31 December 2018, the balance of restructuring provision created in 2017 was CZK 0 mil. In 2018, the Bank decided to optimise the branch network and the provision for restructuring of CZK 30 million was created.

34. OTHER LIABILITIES

CZK m	31 Dec 2018	31 Dec 2017
Trade payables	413	465
out of which payables to solicitors	2	117
Payables to employees	106	115
Payables for social and health insurance	56	59
Payables to the state	40	25
Accruals for uninvoiced services/ goods	290	278
Accruals for employees bonuses*	202	262
Clearing account of payment settlement**	0	569
Deferred income and accrued expenses	37	53
out of that rental services and cards services	0	20
Other***	42	43
Total other liabilities	**1,186**	**1,869**

* Accruals for employees bonuses as at 31 December 2018 includes bonuses to members of the Management Board under the EVIP policy of CZK 69 million (2017: CZK 70 million) described in the note 36, liability from the Virtual Share Programme at amount of CZK 0 million (2017: CZK 45 million) described in the note 36 and other management, retention or sales bonuses.

** Line "Clearing account of payment settlement" comprises especially balances from settlement of card transactions and payments transactions processed via CNB clearing system. The line may result either as asset or liability. In the case, the closing balance is an asset, it is recognised within "Other assets".

*** Line "Other" as at 31 December 2018 includes an unsolicited dividend for the year 2016 and 2017 in the amount of CZK 17 million.

35. EQUITY

35.1 SHARE CAPITAL AND SHARE PREMIUM

In order to establish the Bank, GE Capital International Holdings Corporation subscribed for 500 shares of the Bank's original capital with a nominal value of CZK 1 million per share and paid the subscription price of CZK 2,000 million for such shares. No authorised shares are incorporated under the Czech law.

In 1998, the Bank issued additional 10 (ten) ordinary shares with a nominal value of CZK 1 million each and in 2015 an additional 1 (one) ordinary share with the same nominal value. The increases in the Bank's registered capital were recorded in the Commercial Register on 25 March 2003 and on 23 November 2015, respectively.

All of the Bank's shares are ordinary freely transferable shares with no special rights or restrictions attached. The ordinary shares carry, among other rights provided for in law and the Bank's Articles of Association, the right to participate in the General Meeting of the Bank through exercising voting rights (with one vote per share) and the right to share in profits. Since 23 November 2015, the registered capital of the Bank has been CZK 511 million, is fully paid up and is presented as Share capital in the statement of financial position. On 11 April 2016, 511 ordinary registered book-entry shares in the Bank with a par value of CZK 1,000,000 each were split into 511,000,000 fully paid ordinary registered book-entry shares with a par value of CZK 1.00 each.

Since then, the Bank has not issued any ordinary or other shares. The Bank did not acquire any of its own shares.

The latest available list of entities recorded in the registry of book-entry shares of the Bank kept by the Central Securities Depository Prague (Centrální depozitář cenných papírů, a.s.) with a shareholding interest of more than 1% of the Bank's registered share capital is available in the investor relations section of the Bank's website at: https://investors.moneta.cz/shareholder-structure. Such entities may not necessarily be the beneficial shareholders of the Bank but may hold shares of the Bank for the beneficial shareholders (as securities brokers, banks, custodians or nominees).

Please refer to the chapter 4 to the section "Other legal requirements" for the information on the shareholder structure of the Bank as at 31 December 2018. As far as the Bank is aware, no shareholder was a person controlling the Bank as of 31 December 2018.

Overview of related parties holding shares of the Bank as at 31 December 2018:

	2018		2017	
Shareholder	Number of shares	Ownership in%	Number of shares	Ownership in%
Tomáš Spurný, Chairman of the Management Board	87,626	0.017%	74,426	0.015%

No other related person or other related party with a relationship to the Bank held any shares of the Bank as at 31 December 2018 or 31 December 2017.

35.2 STATUTORY RESERVE AND RESERVE FROM REVALUATION OF FINANCIAL ASSETS

Statutory reserve

The reserve fund stood at CZK 102 million as at 31 December 2018 (31 December 2017: CZK 102 million) represents Legal and statutory reserve of MONETA Money Bank, a.s.

Reserve from revaluation of FVTOCI (from 1 January 2018)

CZK m	Bonds	Shares	Deferred Tax	Total
31 Dec 2017*	**(80)**	**9**	**14**	**(57)**
Transition to IFRS 9 (derecognition of Available for sale reserve against related carrying amounts of Investment securities formerly reclassified from AFS to HTM)	80	0	(14)	66
Transition to IFRS 9 (reclassification to Investment securities at FVTPL and derecognition of Available for sale reserve against Retained earnings)	0	(9)	0	(9)
1 Jan 2018*	**0**	**0**	**0**	**0**
Gains and losses in the period recognised in the income statement**	0	0	0	0
Gains and losses in the period recognised in Reserve from revaluation of FVTOCI***	0	0	0	0
31 Dec 2018	**0**	**0**	**0**	**0**

Available for sale reserve (until 31 December 2017)

CZK m	Bonds	Shares	Deferred Tax	Total
1 Jan 2017	**447**	**1**	**(85)**	**363**
Gains and losses in the period recognised in the income statement*	(343)	0	0	(343)
Gains and losses in the period recognised in AFS reserve**	(184)	8	99	(77)
31 Dec 2017* **	**(80)**	**9**	**14**	**(57)**

* On 1 January 2018 part of the Available for sale reserve relating to bonds (incl. deferred tax) was released against investment securities, part relating to shares subsequently measured at FVTPL (incl. deferred tax) was released against retained earnings and part relating to shares subsequently measured at FVTOCI (incl. deferred tax) was released against Reserve from revaluation of FVTOCI.

** Represents net gain from sale of FVTOCI, resp. available for sale financial assets recognised in the profit or loss line "Net income from financial operations".

*** Comprises revaluation of FVTOCI, resp. available for sale financial assets to fair values including revaluation of debt instruments until reclassification to held to maturity (see the note 5.6.3).

36. BONUSES TIED TO THE EQUITY

Virtual Share Programme

The following table shows inputs used in the determination of the fair value of virtual shares under the Virtual Share Programme (as described in the accounting policy note 5.15):

in CZK	2018	2017
Weighted average fair value	**n/a**	**82.40**
Information on how fair value was determined		
Valuation model	n/a	Black-Scholes
Share price	n/a	82.40
Expected volatility	n/a	12.75%
Risk-free interest rate	n/a	0.58%
Weighted average remaining life of options outstanding (in years)	0.00	0.33

The following table reconciles the number of virtual shares outstanding:

	Units in thousands	Weighted average share price in CZK
Outstanding at 1 Jan 2017	**590**	**82.80**
Granted	0	0
Exercised	10	80.51
Forfeited	70	79.60
Outstanding at 31 Dec 2017	**510**	**82.40**
Exercisable at 31 Dec 2017	**0**	**0**
Granted	0	0
Exercised	482	76.20
Forfeited	29	82.40
Outstanding at 31 Dec 2018	**0**	**n/a**
Exercisable at 31 Dec 2018	**0**	**0**

The table below reconciles the outstanding liability resulting from cash-settled share-based payments under the Virtual Share Programme recognised within the line "Other liabilities":

CZK m	
Outstanding liability to employees at 1 Jan 2017	**18**
Total expense recognised in 2017	2
of which Personnel expenses recognised in 2017	27
of which Personnel expenses compensation from GECIHL	(25)
Outstanding liability to employees at 31 Dec 2017	**45**
Total expense recognised in 2018	(3)
of which Personnel expenses recognised in 2018	1
of which Personnel expenses compensation from GECIHL	(4)
Payment of liability	(46)
Outstanding liability to employees at 31 Dec 2018	**0**

Outstanding receivable from GECIHL for the Virtual Share Programme was fully repaid in 2018 (31 December 2017: CZK 42 million). For further details about the Virtual Shares Programme see the note 5.15.

Executive Variable Incentive Plan (EVIP)

In 2017, the Supervisory Board adopted the Executive Variable Incentive Plan (EVIP) remuneration policy relevant for the Management Board members and other so-called Material Risk Takers for performance in (fiscal) year 2017 and onward. For more details about EVIP (esp. total benefits awarded and paid in 2017 and 2018) see section 4.10 of the Annual report.

The total balance of accrual for EVIP disclosed in "Other liabilities" as at 31 December 2018 is CZK 69 million (31 December 2017: CZK 70 million), of which CZK 40 million (31 December 2017: CZK 37 million) relates to cash settled share based payment remuneration that will be paid in the following years in three cash instalments as defined in EVIP conditions regardless potential termination of the Management Board. This variable part of EVIP bonuses is tied to the total shareholders return (TSR), hence the amount paid will vary according to changes in the market price of the Bank's shares and profit distributions of the Bank (dividend paid).

The TSR is calculated as follows:

$$\text{MMB TSR} = 1 + \frac{(\text{MMB Share Price End} - \text{MMB Share Price Begin}) + \text{Dividend per Share}}{\text{MMB Share Price Begin}}$$

Where:

- Adjusted for relative capital change (e.g. dilution of total MMB shares traded).
- MMB fiscal and performance evaluation year defined as January 1 - December 31.
- MMB Share Price End means the average daily closing price of the Bank's shares at the Prague Stock Exchange for the first 20 trading days of January in the respective year in the period from the performance (fiscal) year + 1 through to the performance (fiscal) year + 4.
- MMB Share Price Begin means the average daily closing price of the Bank's shares at the Prague Stock Exchange for the first 20 trading days of January in the year preceding the year for which the MMB Share Price End is calculated.
- Dividend per Share shall mean all dividends paid out in the period from 1 January through 31 December in the year for which the MMB Share Price Begin is calculated, expressed as CZK per share. Adjusted for relative capital change (e.g. dilution of total MMB shares traded).

For accruals as at 31 December 2018, TSR 0.966 was applied to the variable part of EVIP bonuses (2017: TSR 1.093).

For the variable part of EVIP bonuses actually paid in 2019 TSR 0.973 (2018: TSR 1.14) will be applied.

37. CONTINGENT LIABILITIES

37.1 LOAN COMMITMENTS AND ISSUED GUARANTEES

CZK m	31 Dec 2018	31 Dec 2017
Irrevocable loan commitment	23,019	19,683
Issued guarantees	1,089	2,603
Credit limits on issued guarantees*	588	807
Issued letter of credit	37	1
Total loan commitments and issued guarantees – gross carrying value	**24,733**	**23,094**
Provisions to expected credit losses	(49)	(38)
Total loan commitments and issued guarantees – netto carrying value	**24,684**	**23,056**

* This line represents committed limits on guarantees that can be withdrawn by customers.

37.2 SIGNIFICANT LEGAL DISPUTES

The significant legal disputes include the following pending legal disputes against the Bank: the court actions by Serbina Consulting a.s. (formerly ARC equity services a.s., and previously, Arca Services a.s., hereafter "Serbina Consulting") against the Bank in connection with the 1998 acquisition of a part of banking business of Agrobanka Praha, a.s., currently Agrobanka Praha, a.s. v likvidaci ("Agrobanka"; the "Acquisition").

37.2.1 Litigation Risks in Respect of the 1998 Acquisition of a Part of Banking Business of Agrobanka

In connection with the court actions by Serbina Consulting, the Bank notes that it is subject to the risks set out below in connection with the Acquisition and the ongoing liquidation of Agrobanka which could have a material adverse effect on the reputation, business, results of operations and financial condition of the Bank and the value of its shares.

Following the completion of the Acquisition in 1998, certain Agrobanka shareholders and members of its supervisory board filed claims against the Bank and Agrobanka in the Czech courts, alleging that the Acquisition was not legal, valid and enforceable. If this had been found to have been the case at the time, the consequences could have been the unwinding of the Acquisition and the return by the Bank to Agrobanka of all assets and/or liabilities deemed to belong to Agrobanka or, alternatively, a payment by the Bank of their financial equivalent to Agrobanka.

In 2010, the Bank and certain other entities affiliated with GE (the sole shareholder of the Bank at that time) reached a general settlement with Agrobanka and shareholders holding in aggregate more than 60 per cent of the shares in Agrobanka as a result of which: (i) the claims set out above against the Bank were withdrawn and terminated; and (ii) Agrobanka and its shareholders bound by the settlement waived any claims against the Bank in connection with the Acquisition (the "2010 Settlement"). In September 2014, the general meeting of Agrobanka approved the liquidation balance of Agrobanka in the aggregate amount of approx. CZK 177.5 million by more than 96% majority of present Agrobanka shareholders in line with the 2010 Settlement.

Legal Challenges by Serbina Consulting (formerly Arca Group)

In October 2016, Serbina Consulting (at that time operating under the name Arca Services a.s.), a minority shareholder of Agrobanka not bound by the 2010 Settlement and, to our best knowledge, a member of Arca Group at that time, filed court action against the Bank, Agrobanka and Mr. Jiří Klumpar (the forced administrator of Agrobanka in 1998) challenging the legality, validity and enforceability of the Acquisition. According to public records, Serbina Consulting is currently solely managed by 23-year old Kamila Serbinová, who was apparently appointed to the company in 2018, when the company was renamed, and its seat moved from Prague to northern Moravia.

In August 2018, the court action brought by Serbina Consulting challenging the legality, validity and enforceability of the Acquisition was dismissed in full by the Municipal Court in Prague. The Municipal Court stated in its reasoning that, inter alia, Serbina Consulting does not have any interest let alone a compelling legal interest to file such a claim and that with respect to the circumstances the litigation claim of Serbina Consulting might be of a frivolous nature. Serbina Consulting appealed against the decision of the Municipal Court in Prague and the Bank will continue to vigorously contest the action of Serbina Consulting on appeal.

Shortly after dismissal of the above described claim of Serbina Consulting by the Municipal Court in Prague, Serbina Consulting filed another court action challenging again the legality, validity and enforceability of the Acquisition, with the Municipal Court in Prague against Agrobanka, VALUE ADDED, a.s. (the liquidator of Agrobanka) and the Bank. In the court action, Serbina Consulting seeks a court declaration that, as a result of the alleged invalidity of the Acquisition, (i) the liquidation balance of Agrobanka shall include also (a) the part of Agrobanka's business acquired by the Bank in the Acquisition (or its financial equivalent) and (b) a receivable which Agrobanka allegedly has against the Bank due to an asserted unjust enrichment on the Bank's part resulting from the Bank's use of the said part of Agrobanka's business and, hence, (ii) the aggregate amount of Agrobanka's liquidation balance shall be increased from approx. CZK 177.5 million to approx. CZK 42 billion. In December 2018, the Bank responded to the court action and rejected all Serbina Consulting's claims, including the fictitious and completely unfounded calculation of the aggregate amount of Agrobanka's liquidation balance made by Serbina Consulting, as entirely baseless, frivolous and abusive.

In this respect, the Bank points out that Serbina Consulting (at that time under the name Arca Services a.s.) acquired shares in Agrobanka only in the course of 2016, i.e., (i) two years after the liquidation balance of Agrobanka was approved by its shareholders and (ii) almost twenty years after the Acquisition was completed. Accordingly, the information concerning the final amount of Agrobanka's liquidation balance as approved by Agrobanka's shareholders had been available to Serbina Consulting before it decided to acquire shares in Agrobanka. The circumstances suggest that the court actions of Serbina Consulting are driven by an ulterior purpose, and not by a genuine Agrobanka's liquidation-related claim. The Bank also notes that according to data from the Czech Central Securities Depository Serbina Consulting is not a shareholder of the Bank.

The Bank is convinced (as the Bank and Agrobanka also declared in their joint submission to the Municipal Court in Prague of October 2017) that the Acquisition is legal, valid and enforceable, Serbina Consulting, as well as any Agrobanka shareholders, directors and members of the supervisory board, does not have the standing to take legal action to claim otherwise, and that both court actions of Serbina Consulting are entirely baseless. Likewise, the Czech National Bank declared the same in its statement dated 11 August 2017 and published on its official webpage that it considers the Acquisition valid.

The Bank notes that the Municipal Court in Prague (as the trial court) and the High Court in Prague (as the appellate court) have also already dismissed similar court actions filed by other Agrobanka's shareholders.

In any event, any unwinding of the Acquisition would be difficult in practice given that more than 20 years have elapsed since the completion of the Acquisition and substantially all assets and liabilities that were originally acquired by the Bank from Agrobanka no longer exist. Similarly, if any payment by the Bank of a financial equivalent of such assets and/or liabilities to Agrobanka was awarded, it is unclear how the actual amount of such payment would be determined by court.

Other potential risks

Furthermore, there is a risk that also other Agrobanka shareholders not bound by the 2010 Settlement may attempt to challenge the Acquisition and, even though the 2010 Settlement documents provide that neither Agrobanka nor shareholders bound by the 2010 Settlement may challenge the legality, validity and enforceability of the Acquisition, there is also no guarantee that the 2010 Settlement parties will not do so in breach of the terms and conditions of the 2010 Settlement. No such claims have been notified to the Bank until the date of these financial statements.

Finally, negative developments in relation to Agrobanka, may generate negative publicity which may, in turn, have a material adverse effect on the reputation, business, results of operations, financial condition and/or prospects of the Bank and the value of its shares. The Bank follows any such negative publicity and thoroughly reacts to any attempts to harm its good reputation, business and prospects.

Current status of Agrobanka liquidation

Agrobanka is in the final phase of its liquidation, its shares were cancelled in 2016 and, as at the date hereof, almost all Agrobanka shareholders have received their respective payments of the liquidation balance either directly or by its depositing in court escrow.

In this connection, we note that, under the applicable corporate law, it is possible to revive even an entity which was fully liquidated and ceased to legally exist in case any unknown assets are discovered. The Bank believes that the risks associated with renewal of the liquidation of Agrobanka after its deregistration will lessen over time.

37.2.2 Legal Challenges of General Meeting Resolutions by Arca Group

37.2.2.1 Legal Challenge of Resolutions of General Meeting Held on 26 October 2017

On 16 January 2018, Arca Capital Bohemia, a.s., a minority shareholder of the Bank holding according to data from the Czech Central Securities Depository 10 shares of the Bank and, to our best knowledge, a member of Arca Group, filed with the Municipal Court in Prague action against the Bank challenging the validity of the resolutions adopted by the General Meeting of the Bank held on 26 October 2017 concerning approval of the internal regulation on remuneration of the Supervisory Board and Audit Committee members and respective template service contracts. The Bank believes that the concerned General Meeting resolutions are valid and were adopted in compliance with applicable law, the Articles of Association of the Bank and good morals, and that the court action is entirely baseless.

In September 2018, the Municipal Court in Prague dismissed in full the claims of Arca Capital Bohemia, a.s. and confirmed that the General Meeting of the Bank held on 26 October 2017 was conducted in full accordance with law and Articles of Association of the Bank and that all resolutions adopted at the General Meeting of the Bank held on 26 October 2017 are valid and effective.

Arca Capital Bohemia, a.s. appealed against the decision of the Municipal Court in Prague. In January 2019, the Bank responded to the appeal and rejected all the claims asserted by Arca Capital Bohemia, a.s. in the appeal as entirely baseless. The Bank will continue to vigorously contest the court action of Arca Capital Bohemia, a.s. on appeal.

37.2.2.2 Legal Challenge of Resolutions of Annual General Meeting Held on 25 April 2018

On 24 July 2018, a minority shareholder-individual, to our best knowledge associated with Arca Group and holding according to data from the Czech Central Securities Depository 5 shares of the Bank, filed with the Municipal Court in Prague action against the Bank challenging the validity of all resolutions adopted at the Annual General Meeting held on 25 April 2018. The claimant asserts that the Annual General Meeting was allegedly inquorate and the resolutions were allegedly not adopted by the requisite percentage of the votes.

The Bank believes that the Annual General Meeting was quorate, all resolutions were duly adopted by the Annual General Meeting in compliance with applicable law, the Bank's Articles of Association and good morals, and has made several submissions to the Municipal Court in Prague rejecting all the plaintiff's claims as entirely baseless. The Bank will continue to vigorously contest the court action.

38. LEASES

Operating leases – the Bank as a Lessee

The Bank leases mainly office or branch property. A majority of vehicles leases were terminated during 2018. Property leases are both for indefinite and definite period (usually 5 years). Vehicles are leased for maximum for 5 years.

The following table summarises non-cancellable operating lease commitments not disclosed in the financial statements:

Non-cancellable operating lease commitments

CZK m	31 Dec 2018	31 Dec 2017
No later than one year	230	245
Later than one year but not later than five years	306	648
Later than five years	3	542
Total minimum lease payments	**539**	**1,435**

Expenses resulting from non-cancellable operating leases recognised in profit or loss:

CZK m	2018	2017
Lease payments expensed within the period	294	311
Less received sub-lease payments	(8)	(8)
Total administrative expenses for period	**286**	**303**

Sub-lease payments represent rent charge to affiliated companies.

Finance leases – the Bank as a Lessee

The Bank leases various banking equipment such as bill counters and some IT equipment with an average lease term of 5 years. Such leases are classified as finance leases on inception. The lessor is the legal owner of the leased asset during the lease term according to Czech law, and after the end of the lease term legal ownership is transferred to the Bank.

Minimum Lease Payments - Finance leases

CZK m	31 Dec 2018	31 Dec 2017
No later than one year	4	1
Later than one year but not later than five years	8	3
Total minimum lease payments	**12**	**4**
Total outstanding liability	**12**	**4**

39. TRANSACTIONS WITH RELATED PARTIES

The Bank's related parties include subsidiaries, associates, key management personnel, Supervisory Board and their close family members.

Transactions provided by the Bank to related parties represent bank services (esp. loans and interest bearing deposits); expenses from transactions with related parties comprise remunerations to members of Supervisory Board, Management Board and other Key Executive Managers. The former ultimate parent irrevocably and unconditionally guaranteed the due and punctual payments due to the landlord under the terms and conditions of lease agreement of the Bank's headquarter buildings. The unconditional guarantee was terminated in January 2017.

Transactions with related parties are carried out in the normal course of business operations and conducted under normal market conditions. The balances at year end are unsecured.

The following transactions were undertaken with related parties in 2018:

2018 CZK m	Subsidiaries	Associates	Key members of the management* and Supervisory Board	Total
Loans and receivables to customers	13,111	0	16	13,127
Property and equipment	7	0	0	7
Other assets	78	0	0	78
Due to customers	106	0	19	125
Other liabilities	19	0	0	19
Interest and similar income	84	0	0	84
Fee and commission expense	3	0	0	3
Operating expenses	(18)	(14)	(108)	(140)
Dividend income	510	2	0	512
Other operating income	82	0	0	82

The following transactions were undertaken with related parties in 2017:

2017 CZK m	Subsidiaries	Associates	Key members of the management* and Supervisory Board	Total
Loans and receivables to customers	11,104	0	17	11,121
Property and equipment	1	0	0	1
Intangible assets	14	0	0	14
Other assets	61	0	0	61
Due to customers	268	0	24	292
Other liabilities	15	0	0	15
Interest and similar income	71	0	0	71
Fee and commission expense	3	0	0	3
Operating expenses	(34)	(14)	(115)	(163)
Dividend income	1,466	2	0	1,468
Other operating income	61	0	0	61

* Includes members of Management Board and other Key Executive Managers.

Loans and receivables to customers at the amount of CZK 13,111 million as of 31 December 2018 (31 December 2017: CZK 11,104 million) represent intercompany loans to Bank's subsidiaries (MONETA Leasing, s.r.o., MONETA Auto, s.r.o.).

The line "Operating expenses" from transactions with key members of the management and Supervisory Board includes wages, compensation and benefits that were paid to or accrued by members of the Management Board, Supervisory Board and other Key Executive Managers that during the year.

39.1 REMUNERATION TO MEMBERS OF SUPERVISORY BOARD, MANAGEMENT BOARD AND OTHER KEY EXECUTIVE MANAGERS

The following remuneration was paid or accrued to the key members of the management and Supervisory Board during the year:

CZK m	2018	2017
Short-term employee benefits, including:	**82**	**87**
Members of the Management Board and Other Key Executive Managers	69	76
Members of the Supervisory Board	13	11
Other long-term employee benefits, including:	**26**	**43**
Members of the Management Board and Other Key Executive Managers	26	43
Pay-outs from stock option plans	**0**	**5**
Members of the Management Board and Other Key Executive Managers	0	5
Total remuneration	**108**	**135**

This table shows wages, compensation, benefits and payments relating to retention programmes that were paid to or accrued by members of the Management Board, Supervisory Board and other Key Executive Managers during the year. It also includes long-term benefits paid during the year that were granted in previous years.

40. SEGMENT REPORTING

The segment reporting is prepared in accordance with IFRS 8 Operating segments.

Operating segments are reported in a manner consistent with reporting to the Management Board and other Key Executive Managers who are responsible for allocating resources and assessing performance of operating segments.

The Bank's operating segments are the following: Commercial, Retail, Other/Treasury.

The Commercial segment consists of deposits, investment loans, revolving products, financing of real estate and other services related to transactions with small and medium-sized enterprises, corporate clients, financial institutions, and public sector institutions. Services are provided through the branch network, online channels or external sales channels.

The Retail segment focuses on deposits, loans, revolving products, credit cards, mortgages and other transactions with retail customers. Retail customers are comprised of private individuals, the Bank's employees and employees of Bank's partners. This segment provides services to citizens through the branch network, online channels and external sales channels.

The Other/Treasury segment provides primarily the treasury function. The focus of the segment is on foreign exchange transactions, interest rate swaps, investment in debt securities, equity investments, other non-interest bearing assets and other operations that cannot be associated with above mentioned segments.

The Bank has no client or economic group for which the proceeds of realised transactions exceeded 10% of the income of the Bank. Segment reported revenues, below, represent only revenues realised with external customers.

Cross-funding among operating segments is not material, because most of the liabilities are represented by customers' current accounts which bear no interest or only 0.1% p.a.

The Bank's income is generated within the territory of the Czech Republic and there are no intersegment revenues.

CZK m	Commercial	Retail	Other/ Treasury	Total
2018				
Interest and similar income	1,742	4,944	532	7,218
Interest expense and similar charges	(72)	(187)	(128)	(387)
Net fee and commission income	427	1,292	49	1,768
Dividend income	0	0	512	512
Net income from financial operations	0	0	394	394
Other operating income	57	433	0	490
Total operating income	**2,154**	**6,482**	**1,359**	**9,995**
Net impairment of financial assets	(22)	(141)	(4)	(167)
Risk adjusted operating income	**2,132**	**6,341**	**1,355**	**9,828**
Total operating expenses				**(4,604)**
Profit for the year before tax				**5,224**
Taxes on income				(816)
Profit for the year after tax				**4,408**
Total assets of the segment	**72,567**	**76,573**	**57,688**	**206,828**
Net value of loans and receivables to customers	**63,831**	**71,864**	**0**	**135,695**
Total liabilities of the segment	**55,654**	**95,469**	**29,133**	**180,256**

CZK m	Commercial	Retail	Other/ Treasury	Total
2017				
Interest and similar income	1,433	5,244	168	6,845
Interest expense and similar charges	(41)	(157)	(7)	(205)
Net fee and commission income	412	1,376	24	1,812
Dividend income	0	0	1,468	1,468
Net income from financial operations	0	0	706	706
Other operating income	31	242	(0)	272
Total operating income	**1,835**	**6,705**	**2,358**	**10,898**
Net impairment of financial assets	(153)	(336)	0	(489)
Risk adjusted operating income	**1,682**	**6,369**	**2,358**	**10,409**
Total operating expenses				**(4,598)**
Impairment of investments in subsidiaries and associates				**(1,286)**
Profit for the year before tax				**4,525**
Taxes on income				(865)
Profit for the year after tax				**3,660**
Total assets of the segment	**66,450**	**63,471**	**67,490**	**197,411**
Net value of loans and receivables to customers	**57,783**	**59,252**	**0**	**117,035**
Total liabilities of the segment	**51,346**	**84,472**	**34,747**	**170,565**

41. RISK MANAGEMENT

The Bank aims to achieve competitive returns at an acceptable risk level as part of its business activities. Risk management covers the control of risks associated with all business activities in the environment in which the Bank operates and ensures that the risks taken are in compliance with regulatory limits, as well as falling within its risk appetite.

When managing risks, the Bank relies on three pillars:

- people (the qualifications and experience of its employees);
- risk governance (including well-defined information flows, processes, model governance and responsibilities); and
- risk data (including the use of sophisticated analytical instruments and technologies).

This combination has supported the Bank's success and the stability of its economic results.

The Bank's risk management processes are underpinned by advanced analytics based on an enterprise-wide data warehouse and centralised underwriting process. This allows the Bank to price on a risk basis, according to its in-house scoring and rating models.

The level of risk is measured in terms of its impact on the value of assets and/or capital as well as on the profitability of the Bank. To determine this, the Bank evaluates potential effects on its business of changes in political, economic, market and operational conditions, as well as changes in clients' creditworthiness.

41.1 CAPITAL MANAGEMENT

The framework used for capital management involves monitoring and complying with the capital adequacy limit in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended. Furthermore, from a local perspective, the regulatory framework is given by Banking Act No. 21/1992 Coll., as amended, and CNB Decree No. 163/2014 Coll., as amended.

The Bank manages its capital in order to meet the regulatory capital adequacy requirements prescribed in the abovementioned regulations and to be able to continue its operations on a going concern basis while maximising the return to shareholders through the optimisation of the debt and equity balance.

The minimum regulatory capital requirement (Pillar I) is equal to 8% of risk weighted assets. Additionally, in 2018, the Bank was obliged to maintain the Pillar II capital requirement in the amount of 3%. At the end of 2018, the Bank was also obliged to maintain a mandatory capital conservation buffer of 2.5% and a countercyclical capital buffer of 1% that were applied for the whole Czech market. Therefore, the overall capital requirement on an individual and a consolidated basis was 14.5% as of 31 December 2018.

The Bank decided to maintain as a target a capital adequacy ratio at 15.5%.

Since 1 January 2019 the Bank is obliged to maintain the Pillar II capital requirement in the amount of 2.6% and a countercyclical buffer of 1.25%, thus the overall capital requirement on an individual and a consolidated basis of 14.35%. Since 1 July 2019 a countercyclical buffer will increase to 1.5%, which means the overall capital requirement on an individual and a consolidated basis of 14.6%.

To calculate the regulatory capital requirement for credit risk on an individual basis the Bank uses the standardised approach. To calculate the capital requirement for operational risk, the Bank uses the alternative standardised approach on an individual basis. However, the Czech National Bank has prescribed that the capital requirement for operational risk on an individual basis shall not fall below 75% of the capital requirement for operational risk per the standardised approach. The Bank has started to calculate regulatory capital requirements against market risk of the Trading book since 3Q 2018.

In addition to the Pillar I and to ensure a robust capital management framework, the Bank performs under Pillar II a calculation of internal capital requirements, regular capital planning and stress testing. To calculate the internal capital requirement, the Bank applied methods similar to advanced approaches according to regulatory Pillar I on a probability level at least 99.9%.

The Bank creates a mid-term capital outlook on a regular basis which predicts capital adequacy based on the predicted development of external environment, financial markets and the Group's portfolio characteristics. Next to the base capital plan, the Bank assesses the capital position under several stress scenarios. These are usually based on a worsening of the macroeconomic environment

and key risks, which are identified during a Pillar II workshop with the senior management of the Bank.

The Bank's capital primarily consists of share capital, share premium and unallocated profit from prior years that is the highest quality Common Equity Tier 1 capital.

The Bank met all regulatory requirements regarding capital adequacy in 2017 and 2018, even after the payment of the dividends in 2017 and 2018.

Regulatory capital and its components:

CZK m	31 Dec 2018	31 Dec 2017
Common Equity Tier 1 capital CET1		
Subscribed share capital	511	511
Share premium	5,028	5,028
Statutory reserve and Retained earnings excl. profit for the year	17,597	17,706
Reserve from revaluation of FVTOCI	0	n/a
Available for sale reserve	n/a	(57)
Items deductible from Tier 1 capital	(1,558)	(1,161)
Regulatory Capital	**21,578**	**22,027**
Total Risk Exposure (Total Risk Weighted Assets)	**125,666**	**121,197**
Regulatory capital adequacy requirement	14.5%	11.0%
Capital requirement	18,222	13,332
Capital adequacy ratio	17.2%	18.2%

41.2 CREDIT RISK

Credit risk is the risk of loss for a party resulting from the failure of a counterparty to meet its obligations arising from the terms and conditions of the contract under which the party became the creditor of this counterparty. The Bank is exposed to credit risk in particular in the case of credits granted, non-approved debits, guarantees provided, letters of credit issued and interbank deals.

41.2.1 Credit Risk Management (Policies Applied after 1 January 2018)

Credit risk management is organised along the following approval processes:

Individually managed exposures represent exposures to entrepreneurs and SMEs where loans and lines of credit are approved based on an individual assessment of the borrower's creditworthiness in connection with the loan size.

Portfolio managed exposures include exposures to natural persons, natural persons acting as entrepreneurs, and SMEs where loans and lines of credit are approved using an automated credit scoring process. Mortgages have a specific position as mortgages form a part of the retail exposures (usually portfolio managed) but a number of the processes and methods used fall within the category of individually managed exposures.

The exposures to counterparties on the financial market include the exposures to financial institutions and governments. These exposures primarily arise as a part of liquidity management and market risks management. The credit risk of these exposures is managed through limits to countries and counterparties approved based on external ratings.

Individually managed exposures

(a) Internal Rating

The Bank uses internal statistical rating models, which uses the most recent available qualitative and quantitative information, to estimate the probability that a commercial borrower will default in the following 12 months. The rating model assigns an obligor rating (OR) grade from zero to twenty-one to borrowers that are not in default. Borrowers in default are given the internal rating grade twenty-two (OR22).

In order to ensure methodological and factual accuracy, models are monitored on a regular basis. Internal rating is used for the definition of approval authorities and categorisation (41.2.2).

(b) Approval Process

The approval process is based on an individual evaluation of a borrower and is executed at the Bank. Approval authorities are set on an individual basis and are determined by combining the level of exposure, the borrower's internal rating, maturity, product and collateral.

As part of the approval process, the Bank assesses the financial situation of the prospective borrower, the persons economically related to the borrower and the collateral being offered using internal and external data sources, including credit registers.

(c) Monitoring

All SME clients are monitored both individually and on a portfolio basis.

Reports on the quality of the commercial portfolio are discussed by the Credit Committee (CRCO) each month.

Individually managed exposures above a certain threshold are also subject to at least a yearly credit review, which follows the approval process similar to new exposures.

(d) Recovery of Debtors' Receivables

The Bank manages the Bank's loans where recoverability of the exposure is not reasonably assured with the aim to achieve maximum recovery. The Bank engages affected borrowers with a view to recovering the Bank's exposure. This may involve taking legal action against the borrower, restructuring the loans, taking relevant legal steps to realise collateral, debt sale or representing the Bank in insolvency proceedings.

Portfolio managed exposures

(a) Scoring Instruments

When approving portfolio managed exposure, internal or external scoring models are used. These statistical models classify individual borrowers into categories of homogeneous exposures using socio-demographic and behavioural data. The development of these scoring models and monitoring of predictive power of all scoring models is carried out by the Bank. The calculated score for the commercial portfolio managed exposures is, similarly to individually managed exposures, mapped to the OR scale. The calculated score for retail portfolio managed performing exposures is grouped into five credit rating (CR) grades with associated OR grades as outlined below:

- CR1: OR13 and better;
- CR2: OR14 – OR15;
- CR3: OR16 – OR17;
- CR4: OR18 – OR19;
- CR5: OR20 – OR21.

Borrowers in default are given the internal rating grade twenty-two (OR22).

In order to ensure methodological and factual accuracy, models are monitored on a regular basis.

(b) Approval Process

The approval process is based on the use of internally or externally developed scoring models and access to external data sources (in particular credit registers). Approval strategies are set by the Bank.

The Bank underwriters may approve individual exposures that do not pass the automatic approval process.

Mortgages are approved based on an individual assessment of the prospective borrower supported by input from internally-developed scoring models with approval required from an authorised underwriter from the Bank.

(c) Monitoring

The Bank regularly monitors segments of the portfolio managed exposures, which are reported to the Credit Committee (CRCO).

(d) Collection

The Bank has a comprehensive collection process which includes an automated collection system. The Bank optimises its overall recovery capacity and performance by using external capabilities (collection agencies and law offices) as well as debt sales of non-performing receivables.

Counterparties in the Financial Market

(a) External Rating

The main tool for measuring the credit risk of countries and counterparties (financial institutions and governments) with respect to transactions in financial markets is the rating set by international rating agencies: Standard & Poor's, Moody's and Fitch. The Bank sets individual limits for individual countries and counterparties, for which it requires a minimum short-term rating of A-1/P-1/F1 (exceptions must be properly approved).

(b) Approval Process

The approval of limits is based on an individual assessment with approval required from the Chief Risk Officer (CRO) or an authorised approver from the Bank. The approval levels are determined individually and are based primarily on the combination of the limit, external rating, maturity and product. In selected cases, the prior approval of the Credit Committee (CRCO) is required.

(c) Monitoring

All counterparties and countries with a determined limit are monitored individually. The subject of the monitoring is primarily the external rating. Remedial measures (in particular a

decrease/cancellation of the limit, categorisation of receivables) are approved by an authorised approver from the Bank.

The Bank monitors compliance with limits. Any breach of limits is escalated to the Treasurer and Chief Risk Officer (CRO). In addition, intentional material limit breaches are escalated also to the Chief Financial Officer (CFO) and breaches over CZK 100 mil. to the Asset and Liability Committee (ALCO).

41.2.2 Categorisation of Exposures

The Bank assigns exposures to individual categories in compliance with CNB Decree No. 163/2014 Coll. The categorisation is used for regulatory reporting, impairment testing and calculation of loan loss allowances. The categorisation is as follows:

- exposures without borrower default are classified as performing;
- exposures where the borrower has defaulted are classified as non-performing.

A default of a borrower is recognised if, given the borrower's financial and economic situation, full repayment of exposures toward such a borrower is unlikely. The Bank considers a borrower to be in default mainly if

- the material part of principal, interest or fees of any borrower's exposure is more than 90 days past due;
- any material exposure was forborne in the past 6 months due to a deterioration in the borrower's financial situation;
- the borrower's internal rating is OR22;
- a competent court has issued a decision on settling the borrower's bankruptcy via a discharge from debts or reorganisation;
- a borrower is subject to bankruptcy or settlement proceedings.

41.2.3 Credit Risk Management
(Policies Applied before 1 January 2018)

Individually-managed exposures

(a) Internal Rating

The Bank used an internal statistical rating model, which used the most recent available qualitative and quantitative information to estimate the probability that a commercial borrower would default in the following 12 months. The rating calculation was based on an assessment of ratios of two types. The ratios of first type (financial) were derived from financial statements and reflected the financial strength of a borrower. The ratios of second type (non-financial) were used to assess the borrower based on qualitative information, which reflected non-financial attributes of the borrower's business. The financial ratios were more significant. The rating model assigned an obligor rating (OR) grade from zero to twenty-one to borrowers that were not in default. Borrowers in default were given the internal rating grade twenty-two (OR22 or ORD). The 23 ORs and their associated probabilities of default were:

a) OR0 to 5: 0% to 0.07%;
b) OR6 to 10: 0.08% to 0.39%;
c) OR11 to 15: 0.59% to 3.03%;
d) OR16 to 21: 4.55% to 35.00%;
e) ORD: 100%.

The predictive power of the rating model was reviewed periodically and significant changes in the model, if any, were approved by the Enterprise Risk Management Committee (ERMC).

Portfolio-managed exposures

(a) Scoring Instruments

When approving portfolio-managed exposure, internal scoring models were used. These statistical models classified individual borrowers into categories of homogeneous exposures using socio-demographic and behavioural data. The development of these scoring models and monitoring of their predictive power was carried out by the Planning, Reserving & Models department of the Risk Division. The calculated score for the commercial portfolio-managed exposures was, similarly to individually-managed exposures, mapped to the OR scale. The calculated score for retail portfolio managed exposures was grouped into five credit rating (CR) grades with associated probabilities of default in the following 12 months as outlined below:

a) CR1: 1.3% and lower;
b) CR2: 1.3% to 3.2%;
c) CR3: 3.2% to 7.7%;
d) CR4: 7.7% to 15.8%;
e) CR5: 15.8% and greater.

For reporting of the overall portfolio quality, the commercial OR grades were mapped to the above-mentioned five CR grades. In order to ensure methodological and factual accuracy, models were monitored on a regular basis.

Categorisation of Receivables

The Bank assigned receivables to individual categories in compliance with CNB Decree No. 163/2014 Coll. The categorisation was used for regulatory reporting, impairment testing and calculation of loan loss allowances. The categorisation was as follows:

Receivables without Borrower Default

The receivables without borrower default were classified as performing and without impairment. The Bank assigned receivables without borrower default to the following sub-categories:

(a) Standard Receivables

A receivable was regarded as "standard" if there was no reason to doubt that it would be repaid in full. The Bank included in this category receivables where the principal, interest and fees were being duly paid, with none of them being more than 30 days past due. None of the receivables from the borrower had been forborne in the last two years due to the deterioration in the borrower's financial situation. In the case of individually managed commercial receivables the current value of the borrower's internal rating was better than OR18 and receivables were not in work-out process.

(b) Watch Receivables

A receivable was regarded as "watch" if, given the borrower's financial and economic situation, it was likely to be repaid in full. The Bank included in this category receivables where the principal or interest and fees were being paid with some problems, but none of them are more than 90 days past due. None of the receivables from the borrower were forborne in the last six months due to the deterioration in the borrower's financial situation. In addition, this category included individually managed commercial receivables with the borrower's internal rating from OR18 to OR21 (including).

Receivables with Borrower Default

Receivables where the borrower had defaulted were classified as non-performing and impaired and assigned to one of three sub-categories:

(a) Sub-standard Receivables

A receivable was regarded as "sub-standard" if, given the borrower's financial and economic situation, its full repayment was uncertain, although its partial settlement was highly likely. The Bank included in this category receivables where the principal, interest or fees were being paid with problems, but with none of them more than 180 days past due. In addition, sub-standard receivables included receivables that were forborne in the past 6 months due to the deterioration in the borrower's financial situation, and a commercial individually-managed receivable with the borrower's internal rating of OR22.

(b) Doubtful Receivables

A receivable was regarded as "doubtful" if, given the borrower's financial and economic situation, its full repayment was highly unlikely, although its partial settlement was possible and likely. The Bank included in this category receivables where the principal, interest or fees were being paid with problems, but with none of them being more than 360 days past due. A receivable was also considered doubtful if a competent court has issued a decision on settling the borrower's bankruptcy via a discharge from debts or reorganisation.

(c) Loss Receivables

A receivable was regarded as "loss" if, given the borrower's financial and economic situation, its full repayment was impossible. The expectation was that such receivable would not be repaid or would only be repaid in part in a very small amount. The Bank included in this category receivables where principal, interest or fees were more than 360 days past due. A receivable from a borrower who was subject to bankruptcy or settlement proceedings was also considered to be a loss receivable.

The Bank automatically assessed the following criteria for this categorisation on a daily basis:

- The fulfilment of debt service (not assessed in non-approved debits on current accounts up to CZK 2,000);
- The borrower's internal rating (in respect of individually-managed commercial receivables);
- Completed/not completed forbearance of the debt; and
- The announcement of a bankruptcy or allowed discharge from debt or reorganisation or settlement to the borrower's assets.

41.2.4 Collateral Assessment

The Bank determines the nature and extent of collateral that is required either by individually assessing a prospective borrower's creditworthiness or as an integral part of the given

credit product. The Bank considers the following types of collateral acceptable for mitigating the credit risk on a loan or line of credit:

- cash;
- securities;
- account receivables;
- bank guarantees;
- guarantee of a reliable third party;
- insurance;
- real estate properties; and
- movable assets (machinery, equipment, breeding stock).

For mortgages real estate collateral is used, for commercial loans all types of collateral may be used. Retail consumer loans and credit cards and overdraft are unsecured.

To determine the realisable value of a collateral, the Bank uses external expert appraisals or internal assessments made by the Collateral Management department of the Risk Division, which is a department operating independently of the Bank's sales departments. The ultimate realisable value of the collateral is then set by applying collateral acceptance ratios reflecting the Bank's ability to realise the collateral in case of default. Maximum values of collateral acceptance ratios are approved by the Credit Committee (CRCO).

The collateral quality has not changed during 2018.

The Bank did not hold financial instruments for which an entity has not recognised a loss allowance because of the collateral during 2018.

41.2.5 Allowances Calculation
(Policy Applied after 1 January 2018)

Allowances for credit losses are determined using an expected credit loss approach as required under IFRS 9.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

To calculate allowances, the portfolio is divided into three stages, which are further segmented into commercial and retail exposures by product. Exposures with borrower default belong to Stage 3. Performing exposures are assigned into Stage 2 when significant increase in credit risk (SICR) occurred. The Bank considers as SICR mainly the following situations:

- days past due are higher than 30;
- similar qualitative criteria suggest deterioration in credit risk; or
- a relative change of remaining lifetime probability of default (PD) at origination and at reporting is higher than relative threshold and lifetime PD at reporting is higher than absolute threshold. Thresholds are set by the Bank.

Exposures that are not assigned into Stage 3 or 2 belongs to Stage 1.

The Bank estimates 12 months expected credit loss (ECL) for Stage 1 exposures and lifetime expected credit loss for Stage 2 and Stage 3. The Bank also uses multiple macroeconomic forecasts for estimation of future losses, thus future development of macroeconomic variables is reflected in risk parameters.

The calculation of allowances is based on statistical models. These models are used for calculation of probability of default (PD), loss given default (LGD), exposure at default (EAD) and the cure rate (CR). Some commercial exposures have expected discounted cash flows set individually.

PD and CR calculation

The PD and CR are calculated based on transition matrices model. Transition matrices track migration between rating grades, defaulted and cured status. They provide an intuitive and comprehensive overview of portfolio movements across time. From these matrices are created through-the-cycle (TTC) matrices for each segment that are independent of the economy's position within the macro-economic cycle. PIT (point-in-time) matrices for each segment and month are created by conditioning the TTC matrices with an adjustment for the current and expected state of the macro-economy. PD and CR are then derived from PIT matrices.

LGD calculation

For the majority of exposures without collateral and for the unsecured part of collateralised exposures historical recoveries discounted by the original effective interest rate are used to derive the LGD parameters. LGD for the collateralised

part of the exposure is based on forward expected collateral value (macro conditioned using all macro scenarios forecasted), which is discounted by the effective interest rate.

EAD calculation

The exposure at default is an 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, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

There is a provision created for undrawn loan commitments by using estimate of utilisation in case of default that determines the amount of loan drawn.

The following table shows reconciliations from the opening to the closing balance of allowances to loans and receivables to customers* (IFRS 9):

CZK m	Stage 1	Stage 2	Stage 3	Total
Retail				
Balance 1 January 2018*	**672**	**293**	**2,406**	**3,371**
Purchases and originations	240	9	17	266
Derecognition and maturities	(141)	(28)	(240)	(409)
Transfer to (out) Stage 1	131	(103)	(28)	0
Transfer to (out) Stage 2	(39)	59	(20)	0
Transfer to (out) Stage 3	(69)	(129)	198	0
Remeasurements, changes in models and methods	(42)	142	595	695
Use of allowances (write offs)	0	0	(1,065)	(1,065)
out of which debt sales	0	0	(600)	(600)
Balance 31 December 2018	**752**	**243**	**1,863**	**2,858**
Commercial				
Balance 1 January 2018*	**122**	**42**	**608**	**772**
Purchases and originations	112	2	25	139
Derecognition and maturities	(13)	(7)	(63)	(83)
Transfer to (out) Stage 1	12	(10)	(2)	0
Transfer to (out) Stage 2	(4)	56	(52)	0
Transfer to (out) Stage 3	(2)	(13)	15	0
Remeasurements, changes in models and methods	(63)	(14)	36	(41)
Use of allowances (write offs)	0	0	(155)	(155)
out of which debt sales	0	0	(103)	(103)
Balance 31 December 2018	**164**	**56**	**412**	**632**
Total Balance 31 December 2018	**916**	**299**	**2,275**	**3,490**

* The Bank did not recognise any allowances to Loans and receivables to banks during 2018.

There have been no material movements in allowances to other financial assets (such as Loans and receivables to banks, debt securities at amortised cost, operating receivables) for the year 2018 than disclosed above.

41.2.6 Allowances Calculation (Policy Applied before 1 January 2018)

Allowances were determined in accordance with IAS 39.

To calculate allowances, the portfolio was divided into non-impaired receivables and impaired receivables, which were further segmented into commercial and retail exposures by product.

The calculation of allowances for the non-impaired portfolio was based on statistical models. These models were used for calculation of the probability of default (PD), the loss given default (LGD) and the cure rate (CR). These were calculated directly from statistical models. For some receivables discounted anticipated cash flows from collection (effective interest rate was used as the discount rate) were used to derive the LGD.

Allowances for the impaired part of the portfolio were split into individual and portfolio allowances. Individual allowances were determined for impaired commercial individually managed exposures by calculating the discounted future cash flows. Portfolio allowances based on the LGD statistical approach were determined for remaining portfolios. For these, the LGD was adjusted to correspond to remaining anticipated cash flows. The expected discounted external collection costs were also included in the LGD.

A provision was recognised for irrevocable loan commitments using CCF (credit conversion factor) coefficients that determined which part of the loan commitment was brought onto the balance sheet until the receivable impairment moment.

Back testing was performed no less than annually; it assesses the adequacy of the volume of recognised allowances given the actual losses in the portfolio.

(a) The following table shows movement of individual and portfolio-managed allowances during 2017– comparative information according to IAS 39

CZK m	Individual allowances	Portfolio allowances	Total allowances
1 Jan 2017	**377**	**5,140**	**5,517**
Additions and release of allowances	130	459	589
Effect of written off receivables	(133)	(2,335)	(2,468)
Interest income from impaired loans (unwinding)	(3)	(123)	(126)
Net movement of allowances	**(6)**	**(1,999)**	**(2,005)**
31 Dec 2017	**371**	**3,141**	**3,512**

41.2.7 Credit Concentration Risk

As part of managing credit risk, the Bank regularly monitors and actively manages the credit concentration risk of the Bank through the limits to countries, counterparties, collateral providers and economic sectors. Regional concentration is not relevant as most income is generated within the territory of the Czech Republic.

The main collateral providers (via guarantees) are Českomoravská záruční a rozvojová banka, a.s. and European Investment Fund.

(a) The exposures to top 10 groups of customers

CZK m	31 Dec 2018	31 Dec 2017
Top 10 exposures*	6,818	6,348

* Exposure includes gross loans and receivables, unused commitments including credit lines, and guarantees.

(b) The structure of the Bank's commercial credit portfolio by economic sectors

	31 Dec 2018		31 Dec 2017	
Sector	CZK m*	%	CZK m*	%
1 Agriculture	19,839	39%	19,343	41%
2 Mining	14	0%	15	0%
3 Food industry	1,539	3%	1,637	3%
4 Textile industry	513	1%	357	1%
5 Wood processing industry	327	1%	362	1%
6 Chemical industry	980	2%	926	2%
7 Metal processing industry	1,983	4%	1,703	4%
8 Electric and optical equipment	111	0%	78	0%
9 Manufacturing of equipment, including transportation	1,613	3%	1,743	4%
10 Construction industry and construction modifications	2,091	4%	1,709	4%
11 Wholesale	4,262	8%	3,984	8%
12 Retail sale	1,683	3%	1,631	3%
13 Transport and telecommunication	792	2%	589	1%
14 Finance	655	1%	587	1%
15 Services	12,926	25%	10,676	23%
16 Public sector	57	0%	34	0%
17 Health industry	545	1%	583	1%
18 Power sector	1,352	3%	1,363	3%
Total	**51,282**	**100%**	**47,320**	**100%**

* The amounts represent the relevant gross loans and receivables to customers excluding the exposures to Bank's subsidiaries. Exposures of Other loans are excluded.

(c) Maximum credit risk exposure

31 Dec 2018 CZK m	Statement of financial position	Off-balance sheet	Total credit risk exposure	Available collateral*
Cash and balances with the central bank	**8,139**	**0**	**8,139**	**0**
Derivative financial instruments**	**28**	**0**	**28**	**19**
Investment securities measured at FVTPL	**58**	**0**	**58**	**0**
Equity investments	58	0	58	0
Investment securities measured at FVTOCI	**1**	**0**	**1**	**0**
Equity investments	1	0	1	0
Investment securities measured at amortised cost	**20,721**	**0**	**20,721**	**0**
Treasury and corporate bonds	20,721	0	20,721	0
Hedging derivatives with positive fair values	**53**	**0**	**53**	**0**
Interest rate swaps	53	0	53	0
Change in fair value of items hedged on portfolio basis	**30**	**0**	**30**	**0**
Loans and receivables to banks	**33,435**	**0**	**33,435**	**32,583**
Current accounts at banks	47	0	47	0
Overnight deposits	0	0	0	0
Term deposits in banks payable within 3 months	0	0	0	0
Receivables arising from reverse repurchase agreements	33,241	0	33,241	32,583***
Cash collaterals granted	130	0	130	0
Other	17	0	17	0
Loans and receivables to customers	**135,695**	**23,019**	**158,714**	**58,309**
Consumer authorised overdrafts and credit cards	3,473	4,796	8,269	0
Consumer loans	36,886	1,318	38,204	0
Mortgages	31,506	7,305	38,811	30,967
Commercial loans	63,830	9,600	73,430	27,342
Auto & Equipment Financial Lease	0	0	0	0
Commercial	0	0	0	0
Retail	0	0	0	0
Auto & Equipment Loans	0	0	0	0
Commercial	0	0	0	0
Retail	0	0	0	0
Other loans	0	0	0	0
Commercial	0	0	0	0
Retail	0	0	0	0
Issued guarantees and credit limits on guarantees	**0**	**1,677**	**1,677**	**275**
Issued letter of credit	**0**	**37**	**37**	**1**
Other assets	**8,668**	**0**	**8,668**	**0**

* Available collateral represents realisable value of collateral relevant for each loan exposure. The realisable value of collateral is capped up to the Total exposure presented in the statement of financial position on a loan-by-loan basis for the purpose of the presentation in these breakdowns.

** Line "Financial assets at fair value through profit and loss" used in 2017 has been renamed to "Derivative financial instruments" since 1 January 2018.

*** Thereof securities obtained in reverse repurchase agreements as collateral in the amount of CZK 19,598 million were transferred as collateral according to repo from reverse repurchase agreements as at 31 December 2018 (31 Dec 2017: CZK 29,201 million).

31 Dec 2017 CZK m	Statement of financial position	Off-balance sheet	Total credit risk exposure	Available collateral*
Cash and balances with the central bank	**7,126**	**0**	**7,126**	**0**
Financial assets at fair value through profit or loss	**48**	**0**	**48**	**28**
Financial assets available for sale	**57**	**0**	**57**	**0**
Treasury and corporate bonds	0	0	0	0
Equity investments	57	0	57	0
Financial assets held to maturity	**11,723**	**0**	**11,723**	**0**
Treasury and corporate bonds	11,723	0	11,723	0
Hedging derivatives with positive fair values	**4**	**0**	**4**	**0**
Interest rate swaps	4	0	4	0
Change in fair value of items hedged on portfolio basis	**(6)**	**0**	**(6)**	**0**
Loans and receivables to banks	**53,367**	**0**	**53,367**	**52,033**
Current accounts at banks	157	0	157	0
Term deposits at banks payable within 3 months	0	0	0	0
Receivables arising from reverse repo agreements	53,107	0	53,107	52,033
Cash collaterals provided	86	0	86	0
Other	17	0	17	0
Loans and receivables to customers	**117,035**	**19,683**	**136,718**	**44,437**
Consumer authorised overdrafts and credit cards	3,945	5,039	8,984	0
Consumer loans	34,969	910	35,879	0
Mortgages	20,338	3,775	24,113	20,207
Commercial loans	57,783	9,959	67,742	24,230
Other loans	0	0	0	0
Commercial	0	0	0	0
Retail	0	0	0	0
Issued guarantees and credit limits on guarantees	**0**	**3,410**	**3,410**	**160**
Issued letter of credit	**0**	**1**	**1**	**1**
Other assets	**8,057**	**0**	**8,057**	**0**

* Available collateral represents realisable value of collateral relevant for each exposure. The realisable value of collateral for Loans and receivables is capped up to the gross loans and receivables exposures on loan-by-loan basis for the purpose of the presentation in these breakdowns. The realisable value of collateral for guarantees and letter of credits is capped up to the exposure presented in the column "Off-balance sheet".

(d) Quantitative information about available collateral for impaired financial assets (Stage 3)

CZK m	2018
LTV lower than 50%	155
LTV 51 - 70%	114
LTV more than 70%	345
Total	**614**

* The LTV (Loan to Value) represents ratio of gross carrying value of loan to fair value of collateral available at the reporting date.

41.2.8 Credit Portfolio and Its Quality

(a) Break down of allowances and provisions according to loan type and stages (IFRS 9)

The following table comprises information about allowances to Loans and receivables to customers and provisions to off-balance sheet items according to type of loan/off-balance sheet position and related stage:

	31 Dec 2018			
CZK m	Stage 1	Stage 2	Stage 3	Total
Retail loans	**752**	**243**	**1,863**	**2,858**
Consumer Loans	603	172	1,489	2,264
Mortgages	17	5	87	109
Credit Cards & Overdrafts	114	65	171	350
Other	18	1	116	135
Commercial loans	**164**	**56**	**412**	**632**
Investment Loans	66	22	135	223
Working Capital	23	13	155	191
Unsecured Instalment Loans and Overdraft	72	21	54	147
Inventory Financing and Other	3	0	68	71
Total allowances to loans	**916**	**299**	**2,275**	**3,490**
Debt instruments measured at amortised costs	3	0	0	3
Total allowances	**919**	**299**	**2,275**	**3,493**
Financial guarantees	3	1	0	4
Loan commitments - Retail	24	4	0	28
Loan commitments - Commercial	15	2	0	17
Provisions to off-balance sheet items	**42**	**7**	**0**	**49**

(b) Loans and receivables to banks and customers according to internal rating grade and stages (IFRS 9)

The following table sets out information about credit quality of financial assets measured at amortised cost classified according to the internal credit rating grade and stages:

	31 Dec 2018				31 Dec 2017
CZK m	Stage 1	Stage 2	Stage 3	Total	
Loans and receivables to customers at amortised costs					
CR 1	111,293	701	0	111,994	88,996
CR 2	9,734	169	0	9,903	14,325
CR 3	3,334	284	0	3,618	3,500
CR 4	7,959	874	0	8,833	7,446
CR 5	751	619	0	1,370	1,704
Not graded*	20	1	0	21	21
NPL	0	0	3,446	3,446	4,555
Reverse repos**	0	0	0	0	0
Gross carrying value	133,091	2,648	3,446	139,185	120,547
Allowance	(916)	(299)	(2,275)	(3,490)	(3,512)
Netto carrying value	132,175	2,349	1,171	135,695	117,035
Loans and receivables to banks at amortised cost without rating*					
Gross carrying value	33,435	0	0	33,435	53,367
Allowance	0	0	0	0	0
Netto carrying value	33,435	0	0	33,435	53,367
Debt investment securities at amortised cost					
CR 1	20,724	0	0	20,724	11,723
Gross carrying value	20,724	0	0	20,724	11,723
Allowance	(3)	0	0	(3)	0
Netto carrying value	20,721	0	0	20,721	11,723
Other receivables from operating activities without rating*					
Gross carrying value	180	5	81	266	313
Allowance	0	0	(81)	(81)	(75)
Netto carrying value	180	5	0	185	238

	31 Dec 2018				31 Dec 2017
CZK m	Stage 1	Stage 2	Stage 3	Total	
Loan commitments					
CR 1	22,119	4	0	22,123	18,547
CR 2	628	1	0	629	740
CR 3	128	50	0	178	220
CR 4	9	41	0	50	60
CR 5	4	18	0	22	26
Not graded*	0	0	0	0	73
NPL	0	0	17	17	17
Gross carrying value	22,888	114	17	23,019	19,683
Provision	(39)	(6)	0	(45)	(38)
Netto carrying value	22,849	108	17	22,974	19,645
Financial guarantee contracts					
CR 1	1,683	0	0	1,683	3,369
CR 2	22	1	0	23	24
CR 3	1	2	0	3	15
CR 4	0	5	0	5	3
Gross carrying value	1,706	8	0	1,714	3,411
Provision	(3)	(1)	0	(4)	0
Netto carrying value	1,703	7	0	1,710	3,411

* Loans and receivables to banks and Other receivables from operating activities are not subject to internal grading system.
** Reverse repos are not subject to internal grading system.

(c) Loans and receivables to banks and customers according the categorisation – comparative information according to IAS 39

31 Dec 2017 CZK m	Receivables to banks	Loans and receivables to customers	Total
Non-impaired before due date	53,367	113,561	166,928
Non-impaired past due date	0	2,430	2,430
Total non-impaired	53,367	115,991	169,358
Total impaired	0	4,556	4,556
Gross loans and receivables	**53,367**	**120,547**	**173,914**
Allowances	0	(3,512)	(3,512)
Net loans and receivables	**53,367**	**117,035**	**170,402**
Individual allowances	0	(371)	(371)
Portfolio allowances	0	(3,141)	(3,141)
Total allowances	**0**	**(3,512)**	**(3,512)**

(d) Gross loans and receivables to customers that are not impaired according to the probability of default comparative information according to IAS 39

The quality of the credit portfolio in respect of gross loans and receivables that are not impaired, can be analysed according to the probability of default* as follows:

31 Dec 2017 CZK m	Retail				Commercial		
Probability of default	Authorised overdrafts & credit cards	Consumer loans	Mortgages	Other loans	Commercial loans	Other loans	Total
1 (PD<=1.3%)	2,836	20,020	19,622	0	37,578	0	80,056
2 (1.3%<PD<=3.2%)	651	10,528	193	0	6,451	0	17,823
3 (3.2%<PD<=7.7%)	190	1,484	142	0	1,683	0	3,499
4 (7.7%<PD<=15.8%)	94	1,031	63	0	596	0	1,784
5 (PD>15.8%)	152	1,378	116	0	59	2	1,707
unrated	0	0	0	18	11,104	0	11,122
Total loans and receivables	**3,923**	**34,441**	**20,136**	**18**	**57,471**	**2**	**115,991**

* Probability of default is defined as a probability that a customer will default (mostly by being more than 90 days past due with repayments) in the following 12 months.

(e) Gross loans and receivables to customers that are not impaired according to due dates – comparative information according to IAS 39

As of 31 December 2017, the Bank reported the following gross loans and receivables to customers with their due dates that are not individually impaired:

31 Dec 2017 CZK m	Retail				Commercial		
Days past due	Authorised overdrafts & credit cards	Consumer loans	Mortgages	Other loans	Commercial loans	Other loans	Total
Not past due	3,766	32,749	19,813	0	57,233	0	113,561
1 - 30 days past due	129	1,424	281	1	197	0	2,032
31 - 60 days past due	19	184	30	1	30	0	264
61+ days past due	9	84	12	16	11	2	134
Total	**3,923**	**34,441**	**20,136**	**18**	**57,471**	**2**	**115,991**

(f) Loans and receivables to customers that are individually impaired – comparative information according to IAS 39

As of 31 December 2017, the Bank reported the following amounts of loans and receivables to customers that are individually impaired and to which individual allowances are created (commercial individually-managed loans):

CZK m	31 Dec 2017
Gross individually-impaired loans and receivables, to which an individual loss allowances are created	801
Individual allowances	(371)
Net individually-impaired loans and receivables to which an individual loss allowances are created	430

41.2.9 Modified Financial Assets

The following table provides information about financial assets with a loss allowance at an amount equal to full lifetime expected credit losses that were modified during the accounting period:

CZK m	2018	2017
Financial assets modified during the period		
Amortised cost before modification	(239)	n/a
Net modification gain/loss	1	n/a
Financial assets modified since initial recognition		
Gross carrying amount at 31 Dec of financial assets for which loss allowance has changed to 12-month measurement during the period	(64)	n/a

The modification in the form of the forbearance is reflected in the categorisation of receivables in accordance with the exposures categorisation rules (see the note 41.2.2).

Forborne Receivables

Forborne receivables are receivables for which the Bank provided the debtor with relief as it assessed that it would likely incur a loss if it did not do so. For economic or legal reasons associated with the debtor's financial position, the Bank granted it relief that it would not otherwise have granted. These primarily include the reworking of the repayment plan, decrease in the interest rate, waiver of default interest, deferral of principal or accrued interest repayments. Forborne receivables do not include receivables arising from the roll-over of a short-term loan for current assets if the debtor met all of its payment and non-payment obligations arising from the loan contract.

The Bank applies the following general principles for forbearance:

- the customer demonstrably lost ability to repay loan according to original loan contract;
- the customer demonstrates willingness and ability to pay his debts;
- specific product/customer criteria must be met;
- the loan was not restructured more than once in last 12 months and more than twice during last 5 years.

For commercial loans and mortgages only, instalments not past due are subject to rescheduling. The customer is obliged to repay all past due payments in full and delinquency status is calculated according the oldest unpaid instalment.

For retail products, the Bank offers the customer a new loan contract. The customer's original (delinquent) loans are, by signature of this new contract, repaid and closed and a new (restructured) loan with different monthly instalments, interest rate and maturity is opened as non-delinquent (current).

(a) All gross loans and receivables to customers with forbearance

31 Dec 2018 CZK m	Mortgage loans	Consumer loans	Commercial loans	Total
Forborne receivables	57	159	64	280
Total	**57**	**159**	**64**	**280**

31 Dec 2017 CZK m	Mortgage loans	Consumer loans	Commercial loans	Total
Forborne receivables	74	274	83	431
Total	**74**	**274**	**83**	**431**

(b) Impaired loans out of all gross loans and receivables to customers with forbearance

31 Dec 2018 CZK m	Mortgage loans	Consumer loans	Commercial loans	Total
Forborne receivables	14	42	61	117
Total	**14**	**42**	**61**	**117**

31 Dec 2017 CZK m	Mortgage loans	Consumer loans	Commercial loans	Total
Forborne receivables	24	84	77	185
Total	**24**	**84**	**77**	**185**

(c) Loans and receivables to customers forborne within the reporting year

2018	Mortgage loans	Consumer loans	Commercial loans	Total
Number of incrementally forborne receivables within the reporting year	1	54	1	56
Balance of the incrementally forborne gross receivables within the reporting year measured at the end of the reporting year (CZK m)	0	13	1	14

2017	Mortgage loans	Consumer loans	Commercial loans	Total
Number of incrementally forborne receivables within the reporting year	0	55	5	60
Balance of the incrementally forborne gross receivables within the reporting year measured at the end of the reporting year (CZK m)	0	11	18	29

41.3 INTEREST RATE RISK

Interest rate risk is the risk of a loss arising from changes in interest rates on financial markets. The Bank is exposed to interest rate risk as interest-bearing assets and liabilities have different maturity periods or interest rate readjustment periods.

The Bank strives to minimise its interest rate risk by setting limits and keeping positions within these limits. The interest rate risk management activities are aimed at reducing the risk of losses.

The Bank's interest rate risk for the Trading and Banking book is managed separately. The interest rate risk of Trading book is managed by requirement to close each FX swap and FX forward transaction on back-to-back basis. To monitor and measure interest rate risk of the Banking book, a model of interest rate sensitivity is used which serves to determine the sensitivity of the Bank to changes in the market interest rates. The Bank carries out stress testing of the Banking book positions in CZK and EUR (both on the individual and consolidated basis) based on stress scenarios for management of interest rate risk arising from non-trading activities in line with the relevant European Banking Authority Guideline EBA/GL/2018/02. The set of limits is used to manage and monitor the impacts of all stress scenarios stipulated in the Guideline.

The tables below show sensitivity of the Bank to changes in interest rates.

CZK

% change in annual net interest income	31 Dec 2018	31 Dec 2017
Impact of an interest rate movement +200 basis points	6.73%	3.49%
Impact of an interest rate movement -200 basis points	(6.06)%	(1.08)%

Change in economic value of equity as a% of capital	31 Dec 2018	31 Dec 2017
Impact of an interest rate movement +200 basis points	(4.80)%	(2.15)%
Impact of an interest rate movement -200 basis points	5.30%	1.96%

EUR

% change in annual net interest income	31 Dec 2018	31 Dec 2017
Impact of an interest rate movement +200 basis points	(0.25)%	(1.32)%
Impact of an interest rate movement -200 basis points	(0.05)%	(0.25)%

Change in economic value of equity as a% of capital	31 Dec 2018	31 Dec 2017
Impact of an interest rate movement +200 basis points	(0.72)%	(0.42)%
Impact of an interest rate movement -200 basis points	0.07%	0.06%

The percentage change in annual net interest income shows the impact of interest rate movements on net interest income on a 12-month horizon. The change in the economic value of equity shows the impact of interest rate movements on the difference between the present value of assets and liabilities (i.e. the value of equity), so this metric works with a long-term horizon. Given the mentioned differences between the two metrics, the two kinds of impact can have different signs and follow different trends. Interest rates are floored at 0% for the purpose of calculation of these metrics.

The below table summarises the Bank's exposure to interest rate risk. Balances are allocated to the buckets based on the following parameters: for assets, the next repricing date or principal payment dates, whichever occurs earlier; for non-maturity deposits, the expected maturity/repricing behaviour; and for term deposits, the maturity date.

31 Dec 2018 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Cash and balances with the central bank	3,409	0	0	0	0	4,730	8,139
Derivative financial instruments	0	0	0	0	0	28	28
Investment securities	0	0	1,490	250	19,098	(58)	20,780
Loans and receivables to banks	33,237	0	0	0	0	198	33,435
Loans and receivables to customers	29,008	7,620	24,109	62,645	7,749	4,564	135,695
Other assets	0	0	0	0	0	8,751	8,751
Total assets	**65,654**	**7,620**	**25,599**	**62,895**	**26,847**	**18,213**	**206,828**
Due to banks	7,391	12	41	2,129	0	143	9,716
Due to customers	37,986	21,764	29,849	58,396	20,386	436	168,817
Derivative financial instruments	0	0	0	0	0	44	44
Other liabilities (without equity)	0	0	0	0	0	1,679	1,679
Total liabilities	**45,377**	**21,776**	**29,890**	**60,525**	**20,386**	**2,302**	**180,256**
Off-balance sheet assets	1,449	245	1,172	9,189	3,816	0	15,871
Off-balance sheet liabilities	0	0	0	0	0	0	0
Interest Rate Swaps assets*	9,580	15,324	0	0	0	0	24,904
Interest Rate Swaps liabilities*	61	0	1,150	14,988	1,902	0	18,101
Net interest rate exposure	**31,245**	**1,413**	**(4,269)**	**(3,429)**	**8,375**	**15,911**	**49,246**

31 Dec 2017 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Cash and balances with the central bank	2,453	0	0	0	0	4,673	7,126
Financial assets at fair value through profit or loss	0	0	0	0	0	48	48
Financial assets available for sale	0	0	0	0	0	57	57
Financial assets held to maturity	0	0	1,110	910	9,848	(145)	11,723
Loans and receivables to banks	53,211	0	0	0	0	156	53,367
Loans and receivables to customers	29,675	6,117	22,376	55,442	5,065	(1,640)	117,035
Other assets	0	0	0	0	0	8,055	8,055
Total assets	**85,339**	**6,117**	**23,486**	**56,352**	**14,913**	**11,204**	**197,411**
Due to banks	23,682	220	567	2,154	14	6	26,643
Due to customers	59,506	4,906	23,125	40,075	13,913	131	141,656
Financial liabilities through profit or loss	0	0	0	0	0	68	68
Other liabilities (without equity)	567	0	0	0	0	1,631	2,198
Total liabilities	**83,755**	**5,126**	**23,692**	**42,229**	**13,927**	**1,836**	**170,565**
Interest Rate Swaps assets*	486	5,494	0	0	0	0	5,980
Interest Rate Swaps liabilities*	0	0	0	5,568	412	0	5,980
Net interest rate exposure	**2,070**	**6,485**	**(206)**	**8,555**	**574**	**9,368**	**26,846**

* In case of interest rate swaps, the individual cash flows are used instead of accounting balances.

The data for the individual time buckets except the "Unspecified" column follows the interest rate gap from the model of interest rate sensitivity. In case of interest rate swaps notional amounts are used instead of accounting balances.

41.4 FOREIGN EXCHANGE RISK

Foreign exchange risk covers the risk of a loss due to changes in exchange rates. The Bank is exposed to foreign exchange risk primarily due to the provision of foreign exchange loan products to commercial borrowers and foreign exchange deposits.

The Bank strives to minimise the foreign exchange risk. For this purpose, the Bank maintains a balance of assets and liabilities in foreign currencies (by using a mix of FX spots, forwards and swaps transactions).

To measure the foreign exchange risk, the Bank calculates, on a daily basis, net currency positions and an FX Value at Risk (maximum expected loss per business day for the foreign currency portfolio at the 99% confidence level). The Bank uses the set of limits for the net currency positions and FX VaR.

On top of that, the foreign exchange risk of Trading book is managed by limits (intraday and end-of-day) for open FX spot position and by requirement to close each FX swap and FX forward transaction on back-to-back basis.

The table below shows the FX VaR of the Bank.

CZK ths	31 Dec 2018	Average of daily values in 2018	31 Dec 2017	Average of daily values in 2017
FX VaR	231	244	124	45

The following table shows exposure of the Bank to foreign exchange risk:

31 Dec 2018 CZK m	CZK	EUR	USD	Other currencies	Total CZK
Cash and balances with the central bank	7,779	223	48	89	8,139
Derivative financial instruments	28	0	0	0	28
Investment securities	20,721	1	58	0	20,780
Hedging derivatives with positive fair values	53	0	0	0	53
Change in fair value of items hedged on portfolio basis	30	0	0	0	30
Loans and receivables to banks	33,260	144	9	22	33,435
Loans and receivables to customers	129,960	5,733	2	0	135,695
Other assets	8,594	74	0	0	8,668
Total assets	**200,425**	**6,175**	**117**	**111**	**206,828**
Deposits from banks	40	9,667	9	0	9,716
Deposits from customers	164,986	3,240	543	48	168,817
Derivative financial instruments	44	0	0	0	44
Hedging derivatives with negative fair values	167	0	0	0	167
Other liabilities (including equity)	28,062	16	5	1	28,084
Total liabilities	**193,299**	**12,923**	**557**	**49**	**206,828**
Net exchange rate balance sheet position	**7,126**	**(6,748)**	**(440)**	**62**	**0**
Receivables from spot and derivatives	2,108	8,830	485	8	11,431
Liabilities from spot and derivatives	9,309	2,096	32	16	11,453
Net exchange rate off-balance sheet position	**(7,201)**	**6,734**	**453**	**(8)**	**(22)**
Net exchange rate position	**(75)**	**(14)**	**13**	**54**	**(22)**

31 Dec 2017 CZK m	CZK	EUR	USD	Other currencies	Total CZK
Cash and balances with the central bank	6,812	211	43	60	7,126
Financial assets at fair value through profit or loss	48	0	0	0	48
Financial assets available for sale	0	10	47	0	57
Financial assets - held to maturity	11,723	0	0	0	11,723
Hedging derivatives with positive fair values	4	0	0	0	4
Change in fair value of items hedged on portfolio basis	(6)	0	0	0	(6)
Loans and receivables to banks	53,125	192	30	20	53,367
Loans and receivables to customers	110,164	6,863	8	0	117,035
Other assets	7,919	137	1	0	8,057
Total assets	**189,789**	**7,413**	**129**	**80**	**197,411**
Due to banks	20,065	6,567	11	0	26,643
Due to customers	138,165	2,946	491	54	141,656
Financial liabilities at fair value through profit or loss	68	0	0	0	68
Hedging derivatives with negative fair values	4	0	0	0	4
Other liabilities (including equity)	28,966	75	6	(7)	29,040
Total liabilities	**187,268**	**9,588**	**508**	**47**	**197,411**
Net exchange rate balance sheet position	**2,521**	**(2,175)**	**(379)**	**33**	**0**
Receivables from spot and derivatives	2,064	4,129	404	4	6,601
Liabilities from spot and derivatives	4,613	1,958	27	25	6,623
Net exchange rate off-balance sheet position	**(2,549)**	**2,171**	**377**	**(21)**	**(22)**
Net exchange rate position	**(28)**	**(4)**	**(2)**	**12**	**(22)**

41.5 LIQUIDITY RISK

Liquidity risk represents the risk of inability to meet financial liabilities when due or to finance increase in assets.

The Bank measures and monitors the Bank's liquidity risk by the following set of metrics, including the liquidity position based on the liquidity gap model (under a business-as-usual scenario and under stressed liquidity terms), the Liquidity Coverage Ratio, the Net Stable Funding Ratio, the concentration in deposits, the liquidity buffer (under a liquidity stress test), and it manages the liquidity risk by a set of limits for these metrics. In addition, the Early Warnings Indicators for liquidity risk are monitored on daily basis.

For the purpose of liquidity management under extraordinary circumstances, the Bank has a contingency plan containing measures for recovering liquidity. The Treasury regularly reviews the contingency plan and forwards it to the Asset and Liability Committee (ALCO) for approval.

(a) The table below summarises the remaining maturity of carrying amounts of assets, liabilities and equity according to their contractual maturity.

31 Dec 2018 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Cash and balances with the central bank	8,139	0	0	0	0	0	8,139
Derivative financial instruments	3	5	12	8	0	0	28
Investment securities	0	12	1,055	843	18,811	59	20,780
Hedging derivatives with positive fair values	0	0	9	44	0	0	53
Change in fair value of items hedged on portfolio basis	0	0	0	0	0	30	30
Loans and receivables to banks	33,288	0	0	0	0	147	33,435
Loans and receivables to customers*	10,697	2,689	15,008	58,291	47,046	1,964	135,695
Investments in associates	0	0	0	0	0	4,554	4,554
Deferred tax assets	0	0	0	0	0	131	131
Other assets	182	0	177	26	3	3,595	3,983
Total Assets	**52,309**	**2,706**	**16,261**	**59,212**	**65,860**	**10,480**	**206,828**
Due to banks	7,561	0	1	2,058	0	96	9,716
Due to customers	149,380	14,954	4,151	62	170	100	168,817
Derivative financial instruments	24	4	10	6	0	0	44
Hedging derivatives with negative fair values	0	0	0	112	55	0	167
Provisions	0	0	251	0	0	0	251
Current tax liabilities	0	0	0	0	0	75	75
Other liabilities	1,126	0	5	10	2	43	1,186
Equity	0	0	0	0	0	26,572	26,572
Total liabilities and equity	**158,091**	**14,958**	**4,418**	**2,248**	**227**	**26,886**	**206,828**
Net liquidity position of assets and liabilities and equity**	**(105,782)**	**(12,252)**	**11,843**	**56,964**	**65,633**	**(16,406)**	**0**
Issued guarantees and credit limits on guarantees	**1,677**	**0**	**0**	**0**	**0**	**0**	**1,677**
Loan commitments***	**9,795**	**0**	**0**	**0**	**0**	**0**	**9,795**

31 Dec 2017 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Cash and balances with the central bank	7,126	0	0	0	0	0	7,126
Financial assets at fair value through profit or loss	6	12	22	8	0	0	48
Financial assets available for sale	0	0	0	0	0	57	57
Financial assets held to maturity	0	12	600	954	10,157	0	11,723
Hedging derivatives with positive fair values	0	0	0	3	1	0	4
Change in fair value of items hedged on portfolio basis	0	0	0	0	0	(6)	(6)
Loans and receivables to banks	53,281	0	0	0	0	86	53,367
Loans and receivables to customers*	9,894	2,562	14,168	52,906	34,897	2,608	117,035
Investments in subsidiaries and associates	0	0	0	0	0	4,554	4,554
Current tax assets	0	0	0	0	0	286	286
Deferred tax assets	0	0	0	0	0	388	388
Other assets	223	0	0	0	0	2,606	2,829
Total Assets	**70,530**	**2,586**	**14,790**	**53,871**	**45,055**	**10,579**	**197,411**
Due to banks	23,856	204	511	2,043	0	29	26,643
Due to customers	135,499	272	5,386	79	311	109	141,656
Financial liabilities at fair value through profit or loss	25	16	20	7	0	0	68
Hedging derivatives with negative fair values	0	0	0	4	0	0	4
Provisions	0	0	325	0	0	0	325
Other liabilities	1,685	0	0	11	0	173	1,869
Equity	0	0	0	0	0	26,846	26,846
Total liabilities and equity	**161,065**	**492**	**6,242**	**2,144**	**311**	**27,157**	**197,411**
Net liquidity position of assets and liabilities and equity**	**(90,535)**	**2,094**	**8,548**	**51,727**	**44,744**	**(16,578)**	**0**
Issued guarantees and credit limits on guarantees	**3,410**	**0**	**0**	**0**	**0**	**0**	**3,410**
Loan commitments***	**6,415**	**0**	**0**	**0**	**0**	**0**	**6,415**

* Loans and receivables to customers presented under "Unspecified" category as at 31 December 2018 at CZK 1,964 million (31 December 2017: CZK 2,608 million) represent loans and receivables that are overdue more than 1 month.

** Net liquidity position of assets and liabilities and equity within 1 month as at 31 December 2018 at CZK (105,782) million (31 December 2017: CZK (90,535) million) is primarily due to the fact that contractual maturity of current accounts falls within 1 month.

*** The loan commitments represent irrevocable loan commitments only relating to commercial investment loans and mortgages. Total undrawn commitments on credit cards are not included in the table above as, historically, average limit usage is below 100% and this behaviour is expected to continue.

(b) The table below shows the remaining contractual maturity of non-derivative financial liabilities and issued financial guarantees and loan commitments held for the Bank's liquidity management purposes. The amounts include contractual non-discounted cash flows.

31 Dec 2018 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Due to banks	7,561	0	3	2,060	0	96	9,720
Due to customers	149,379	14,960	4,160	63	171	100	168,833
Provisions	0	0	251	0	0	0	251
Other liabilities	1,126	0	5	10	2	43	1,186
Total non-derivative financial liabilities	**158,066**	**14,960**	**4,419**	**2,133**	**173**	**239**	**179,990**
Issued guarantees and credit limits on guarantees	**1,677**	**0**	**0**	**0**	**0**	**0**	**1,677**
Loan commitments*	**9,795**	**0**	**0**	**0**	**0**	**0**	**9,795**

31 Dec 2017 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Due to banks	23,850	204	511	2,049	0	29	26,643
Due to customers	135,497	272	5,387	80	311	109	141,656
Provisions	0	0	325	0	0	0	325
Other liabilities	1,685	0	0	11	0	173	1,869
Total non-derivative financial liabilities	**161,032**	**476**	**6,223**	**2,140**	**311**	**311**	**170,493**
Issued guarantees and credit limits on guarantees	**3,410**	**0**	**0**	**0**	**0**	**0**	**3,410**
Loan commitments*	**6,415**	**0**	**0**	**0**	**0**	**0**	**6,415**

* The loan commitments represent irrevocable loan commitments only relating to commercial investment loans and mortgages.

(c) The table below shows the remaining contractual maturity of liabilities from financial derivatives:

31 Dec 2018 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Total
Held for trading derivatives						
Currency swaps	22	0	0	0	0	22
Currency forwards	2	4	10	6	0	22
Hedging derivatives						
Interest rate swaps	0	0	0	112	55	167
Total financial derivatives	**24**	**4**	**10**	**118**	**55**	**211**

31 Dec 2017 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Total
Held for trading derivatives						
Currency swaps	21	4	0	0	0	25
Currency forwards	4	12	20	7	0	43
Hedging derivatives						
Interest rate swaps	0	0	0	4	0	4
Total financial derivatives	**25**	**16**	**20**	**11**	**0**	**72**

(d) The table below shows the remaining expected maturity of assets and liabilities as follows:

31 Dec 2018 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Cash and balances with the central bank	8,139	0	0	0	0	0	8,139
Derivative financial instruments	3	5	12	8	0	0	28
Investment securities	0	12	1,056	842	18,811	59	20,780
Inflows from hedging derivatives*	0	0	8	45	0	0	53
Change in fair value of items hedged on portfolio basis	0	0	0	0	0	30	30
Loans and receivables to banks	33,288	0	0	0	0	147	33,435
Loans and receivables to customers	10,697	2,689	15,008	58,291	47,046	1,964	135,695
Investments in subsidiaries and associates	0	0	0	0	0	4,554	4,554
Deferred tax assets	0	0	0	0	0	131	131
Other assets	183	0	177	26	3	3,594	3,983
Total Assets	**52,310**	**2,706**	**16,261**	**59,212**	**65,860**	**10,479**	**206,828**
Due to banks	7,512	37	120	2,129	0	(82)	9,716
Due to customers**	24,497	22,874	33,489	63,983	23,310	664	168,817
Derivative financial instruments	24	4	10	6	0	0	44
Outflows from hedging derivatives*	0	0	0	112	55	0	167
Provisions	0	0	251	0	0	0	251
Current tax liability	0	0	0	0	0	75	75
Other liabilities	1,126	0	5	10	2	43	1,186
Equity	0	0	0	0	0	26,572	26,572
Total liabilities and equity	**33,159**	**22,915**	**33,875**	**66,240**	**23,367**	**27,272**	**206,828**
Net liquidity position	**19,151**	**(20,209)**	**(17,614)**	**(7,028)**	**42,493**	**(16,793)**	**0**

* In case of interest rate swaps, the individual cash flows are used instead of accounting balances.
** Balances are allocated to the buckets based on expected maturity of non-maturity deposits and contractual maturity date of term deposits. Expected maturity of non-maturity deposits is a function of deposits' volatility and average life of the non-volatile part.

31 Dec 2017 CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Cash and balances with the central bank	7,126	0	0	0	0	0	7,126
Financial assets at fair value through profit or loss	5	12	23	8	0	0	48
Financial assets available for sale	0	0	0	0	0	57	57
Financial assets - held to maturity	0	12	600	954	10,157	0	11,723
Inflows from hedging derivatives*	0	8	29	141	14	0	192
Change in fair value of items hedged on portfolio basis	0	0	0	0	0	(6)	(6)
Loans and receivables to banks	53,281	0	0	0	0	86	53,367
Loans and receivables to customers	9,894	2,562	14,168	52,906	34,897	2,608	117,035
Investments in subsidiaries and associates	0	0	0	0	0	4,554	4,554
Current tax assets	0	0	0	0	0	286	286
Deferred tax assets	0	0	0	0	0	388	388
Other assets	223	0	0	0	0	2,606	2,829
Total assets	**70,529**	**2,594**	**14,820**	**54,009**	**45,068**	**10,579**	**197,599**
Due to banks	23,673	222	573	2,164	15	(4)	26,643
Due to customers**	36,447	7,413	31,273	51,299	15,196	28	141,656
Financial liabilities at fair value through profit or loss	25	16	20	7	0	0	68
Outflows from hedging derivatives*	0	5	51	357	36	0	449
Provisions	0	0	325	0	0	0	325
Other liabilities	1,685	0	0	11	0	173	1,869
Equity	0	0	0	0	0	26,846	26,846
Total liabilities and equity	**61,830**	**7,656**	**32,242**	**53,838**	**15,247**	**27,043**	**197,856**
Net liquidity position	**8,699**	**(5,062)**	**(17,422)**	**171**	**29,821**	**(16,464)**	**(257)**

* In case of interest rate swaps, the individual cash flows are used instead of accounting balances.
** Balances are allocated to the buckets based on expected maturity of non-maturity deposits and contractual maturity date of term deposits. Expected maturity of non-maturity deposits is a function of deposits' volatility and average life of the non-volatile part.

41.6 OPERATIONAL RISK

Operational risk represents the risk of a loss resulting from inadequate or failed internal processes, people or systems, or from external events, including the risk of loss due to a breach of or failure to comply with a legal or regulatory requirement or a threat to the Bank's reputation. It also includes legal and outsourcing risk.

The Bank implemented standardised tools and processes for operational risk management, including Risk & Control Self-Assessment (RCSA), Loss Data Collection of actual internal operational risk losses, monitoring of external operational risk events, Key Risk Indicators. The Bank continually develops and improves these tools and processes.

The Bank's Management Board specifically approves the operational risk governance structure and framework, and the Bank's objectives for operational risk management.

The Enterprise Risk Management Committee (ERMC) oversees Bank's operational risk management process and approves methods, limits and Key Risk Indicators; monitors adherence to approved limits and Key Risk Indicators; and approves remedial measures.

More details about operational risk and its management is comprised in section 5.5 of the Annual report.

41.6.1 Legal Risk

The Bank continuously monitors legal disputes as described in chapter 37 and provision is created for the estimated amount of payment if it is more probable than not that the cash outflow will have to be made. Further, legal risk is controlled by the Legal department esp. by assessment of new legal contracts.

42. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table shows the carrying values and fair value of financial assets and liabilities that are not presented at fair value in the Bank's individual statement of financial position. The fair value includes anticipated future losses while the carrying value (amortised cost and related impairment) includes only losses arising at the end of the reporting period.

The Bank uses the following inputs and techniques to estimate the fair value for asset and liability categories shown both in 2018 (IFRS 9) and 2017 (IAS 39):

- **Cash and balances with the central bank**
  The carrying value of cash and balances with the central bank approximates their fair value.
- **Loans and receivables to banks**
  The carrying value of receivables to banks approximates their fair values due to the short maturity of those receivables.
- **Loans and receivables to customers**
  The fair value of loans is estimated on the basis of discounted future expected cash flows using the interest rate common for loans with similar credit risk and interest risk conditions profile and maturity dates (discounted rate technique according to IFRS 13). For impaired loans the present value of future expected cash flows including the expected proceeds from a collateral foreclosure, if any.
- **Due to banks**
  The carrying value of Due to banks in principle approximates their fair value due to the short maturity of these deposits.
- **Due to customers**
  The fair value of deposits repayable on demand at request and term deposits bearing a variable interest rate are equal to their carrying value as of the balance sheet date. The fair value of term deposits with a fixed interest rate is estimated on the basis of discounted cash flows using the market interest rates.

The Bank uses the following inputs and techniques to estimate the fair value for asset and liability categories shown in 2018 (IFRS 9):

- **Investment securities at amortised cost**
  The difference between fair value and carrying value of investment securities measured at amortised cost is mainly driven by different market and effective interest rates of government bonds included in this portfolio.

The Bank used the following inputs and techniques to estimate the fair value for asset and liability categories shown in 2017 (IAS 39):

- **Financial assets held to maturity**
  The difference between fair value and carrying value of financial assets held to maturity is mainly driven by different market and effective interest rates of government bonds included in this portfolio.

	31 Dec 2018		31 Dec 2017	
CZK m	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Cash and balances with the central bank	8,139	8,139	7,126	7,126
Investment securities at amortised cost*	20,721	19,957	n/a	n/a
Financial assets held to maturity	n/a	n/a	11,723	11,238
Loans and receivables to banks	33,435	33,435	53,367	53,367
Loans and receivables to customers	135,695	136,502	117,035	119,120
FINANCIAL LIABILITIES				
Due to banks	9,716	9,720	26,643	26,638
Due to customers	168,817	168,817	141,656	141,656

* Difference between fair value and carrying value is mainly driven by different market and effective interest rates of the government bonds.

Investment securities measured at amortised cost (2017: "Financial assets held to maturity") are classified as level 1 because fair value is based on quoted prices on active market. Cash and balances with the central bank, Loans and receivables to banks and Due to banks are classified as level 2 and all other fair values presented above are classified as level 3 as the data used for the estimation of the discount rate are not based on the data from the active market. There are assumptions applied for the estimation of the cash flows used for discounting taking into account expected repayment profile of the particular pool or product. The discount rates used for discounting are based on the rates of the major competitors or other benchmark rates for similar type of assets.

The following table summarises the hierarchy of fair values of financial assets and financial liabilities that are carried at fair value in the statement of financial position:

	31 Dec 2018			31 Dec 2017		
CZK m	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
FINANCIAL ASSETS						
Derivative financial instruments*	0	28	0	0	48	0
Investment securities measured at FVTPL	0	0	58	n/a	n/a	n/a
Investment securities measured at FVTOCI	0	0	1	n/a	n/a	n/a
Financial assets available for sale	n/a	n/a	n/a	0	0	57
Hedging derivatives with positive fair values	0	53	0	0	4	0
Change in fair value of items hedged on portfolio basis	0	0	30	0	0	(6)
FINANCIAL LIABILITIES						
Derivative financial instruments*	0	44	0	0	68	0
Hedging derivatives with negative fair values	0	167	0	0	4	0

* Lines "Financial assets at fair value through profit and loss" and "Financial liabilities at fair value through profit and loss" disclosed in 2017 and earlier periods have been renamed to "Derivative financial instruments" since 1 January 2018.

There were no transfers between level 1 and 2 during the year 2018 nor 2017.

The Bank uses the following inputs and techniques to determine fair value under level 2 and level 3:

The level 2 assets include mainly financial derivatives, corporate bonds and treasury bills. For derivative exposures the fair value is estimated using the present value of the cash flows resulting from the transactions taking into account market inputs like FX spot and forward rates, benchmark interest rates, swap rates, etc. The fair value of corporate bonds, treasury bills is calculated as the present value of cash flows using the benchmark interest rates.

The level 3 assets include equity instruments not traded on the market where the fair value is calculated using the valuation techniques including expert appraisals.

Movement analysis of level 3 financial assets and liabilities:

CZK m	As at 1 Jan 2018*	Purchases/ Sales in the period	Total gains and losses in the period recognised in the income statement	Total gains and losses in the period recognised in OCI	As at 31 Dec 2018
Investment securities at FVTOCI	1	0	0	0	1
Investment securities at FVTPL	47	0	11	0	58
Total	**48**	**0**	**11**	**0**	**59**

CZK m	As at 1 Jan 2017	Purchases/ Sales in the period	Total gains and losses in the period recognised in the income statement	Total gains and losses in theperiod recognised in OCI	As at 31 Dec 2017
Available for sale					
Equity investments	40	0	0	8	48
Other investments designated as AFS*	9	0	0	0	9*
Total	**49**	**0**	**0**	**8**	**57**

* Other investments designated as AFS were transferred to Other assets as at 1 January 2018 due to transition to IFRS 9.

43. MANDATORY PUBLISHED INFORMATION

The Bank publishes the mandatory information according to the CNB Decree No. 163/2014 Coll. and Part 8 of Regulation of the European Parliament and the Council (EU) No. 575/2013 of 26 June 2013 on its website in the section Mandatory information at the following address: www.moneta.cz/o-nas/informacni-povinnost.

44. SUBSEQUENT EVENTS

In January 2019, the Bank sold portfolio of receivables in insolvency proceedings with positive impact on profit or loss of around CZK 100 million.

On 21 January 2019 the Bank's employees elected their 3 representatives into the Supervisory Board. The new members of the Supervisory Board are subject to a standard regulatory assessment by the Czech National Bank.

On 6 February 2019 the Supervisory Board of the Bank appointed Mr. Jan Friček as the member of the Management Board and the Chief Financial Officer for a four-year term, both with effect from 1 March 2019. Appointment of Mr. Jan Friček is subject to pending regulatory review by the Czech National Bank.

Signature of statutory representatives
In Prague, 27 February 2019

Tomáš Spurný
Chairman of the Management Board

Philip Holemans
Vice-chairman of the Management Board

10. ADDITIONAL DISCLOSURES

10.1 GOVERNING LAW

The activities of the Group are subject to, in particular, the following Czech and EU laws and regulations, as amended, including, where relevant, their implementing measures:

- EU Regulation No. 575/2013 on Prudential Requirements for Credit Institutions and Investment Firms;
- Act No. 21/1992 Coll., on Banks;
- CNB Decree No. 163/2014 Coll., on the Performance of the Activity of Banks;
- Act No. 374/2015 Coll., on Recovery and Resolution in the Financial Market;
- Act No. 256/2004 Coll., on Conducting Business in the Capital Markets;
- EU Regulation 596/2014 on Market Abuse (Market Abuse Regulation);
- Act No. 90/2012 Coll., on Business Corporations and Co-operatives (Business Corporations Act);
- Act No. 257/2016 Coll., on Consumer Credit;
- Act No. 370/2017 Coll., the Payment Systems Act;
- Act No. 170/2018 Coll., on Insurance and Reinsurance Distribution, which with effect from 1 December 2018 repealed and replaced Act No. 38/2004 Coll., on Insurance Intermediaries and Independent Loss Adjusters and on Amending the Trade Licensing Act;
- Act No. 253/2008 Coll., on Certain Measures against the Legalisation of Proceeds from Criminal Activity and the Financing of Terrorism;
- Act No. 563/1991 Coll., on Accounting;
- EU Regulation No. 1126/2008 on Adopting Certain International Accounting Standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council;
- EU Regulation No 537/2014 on Specific Requirements regarding Statutory Audit of Public-Interest Entities;
- Act No. 93/2009 Coll., on Auditors;
- Act No. 101/2000 Coll., on Personal Data Protection;
- EU Regulation 2016/679 on Protection of Natural Persons with Regard to the Processing of Personal Data and on the Free Movement of such Data;
- Act No. 143/2001 Coll., on Protection of Economic Competition;
- Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins;
- Act No. 190/2004 Coll., on Bonds;
- Act No. 240/2013 Coll., on Investment Companies and Investment Funds;
- Act No. 89/2012 Coll., Civil Code;
- Act No. 99/1963 Coll., Code of Civil Procedure;
- Act No. 182/2006 Coll., on Insolvency and Methods for its Resolution;
- Act No. 277/2013 Coll., on Foreign Exchange Activities; and
- Act No. 634/1992 Coll., on Consumer Protection.

10.2 SIGNIFICANT INVESTMENTS

10.2.1 Branches and ATMs

The main investments in the Bank's branch network in 2018 focused on:

- new branches in new design, reconstructions and relocations;
- technological upgrades throughout the branch network;
- branch network maintenance;
- local adjustments for cash operations and small business;
- renewals of old ATM's and the ATM network support;
- new ATM localities.

As part of MONETA's Strategy to become the Czech Banking Digital Leader, supported by a strong branch network, during 2018 the Bank invested into the full reconstruction of 12 branch offices and technological upgrades throughout the branch network.

These expenditures were financed from MONETA's own sources and amounted to CZK 140 million in 2018.

As at 31 December 2018, there were no firm commitments made by the Bank with respect to any future significant investment.

10.3 TRADEMARKS, LICENCES AND SUB-LICENCES

In 2018, the Bank used trademarks for labelling its products and services in the Czech Republic.

With the Czech Intellectual Property Office, the Bank registered a total number of 111 trademarks. The registration process is currently underway for a further 2 trademarks under Act 441/2003 Coll., on trademarks, following its latest amendment effective from 1 January 2019. In some cases, the Bank is also a licensee and sublicensee, typically from providers of IT services.

10.4 EXPENSES ON RESEARCH AND DEVELOPMENT

In 2018 and 2017, the Group did not utilise any item decreasing tax base for research and development.

10.5 INTELLECTUAL PROPERTY

The Group has procured a number of SW and IT technology licences which are needed to run its banking and financial business in the areas of primary banking, treasury, IFRS calculation, statistics and analytics for risk, AML and CRM management, card payment management, accounting etc.

The Group uses, owns, or otherwise relies on the right to the MONETA name, brand and logo.

10.6 DESCRIPTION OF REAL ESTATE OWNED AND LEASED BY THE GROUP

Description of property owned by the Bank is described in Notes to Consolidated Financial Statements (Note 5.12 Property and Equipment).

The Group leases the four headquarter premises set out in the table below:

Lessee	Location	Function
Bank	BB C HQ, Prague 4, Vyskočilova 1442/1b, 140 28	Registered office and headquarters of the Bank and MONETA Auto
Bank	Prague 4, V Parku 2294/2, 148 00	Business Continuity and Data Recovery
Bank	Ostrava, CTPark Ostrava – AXIS A and B including parking, Na Rovince 871	Shared Services and Call Centre
MONETA Leasing	Brno, Holandská 10, 639 00	Registered office and headquarters of MONETA Leasing

The Group also leases its 202 branches (as at 31 December 2018) throughout the Czech Republic.

The Group is not aware of any significant environmental issues or other constraints that would materially impact the intended use of the Group's facilities.

10.7 MEMBERSHIPS IN INDUSTRY AND OTHER ASSOCIATIONS

The Bank or other entities from the Group are members of the following industry or other associations:

- Czech Banking Association (CBA);
- Czech Leasing and Financial Association (CLFA);
- Czech Capital Market Association (AKAT CR).

Entities of the Group adopted following codices:

CLFA Memorandum on consumer protection in providing consumer loans, CBA Financial market Ethical Code and Code of conduct of CLFA members.

10.8 RIGHTS ATTACHED TO SHARES IN THE BANK

The shares of the Bank are freely transferable, fully fungible and rank pari passu in all respects. Under the Business Corporations Act and the Bank's Articles of Association, each of the Bank's shareholders has, inter alia, the following rights:

1. pre-emptive right to subscribe for a pro rata portion of the shares in the Bank if the registered share capital of the Bank is increased by cash contributions into the Bank unless that pre-emptive right is restricted or excluded by a General Meeting resolution;
2. pre-emptive right to subscribe for a pro rata portion of any preference or convertible bonds unless that pre-emptive right is restricted or excluded by a General Meeting resolution;
3. right to participate in the Bank's profit and liquidation balance to the extent approved at a General Meeting;
4. right to attend and vote at a General Meeting;
5. right to receive information on matters related to the Bank or its subsidiaries from the Bank at a General Meeting if such information is necessary to assess items on the agenda of the General Meeting or to exercise shareholder rights (and in particular, voting rights);
6. right to make proposals and counter-proposals in relation to items on the agenda of a General Meeting;
7. within three months following the date of the relevant General Meeting, the right to challenge the validity of resolutions of the General Meeting in a court action against the Bank; and
8. right to request a copy of the General Meeting minutes from the Management Board.

10.9 MATERIAL CONTRACTS

In 2018, the Bank entered into a lease contract with BB C - Building A, s.r.o., based at Želetavská 1525/1, Michle, 140 00 Prague 4, ID No. 25147072, for new HQ premises located at Vyskočilova 1442/1b, Michle, 140 00 Prague 4, for at least the next 10 years.

Other than the lease contract with BB C - Building A, s.r.o. for new HQ premises, the Group did not enter into any material contract outside its ordinary course of business in 2018.

10.10 DOCUMENTS INCORPORATED BY REFERENCE

The following information has been incorporated into this Annual Report by reference to the documents that are available on the Bank's website www.moneta.cz by selecting Investor relations/Financial results section. The names of the relevant documents and its page numbers are indicated in the table below.

Information	Document	Page
Information on the Group's remuneration scheme, under which members of the Management Board were awarded with variable remuneration for the performance (fiscal) years 2014 to 2016, the deferred part of which was paid out to the Management Board members in 2018	Group's consolidated annual report for the year ended 31 December 2016, part 4.10.1 (Compensation paid to the members of the Management Board)	71 – 72
KPIs of the Management Board members for the year 2018	Presentation of the Group's 1Q 2018 financial results published on 10 May 2018 and available on the Bank's website www.moneta.cz by selecting Investor relations/Financial results section	27 – 31

11. ALTERNATIVE PERFORMANCE MEASURES

In this report, certain financial data and measures are presented which are not calculated pursuant to any accounting standard and which are therefore non-IFRS measures and alternative performance measures as defined in the European Securities and Markets Authority Guidelines on Alternative Performance Measures. These financial data and measures are core cost of risk, core customer deposits, core NPL coverage, cost of funds, cost of risk, cost to income ratio, dividend yield, excess capital, excess liquidity, LCR, legacy NPL, liquid assets, liquidity buffer, loan to deposit ratio, net interest margin, net non-interest income, new production/new volume, NPL/ Non-performing loans, NPL ratio, online sales/ origination/production/volume, operational risk, opportunistic repo operations, reported return on tangible equity, return on average assets, RWA, tangible equity, total NPL coverage, yield on net customer loans/loan portfolio yield. All alternative performance measures included in this document are calculated for the specified period.

These alternative performance measures are. included to (i) extend the financial disclosure also to metrics which are used, along with IFRS measures, by the management for evaluation of the Group's performance, and (ii) provide to investors further basis, along with IFRS measures, for measuring the Group's performance. Because of the discretion that the Group has in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other companies. These measures should not be used as a substitute for evaluating the performance of the Group based on the Consolidated Financial Statements of the Group. Non-IFRS measures have limitations as analytical tools, and investors should not consider them in isolation, or as a substitute for analysis of the Group's results as reported under IFRS and set out in the Consolidated Financial Statements of the Group, and investors should not place any undue reliance on non-IFRS measures. Non-IFRS measures presented in this report should not be considered as measures of discretionary cash available to the Group to invest in the growth of the business, or as measures of cash that will be available to the Group to meet its obligations. Investors should rely primarily on the Group's IFRS results and use the non-IFRS measures only as supplemental means for evaluating the performance of the Group.

12. INFORMATION ABOUT CAPITAL AND CAPITAL REQUIREMENTS

Information according to Annex 14 of the Decree No. 163/2014 Coll., on the Performance of the Activities of Banks, Credit Unions and Investment Firms, as amended.

Information about Capital and Capital Requirements pursuant to Article 437 (1) (a) of Regulation (EU) 575/2013.

Capital

CZK m	31 Dec 2018 the Group	31 Dec 2018 the Bank	31 Dec 2017 the Group	31 Dec 2017 the Bank
Capital	**20,063**	**21,578**	**20,653**	**22,027**
Tier 1 (T1) Capital	**20,063**	**21,578**	**20,653**	**22,027**
Common Equity Tier 1 Capital	**20,063**	**21,578**	**20,653**	**22,027**
Instruments eligible as CET1 Capital*	5,539	5,539	5,539	5,539
Subscribed share capital*	511	511	511	511
Share premium*	5,028	5,028	5,028	5,028
Retained earnings	16,034	17,495	16,258	17,604
Retained earnings from previous periods	15,398	16,525	16,258	17,604
Other reserve funds*	102	102	102	102
Available for sale reserve*	0	0	(57)	(57)
Items deductible from Tier 1 Capital	(1,612)	(1,558)	(1,189)	(1,161)
- CET 1 capital adjustments due to the application of prudential filters	(0)	(0)	(0)	(0)
(-) Value adjustments due to the requirements for prudent valuation	(0)	(0)	(0)	(0)
(-) Other intangible assets	(1,612)	(1,558)	(1,189)	(1,161)
(-) Other intangible assets - carrying amount*	(1,789)	(1,731)	(1,301)	(1,273)
Deferred tax liabilities associated to other intangible assets	177	173	112	112

* Items reconciled to the Statement of financial position.

Information about Capital and Capital Requirements pursuant to Article 438 (c) to (f) of Regulation (EU) 575/2013.

Pursuant to the assessment of the Bank's report on the internal capital adequacy assessment process submitted in 2018, the Czech National Bank informed the Bank (in November 2018) about a new Pillar II capital requirement of 2.6% applicable from 1 January 2019 (i.e., the final required capital adequacy ratio will be 14.35% from 1 January 2019).

Risk Exposures

CZK m	31 Dec 2018 the Group 8%*	31 Dec 2018 the Group 14.5%**	31 Dec 2018 the Bank 8%*	31 Dec 2018 the Bank 14.5%**	31 Dec 2017 the Group 8%*	31 Dec 2017 the Group 14%**	31 Dec 2017 the Bank 8%*	31 Dec 2017 the Bank 10.5%**
Total risk exposure amount	9,776	17,719	10,053	18,222	9,484	16,597	9,696	12,726
Risk weighted exposure amount for credit, counterparty credit and dilution risks and free deliveries	8,635	15,651	9,076	16,449	8,254	14,445	8,647	11,349
Standardised approach (SA)	8,635	15,651	9,076	16,449	8,254	14,445	8,647	11,349
SA exposure classes excluding securitisation positions	8,635	15,651	9,076	16,449	8,254	14,445	8,647	11,349
Exposures to regional governments or local authorities	1	3	1	2	0	1	0	0
Exposures to institutions	135	245	135	245	64	113	64	85
Exposures to corporates	2,570	4,658	3,389	6,142	2,896	5,069	3,695	4,850
Retail exposures	4,204	7,620	3,509	6,361	4,144	7,252	3,441	4,516
Exposures to public sector entities	2	3	1	3	3	6	2	3
Exposures in default	185	335	154	279	324	567	276	362
Items associated with particular high risk	100	181	100	181	0	0	0	0
Equity exposures	8	15	369	669	7	13	368	483
Other items	251	456	239	433	291	509	275	361
Exposures secured by mortgages on immovable property	1,176	2,132	1,176	2,132	524	917	524	688
Total risk exposure amount for operational risk (OpR)	1,133	2,054	970	1,758	1,223	2,141	1,043	1,369
OpR Standardised/ Alternative Standardised approaches	1,133	2,054	970	1,758	1,223	2,141	1,043	1,369
Total risk exposure for credit valuation adjustment risk	8	14	8	14	6	11	6	8
Credit valuation adjustment Standardised approach	8	14	8	14	6	11	6	8
Total risk exposure for positions risk, FX risk and commodity risk	0	0	0	0	0	0	0	0

* Based on the Annex 14 to the Decree 163/2014 Coll. (referencing to article 438 point c) of Capital Requirement Regulation).
** Based on the Czech National Bank requirement (see note 42.1 in the Consolidated Financial Statements and note 41.1 in the Separate Financial Statements.

Capital Ratios

	31 Dec 2018 the Group 8%*	31 Dec 2018 the Group 14.5%**	31 Dec 2018 the Bank 8%*	31 Dec 2018 the Bank 14.5%**	31 Dec 2017 the Group 8%*	31 Dec 2017 the Group 14%**	31 Dec 2017 the Bank 8%*	31 Dec 2017 the Bank 10.5%**
CET1 Capital Ratio	16.4%	16.4%	17.2%	17.2%	17.4%	17.4%	18.2%	18.2%
Tier 1 Capital Ratio	16.4%	16.4%	17.2%	17.2%	17.4%	17.4%	18.2%	18.2%
Total Capital Ratio	16.4%	16.4%	17.2%	17.2%	17.4%	17.4%	18.2%	18.2%

* Based on the Annex 14 to the Decree 163/2014 Coll. (referencing to article 438 point c) of Capital Requirement Regulation).
** Based on Czech National Bank requirement (see note 42.1 in the Consolidated Financial Statements and note 41.1 in the Separate Financial Statements).

Other Indicators

	31 Dec 2018 the Group	31 Dec 2018 the Bank	31 Dec 2017 the Group	31 Dec 2017 the Bank
ROAE*	20.6%	20.2%	18.2%	17.1%
ROAA**	2.1%	2.2%	2.2%	2.1%
Total operating expenses per employee (CZK ths)***	1,245	1,273	1,316	1,343
Total assets per employee (CZK ths)	64,910	69,639	60,452	65,346
Net profit per employee (CZK ths)	1,317	1,484	1,187	1,211
Number of employees****	3,188	2,970	3,304	3,021

* Calculated as an average of regulatory capital as at 31 December 2018 and 31 December 2017.
** Calculated as an average of total assets as at 31 December 2018 and 31 December 2017.
*** Calculated as a sum of Personnel and Administrative expenses divided by number of employees.
**** Average recalculated number of employees (see note 11 in the Notes to the Separate Financial Statements and Notes the Consolidated Financial Statements).

13. FORWARD-LOOKING STATEMENTS

This report may contain projections, estimates, forecasts, targets, opinions, prospects, results, returns and forward-looking statements with respect to the management's medium term guidance, profitability, costs, assets, capital position, financial condition, results of operations, dividend and business of the Group (together, "forward-looking statements"). The forward-looking statements assume a purely organic growth without regard to any potential acquisition.

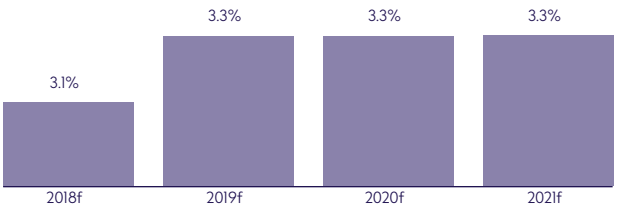
Any forward-looking statements involve material assumptions and subjective judgements which may or may not prove to be correct and there can be no assurance that any of the matters set out in forward-looking statements will actually occur or will be realised or that such matters are complete or accurate. The assumptions may prove to be incorrect and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside any control of the Group. Actual achievements, results, performance or other future events or conditions may differ materially from those stated, implied and/or reflected in any forward-looking statements due to a variety of risks, uncertainties and other factors. Any forward-looking statement contained in this report is made as at the date of this report. The Bank does not assume, and hereby disclaims, any obligation or duty to update forward-looking statements if circumstances or management's assumptions beliefs, expectations or opinions should change, unless it would be required to do so under applicable law or regulation. For these reasons, recipients should not place any reliance on, and are cautioned about relying on, any forward-looking statements.

MATERIAL ASSUMPTIONS FOR MEDIUM TERM GUIDANCE

A number of economic, market, operational and regulatory assumptions were made by the Group in preparing the medium term guidance (see below).

Positive macroeconomic outlook will persist in medium term with GDP growth around 3.3%.[1,2]

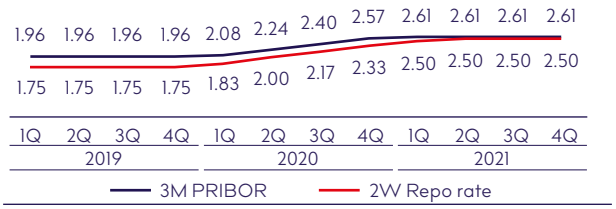
GDP OUTLOOK



3M PRIBOR assumed to be stable in 2019 at around 1.96% and gradually increase from 2020 and reach 2.61%[3] by the end of 2021.

2week repo rate will stay at 1.75% in 2019 and rate hikes of 75bps are expected in the following two years.[3]

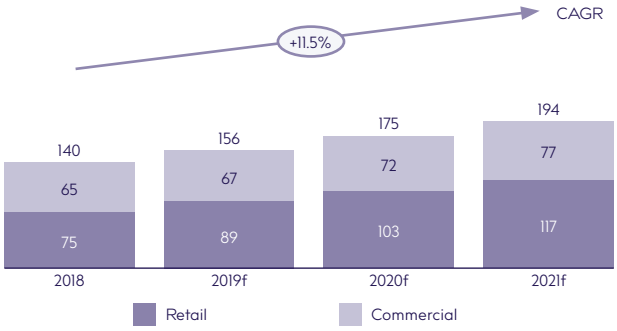
MONETA'S INTEREST RATES PROJECTION (%)[3]



1 Based on CNB forecast from November 1, 2018 (http://www.cnb.cz/cs/menova_politika/zpravy_o_inflaci/2018/2018_IV/index.html).
2 MONETA's projection of GDP outlook in 2021.
3 MONETA's assumptions used for the medium term guidance derived from CNB forecast from 1 November 2018 (http://www.cnb.cz/cs/menova_politika/zpravy_o_inflaci/2018/2018_IV/index.html).

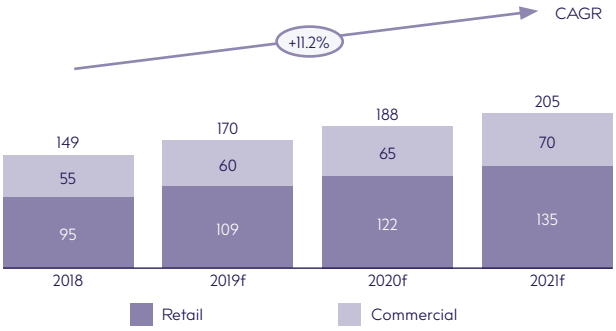
MONETA's gross performing loan book will grow with 2018–2021 CAGR of 11.5%.

MONETA'S GROSS PERFORMING LOAN BOOK DEVELOPMENT (CZK bn)



MONETA's customer deposits will grow with 2018–2021 CAGR of 11.2%.

MONETA'S CUSTOMER DEPOSITS DEVELOPMENT (CZK bn)



Figures in the chart may not add up to total due to rounding differences.

ANNEX

THE LIST OF SIGNIFICANT INTERNAL POLICIES AND OTHER DOCUMENTS

The List of Significant Internal Policies:

Audit	• Internal Audit Charter
Compliance	• Client Personal Data Processing • Code of Ethics of MONETA Concern Companies • Compliance Charter • Contact with Regulator and Competition • Charter and Rules of Procedure of Compliance & Anti-Fraud Committee • Policy on Assessing the Suitability of Members of Elected Bodies and Key Function Holders in MONETA Money Bank, a.s. • MONETA Concern Internal Policy Rulebook • Protection of Bank Secrecy and Trade Secret • Rules for Prevention and Management of Conflict of Interest • System of Internal Principles, Procedures and Control Measures to Fulfil the Obligations Stipulated by the Act No. 253/2008 Coll., on Selected Measures against Legitimisation of Proceeds of Crime and Financing of Terrorism, and Other Related Laws in the companies of the MONETA Concern
Finance	• Financial Reporting Standards at MONETA Money Bank, a.s. • Financing and Management of Market Risks of Associated Companies • Charter and Rules of Procedure of Assets & Liability Committee • Charter and Rules of Procedure of Business Review Committee • Investor Relations in MONETA Money Bank, a.s. • Rules for the Protection of Inside Information and Disposition of Investment Instruments MONETA Money Bank, a.s.
Human Resources	• Conditions of Employment • Employee Remuneration Policy • Charter and Rules of Procedure of Compensation Committee • Remuneration Policy of Material Risk Takers in MONETA Concern Companies • Definition of Staff Members with Material and Highly Material Influence on the Overall Risk Profile of MONETA Concern • Executive Variable Incentive Plan (EVIP) of MONETA Money Bank, a.s. • Remuneration Policy of the Audit Committee of MONETA Money Bank, a.s. • Remuneration Policy of the Supervisory Board of MONETA Money Bank, a.s.
Legal	• MONETA Concern Governance • Rules of Organisation of MONETA Money Bank, a.s. • Signature Rules of MONETA Money Bank, a.s. • The Rules for Submitting Proposals for and Distributing Minutes from the MONETA Money Bank, a.s. Management Board Meetings

Risk	• Charter and Rules of Procedure of Credit Committee • Charter and Rules of Procedure of Enterprise Risk Management Committee • ICAAP Regulation at MONETA Money Bank, a.s. • Liquidity and Financing Management Regulation at MONETA Money Bank, a.s. • Market Risk Management Regulation at MONETA Money Bank, a.s. • Operational Risk Management Regulations of MONETA Money Bank, a.s. • Preparation and Approval of the Risk Management Strategy at MONETA Money Bank, a.s. and in Companies Controlled by MONETA Money Bank, a.s. • Outsourcing Policy • Third Party Risk Management Regulation at MONETA Money Bank, a.s. • Measures to Separate Credit Transactions and Transactions in Investment Instruments
IT Security	• Principles of Information Security • Information Risk Management • Management and Ownership of Information on Central File System • User Account Management • IT Security Incident Response • IT Roles and IT Security Roles • Rules for Anonymisation of Personal Data
Shared Services	• Business Continuity Management Programme in Emergencies at MONETA Money Bank, a.s. • Charter and Rules of Procedure of the Business Continuity Management Committee
Other	• Corporate Social Responsibility (CSR) Rules in MONETA Concern • External Communication Rules at the MONETA Concern

The List of Other Documents:

- Rules of Long-Term Incentive Plan of MONETA Money Bank, a.s. (LTIP)
- Share Holding Guidelines of MONETA Money Bank, a.s. (SHG)

GLOSSARY

ACCA	The Association of Chartered Certified Accountants
Act on Auditors	Act No. 93/2009 Coll., on auditors, as amended.
ALCO	Asset & Liability Committee
AML/CTF	Anti-Money Laundering and Counter-Terrorist Financing Strategy
API	Open Application Program Interfaces
APR	Annual Percentage Rate
ATM	Automated Teller Machine
Bank	MONETA Money Bank, a.s.
Banking book	All positions not included in Trading book.
Basel III	The package of capital and liquidity requirements published by the Basel Committee intended to establish minimum liquidity requirements for credit institutions.
BCPP	Burza cenných papírů Praha, a.s. or Prague Stock Exchange
Bps	Basis points
Bn	Billion
BRRD	Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms, as amended.
Business Corporations Act	Act No. 90/2012 Coll., on business companies and co-operatives (Business Corporations Act), as amended.
CAFC	Compliance & Anti-Fraud Committee
Capital Adequacy Ratio or CAR or Total Capital Adequacy Ratio	Regulatory capital expressed as a percentage of RWA.
Capital Markets Act	Act No. 256/2004 Coll., on conducting business in the capital markets, as amended.
CAGR	Compound Annual Growth Rate
CDP	Carbon Disclosure Project
CEO	Chief Executive Officer
CET1 or CET1 Capital	Common equity tier 1 capital represents regulatory capital which mainly consists of capital instruments and other items provided in the Article 26 of CRR, such as paid-up registered share capital, share premium, retained profits, disclosed reserves and reserves for general banking risks, which must be netted off against accumulated losses, certain deferred tax assets, certain intangible assets and shares held by the Bank in itself (calculated pursuant to CRR).
CET1 Capital Ratio or CET1 ratio	CET1 capital as a percentage of RWA (calculated pursuant to CRR).
CFO	Chief Financial Officer
CMMC	Credit Monitoring and Management Committee
CNB	Czech National Bank
CNB Decree No. 163/2014 Coll.	CNB Decree No. 163/2014 Coll. on the performance of the activity of banks, credit unions and investment firms, as amended.
Cost of Funds (% Avg Deposits)	Interest expense and similar charges for the period divided by Average balance of deposits from banks and due to customers. MONETA uses the cost of funds measure because it represents a relative measure of MONETA's cost of funding to its overall funding base comprised primarily of customer deposits.
CoR or Cost of Risk (% Avg Net Customer Loans)	Net impairment of financial assets for the period divided by average balance of net loans to customers. MONETA uses the cost of risk measure because it describes the development of the credit risk in relative terms to its average loan portfolio balance.
Core CoR or Core Cost of Risk (% Avg Net Customer Loans)	Net impairment of financial assets for the period divided by average balance of net loans to customers excluding gain from monetisation of NPLs. MONETA uses the Core Cost of Risk measure because the reported CoR is impacted by non-recurring gains from monetisation of NPLs.
Core customer deposits	Due to customers excluding repo operations. MONETA uses this measure to show customer deposits without repo operations.
Cost to Income Ratio	Ratio (expressed as a percentage) of total operating expenses for the period to total operating income for the period. MONETA uses the cost to income ratio measure because it reflects the cost efficiency in relative terms to generated revenues.

Core NPL Coverage	Ratio (expressed as a percentage) of Allowances to NPL Receivables to total NPL receivables. MONETA uses the core NPL coverage measure because it shows the degree to which its Stage 3 loan portfolio is covered by provisions for losses created for the Stage 3 loans.
CR	Cure Rate
CRA	Regulation (EU) No. 462/2013 of the European Parliament and of the Council of 21 May 2013 amending Regulation (EC) No 1060/2009 on credit rating agencies, as amended.
CRCO	Credit Committee
CRO	Chief Risk Officer
CRD IV	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, as amended.
CRR	Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended.
CSA	Czech Statistical Authority
CTI	Czech Trade Inspection Authority
DCC	Dynamic Currency Conversion
Dividend yield	Calculated as the ratio (expressed as a percentage) of the proposed dividend per share to the closing share price. MONETA uses this ratio as it represents the annualised return on a share which MONETA pays out in the form of dividends in relative terms to the share price.
DLP	Data Loss Prevention
DoS	Denial-of-Service
EAD	Exposure at Default
Early Warning Indicators	Early Warning Indicators represent a set of daily measurements aimed at early identification of possible liquidity issues of MONETA.
EBA	European Banking Authority
EC	European Commission
ECAP	Model for calculation of internal capital requirement
ECL	Expected Credit Loss
EIB	European Investment Bank
Encumbered assets	Assets owned by the Group on which external parties reserve the right to make a valid claim for example on the basis of pledge or other security or otherwise.
ERM	The Enterprise Risk Management & Models department of the Risk Division
ERMC	The Enterprise Risk Management Committee
EU	European Union
EU Regulation No. 537/2014	Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.
EVIP	Executive Variable Incentive Plan
EVP	Executive Vice-president
Excess capital	Capital exceeding the management target CET1 capital ratio of 15.5%. MONETA uses the excess capital measure because it describes the MONETA's capital in excess of capital held to maintain its target CAR and thus represents the amount of capital which could potentially be used for growth, both organic and inorganic, or paid out to its shareholders.
Excess liquidity	Liquidity above the LCR regulatory requirement of at least 100% effective from 1 January 2018. MONETA uses the excess liquidity to show high quality liquid assets available above the minimum level needed to comply with the regulatory requirement.
Forborne receivables	Forborne receivables are receivables for which the Group provided the debtor with relief as it assessed that it would likely incur a loss if it did not do so.
FVTOCI	Financial assets measured at fair value through other comprehensive income.
FVTPL	Financial assets measured at fair value through profit or loss.
GDP	Gross Domestic Product
GDPR	Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).
GE	General Electric group

GHG	Greenhouse gas
GRI	Global Reporting Initiative Sustainability Standards - International Framework for Sustainability Reporting.
Group	Bank and its consolidated subsidiaries
H	Half-year
High quality liquid assets	Liquid assets which can be easily and quickly converted into cash according to Basel III regulation.
HQ	Headquarter
ICAAP	The Internal Capital Adequacy Assessment Process
ICAAP report	The Bank's report on the internal capital adequacy assessment process.
IDD	Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution.
IFRS	International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board, the International Accounting Standards (IASs) adopted by the International Accounting Standards Board, the Standing Interpretation Committee abstracts (SICs) and the International Financial Reporting Interpretation Committee abstracts (IFRICs) as adopted or issued by the International Financial Reporting Interpretation Committee, in each case, as codified in the Commission Regulation (EC) No. 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, as amended, or otherwise endorsed for use in the European Union.
ILAAP	The Internal Liquidity Adequacy Assessment Process
Interest (and similar) income from loans to customers	Interest and similar income from loans to customers per note 6 to the Consolidated Financial Statements.
IPO	Offering of shares in the Bank to institutional investors by GE completed on 6 May 2016.
KPI	Key Performance Indicator
LCR	Liquidity Coverage Ratio measures the ratio (expressed as a percentage) of the Bank's buffer of high-quality liquid assets to its projected net liquidity outflows over a 30-day stress period, as calculated in accordance with CRR and EU Regulation 61/2015. MONETA uses this ratio to show its liquidity position.
Legacy NPL	Historically accumulated aged non-performing receivables. MONETA uses this measure to show historical NPL loans separately from total NPL loans.
LGD	Loss Given Default
Liquid Assets	Liquid assets comprise of cash and balances with central banks, financial assets at fair value through profit or loss, financial assets available for sale and receivables to banks.
Liquidity buffer	Liquid assets that the Bank holds in compliance with Title II of Commission Delegated Regulation (EU) 2015/61.
Loan to Deposit Ratio or L/D Ratio	Loan to deposit ratio calculated as net loans and receivables to customers divided by customer deposits. MONETA uses the loan to deposit ratio measure because this metric is used by the Management of MONETA to assess its liquidity level.
LTIP	Long Term Incentive Plan
m	Millions
Material Risk Takers	Staff members with highly material influence and material influence on overall risk profile of MONETA Group, identified pursuant to Commission Delegated Regulation (EU) No. 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.
Moody's	Moody's Investors Service Ltd.
MONETA	Bank and its consolidated subsidiaries
MONETA Auto	MONETA Auto, s.r.o.
MONETA Leasing	MONETA Leasing, s.r.o.
MONETA Money Bank	MONETA Money Bank, a.s.
MREL	Minimum Requirement for own funds and eligible liabilities, the term used in EU legislation (BBRD, as transposed into Czech law by Act No. 374/2015 Coll., on recovery and resolution in the financial market) for the loss absorbing capital (LAC) of certain financial institutions.
MROC	Model Risk Oversight Committee
NASDAQ	National Association of Securities Dealers Automated Quotes system

Net Income or Profit after Tax or Net profit	Profit for the period after tax, on consolidated basis unless this report states otherwise.
Net Non-Interest Income	Total operating income less Net interest income for the period. MONETA uses the net non-interest income measure because this is an important metric for assessing and control of the diversity of revenue streams.
New volume/production	Aggregate of loan principal disbursed in the period for non-revolving loans (including internal loan consolidations and repriced loans). MONETA uses the new volume/production measure because it reflects the production of its distribution and ability of MONETA to generate new loans which is key for loan portfolio growth.
NFC technology	Near Field Communication
NIM or Net Interest Margin (% Avg Int Earning Assets)	Net interest income divided by Average balance of net interest earning assets. MONETA uses the net interest margin measure because this metric represents the primary measure of profitability showing margin between interest earned on interest earning assets (mainly loans to customers) and paid on interest bearing liabilities (mainly customer deposits) in relative terms to the average balance of interest earning assets.
No.	Number
Number of employees or FTE	The average recalculated number of employees during the period is an average of the figures reported to Czech Statistical Authority (CSA) on a monthly basis in accordance with Article 15 of Czech Act No. 518/2004. The figures reported to CSA equal to quotient of the following nominator and the following denominator. The nominator is defined as all hours worked by all employees, their related leaves/holidays and their related sickdays. The denominator represents a standard working hour per an employee and a month. The number of employees includes members of Supervisory Board and Management Board.
NPIC	The New Product Introduction Council
NPL	Non-performing loans. Non-performing Receivables as determined in accordance with the Bank's loan receivables categorisation rules (Substandard, Doubtful, Loss) and pursuant to the CNB Decree No. 163/2014 Coll.
NPL Coverage or Total NPL Coverage	Ratio (expressed as a percentage) of Loss allowances for loans and advances to customers to NPL receivables. MONETA uses the NPL coverage measure because it shows the degree to which its Stage 3 loan portfolio is covered by total provisions created for credit losses.
NPL Ratio or Non-performing Loan Ratio	Ratio (expressed as a percentage) of NPL to Gross loans and receivables to customers. MONETA uses the NPL ratio measure because it's the key indicator of portfolio quality and allows comparison to the market and peers.
NPS	Net promoter score is the difference between % of promoters & % of detractors. Based on a survey on consumer products.
NSFR	Net Stable Funding Ratio calculated pursuant to 'Basel III: the net stable funding ratio' published by Basel Committee on Banking Supervision in October 2014.
NYSE	New York Stock Exchange
Online/Fully online volume/sales/origination/production	Online volume/sale represents volume from leads initiated through digital channels and disbursed either through digital channels or branches; fully online volume/sales = volume from leads both initiated and disbursed in digital channels; online initiated = volume from leads initiated in digital channels but disbursed at branch. MONETA uses the online sales/origination/production/volume because it reflects the production of MONETA's digital/online distribution channels.
Opportunistic repo operations	Repo transactions with counterparties which are closed on back-to-back basis by reverse repo transactions with CNB. MONETA uses this measure to show them separately from other repo operations.
OpR	Operational risk
OR	Obligor's rating assigned to a borrower with respect to an individually managed exposure expressing the probability that the borrower will default in the following 12 months. As regards the portfolio managed exposures, the OR is designated as a credit rating (CR).
PD	Probability of Default
Performing receivables	Performing Receivables as determined in accordance with the Bank's loan receivables categorisation rules (Standard, Watched) and pursuant to the CNB Decree No. 163/2014 Coll.
Phantom Shares	Cash-settled share-based remuneration arrangement awarded to Material Risk Takers as part of their variable remuneration under EVIP.
PIT	Point-in-time matrices relevant for the calculation of PD and CR.
PLC	Problem Loan Committee
Prospectus	Basic Prospectus for Bonds Issued under the Offer Bond Programme. Based on the bond programme, MONETA is entitled to issue individual bond issues in accordance with legal regulations. The total nominal value of all issued and outstanding bonds issued under the bond program may not exceed CZK 50,000,000,000.

PSD 2	Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No. 1093/2010, and repealing Directive 2007/64/EC.
PSE	Prague Stock Exchange
PX Index	The PX index is the official price index of the Prague Stock Exchange. It is a free float weighted price index made up of the most liquid stocks.
Q	Quarter
RCSA	Risk & Control Self-Assessment
Reported RoTE or RoTE	Consolidated profit after tax divided by tangible equity. MONETA uses the RoTE measure because it is one of the key performance indicators used to assess MONETA's rentability of tangible capital.
Retail unsecured instalment loans/ Consumer loans/Unsecured consumer loans	Non-purpose, unsecured and non-revolving loan to retail clients
Regulatory Capital	CET1 (calculated pursuant to CRR) as MONETA, as at the date hereof, has not issued any Additional Tier 1 Capital or Tier 2 Capital instruments or items.
Reported Profit after tax	Profit for the period after tax, on consolidated basis unless this report states otherwise.
RoAA or Return on Average Assets	Return on average assets calculated as profit after tax for the year divided by Average balance of total assets. Average balance of total assets is calculated as two point average from total assets as at the end of current year and prior year (31 December). MONETA uses the RoAA measure because it is one of the key performance indicators used to assess MONETA's rentability of assets.
ROAE	Return on Average Equity
RWA or risk exposure	Risk weighted assets (calculated pursuant to CRR).
SA	Standardised Approach
S&P	S&P Global Ratings Europe Limited, the legal successor of Standard & Poor's Credit Market Services Limited.
SHG	Share Holding Guidelines
SICR	Significant Increase in Credit Risk
SIEM	Security Information and Event Management system
Small business	Entrepreneurs and small companies with an annual turnover up to CZK 60 million.
SME	An enterprise with an annual turnover of up to CZK 200 million.
SME lending franchise	Investment loan and working capital.
SOC	Security Operations Center
Spontaneous awareness	A percentage of people who express knowledge of a brand or product without prompting.
SREP	Supervisory Review and Evaluation Process
Tangible Equity	Calculated as total equity less intangible assets and goodwill.
Target CET1 Ratio	CET1 ratio target sets by the management, currently at 15.5% (in 2018 consisting of a 14.5% required Regulatory capital – including a 0.5% countercyclical buffer and a 1% management buffer).
Tier 1 Capital	The aggregate of CET1 capital and Additional Tier 1 capital.
Tier 1 Capital Ratio	Tier 1 capital as a percentage of RWA.
Ths	Thousands
Tier 2 Capital	Regulatory capital which consists of capital instruments, subordinated loans and other items (including certain unsecured subordinated debt obligations with payment restrictions) provided in Article 62 of CRR.
Trading book	Trading book according to the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended (article 4, para 86)
TSR	Total Shareholder Return
TTC	Through-the-cycle matrices relevant for the calculation of PD and CR.
VaR	Value at Risk
VAT	Value Added Tax
Yield on net customer loans (% Avg Net Customer Loans)	Interest and similar income from loans to customer divided by Average balance of net loans to customers. MONETA uses the yield on net customer loans measure because it represents interest generated on the loan portfolio in relative terms to its average balance and is one of the key performance indicators of its lending activities.

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