Česká spořitelna

Half-Year Report 2019

International Financial Reporting Standards,
Consolidated & Unaudited

ČESKÁ spořitelna

FINANCIAL RESULTS

HOW WE PERFORMED IN H1 2019

NET PROFIT

H1 2017	H1 2018	H1 2019
CZK 7.7 bn	CZK 7.9 bn	CZK 8.7 bn

OPERATING RESULT

H1 2017	H1 2018	H1 2019
CZK 9.4 bn	CZK 9.5 bn	CZK 11.3 bn

CUSTOMER NPS

H1 2018 10

H1 2019 17

PRIVATE MORTGAGES PORTFOLIO

H1 2017	H1 2018	H1 2019
CZK 221 bn	CZK 245.8 bn	CZK 267.8 bn

CONSUMER LOANS PORTFOLIO

H1 2017	H1 2018	H1 2019
CZK 64.1 bn	CZK 68.9 bn	CZK 71 bn

WHOLESALE LOANS PORTFOLIO

H1 2017	H1 2018	H1 2019
CZK 227.1 bn	CZK 278.9 bn	CZK 282.6 bn

DEPOSITS FROM CUSTOMERS

H1 2019	CZK 1,047.2 bn
H1 2018	CZK 919.7 bn
H1 2017	CZK 835.8 bn

DEPOSITS FROM THE PUBLIC SECTOR

CZK 145.9 bn	H1 2019
CZK 81.1 bn	H1 2018
CZK 75.6 bn	H1 2017

DEPOSITS FROM HOUSEHOLDS

H1 2019	CZK 695.1 bn
H1 2018	CZK 650.4 bn
H1 2017	CZK 602.7 bn

DEPOSITS FROM CORPORATIONS

CZK 206.2 bn	H1 2019
CZK 188.3 bn	H1 2018
CZK 157.5 bn	H1 2017

ČESKÁ spořitelna

Content

Macroeconomic Development of the Czech Republic

in the First Half of 2019

The favourable development of the Czech economy continued throughout the first half of 2019. Growth was driven by both domestic and foreign demand. The labour market remained tight, as the unemployment rate remained very low and wage growth was strong. Inflation was close to the upper band of the inflation target, being moderated by the gradual increase of interest rates by the Czech National Bank in May. Economic risks remained higher due to the uncertainty surrounding Brexit and protectionist policies affecting global trade during the first half of 2019.

In the second quarter of the year, year-on-year growth of the gross domestic product of the Czech economy reached 2.7%(1), vs. 2.9%(2) reached in 2018 (average). Growth was mainly driven by strong domestic demand. Household consumption was propelled by the tight labour market. The upswing in investment activity was stimulated by the shortage in the labour force, which has forced companies to invest more in robotics and automation. Although economic development in Germany weakened, growth was also driven by foreign demand. Overall, growth remained high and the Czech economy continued its convergence towards the developed countries of Western Europe.

> Overall, growth remained high and the Czech economy continued its convergence towards the developed countries of Western Europe.

During the first half of 2019, inflation was close to the upper band of the inflation target. At the beginning of 2019, price increases were lower, with annual inflation arriving at 2.5%(3). However, this development was only temporary. During the second quarter, price increases accelerated and reached the upper band of the inflation target. The latest number for the first half of 2019 has again declined – annual inflation arrived at 2.7%(4) in June. The main pro-inflationary pressures are strong domestic demand, growth in wage costs, regulated prices and food prices. The main anti-inflationary factors are the current high investment of companies in robotics and automation (alongside with an increase in productivity), rising interest rates by ČNB and, in the medium term, the appreciating CZK. At the end of the second quarter, the koruna strengthened to close to CZK 25.50(5) per euro.

After strong performance in 2018, the labour market continued with this trend in the first half of 2019 and remained tight. The favourable economic development has translated into high demand for employees, and, thanks to this strong demand, the unemployment rate fell to 2.0%(6) in June (the lowest in the EU). Given the aforementioned very tight labour market conditions, wage growth is still accelerating significantly; in Q1 2019, real wage growth reached 4.6%(7).

During the first half of 2019, the ČNB raised interest rates once: the main two-week repo rate was set at 2.0%(8) at the end of June, which helped to tighten monetary conditions and thereby reduce the pro-inflationary impact of a growing economy and the tight labour market. Although the CZK should continue its appreciation in the medium term thanks to the positive development of the Czech economy, during the first half of 2019 the koruna in the short term weakened to close to CZK 25.80(9) per euro. This depreciation was mainly due to external influences, including the no-deal Brexit threat, the possibility of the US raising tariffs on European car imports and the risk of the deterioration of economic development in Germany.

The development of yields of CZ government bonds reflected a few factors. The yield curve remained relatively flat and even inverse at the end of the first half of 2019. The growth of yields on the short end of the curve was supported by the monetary policy of the ČNB. The long end of the curve was affected by expansionary monetary policy in the euro area and market expectations for a possible ECB rate cut.

(1) Source: Czech Statistical Office, 14.8.2019, https://www.czso.cz/csu/czso/ari/gdp-preliminary-estimate-2-quarter-of-2019
(2) Source: Czech Statistical Office, 2.4.2019, https://www.czso.cz/quarterly-sector-accounts-4-quarter-of-2018
(3) Source: Czech Statistical Office, 11.6.2019, https://www.czso.cz/csu/czso/inflation_consumer_prices_ekon
(4) Source: Czech Statistical Office, 11.7.2019, https://www.czso.cz/consumer-price-indices-inflation-june-2019
(5) Source: Czech National Bank, 9.7.2019, https://www.cnb.cz/central-bank-exchange-rate-fixing
(6) Source: Czech Statistical Office, 14.8.2019, https://www.czso.cz/csu/czso/ari/rates-of-employment-unemployment-and-economic-activity-june-2019
(7) Source: Czech Statistical Office, 17.5.2019, https://www.czso.cz/csu/czso/labour_and_earnings_ekon
(8) Source: Czech National Bank, 9.7.2019, https://www.cnb.cz/changes-in-2019/
(9) Source: Czech National Bank, 9.7.2019, https://www.cnb.cz/central-bank-exchange-rate-fixing

Consolidated Financial Results of Česká spořitelna[10]

For the First Half of 2019

Income Statement

Česká spořitelna reported an unaudited consolidated net profit (net result attributable to owners of the parent) of CZK 8.7 bn in the first half of 2019, according to International Financial Reporting Standards (IFRS). Net profit for the same period of 2018 amounted to CZK 7.9 bn which means an increase by 10.5% in a year-on-year comparison.

Return on equity (ROE) substantially increased to 13.8% from 12.9% in the first half of 2018, due to the increase of net profit. Return on assets (ROA) remained almost flat and stood at 1.2% (vs 1.1% in H1 2018).

Net profit was mainly influenced by a growing operating result that recorded an extraordinary increase – up by 19.5% compared to the first half of 2018, to CZK 11.3 bn. The largest contributor to the growth was net interest income, but significant contributions also came from net trading result and net fee and commission income. Large increase in operating result is the reason behind the great improvement of cost/income ratio to 45.7% from 49.2% in H1 2018.

> Net profit was mainly influenced by a growing operating result that recorded an extraordinary increase by 19.5% y/y.

An increase in net interest income was driven by customer loan growth, increasing income from debt securities and interest rate hikes of Czech National Bank. Net interest income amounted to CZK 14.7 bn, which is 11.5% more than in the first half of 2018. Although some interest rates increased, net interest margin declined from 2.15% to 2.08%, due to a high volume of low interest earning transactions with ČNB and continued competitive pressure on the banking market. Excluding exceptional growth of low interest earning assets, net interest margin declined from 2.69% to 2.55%.

Česká spořitelna experienced a turnaround after seven years of declining net fee and commission income. Net fee and commission income increased by 3.8% year-on-year to CZK 4.5 bn. The Bank managed to gain fee income from asset management, custody, card business and optimisation of fee expenses for lending commission.

> Česká spořitelna experienced a turnaround after seven years of declining net fee and commission income.

Net trading result substantially grew by 43.3% compared to H1 2018, to CZK 1.5 bn. The growth was attributed to FX business in retail and corporate segments.

Total operating expenses rose by 4.1% in a year-on-year comparison, to CZK 9.5 bn. Personnel expenses grew by 6.7%, mainly due to an increase in salaries. Other administrative expenses decreased by 4.7% despite a higher contribution to the Deposit Insurance Fund. The decline was also attributed to IFRS 16 implementation, which caused structural changes in the income statement, mainly between other administrative expenses (decrease) and depreciation of tangible and intangible assets (increase).

Impairment result on financial instruments (i.e., creation of risk provisions and reserves for loans and advances, guarantees and commitments) reached CZK 0.2 bn. Despite the positive impact on income statement, it meant a year-on-year worsening, due to an exceptionally high release of credit risk provision in the same period of 2018. Loan portfolio is still in a very good condition with a low amount of new defaults and an exceptionally low portfolio of non-performing loans.

Other operating result of CZK −0.7 bn consisted mainly of other income and costs unrelated to common activity of the Group, creation of provisions and result from sale or revaluation of tangible and intangible assets. The compulsory contribution to the Recovery and Resolution Fund of CZK 682 m, which grew significantly from CZK 488 m in H1 2018, by 39.7%, was also included in this item.

Statement of Financial Position

As at 30 June 2019, total consolidated assets amounted to 1,504.5 bn, which meant 5.5% increase compared to 31 December 2018. The changes in the structure of assets continued in the first half of 2019, leading to a growth of loans and advances to customers and banks (including reverse repo operations with ČNB). On the liability side of the balance sheet, deposits from customers recorded a substantial increase. Implementation of the new accounting standard IFRS 16

(10) Definitions of below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 52.

influenced also the asset and liability sides of balance sheet, resulting in growth of both sides of the balance sheet by CZK 2.7 bn.

Customer loan portfolio continued to grow also in H1 2019. The volume of ČS Group net loans and advances to customers increased by 5.8% to CZK 734.5 bn, which means CZK 40.5 bn in absolute value. Excluding reverse repo operations, which the Bank does not consider as the main business activity, net customer loans and advances increased by 3.6%.

> Customer loan portfolio continued to grow also in H1 2019.

The portfolio of retail loans (bank only) amounted to CZK 394.2 bn, representing a 2.8% increase in the first half of 2019. All segments contributed to retail loan growth – private mortgages grew by 3.1% to CZK 267.8 bn, loans to small companies went up by 2.8%, and consumer loans increased by 1.3%. Building loans of Stavební spořitelna ČS (Building Society) also rose. The gross loan portfolio of SSČS reached the level of CZK 42.9 bn by a rise of 3.4% during first 6 months of 2019.

The gross volume of loans to corporate customers and to the Group Markets segment (wholesale loans, bank only), excluding reverse repo operations, increased by 4.4% to CZK 265.9 bn in the first half of 2019. The growth was due to strong growth in loans to large corporate customers (up by 5.1%), SMEs (growth of 3.7%) and real estate (up by 10.3%). The reported figure rose by 10.5% to CZK 282.6 bn.

The loan portfolio of Česká spořitelna has an excellent quality. This is evidenced by the share of non-performing loans to the overall volume of client loans, which had been at stable 1.8% since the fourth quarter of 2018. Provision coverage was almost stable at the excellent level of 98%.

> The loan portfolio of Česká spořitelna has an excellent quality.

Loans to banks grew by 6.2% to the amount of CZK 413.8 bn in the first half of 2019. The growth was caused by growth of reverse repo operations with ČNB.

Group deposits from customers recorded a 9.7% increase compared to the end of 2018 and reached CZK 1,047.2 bn. (Excluding the impact of repo operations they grew by 5.0%.) Household (retail) deposits went up by 3.4% to CZK 695.1 bn and Group corporate deposits declined by 5.7% to CZK 206.2 bn in the first half of 2019. Public sector deposits increased by outstanding 128.5% to CZK 145.9 bn due to inflow of volatile short-term deposits.

Deposits from banks went down by 8.2% in H1 2019 to CZK 292.8 bn. The main reason behind that was a decline in loans received within repo operations.

Equity attributable to owners of the parent grew by 5.6% from the end of 2018 and reached CZK 129.4 bn. In June 2019, Česká spořitelna issued Additional Tier 1 capital in the approx. volume of CZK 9 bn to strengthen its capital base. The total capital ratio (Tier I and II) for Česká spořitelna Group as at 30 June 2019 reached 20.6%, significantly above minimum regulatory capital requirements.

Major Events and Business Activities

in the First Half of 2019

Retail Banking

Česká spořitelna's digitisation is advancing rapidly. In the first half of the year 2019, client migration from the Servis 24 Internet banking system to the modern Internet platform George was essentially completed. With approximately 1.5 million users migrated, it had been by far the largest client migration on the domestic market.

Česká spořitelna was also the first to start offering instant payments that make it possible to clear payments within seconds. Spořitelna's clients were among the first in the country to be able to start using Apple Pay and later also Google Pay services.

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George

George, the new Internet banking system "broke" records. Every month, over 1.3 million users log into it. 520,000 people are actively using George Mobile Banking.

George is the first banking application on the market that can analyse financial behavior of its users automatically and in real time and offer them personalised recommendations by SMS or notifications within the application, to help them manage their finance.

Thanks to them, Česká spořitelna has grown to be number one on the domestic market. George in the mobile also offers "handy tips" that not only help clients efficiently manage their family finance but also draw the user's attention to, for example, the fact that their identification document is about to expire.

Instant Payments

Česká spořitelna has started offering "instant payments". All outbound client payments going to accounts in banks that support this service are cleared within seconds. Instant payments can be used for amounts up to CZK 100,000. As soon as more banks in the country make it possible to receive instant payments, Česká spořitelna will guarantee its clients that their payments will be credited to the payees' accounts in those banks within seconds, 24 hours a day, seven days a week.

At present, only Česká spořitelna and a handful of other banks provide technical support for instant payments.

API

Česká spořitelna had been the first in the Erste Group Bank to offer live access to API (Application Programming Interface), since the beginning of 2018. Currently, 184 corporate customers are connected to Česká spořitelna's API, and 64 of them are already using API for their commercial purposes or for their customers.

In the first half of the year 2019, Spořitelna also started to use other banks' PSD2 APIs to launch the first multi-banking payment button on the Czech market. By clicking the payment button at Internet shops, people will be able to pay for the transaction from their Internet banking, regardless of the bank in which they have their account. At stage one, Spořitelna linked four other banks to the "Payment from Account" payment button. It is assumed that by the end of the year, Internet payments will have been made possible via "Payment from Account" from most large and medium-sized banks on the Czech market.

> In the first half of the year 2019, Spořitelna started to use other banks' PSD2 API to launch the first multi-banking payment button on the Czech market.

Loans

In spite of the gradual slowdown of economic growth, consumption of Czech households continued to grow in the first half of 2019, particularly due to strong growth and minimal unemployment.

Despite the gradual increase of interest rates, lending transactions grew dynamically. The portfolio of loans to households went up primarily due to mortgages to individuals, loans to entrepreneurs and small enterprises, and also consumer loans.

Mortgages

Česká spořitelna is one of the largest players on the mortgage market – despite the drop in the market, its market share is 22%. Regulation of mortgage terms by the ČNB has resulted in about one-third drop in the market. Regulation strongly affects primarily those clients wishing to purchase their first home. Česká spořitelna seeks to respond by, for example, offering solutions for those groups of clients who are most restricted by the new regulation. It has presented a new offer for those clients who are buying their first home. A client purchasing their first home only needs to put together 10% of their own means, and Spořitelna's mortgage will take care of the rest. The maximum loan for purchasing a first home is CZK 5,000,000. The new first-home proposition also includes an offer of a preferential rate "a 90% mortgage for the price of an 80% one".

Česká spořitelna has implemented further changes in the recognition and calculation of income. It has significantly adapted its recognition of income from business – with the introduction of a revenue mortgage. The revenue method of income calculation is offered by only a small number of banks on the market, and Spořitelna is thus able to appeal to a far greater percentage of entrepreneurs who wish to purchase their own home. Furthermore, Spořitelna has also made changes in recognising rental income and has extended the possibilities of providing mortgages for holiday properties.

Insurance

In its MHF (My Healthy Finances) service, Česká spořitelna started to offer non-life insurance products in 2018 – property insurance, household insurance, and car insurance. Whereas in 2018 Spořitelna entered into insurance agreements worth CZK 50 m, in the first half of 2019 the volume of new insurance agreements reached CZK 36 m. Growing interest in non-life insurance products will also result in an extension of Spořitelna´s network of insurance specialists focused on offering and selling non-life insurance products. Currently, the Bank has 63 of such specialists and plans to double that number by the end of the year.

Service Point Digitisation

Spořitelna has started to use virtual reality for designing its new-type branches. An example is its new-format branch which was opened in Telč. The possibility of fine-tuning the ergonomics of a new branch in a virtual environment saves Spořitelna up to 90% on costs on subsequent interior and building adaptations. Spořitelna will use virtual reality in designing its new-format branches in cases when it must contend with a more complicated layout. It also plans to use virtual reality in training its banking advisors.

Česká spořitelna – Corporate Banking

For the second year, Česká spořitelna has been setting the trend of corporate banking on the domestic banking market. The volume of loans provided by the corporate banking division reached CZK 282.6 bn as at 30 June 2019.

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In the first half of 2019, the volume of loans provided by the corporate banking division (including subsidiaries) continued to grow across diverse corporate segments. There was particularly strong growth in loans to large corporations and also to small and medium-sized enterprises.

15 regional corporate centres across the country play a key role in serving small and medium-sized companies. They are celebrating their 20th anniversary in 2019. They provide comprehensive services that include financing as well as e.g. consulting. Spořitelna is also the leader in intermediating money from European Union funds to small and medium-sized companies.

In developing new services, Spořitelna puts an emphasis on customer experience management. This should be significantly improved by an automated process for selected corporate loans, called SME+. Spořitelna launched its pilot at the end of April 2019. The main advantage of the process is an online application evaluation which is fully automatic. Automated approval is the foundation for future online loans sales and also for increasing efficiency.

In the Supply Chain Financing project, the TeleSCope (Tableau) application was completed and put in use. TeleSCope will become an important helper both in acquisitions and extending co-operation with existing clients. The tool also makes it possible to identify suitable candidates for traditional and reverse marketing. Česká spořitelna is the first bank in Erste Group Bank which have developed such a tool.

Mutual Funds

Volatility has returned to capital markets after a very long period of growth, causing significant price fluctuations. That was one of the reasons why Česká spořitelna launched a campaign publicising regular investments that help to eliminate price fluctuations in the long-term horizon.

Česká spořitelna continues to hold first place on the market of mutual fund brokers with market share of 26.5%. In the first half of 2019, clients invested more than CZK 3.8 bn in the form of regular investments through Česká spořitelna's mutual funds (in aggregate more than CZK 13.6 bn). In the first half-year of 2019, mutual funds distributed by Česká spořitelna welcomed 8,000 new regular investors.

Social Banking

Česká spořitelna's social banking makes financing and consulting available to social enterprises and non-profit organisations. In the first half of 2019, Spořitelna held four thematic workshops within the framework of the Social Banking Academy (two in Ostrava for Moravian non-profit organisations and two in Prague for organisations from Bohemia) and an intensive ten-day course for social service managers. Social banking advisors have provided nearly 100 hours of training and 20 hours of individual coaching for the development of organisations with a social dimension.

In the three years when Česká spořitelna's social banking has existed, loans totalling EUR 55 m have been provided. Furthermore, the Bank helped to maintain or create 7,500 jobs for disadvantaged groups.

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Česká spořitelna's co-operation with the European Investment Fund has brought domestic social enterprises financing amounting in aggregate of CZK 40 m.

General Meeting

In 2019, for the first time, Česká spořitelna held its General Meeting in the form of a Decision of its Sole Shareholder acting in the capacity of the General Meeting. Česká spořitelna's sole shareholder is Erste Group Bank AG, which obtained all shares on the basis of a decision of Česká spořitelna's General Meeting held on 3 October 2018.

On 26 April 2019, the sole shareholder acting in the capacity of the General Meeting decided on a distribution of the 2018 profit and retained profits from previous years, amounting to CZK 94,503 m, and about a dividend payment of CZK 11,362 m. Furthermore, it decided about an allocation of CZK 600 m to a special fund created from profit, for paying yield to holders of Additional Tier 1 instruments issued by the Company. The amount of CZK 82,542 m will be retained for the time being.

Received awards

Česká spořitelna was successful in the "Zlatá koruna" ("Golden Crown") competition and received three gold medals for its products and services – for the best mortgage, Visa Infinite payment card connected to the Erste Premier account and "Nová krev" ("New Blood") corporate loan. In addition, its subsidiaries – Stavební spořitelna ČS and Penzijní společnost ČS – also succeeded. In the Corporate Social Responsibility category, silver medal was awarded to the "Abeceda peněz" ("Money Alphabet") project focusing on financial education of children.

Česká spořitelna received two awards for the most significant absolute increase in volume on issued premium cards ("Premium Card Issuer 2018") and for the most significant absolute increase in volume on issued commercial cards ("Commercial Card Issuer 2018"), awarded by Mastercard.

Out of all domestic banks, Česká spořitelna is the most significant contributor to Czech state budget. In 2018, Česká spořitelna paid more than CZK 3.5 billion in corporate income tax and, following Škoda Auto, it became the second most significant taxpayer in the Czech Republic. The award from the Czech Ministry of Finance and the General Finance Directorate was awarded to Spořitelna.

We believe in good things

The ability of money management is one of preconditions of a satisfied life; for this reason, Česká spořitelna considers the projects focusing on financial literacy to be its key projects. Some of the programmes are intended for the young generation, some are intended for the elderly.

The "Abeceda peněz" project is currently designated for pupils in the fourth grade of elementary schools. During the Project they have been taught how to manage their money in an entertaining manner since 2016. After receiving gold award in 2018, the Project received silver award in the "Zlatá Koruna" competition for the best project in the Corporate Social Responsibility in 2019.

> The "Abeceda peněz" project is designated for pupils in the elementary schools that have been taught how to manage their money in an entertaining manner since 2016.

As a part of a several-month programme, pupils learn how to plan their finances. They put new knowledge into practice with the help of professional lecturers and teachers. They start with a school trip to a Bank branch which provides them with an insight into the world of practical finance management. Afterwards, children set up a company, prepare a business plan and set a goal they would like to achieve. The most frequently children decide to manufacture some products and subsequently are offered an opportunity to sell their products at a public fair in the premises of the Bank branch they know from the initial school trip. Approximately one fourth of classes intend to help others and donate a part of or the entire earnings to good cause.

Since the school year 2017/2018, almost 300 schools had been involved in the Project and the children had earned the total of CZK 7 million in the fairs. During the first half of 2019, they earned more than CZK 3.7 million at almost 270 fairs.

Česká spořitelna actively commemorates the 30th anniversary of the Velvet Revolution and the fall of the Iron Curtain. The Bank did not want to "only" support one-off event, even though it would be a dignified reminder of an important anniversary. Therefore it has been launching a regular community grant programme entitled "Dokážeme Víc" ("We Are Able to Do More") in 2019. The Programme involves inciting people to an active approach to the place they live in, supporting the coexistence of neighbours and continuously contributing to the prosperity of the Czech Republic by these specific steps. In the first year, the employees of Česká spořitelna registered 66 ideas, out of which the conditions of the grant were met by 45 projects. The best 19 projects selected in two-round tender received the total of CZK 1.5 m.

"Nadace České spořitelny" ("The Česká spořitelna Foundation") believes that education is the key issue in the development of the Czech Republic. It believes that the path leading to system changes is through an extensive co-operation among sectors. Together with other three foundations, it has founded the "Eduzměna" ("Educhange") endowment fund which wants in next five years to improve pupils´ educational results from approximately twenty schools in a selected region, as part of the regional pilot project, and subsequently offer this model to the public sector.

Česká spořitelna's expected development

in the Second Half of 2019

Česká spořitelna's long-standing goal is to lead its clients and the entire Czech society to prosperity. The main instrument that will help it attain that objective is its advisory concept My Healthy Finances (MHF). MHF services are currently being used by nearly 1.3 million satisfied clients. The main benefit that clients derive from the service, is the ability to see a breakdown of their expenditures by group and subsequently obtain advice that will lead to their optimisation. For the second half of the year 2019, Česká spořitelna plans further development, standardisation, and delivery of the service in real time, including new types of channels for delivering tips to clients.

> Česká spořitelna's long-standing goal is to lead its clients and the entire Czech society to prosperity.

Parallel with the development of MHF, Česká spořitelna is working intensely on further improvements of its banking of the future, named George, both in its mobile and desktop versions. Newly, for example, even mobile George will give its clients "handy tips" through push notifications. The range of products available in George will gradually expand to enable clients to take care of their financial needs from the comfort of their home.

For corporate clients, Česká spořitelna plans optimisation and digitisation of processes that will ultimately result in an acceleration of lending and other products across corporate segments.

As part of the balance of assets and liabilities in the second half of 2019, the Bank expects a continuous growth of the volume of loans to clients in both retail and wholesale area. Gradual increase in primary deposits will also continue.

The profit and loss statement in the second half of 2019 is expected to be roughly in line with the first half. The volume of net interest income will be affected by increase in interest rates in May and higher number of days in the second half of the year. Client activity in the area of investments in mutual funds and securities will make a positive contribution to net fee and commission income, while at the same time the continuing pressure of competition on the Czech market will have a negative impact. Development in credit risk provisions will promote the achievement of planned profits. The benefits of implementing selected Group and local projects and efforts to improve operational efficiency will also play an important role.

> The profit and loss statement in the second half of 2019 is expected to be roughly in line with the first half.

Selected Financial Indicators[11]

Key Ratios

In CZK million	30 June 2019	30 June 2018
Return on equity (ROE)	13.8%	12.9%
Return on assets (ROA)	1.2%	1.1%
Cost / Income	45.7%	49.2%
Net interest margin in relation to interest-earning assets	2.08%	2.15%
Non-interest income / operating income	29.7%	29.5%
Loans and advances to customers / amounts owed to customers	70.1%	75.9%
Consolidated capital adequacy (BASEL III, Tier I and II)	20.6%	17.3%

Selected Operating Figures

In CZK million	30 June 2019	30 June 2018
Headcount of Česká spořitelna Financial Group	9,821	10,086
Total number of clients	4,577,813	4,644,939
Number of cards	2,887,290	2,838,650
of which: credit cards	173,435	181,193
Number of ATMs and payment machines	1,778	1,709
Number of Česká spořitelna branches	487	504

Net Profit of Selected Subsidiaries of Česká spořitelna
under International Financial Reporting Standards (IFRS)

in CZK million	H1 2019	H1 2018
Česká spořitelna – penzijní společnost, a.s.	148	114
Erste Leasing, a.s.	29	30
Factoring České spořitelny, a.s.	20	34
REICO investiční společnost České spořitelny, a.s.	45	41
sAutoleasing, a.s.	54	53
Stavební spořitelna České spořitelny, a.s.	490	420

Affidavit

The signatories of this document represent that according to their best knowledge the consolidated interim report provides a true and fair view of the financial position, business operations and financial results of Česká spořitelna and its consolidated group for the six months just ended and on the future prospects of its financial position, business operations and financial results.

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-chairman of the Board of Directors

(11) Definitions of below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 52.

Financial Statements

Interim Consolidated Financial Statements

for the Period Ended 30 June 2019

Prepared in Accordance with International Accounting Standard IAS 34: Interim Financial Reporting (Unaudited)

I. Consolidated Condensed Statement of Comprehensive Income

Income statement

in CZK million	Notes	01–06 2019	01–06 2018
Net interest income	1	14,657	13,144
Interest income		18,501	14,319
Other similar income		1,679	1,832
Interest expenses		(3,841)	(1,502)
Other similar expenses		(1,682)	(1,505)
Net fee and commission income	2	4,450	4,287
Fee and commission income		5,834	5,923
Fee and commission expense		(1,384)	(1,636)
Dividend income	3	48	50
Net trading result	4	1,492	1,041
Gains/losses from financial instruments measured at fair value through profit or loss	5	55	-
Net result from equity method investments		42	2
Rental income from investment properties & other operating leases	6	109	111
Personnel expenses	7	(5,009)	(4,694)
Other administrative expenses	7	(3,295)	(3,457)
Depreciation and amortisation	7	(1,230)	(1,009)
Gains/losses from derecognition of financial assets measured at amortised cost	8	8	6
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	9	-	24
Impairment result from financial instruments	10	199	903
Other operating result	11	(680)	(559)
Pre-tax result from continuing operations		**10,846**	**9,849**
Taxes on income	12	(2,136)	(1,992)
Net result for the period		**8,710**	**7,857**
Net result attributable to non-controlling interests		(10)	(13)
Net result attributable to owners of the parent		**8,700**	**7,870**

Statement of Comprehensive Income

in CZK million	Notes	01–06 2019	01–06 2018
Net result for the period		**8,710**	**7,857**
Other comprehensive income			
Items that may not be reclassified to profit or loss		**311**	**190**
Fair value reserve of equity instruments		383	237
Own credit risk reserve		1	2
Deferred taxes relating to items that may not be reclassified		(73)	(49)
Items that may be reclassified to profit or loss		**500**	**(1,237)**
Fair Value reserve of debt instruments		175	(654)
Gain/(loss) during the period		174	(562)
Reclassification adjustments		-	(24)
Credit loss allowances		1	(68)
Cash flow hedge reserve		451	(893)
Gain/(loss) during the period		451	(893)
Currency reserve		(7)	12
Gain/(loss) during the period		(7)	12
Deferred taxes relating to items that may be reclassified		(119)	298
Gain/(loss) during the period		(119)	293
Reclassification adjustments		-	5
Total other comprehensive income		**811**	**(1,047)**
Total comprehensive income		**9,521**	**6,810**
Total comprehensive income attributable to non-controlling interests		10	(13)
Total comprehensive income attributable to owners of the parent		**9,510**	**6,823**

II. Consolidated Condensed Statement of Financial Position

in CZK million	Notes	June 2019	December 2018
Assets			
Cash and cash balances	13	54,869	63,914
Financial assets held for trading		10,084	10,311
Derivatives	14	9,814	10,091
Other financial assets held for trading	15	270	220
Thereof pledged as collateral		46	1
Non-trading financial assets at fair value through profit or loss	16	1,526	1,452
Equity instruments		755	755
Debt securities		700	628
Loans and advances to customers		71	69
Financial assets at fair value through other comprehensive income	17	40,771	39,627
Thereof pledged as collateral		-	722
Equity instruments		1,634	1,252
Debt securities		39,137	38,375
Financial assets at amortised cost	18	1,363,934	1,281,034
Thereof pledged as collateral		70,734	88,013
Debt securities		224,485	205,551
Loans and advances to banks		413,822	389,844
Loans and advances to customers		725,627	685,639
Finance lease receivables	19	1,971	2,006
Hedge accounting derivatives	20	1,775	1,152
Fair value changes of the hedged items in portfolio hedge of interest rate risk		2	-
Property and equipment		11,716	9,396
Investment property		2,327	2,327
Intangible assets		5,262	5,247
Investments in associates		866	824
Current tax assets		527	499
Deferred tax assets		799	986
Assets held for sale		144	40
Trade and other receivables	21	6,861	6,351
Other assets	22	1,091	1,299
Total assets		**1,504,525**	**1,426,465**

in CZK million	Notes	June 2019	December 2018
Liabilities and equity			
Financial liabilities held for trading	14	10,055	10,172
Derivatives		10,055	10,172
Financial liabilities at fair value through profit or loss	23	3,244	1,935
Deposits from customers		3,244	1,935
Financial liabilities at amortised cost	24	1,345,074	1,279,931
Deposits from banks		292,755	318,861
Deposits from customers		1,041,283	952,506
Debt securities issued		7,893	5,458
Other financial liabilities		3,143	3,106
Finance lease liabilities		2,696	x
Hedge accounting derivatives	20	1,564	2,110
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1	-
Provisions	25	3,064	3,584
Current tax liabilities		179	69
Deferred tax liabilities		432	218
Other liabilities	26	8,651	5,789
Total equity		**129,565**	**122,657**
Equity attributable to non-controlling interests		194	184
Equity attributable to owners of the parent		129,371	122,473
Share capital		15,200	15,200
Additional paid-in capital		12	12
Additional equity instruments		17,147	8,107
Retained earnings and other reserves		97,012	99,154
Total liabilities and equity		**1,504,525**	**1,426,465**

These interim consolidated financial statements were prepared by the Financial Group of Česká spořitelna, a.s. and authorized for issue by the Board of Directors on 3 September 2019.

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-chairman of the Board of Directors

III. Consolidated Condensed Statement of Changes in Equity

in CZK million	Share capital	Additional paid-in capital	Retained earnings	Additional equity instruments	Statutory reserve	Cash flow hedge reserve	Fair value reserve	Own credit risk reserve	Currency translation	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
Restated as of 1 January 2018	**15,200**	**11**	**97,022**	**8,107**	**-**	**(1,933)**	**1,372**	**-**	**(196)**	**119,583**	**165**	**119,748**
Dividends paid	-	-	(12,000)	-	-	-	-	-	-	(12,000)	-	(12,000)
Other changes	-	-	3	-	-	-	-	-	-	3	-	3
Total comprehensive income	-	-	7,870	-	-	(723)	(338)	2	12	6,823	(13)	6,810
Net result for the period	-	-	7,870	-	-	-	-	-	-	7,870	(13)	7,857
Other comprehensive income	-	-	-	-	-	(723)	(338)	2	12	(1,047)	-	(1,047)
Change in fair value reserve	-	-	-	-	-	-	(338)	-	-	(338)	-	(338)
Change in cash flow hedge reserve	-	-	-	-	-	(723)	-	-	-	(723)	-	(723)
Change in currency translation reserve	-	-	-	-	-	-	-	-	12	12	-	12
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in own credit risk	-	-	-	-	-	-	-	2	-	2	-	2
As of 30 June 2018	**15,200**	**11**	**92,895**	**8,107**	**-**	**(2,656)**	**1,034**	**2**	**(184)**	**114,409**	**152**	**114,561**
As of 1 January 2019	**15,200**	**12**	**99,689**	**8,107**	**387**	**(1,612)**	**877**	**4**	**(191)**	**122,473**	**184**	**122,657**
Dividends paid	-	-	(11,660)	-	-	-	-	-	-	(11,660)	-	(11,660)
Capital increases	-	-	-	9,040	-	-	-	-	-	9,040	-	9,040
Changes in scope of consolidation and ownership interest	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	7	-	-	-	-	-	-	7	-	7
Total comprehensive income	-	-	8,700	-	-	365	452	1	(7)	9,511	10	9,521
Net result for the period	-	-	8,700	-	-	-	0	-	-	8,700	10	8,710
Other comprehensive income	-	-	-	-	-	365	452	1	(7)	811	-	811
Change in fair value reserve	-	-	-	-	-	-	558	-	-	558	-	558
Changes in tax	-	-	-	-	-	(85)	(106)	-	-	(191)	-	(191)
Change in cash flow hedge reserve	-	-	-	-	-	450	-	-	-	450	-	450
Change in currency translation reserve	-	-	-	-	-	-	-	-	(7)	(7)	-	(7)
Change in own credit risk reserve	-	-	-	-	-	-	-	1	-	1	-	1
As of 30 June 2019	**15,200**	**12**	**96,736**	**17,147**	**387**	**(1,247)**	**1,329**	**5**	**(198)**	**129,371**	**194**	**129,565**

IV. Consolidated Statement of Cash Flows

in CZK million	Notes	01–06 2019	01–06 2018
Pre-tax result from continuing operations		**10,846**	**9,849**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation and net impairment of non-financial assets		953	(1,272)
Net allocation to provisions (including risk provisions)		(285)	(5)
Gains/(losses) from the measurement and derecognition of financial assets and financial liabilities		407	-
Gains/(losses) from the sale of non-financial assets		(31)	(435)
Change in fair values of derivatives		156	-
Other adjustments		(10)	-
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Financial assets held for trading		(53)	3
Non-trading financial assets at fair value through profit or loss			
Debt securities		(72)	(15)
Loans and advances to customers		(2)	2,221
Financial assets – at fair value through other comprehensive income: debt instruments		(693)	1,681
Financial assets at amortized cost			
Debt securities		(19,223)	(18,090)
Loans and advances to banks		(24,169)	(164,546)
Loans and advances to customers		(41,569)	(60,124)
Finance lease receivables		60	(181)
Hedge accounting derivatives		(718)	1,315
Other assets from operating activities		(375)	2,172
Financial liabilities at amortised cost			
Deposits from banks		(25,053)	70,281
Deposits from customers		89,148	35,193
Financial liabilities held for trading		14	328
Financial liabilties at fair value through profit or loss		1,296	132
Payments for taxes on income		(1,835)	(1,975)
Other liabilities from operating activities		1,804	(552)
Cash flow from operating activities		**(9,404)**	**(124,020)**
Financial assets – at fair value through other comprehensive income: equity instruments		(385)	(177)
Proceeds of disposal			
Property, equipment and intangible assets		151	72
Acquisition of			
Property and equipment, intangible assets and investment properties		(771)	(670)
Disposal of Investments in joint ventures and associates		(42)	-
Cash flow from investing activities		**(1,047)**	**(775)**
Capital increase		9,040	-
Dividends paid to equity holders of the parent		(11,660)	(12,000)
Proceeds from bonds issued		2,434	-
Repurchase of bonds in issue		-	(870)
Cash flow from financing activities		**(186)**	**(12,870)**
Cash and cash equivalents at beginning of period		**63,914**	**280,221**
Cash flow from operating activities		(9,404)	(124,020)
Cash flow from investing activities		(1,047)	(775)
Cash flow from financing activities		(186)	(12,870)
Effect of currency translation		1,592	(2,746)
Cash and cash equivalents at end of period		**54,869**	**139,810**
Payments for taxes on income (included in cash flow from operating activities)		(1,835)	(1,975)
Interest received		19,190	15,363
Dividends received		48	50
Interest paid		(4,935)	(2,682)
Dividends paid to equity holders of the parent		(11,660)	(12,000)

V. Consolidated Condensed Notes to the Interim Group Financial Statements of Česká spořitelna, a.s.

for the Period from 1 January to 30 June 2019

General information

Česká spořitelna, a. s. ('the Bank'), having its registered office address at Olbrachtova 1929/62, Prague 4, 140 00, Corporate ID 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic on 30 December 1991. The Bank is a universal bank offering retail, corporate and investment banking services within the Czech Republic.

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

The Bank together with its subsidiaries and associated companies forms the Group. The Group is subject to the regulatory requirements of the Czech National Bank ('CNB'), the Banking Act and EU guidelines/regulations. These regulations include those pertaining to minimum capital adequacy requirements, categorization of exposures and off-balance sheet commitments, credit risk connected with clients of the Group, liquidity, interest rate risk, foreign currency positions and operational and other risk.

In addition to the banking entities, other Group companies are subject to regulatory requirements, specifically in relation to retirement, collective investment and brokerage services.

The Group offers a complete range of banking and other financial services, such as savings and current accounts, asset management, consumer credit and mortgage lending, investment banking, securities and derivatives trading, portfolio management, project finance, foreign trade financing, corporate finance, capital and money market services and foreign exchange trading.

Basis of preparation

The condensed consolidated interim financial statements („interim financial statements") of the Group for the period from 1 January to 30 June 2019 were prepared in accordance with International Financial Reporting Standards („IFRSs") as adopted by the European Union („EU") and are presented in accordance with the requirements of IAS 34 „Interim Financial Reporting".

These interim financial statements were neither audited nor reviewed by an auditor.

Basis of consolidation

Subsidiaries are consolidated from the date upon which control is obtained until the date when control is lost. Control is achieved when the bank 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. Relevant activities are those which most significantly affect the variable returns of an entity.

There were no changes in the Group's IFRS consolidation scope between between 1 January and 30 June 2019.

Accounting and measurement methods

The interim financial statements have been prepared in accordance with IAS 34 „Interim Financial Reporting" and are presented in Czech koruna, which is the functional currency of the parent company.

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results. The judgements, estimates and assumptions applied in the interim financial Statements, including the key sources of estimation uncertainty, were the same as those applied in the group's last annual financial statements for the year ended 31 December 2018, with the exception of the calculation of the current income taxes for the interim reporting period for which the estimated effective tax rate for the group is applied.

The interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Therefore, the interim financial statements should be read in conjunction with Česká spořitelna Group's consolidated financial statements as of 31 December 2018.

Application of new standards

Apart from the first application of IFRS 16 „Leases" there have been no significant changes in accounting policies since 31 December 2018 resulting from the application of new or amended standards.

IFRS 16 Leases

As of 1 January 2019, Group has adopted IFRS 16 'Leases' as issued by IASB in January 2016 and approved by EU. IFRS 16 replaced existing guidance for accounting for leases in IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a lease', SIC-15 'Operating leases – Incentives' and SIC-27 'Evaluation the Substance of Transactions Involving the Legal Form of a lease'.

IFRS 16 introduced a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

At inception date of a contract, the contract is assessed for whether it contains a lease, i.e. whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. A right-of-use asset and a lease liability are recognized at the lease commencement date. It is initially measured at cost and subsequently depreciated from the commencement date to the earlier of the end of its useful life or the end of the lease term. The Group uses the straight-line method of depreciation.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, the exercise price under a purchase option and lease payments in an optional renewal period if the lessee is reasonably certain to exercise the options and penalties for early termination if the lease term reflects the lessee exercising the termination option.

Subsequently the carrying amount of the lease liability is increased by interest using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. For leases of movables by the Group entities the incremental borrowing rate consists of a base rate, which is the Pribor, adjusted by a surcharge based on the entity's rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is generally based on the property yield reflecting the annual return expected on the property. Further, an adjustment to the property yield is necessary to reflect specific features of an entity or the lease agreement (such as creditworthiness and lease term).

Lessor accounting remains similar to the IAS 17 standard, i.e. the lessor continues to classify leases as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Compared to IAS 17 the notes are much more comprehensive under IFRS 16.

The Group transited to IFRS 16 using the modified retrospective approach according to IFRS 16.C5 (b) whereby comparative information was not restated. On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 and IFRIC 4. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The right-of-use asset was recognised at an amount equal to the lease liability (IFRS 16.C8 (b)(ii)). Subsequently the right-of-use asset was adjusted for prepayments and accruals relating to leases recognized in the balance sheet as at 31 December 2018. The Group did not have any impact on the equity at initial application. The Group does not apply IFRS 16 to any leases on intangible assets. The Group uses the exemption for short term leases and leases of low value whereby the right-of-use-asset is not recognized.

In the statement of financial position, right-of-use assets have been included in the property, plant and equipment. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 were about 6%.

For leases previously classified as finance leases classified according to IAS 17 / IFRIC 4 the entity recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.

In the context of transition to IFRS 16, right-of-use assets of CZK 2.9 billion and lease liabilities of CZK 2.9 billion were recognized as at 1 January 2019. Mainly land and buildings are subject to lease at the Group. The decrease of the CET 1 ratio resulted from IFRS 16 application is immaterial.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use assets arising from the head lease, not with reference to the underlying asset. The Group, as a lessor, has reclassified certain of its sublease agreements as finance lease.

The Notes to the Statement of Comprehensive Income and the Statement of Financial Position of Česká spořitelna, a.s.

1. Net interest income

in CZK million	01–06 2019	01–06 2018
Interest and other similar income		
Financial assets at fair value through other comprehensive income	299	311
Financial assets at amortised costs	18,202	14,008
Interest income	**18,501**	**14,319**
Financial assets held for trading	1,749	1,529
Non-trading financial assets at fair value through profit or loss	7	7
Derivatives - Hedge accounting, interest rate risk	(198)	119
Other assets	40	36
Negative interest from financial liabilities	81	141
Other similar income	**1,679**	**1,832**
Total interest and other similar income	**20,180**	**16,151**
Interest and other similar expense		
Financial liabilities measured at amortised cost	(3,841)	(1,502)
Interest expenses	**(3,841)**	**(1,502)**
Financial liabilities at fair value through profit or loss	-	(1)
Financial liabilities held for trading	(1,557)	(1,456)
Derivatives - Hedge accounting, interest rate risk	6	8
Other liabilities	(77)	(1)
Negative Interest from financial assets	(54)	(55)
Other similar expenses	**(1,682)**	**(1,505)**
Total interest and other similar expense	**(5,523)**	**(3,007)**
Net interest income	**14,657**	**13,144**

2. Net fee and commission income

in CZK million	01–06 2019		01–06 2018	
	Income	**Expenses**	**Income**	**Expenses**
Securities	621	(45)	660	(48)
Clearing and settlement	37	-	69	-
Asset management	552	(9)	506	(9)
Custody	117	(17)	79	(16)
Payment services	2,276	(402)	2,469	(548)
Customer resources distributed but not managed	498	(72)	517	(120)
Insurance products	312	(4)	310	(4)
Building society brokerage	186	(68)	207	(116)
Lending business	1,510	(706)	1,389	(715)
Other	223	(133)	234	(180)
Total fee and commission income and expenses	**5,834**	**(1,384)**	**5,923**	**(1,636)**
Net Fee and commission income	**4,450**	-	**4,287**	

3. Dividend income

in CZK million	01–06 2019	01–06 2018
Non-trading financial assets at fair value through profit or loss	45	44
Financial assets at fair value through other comprehensive income	3	6
Dividend income	**48**	**50**

4. Net trading and fair value result

in CZK million	01–06 2019	01–06 2018
Securities and derivatives trading	461	319
Foreign exchange transactions	877	748
Gains or losses from hedge accounting	154	(26)
Net trading result	**1,492**	**1,041**

5. Gains/losses from financial instruments measured at fair value through profit or loss

in CZK million	01–06 2019	01–06 2018
Result from measurement/sale of financial assets designated at fair value through profit or loss	(9)	(7)
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(30)	(12)
Result from financial assets and liabilities designated at fair value through profit or loss	**(39)**	**(19)**
Result from measurement/repurchase of financial assets mandatorily at fair value through profit or loss	94	19
Gains/losses from financial instruments measured at fair value through profit or loss	**55**	**-**

6. Rental income from investment properties & other operating leases

in CZK million	01–06 2019	01–06 2018
Investment properties	84	83
Other operating leases	25	28
Rental income from investment properties & other operating leases	**109**	**111**

7. General administrative expenses

in CZK million	01–06 2019	01–06 2018
Personnel expenses	**(5,009)**	**(4,694)**
Wages and salaries	(3,598)	(3,377)
Compulsory social security	(1,161)	(1,086)
Other personnel expenses	(250)	(231)
Other administrative expenses	**(3,295)**	**(3,457)**
Deposit insurance contribution	(266)	(246)
IT expenses	(1,420)	(1,380)
Expenses for office space	(326)	(606)
Office operating expenses	(333)	(350)
Advertising / marketing	(433)	(445)
Legal and consulting costs	(134)	(124)
Sundry administrative expenses	(383)	(306)
Depreciation and amortization	**(1,230)**	**(1,009)**
Software and other intangible assets	(462)	(477)
Owner occupied real estate	(532)	(319)
Investment property	(32)	(31)
Office furniture and equipment and sundry property and equipment	(204)	(182)
General administrative expenses	**(9,534)**	**(9,160)**

8. Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net

in CZK million	01–06 2019	01–06 2018
Gains from sale of financial assets at amortised cost	9	18
Losses from sale of financial assets at amortised cost	(1)	(12)
Gains/losses from derecognition of financial assets measured at amortised cost	**8**	**6**

9. Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

in CZK million	01–06 2019	01–06 2018
Other gains from sale of financial assets at fair value through other comprehensive income	-	24
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**-**	**24**

10. Impairment result from financial instruments

in CZK million	01–06 2019	01–06 2018
Financial assets at fair value through other comprehensive income	(1)	68
Financial assets at amortised cost	(256)	875
Net allocation to risk provisions	(759)	432
Direct write-offs	(12)	(74)
Recoveries recorded directly to the income statement	515	517
Finance lease	25	(43)
Net allocation of provisions for commitments and guarantees given	431	3
Impairment result from financial instruments	**199**	**903**

11. Other operating result

in CZK million	01–06 2019	01–06 2018
Other operating expenses	**(694)**	**(634)**
Allocation to other provision	(7)	(8)
Other taxes	(5)	-
Recovery and resolution fund contributions	(682)	(488)
Result from other operating expenses/income	-	(138)
Other operating income	**12**	**75**
Release of other provision	12	-
Result from properties/movables/other intangible assets other than goodwill	**44**	**16**
Other taxes	**-**	**59**
Result from other operating expenses/income	**(42)**	**-**
Other operating result	**(680)**	**(559)**

12. Taxes on income

Group's consolidated net tax expense for the first six months of 2019 amounted to CZK 2,136 million (Jun 2018: CZK 1,992 million), thereof CZK 210 million net deferred tax expense (Jun 2018: income CZK 3 million).

13. Cash and cash balances

in CZK million	June 2019	December 2018
Cash on hand	23,042	25,831
Cash balances at central banks	29,956	33,545
Other deposits on demand	1,871	4,538
Cash and cash balances	**54,869**	**63,914**

14. Derivatives – held for trading

in CZK million	June 2019			December 2018		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**677,562**	**9,295**	**(8,686)**	**752,671**	**9,344**	**(8,579)**
Interest rate	368,460	5,973	(5,528)	306,464	6,103	(5,489)
Foreign exchange	389,102	3,322	(3,158)	446,207	3,241	(3,090)
Derivatives held in the banking book	**56,169**	**519**	**(1,369)**	**49,276**	**747**	**(1,593)**
Interest rate	11,009	403	(15)	15,575	596	(9)
Foreign exchange	45,160	116	(1,354)	33,701	151	(1,584)
Total	813,731	9,814	(10,055)	801,947	10,091	(10,172)

15. Other financial assets held for trading

in CZK million	June 2019	December 2018
Debt securities	270	220
General governments	111	117
Credit institutions	157	99
Other financial corporations	2	4
Other trading assets	**270**	**220**

16. Non-trading financial assets at fair value through profit or loss

in CZK million	June 2019		December 2018	
	Designated	Mandatorily	Designated	Mandatorily
Equity instruments	-	755	-	755
Debt securities	265	435	279	349
Credit institutions	265	-	279	-
Other financial corporations	-	435	-	349
Loans and advances to customers	-	71	-	69
Other financial corporations	-	71	-	69
Financial assets designated and mandatorily at fair value through profit or loss	**265**	**1,261**	**279**	**1,173**
Non-trading financial assets at fair value through profit or loss		**1,526**		**1,452**

17. Financial assets at fair value through other comprehensive income

In CZK million	GCA				CLA				Accumulated fair value changes	Fair value
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total		
June 2019										
Debt securities	**37,047**	**1,831**	**-**	**38,878**	**(14)**	**(37)**	**-**	**(51)**	**260**	**39,137**
General governments	23,933	-	-	23,933	(1)	-	-	(1)	170	24,103
Credit institutions	4,425	-	-	4,425	(2)	-	-	(2)	18	4,443
Other financial corporations	1,788	-	-	1,788	(1)	-	-	(1)	50	1,838
Non-financial corporations	6,901	1,831	-	8,732	(10)	(37)	-	(47)	22	8,753
Total	**37,047**	**1,831**	**-**	**38,878**	**(14)**	**(37)**	**-**	**(51)**	**260**	**39,137**
December 2018										
Debt securities	**36,519**	**1,785**	**-**	**38,304**	**(11)**	**(40)**	**-**	**(51)**	**71**	**38,375**
General governments	25,371	-	-	25,371	(1)	-	-	(1)	137	25,508
Credit institutions	4,313	-	-	4,313	(2)	-	-	(2)	(24)	4,289
Other financial corporations	1,304	-	-	1,304	(1)	-	-	(1)	23	1,327
Non-financial corporations	5,531	1,785	-	7,316	(7)	(40)	-	(47)	(65)	7,251
Total	**36,519**	**1,785**	**-**	**38,304**	**(11)**	**(40)**	**-**	**(51)**	**71**	**38,375**

Development of credit loss allowances

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2019						**June 2019**
Stage 1	(11)	(3)	-	-	-	-	(14)
Stage 2	(40)	-	-	-	2	1	(37)
Stage 3	-	-	-	-	-	-	-
Total	**(51)**	**(3)**	**-**	**-**	**2**	**1**	**(51)**
	Jan 2018						**June 2018**
Stage 1	(82)	-	-	-	64	5	(13)
Stage 2	(22)	-	-	-	1	(3)	(24)
Stage 3	-	-	-	-	-	-	-
Total	**(104)**	**-**	**-**	**-**	**65**	**2**	**(37)**

18. Financial assets at amortized cost

Debt securities

	GCA				CLA				
In CZK million	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Carrying amount**
June 2019									
General governments	213,156	-	-	213,156	(10)	-	-	(10)	213,146
Credit institutions	11,339	-	-	11,339	(7)	-	-	(7)	11,332
Other financial corporations	-	4	-	4	-	-	-	-	4
Non-financial corporations	3	-	-	3	-	-	-	-	3
Total	**224,498**	**4**	**-**	**224,502**	**(17)**	**-**	**-**	**(17)**	**224,485**
December 2018									
General governments	194,536	-	-	194,536	(10)	-	-	(10)	194,526
Credit institutions	11,024	-	-	11,024	(6)	-	-	(6)	11,018
Other financial corporations	-	4	-	4	-	-	-	-	4
Non-financial corporations	3	-	-	3	-	-	-	-	3
Total	**205,563**	**4**	**-**	**205,567**	**(16)**	**-**	**-**	**(16)**	**205,551**

Development of credit loss allowances for debt securities

in CZK million	**As of**	**Additions**	**Derecognition**	**Transfers between stages**	**Other changes in credit risk (net)**	**Other**	**As of**
	Jan 2019						**June 2019**
Stage 1	(16)	-	-	-	(1)	-	(17)
Stage 2	-	-	3	-	(3)	-	-
Total	**(16)**	**-**	**3**	**-**	**(4)**	**-**	**(17)**
	Jan 2018						**June 2018**
Stage 1	(18)	(2)	4	47	(49)	1	(17)
Stage 2	(51)	(50)	50	-	51	-	-
Total	**(69)**	**(52)**	**54**	**47**	**2**	**1**	**(17)**

Loans and advances to banks

	GCA				CLA				
In CZK million	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Carrying amount**
June 2019									
Central banks	395,986	-	-	395,986	(2)	-	-	(2)	395,984
Credit institutions	17,789	60	-	17,849	(9)	(2)	-	(11)	17,838
Total	**413,775**	**60**	**-**	**413,835**	**(11)**	**(2)**	**-**	**(13)**	**413,822**
December 2018									
Central banks	369,704	-	-	369,704	(2)	-	-	(2)	369,702
Credit institutions	20,152	-	-	20,152	(10)	-	-	(10)	20,142
Total	**389,856**	**-**	**-**	**389,856**	**(12)**	**-**	**-**	**(12)**	**389,844**

Development of credit loss allowances for loans and advances to banks

in CZK million	As of	Additions	Derecognition	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 2019						**June 2019**
Stage 1	(12)	(492)	467	-	26	-	(11)
Stage 2	-	(4)	1	-	1	-	(2)
Total	**(12)**	**(496)**	**468**	**-**	**27**	**-**	**(13)**
	Jan 2018						**June 2018**
Stage 1	(32)	(60)	119	(12)	(35)	5	(15)
Stage 2	-	(2)	2	(8)	8	-	-
Total	**(32)**	**(62)**	**121**	**(20)**	**(27)**	**5**	**(15)**

Loans and advances to customers

	GCA					CLA					
In CZK million	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Carrying amount**
June 2019											
General governments	17,693	1,619	-	-	19,312	(16)	(28)	-	-	(44)	19,268
Other financial corporations	34,058	48	6	-	34,112	(35)	(1)	(5)	-	(41)	34,071
Non-financial corporations	250,887	14,447	6,383	513	272,230	(1,079)	(698)	(4,640)	(182)	(6,599)	265,631
Households	392,492	14,182	5,290	43	412,007	(765)	(1,069)	(3,511)	(5)	(5,350)	406,657
Total	**695,130**	**30,296**	**11,679**	**556**	**737,661**	**(1,895)**	**(1,796)**	**(8,156)**	**(187)**	**(12,034)**	**725,627**
Dec 2018											
General governments	18,323	1,848	-	-	20,171	(4)	(39)	-	-	(43)	20,128
Other financial corporations	16,290	97	7	-	16,394	(27)	(3)	(6)	-	(36)	16,358
Non-financial corporations	233,917	18,478	6,341	484	259,220	(1,163)	(770)	(4,508)	(242)	(6,683)	252,537
Households	383,438	13,344	5,072	45	401,899	(768)	(1,093)	(3,420)	(2)	(5,283)	396,616
Total	**651,968**	**33,767**	**11,420**	**529**	**697,684**	**(1,962)**	**(1,905)**	**(7,934)**	**(244)**	**(12,045)**	**685,639**

Development of credit loss allowances for loans and advances to customers

in CZK million	As of	Additios	Derecog-nitions	Transfers between stages	Other changes in credit risk (net)	Write-offs	Other	As of
	Jan 2019							**June 2019**
Stage 1	**(1,962)**	**(1,045)**	**386**	**771**	**(49)**	**-**	**4**	**(1,895)**
General governments	(4)	(2)	3	14	(26)	-	-	(15)
Other financial corporations	(27)	(66)	55	-	3	-	-	(35)
Non-financial corporations	(1,163)	(834)	260	377	277	-	4	(1,079)
Households	(768)	(143)	68	380	(303)	-	-	(766)
Stage 2	**(1,905)**	**(243)**	**189**	**(765)**	**923**	**2**	**3**	**(1,796)**
General governments	(39)	-	3	(19)	27	-	-	(28)
Other financial corporations	(3)	(28)	-	(1)	30	-	-	(2)
Non-financial corporations	(770)	(104)	143	(244)	275	-	3	(697)
Households	(1,093)	(111)	43	(501)	591	2	-	(1,069)
Stage 3	**(7,934)**	**(53)**	**394**	**(300)**	**(687)**	**405**	**19**	**(8,156)**
Other financial corporations	(6)	-	-	-	1	-	-	(5)
Non-financial corporations	(4,508)	(27)	177	(87)	(277)	62	19	(4,641)
Households	(3,420)	(26)	217	(213)	(411)	343	-	(3,510)
POCI	**(244)**	**-**	**32**	**-**	**24**	**-**	**1**	**(187)**
Non-financial corporations	(242)	-	32	-	27	-	1	(182)
Households	(2)	-	-	-	(3)	-	-	(5)
Total	**(12,045)**	**(1,341)**	**1,001**	**(294)**	**211**	**407**	**27**	**(12,034)**
	Jan 2018							**June 2019**
Stage 1	**(1,960)**	**(366)**	**571**	**4,200**	**(4,379)**	**13**	**73**	**(1,848)**
General governments	(9)	-	2	67	(62)	-	-	(2)
Other financial corporations	(36)	(28)	41	3	(10)	-	2	(28)
Non-financial corporations	(1,172)	(275)	466	1,396	(1,554)	-	72	(1,067)
Households	(743)	(63)	62	2,734	(2,753)	13	(1)	(751)
Stage 2	**(2,666)**	**(206)**	**203**	**(3,729)**	**4,609**	**12**	**36**	**(1,741)**
General governments	(178)	-	-	(94)	206	-	14	(52)
Other financial corporations	(27)	(15)	22	(1)	5	-	(2)	(18)
Non-financial corporations	(1,380)	(88)	147	(768)	1,366	-	(13)	(736)
Households	(1,081)	(103)	34	(2,866)	3,032	12	37	(935)
Stage 3	**(9,156)**	**(29)**	**448**	**(273)**	**(261)**	**196**	**(347)**	**(9,422)**
Other financial corporations	(129)	-	-	-	(3)	-	-	(132)
Non-financial corporations	(5,035)	(8)	249	(124)	(53)	72	(279)	(5,178)
Households	(3,992)	(21)	199	(149)	(205)	124	(68)	(4,112)
POCI	**(123)**	**(29)**	**-**	**-**	**47**	**-**	**6**	**(99)**
Non-financial corporations	(121)	(24)	-	-	50	-	6	(89)
Households	(2)	(5)	-	-	(3)	-	-	(10)
Total	**(13,905)**	**(630)**	**1,222**	**198**	**16**	**221**	**(232)**	**(13,110)**

19. Finance lease receivables

In CZK million	GCA					CLA					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
June 2019											
General governments	3	-	-	-	3	-	-	-	-	-	3
Other financial corporations	8	-	-	-	8	-	-	-	-	-	8
Non-financial corporations	1,606	82	141	-	1,829	(10)	(9)	(98)	-	(117)	1,712
Households	235	18	17	-	270	(2)	(3)	(17)	-	(22)	248
Total	**1,852**	**100**	**158**	**-**	**2,110**	**(12)**	**(12)**	**(115)**	**-**	**(139)**	**1,971**
Dec 2018											
General governments	4	-	-	-	4	-	-	-	-	-	4
Other financial corporations	11	-	-	-	11	-	-	-	-	-	11
Non-financial corporations	1,500	232	164	-	1,896	(9)	(13)	(115)	-	(137)	1,759
Households	221	12	28	-	261	(2)	(2)	(25)	-	(29)	232
Total	**1,736**	**244**	**192**	**-**	**2,172**	**(11)**	**(15)**	**(140)**	**-**	**(166)**	**2,006**

Development of credit loss allowances for finance lease receivables

in CZK million	As of	Additios	Derecog-nitions	Transfers between stages	Other changes in credit risk (net)	Insigni-ficant modifica-tions (net	Write-offs	Other	As of
	Jan 2019								**June 2019**
Stage 1	(11)	(3)	1	6	(5)	-	-	-	(12)
Stage 2	(15)	-	-	(3)	6	-	-	-	(12)
Stage 3	(140)	-	11	(1)	15	-	-	-	(115)
Total	**(166)**	**(3)**	**12**	**2**	**16**	**-**	**-**	**-**	**(139)**
	Jan 2018								**June 2018**
Stage 1	(12)	(3)	1	14	(11)	0	0	-	(11)
Stage 2	(26)	(1)	1	(7)	18	0	0	0	(15)
Stage 3	(106)	(12)	5	(5)	(30)	0	0	-	(148)
Total	**(144)**	**(16)**	**7**	**2**	**(22)**	**0**	**0**	**0**	**(174)**

20. Hedge accounting derivatives

in CZK million	June 2019			December 2018		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	9,806	206	(4)	9,504	73	(3)
Interest rate	9,806	206	(4)	9,504	73	(3)
Cash flow hedge	119,574	1,569	(1,560)	121,713	1,079	(2,106)
Interest rate	84,484	1,247	(1,214)	91,944	937	(1,645)
Foreign exchange	35,090	322	(346)	29,769	142	(461)
Total	**129,380**	**1,775**	**(1,564)**	**131,217**	**1,152**	**(2,109)**

21. Trade and other receivables

In CZK million	Gross carrying amount Stage 1	Stage 2	Stage 3	POCI	Total	Credit loss allowances Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
June 2019											
General governments	20	2	-	-	22	-	(2)	-	-	(2)	20
Credit institutions	329	12	6	-	347	-	(12)	(6)	-	(18)	329
Other financial corporations	118	1	-	-	119	-	(1)	(1)	-	(2)	117
Non-financial corporations	5,257	1,055	267	-	6,579	(15)	(6)	(255)	-	(276)	6,303
Households	84	123	26	-	233	(1)	(116)	(24)	-	(141)	92
Total	**5,808**	**1,193**	**299**	**-**	**7,300**	**(16)**	**(137)**	**(286)**	**-**	**(439)**	**6,861**
December 2018											
General governments	99	148	-	-	247	-	(148)	-	-	(148)	99
Credit institutions	37	12	6	-	55	-	(12)	(6)	-	(18)	37
Other financial corporations	347	1	-	-	348	(2)	(1)	-	-	(3)	345
Non-financial corporations	4,567	1,211	308	-	6,086	(10)	(1)	(282)	-	(293)	5,793
Households	69	124	25	-	218	(1)	(116)	(24)	-	(141)	77
Total	**5,119**	**1,496**	**339**	**-**	**6,954**	**(13)**	**(278)**	**(312)**	**-**	**(603)**	**6,351**

Development of credit loss allowances for trade and other receivables

in CZK million	As of	Additios	Derecog-nitions	Transfers between stages	Other changes in credit risk (net)	Insigni-ficant modifica-tions (net)	Write-offs	Other	As of
	Jan 2019								**June 2019**
Stage 1	**(13)**	(7)	4	3	(3)	-	-	-	**(16)**
Stage 2	**(278)**	-	-	(3)	(2)	-	146	-	**(137)**
Stage 3	**(312)**	-	21	(12)	16	-	-	1	**(286)**
Total	**(603)**	**(7)**	**25**	**(12)**	**11**	**-**	**146**	**1**	**(439)**
	Jan 2018								**June 2018**
Stage 1	(18)	(2)	9	-	-	-	-	-	(11)
Stage 2	(228)	(55)	2	-	-	-	-	-	(281)
Stage 3	(7)	(8)	-	-	-	-	-	-	(15)
Total	**(253)**	**(65)**	**11**	**-**	**-**	**-**	**-**	**-**	**(307)**

22. Other assets

in CZK million	June 2019	December 2018
Prepayments and accrued income	315	363
Assets under construction/unfinished goods/inventory	113	88
Sundry assets	663	848
Other assets	**1,091**	**1,299**

23. Financial liabilities at fair value through profit and loss

in CZK million	June 2019	December 2018
Deposits	3,244	1,935
General governments	30	-
Non financial corporations	94	53
Households	3,120	1,882
Financial liabilities at fair value through profit and loss	**3,244**	**1,935**

24. Financial liabilities at amortised cost

in CZK million	June 2019	December 2018
Deposits	1,334,038	1,271,367
Deposits from banks	292,755	318,861
Deposits from customers	1,041,283	952,506
Debt securities issued	7,893	5,458
Bonds	7,893	5,458
Other financial liabilities	3,143	3,106
Financial liabilities measured at amortised costs	**1,345,074**	**1,279,931**

Deposits from banks

in CZK million	June 2019	December 2018
Overnight deposits	23,558	10,227
Term deposits	33,232	31,087
Repurchase agreements	235,965	277,547
Deposits from banks	**292,755**	**318,861**

Deposits from customers

in CZK million	June 2019	December 2018
Current accounts/Overnight deposits	812,691	810,884
General governments	81,341	63,793
Other financial corporations	18,253	29,890
Non financial corporations	116,471	132,184
Households	596,626	585,017
Term deposits	144,610	104,455
General governments	9,349	46
Other financial corporations	17,068	37,608
Non financial corporations	22,817	6,451
Households	95,376	60,260
Repurchase agreements	83,982	37,167
Other financial corporations	28,830	37,167
Non financial corporations	55,152	-
Deposits from customers	**1,041,283**	**952,506**
General governments	145,842	63,839
Other financial corporations	64,151	79,853
Non financial corporations	139,288	138,725
Households	692,002	670,089

Debt securities issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Bonds Traded on regulated market	June 2019	December 2018
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	Yes	458	450
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	No	53	53
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	No	2,909	540
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	No	391	351
Mortgage bonds	CZ0002002785	December 2012	December 2019	2.5%	No	4,082	4,064
Bonds issued						**7,893**	**5,458**

25. Provisions

in CZK million	June 2019	December 2018
Restructuring	17	59
Pending legal issues	1,907	1,872
Loan commitments and financial guarantees given	1,098	1,524
CLA for loan commitments and financial guarantees in Stage 1	259	499
CLA for loan commitments and financial guarantees in Stage 2	111	119
CLA for loan commitments and financial guarantees – Defaulted	728	906
Other provisions	42	129
Provisions	**3,064**	**3,584**

26. Other liabilities

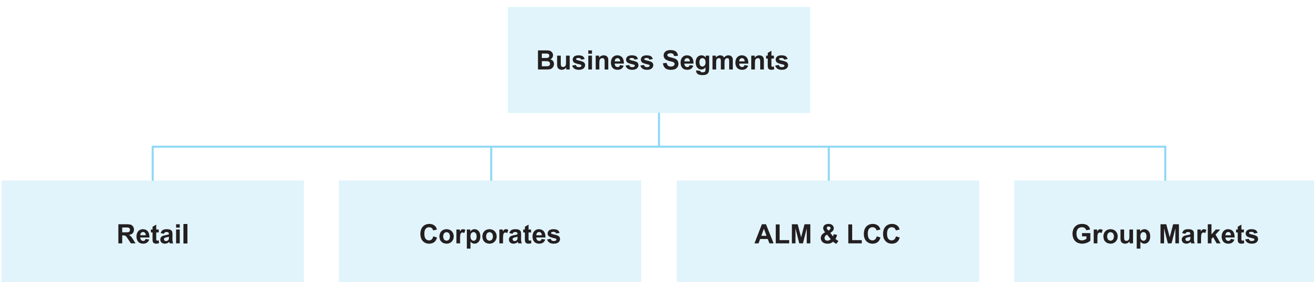
in CZK million	June 2019	December 2018
Deferred income and accrued expenses	364	294
Sundry liabilities	8,287	5,495
Other liabilities	**8,651**	**5,789**

27. Segment reporting

The Group's segment reporting is compliant with IFRS 8 Operating Segments, which adopts the management approach. Segment information is prepared on the basis of internal management reporting that is regularly reviewed by the chief operating decision maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within the Group the function of the chief operating decision maker is exercised by the Management Board of Česká spořitelna, a.s.

Structure of Business Segments

The segment reporting comprises four operating segments reflecting the Group's management structure.



Retail

Retail segment comprises the business activities which are in the responsibility of account managers in the Retail network. Targeted customers are mainly privates, micros and free professionals. This business is mainly operated in cooperation with subsidiaries such as Leasing, Asset Management with the focus on simple products ranged from loans, investment products, current accounts and savings products to credit cards and cross selling products such as leasing, insurance, building society products.

In addition, the retail segment contains the results of the subsidiaries Stavební spořitelna České spořitelny, a. s., Česká spořitelna penzijní společnost, a. s., Věrnostní program iBod, a.s, Energie ČS, a. s., Holding Card Service, s. r. o. and MOPET CZ, a. s.

Corporates

Corporates segment comprises the business activities done with corporate customers of different turnover size and public sector.

Small and medium-sized enterprises (SME) are clients which are under the responsibility of the corporate commercial center network, mainly consisting of companies with an annual turnover from CZK 60 million to CZK 2 billion.

Local Large Corporates are clients with a consolidated annual turnover threshold above CZK 2 billion which are not defined as Group Large Corporate customers.

Group Large Corporates are large corporate customers/client groups with substantial operations in core markets/extended core markets of Erste Group with an indicative consolidated annual turnover generally of at least EUR 500 million.

Public Sector consists of the following three sets of customers: public sector, public corporations and non-profit sector.

Public sector includes such customers as central ministries and state funded funds and agencies, non-profit entities established by or under control of central government entities, regional governments and organizations funded by them, state capitals, public health and social insurance companies. In general, Public sector excludes banks and non-bank financial institutions (FI), pension funds, bond issuing agencies (incl. government debt agencies), asset management based organizations which are part of the Group Markets segment.

Public corporations includes all non-financial state companies and corporations with more than 50% share of state or regional governments or municipals excluding stock exchange listed companies.

Non-profit sector comprises the following private non-profit companies: central authorities of churches, labor unions and nationally significant foundations, private schools and humanitarian organizations.

Commercial Real Estate covers commercial property projects financed by the Group.

In addition, the segment Corporates contains the results of the subsidiaries Factoring České spořitelny, a. s., Erste Leasing, a. s., REICO investiční společnost České spořitelny, a. s., s Autoleasing, a. s., s Autoleasing SK, s. r. o. and Erste Grantika Advisory, a. s.

Asset and Liability Management & Local Corporate Center (ALM & LCC)

Asset Liability Management (ALM) comprises the management of Group assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions.

Local Corporate Center (LCC) comprises all non-core banking business activities such as non-profit servicing participations (e.g. IT, Procurement, Facility Management), intragroup eliminations within the Group, dividends, refinancing costs of participations, all non-banking statement of financial position (e.g. fixed assets, intangible assets) which cannot be allocated to other business segments as well as the profit and loss positions resulting from these statement of financial position items. Apart from that the Corporate Center includes Free Capital of the Group defined as the difference of the total IFRS equity and the economical equity allocated to all operating segments.

Corporate center also includes results of the subsidiaries Brokerjet České spořitelny, a. s., Czech TOP Venture Fund B.V., ČS NHQ, s. r. o. and s IT Solutions CZ, s. r. o.

Group Markets

Group Markets segment comprises trading and markets services as well as business with financial institutions.

Trading and Market services includes all activities related to active risk taking and managing in regulatory trading books of the Group, additional to that the execution of trades against the market using the trading books of the Group for market making and short-term liquidity management. Specifically revenues and fair value results not directly attributable to client transactions and generally risk premiums and execution fees are taken into account.

Financial institutions are companies that provide financial services for their clients or members and act as professional and active participant on financial markets for the purpose of proprietary trading or on behalf of their clients (banks, central banks, development banks, investment banks, investment funds, brokerages, insurance companies, pension funds, credit unions, building societies, asset management companies, government debt agencies, sovereign wealth funds, exchanges).

Business connected with serving financial institutions as a client including custody, depository services, commercial business (loans, cash management, trade & export finance) and capital markets business belongs to FI.

Measurement

Intersegment transactions are conducted on an arm's length basis. Intersegment settlements are subject of funds transfer pricing dependent on market interest rates. Due to the specifics of the banking business the internal charges are not reported separately and Board of Directors primarily refers to net interest income of operating segments. Non-manageable general administrative expenses are reallocated to operating segments as indirect costs.

Business Segments

	Retail		Corporates		ALM & LCC		Group Markets		Total Group	
in CZK million	**01–06 2019**	**01–06 2018**	**01–06 2019**	**01–06 2018**	**01–06 2019**	**01–06 2018**	**01–06 2019**	**01–06 2018**	**01–06 2019**	**01–06 2018**
Net interest income	10,074	9,694	3,309	2,868	444	448	830	134	14,657	13,144
Net fee and commission income	3,337	3,325	734	636	626	639	(247)	(313)	4,450	4,287
Dividend income	-	-	-	-	-	-	48	50	48	50
Net trading result	616	538	470	341	279	424	127	(262)	1,492	1,041
Gains/losses from financial instruments at FVPL	(30)	-	63	-	36	-	(14)	-	55	-
Net result from equity method investments	-	-	-	-	-	-	42	2	42	2
Rental income from investment properties & other operating leases	5	-	84	83	-	-	20	28	109	111
General administrative expenses	(7,479)	(7,146)	(1,481)	(1,426)	(305)	(325)	(269)	(263)	(9,534)	(9,160)
Gains/losses from derecognition of financial assets at AC	-	(12)	-	-	-	-	8	18	8	6
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	-	-	-	-	-	24	-	24
Impairment result from financial instruments	(127)	(17)	339	896	(2)	9	(11)	15	199	903
Other operating result	76	78	(142)	(84)	(125)	(187)	(489)	(366)	(680)	(559)
Pre-tax result from continuing operations	**6,472**	**6,460**	**3,376**	**3,314**	**953**	**1,008**	**45**	**(933)**	**10,846**	**9,849**
Taxes on income	(1,210)	(1,209)	(652)	(630)	(181)	(192)	(93)	39	(2,136)	(1,992)
Net result for the period	**5,262**	**5,251**	**2,724**	**2,684**	**772**	**816**	**(48)**	**(894)**	**8,710**	**7,857**
Net result attributable to non-controlling interests	-	-	-	-	-	-	(10)	13	(10)	13
Net result attributable to owners of the parent	**5,262**	**5,251**	**2,724**	**2,684**	**772**	**816**	**(58)**	**(881)**	**8,700**	**7,870**
Operating income	14,002	13,557	4,660	3,928	1,385	1,511	806	(361)	20,853	18,635
Operating expenses	(7,480)	(7,146)	(1,480)	(1,426)	(305)	(325)	(269)	(263)	(9,534)	(9,160)
Operating result	**6,522**	**6,411**	**3,180**	**2,502**	**1,080**	**1,186**	**537**	**(624)**	**11,319**	**9,475**
Risk-weighted assets (credit risk, pillar 1, eop)	167,741	172,104	266,261	262,508	8,089	11,995	31,656	35,836	473,747	482,443
Average allocated capital	25,972	25,385	24,252	22,490	2,824	2,851	84,047	82,840	137,095	133,566
Cost/income ratio	53.4%	52.7%	31.8%	36.3%	22.0%	21.5%	33.4%	(72.9%)	45.7%	49.2%
Return on allocated capital	40.5%	41.4%	22.5%	23.9%	54.7%	57.2%	(0.1%)	(2.2%)	12.7%	11.8%
Total assets (eop)	482,030	458,524	303,435	285,245	345,062	219,644	373,998	468,397	1,504,525	1,431,810
Total liabilities excluding equity (eop)	725,973	681,262	269,038	208,328	295,922	317,713	84,027	109,946	1,374,960	1,317,249

eop = end of period

The majority of revenue from external customers is generated in the Czech Republic

28. Related party transactions

Related parties involve connected entities or parties that have a special relationship to the Group Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other in making financial or operational decisions. The Group is controlled by Erste Group Bank AG.

The parties that have a special relationship to the Group are considered to be members of the Group's statutory and supervisory bodies and management, legal entities exercising control over the Group (including entities with a qualified interest in these entities and management of these entities), persons closely related to the members of the Group's statutory and supervisory bodies, management, and entities exercising control over the Group, legal entities in which any of the parties listed above holds a qualified interest, entities with a qualified interest in the Group and any other legal entity under their control, members of the CNB's Banking Board, and legal entities which the Group controls.

Pursuant to the definitions outlined above, the categories of the Group's related parties principally comprise Erste Group Bank, members of its Board of Directors and Supervisory Board, and other related parties, which include companies directly or indirectly controlled by Erste Group Bank.

A number of banking transactions are entered into with related parties in the normal course of business. These principally include loans, deposits and other transactions. These transactions were carried out on an arm's length basis and were settled exclusively in cash. The interest rates charged to and by related parties are at normal commercial rates. Outstanding balances at the end of the reporting period are unsecured.There were no provisions for doubtful debts related to the outstanding balances with Related Parties reported by the Group.

Loans and advances to and amounts owed to related parties

	Jun 2019			Dec 2018		
in CZK million	Erste Group Bank AG	Other related parties	Members of the Board of Directors and Super-visory Board	Erste Group Bank AG	Other related parties	Members of the Board of Directors and Super-visory Board
Assets						
Cash and cash balances	211	184	-	1,462	95	-
Financial assets – held for trading	3,996	51	-	3,440	-	-
Financial assets at amortised costs	5,711	249	-	17,071	297	22
Derivatives Hedge Accounting	782	-	-	411	-	-
Other assets	-	1	-	-	-	-
Liabilities						
Financial liabilities held for trading	3,197	-	-	3,679	-	-
Financial liabilities measured at amortised costs	191,052	3,578	-	273,452	683	6
Derivatives Hedge Accounting	204	-	-	310	-	-
Other Liabilities	-	-	-	50	61	-
Loans commitments, financial guarantees and other commitments given	**498**	**285**	**-**	**15**	**74**	**-**
Profit & Loss statement			**01–06 2019**			**01–06 2018**
Net interest income	(1,254)	1	-	(156)	1	-
Net fee and commision income	25	391	-	11	367	-
Net trading and fair value result	2,006	-	-	(3,676)	-	-
Rental income from investment properties & other operating lease	-	-	-	-	7	-
Other administrative expenses	(127)	(347)	-	(141)	(427)	-
Other operating result	14	9	-	11	4	-

29. Risk management

Risk management is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. The Risk management strategy of the Group aims to achieve an optimal balance of risk and return in order to achieve a sustainable, high return on equity. Concerning risk policy and strategy as well as regarding risk management organization, reference is made to the chapter of the same name in the annual consolidated financial statements as of 31 December 2018.

29.1 Credit risk

The classification of credit assets into risk grades is based on the Group's internal ratings. For the purpose of external reporting, internal rating grades of the Group are grouped into the following four risk categories:

Low risk

Typically regional customers with well-established and rather long-standing relationships with the Group or large internationally recognized customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the bank, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally with clients in this risk category.

Management attention

Vulnerable non-retail clients, which may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term. Retail clients with possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Substandard

The borrower is vulnerable to short term negative financial and economic developments and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place. As a rule, such loans are managed in specialized risk management departments.

Non-performing

One or more of the default criteria under Article 178 of the CRR are met: among others, full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realization of a loan loss, or initiation of bankruptcy proceedings. The Group applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. Furthermore, non-performing exposures also comprise non-performing forborne transactions even in cases where the client has not defaulted.

Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:

- cash and cash balances – other demand deposits to credit institutions;
- debt instruments held for trading;
- non-trading debt instruments at fair value through profit or loss (FVPL);
- debt instruments at fair value through other comprehensive income (FVOCI);
- financial assets at amortised cost (AC), other than trade and other receivables;
- debt instruments held for sale in disposal groups;
- finance lease receivables;
- trade and other receivables (for disclosure purposes in the tabular summaries below, any contract assets are also included in this category)
- positive fair value of derivatives;
- off-balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account loan loss allowances, provisions for guarantees, any collateral held (including risk transfer to guarantors), netting effects, other credit enhancements or credit risk mitigating transactions.

Between 31 December 2018 and 30 June 2019 the gross carrying amount of the credit risk exposure increased to CZK 1,579 billion from CZK 1,504 billion.

Reconciliation between the gross carrying amount and the carrying amount of the credit risk exposure components

in CZK million	Credit risk exposure	Credit loss allowances	Adjustments	Net carrying amount
June 2019				
Cash and cash balances – demand deposits to credit institutions	1,872	(1)	-	1,871
Debt instruments held for trading	10,084	-	-	10,084
Non-trading debt instruments at FVPL	771	-	-	771
Debt securities	700	-	-	700
Loans and advances to customers	71	-	-	71
Debt instruments at FVOCI	38,878	(51)	260	39,137
Debt securities	38,878	(51)	260	39,137
Debt instruments at AC	1,375,998	(12,064)	-	1,363,934
Debt securities	224,502	(17)	-	224,485
Loans and advances to banks	413,835	(13)	-	413,822
Loans and advances to customers	737,661	(12,034)	-	725,627
Trade and other receivables	7,300	(439)	-	6,861
Finance lease receivables	2,110	(139)	-	1,971
Positive fair value of hedge accounting derivatives	1,775	-	-	1,775
Off balance-sheet exposures	140,080	(1,139)	-	N/A
Total	**1,578,868**	**(13,833)**	**260**	**1,426,404**
December 2018				
Cash and cash balances – demand deposits to credit institutions	4,539	(1)	-	4,538
Debt instruments held for trading	10,311	-	-	10,311
Non-trading debt instruments at FVPL	697	-	-	697
Debt securities	629	-	-	629
Loans and advances to customers	68	-	-	68
Debt instruments at FVOCI	38,305	(51)	70	38,375
Debt securities	38,305	(51)	70	38,375
Debt instruments at AC	1,293,106	(12,072)	-	1,281,034
Debt securities	205,567	(16)	-	205,551
Loans and advances to banks	389,856	(12)	-	389,844
Loans and advances to customers	697,683	(12,044)	-	685,639
Trade and other receivables	6,954	(603)	-	6,351
Finance lease receivables	2,172	(166)	-	2,006
Positive fair value of hedge accounting derivatives	1,152	-	-	1,152
Off balance-sheet exposures	146,756	(1,573)	-	N/A
Total	**1,503,992**	**(14,466)**	**70**	**1,344,464**

Credit risk provisions comprise impairments for financial assets measured at amortised cost (including finance lease and trade receivables) and at fair value through other comprehensive income (FVOCI), as well as provisions for off-balance sheet exposures. Adjustments refer to the fair value changes of the carrying amount for financial assets at FVOCI.
The gross carrying amount of contingent liabilities refers to the nominal value, while credit risk provisions refer to provisions for guarantees. A carrying amount is not presented in the case of contingent liabilities.

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Credit risk volume is presented by:
- counterparty sector and financial instrument;
- industry and risk category;
- business segment and risk category;
- business segment and IFRS 9 treatment.

Credit risk exposure by counterparty sector and financial instruments

in CZK million	Cash and cash balances – demand deposits to credit institutions	Financial assets held for trading	Non-trading financial assets at FVPL	Financial assets at FVOCI	At amortised cost: Debt securities	At amortised cost: Loans and advances to banks	At amortised cost: Loans and advances to customers	Finance lease receivables	Positive fair value of derivatives	Trade and other receivables	Off balance-sheet exposures	Gross exposure
June 2019												
Central banks	-	-	-	-	-	395,986	-	-	-	-	-	395,986
General governments	-	2,173	-	23,946	213,155	-	19,311	22	3	-	10,067	268,677
Credit institutions	1,872	5,704	265	4,412	11,340	17,849	-	348	-	1,750	1,182	44,722
Other financial corporations	-	226	506	1,788	4	-	34,112	119	8	-	5,472	42,235
Non-financial corporations	-	1,981	-	8,732	3	-	272,230	6,578	1,829	25	69,943	361,321
Households	-	-	-	-	-	-	412,008	233	270	-	53,416	465,927
Total	**1,872**	**10,084**	**771**	**38,878**	**224,502**	**413,835**	**737,661**	**7,300**	**2,110**	**1,775**	**140,080**	**1,578,868**
December 2018												
Central banks	-	-	-	-	-	369,704	-	-	-	-	-	369,704
General governments	-	2,318	-	25,371	194,535	-	20,171	247	4	-	10,487	253,133
Credit institutions	4,539	5,355	279	4,313	11,024	20,152	-	55	-	1,094	1,042	47,853
Other financial corporations	-	641	418	1,305	4	-	16,394	348	11	-	5,100	24,221
Non-financial corporations	-	1,996	-	7,316	4	-	259,220	6,086	1,896	58	72,584	349,160
Households	-	1	-	-	-	-	401,898	218	261	-	57,543	459,921
Total	**4,539**	**10,311**	**697**	**38,305**	**205,567**	**389,856**	**697,683**	**6,954**	**2,172**	**1,152**	**146,756**	**1,503,992**

Credit risk exposure by industry and risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
June 2019					
Agriculture and forestry	10,582	6,967	2,371	293	20,213
Mining	1,652	90	8	89	1,839
Manufacturing	68,920	14,491	2,175	3,842	89,428
Energy and water supply	22,570	2,273	260	630	25,733
Construction	19,858	7,005	2,110	1,430	30,403
Development of building projects	9,926	2,704	697	636	13,963
Trade	40,775	13,732	3,181	1,879	59,567
Transport and communication	21,553	6,213	794	183	28,743
Hotels and restaurants	5,265	2,768	1,050	204	9,287
Financial and insurance services	480,135	2,674	151	14	482,974
Holding companies	7,414	838	13	-	8,265
Real estate and housing	63,811	30,621	6,484	480	101,396
Services	20,003	5,719	1,801	740	28,263
Public administration	264,593	1,277	323	-	266,193
Education, health and art	7,262	1,200	515	85	9,062
Households	394,836	17,670	8,288	4,973	425,767
Total	**1,421,815**	**112,700**	**29,511**	**14,842**	**1,578,868**
December 2018					
Agriculture and forestry	10,262	6,160	2,066	288	18,776
Mining	1,712	114	3	102	1,931
Manufacturing	67,152	16,004	2,341	3,983	89,480
Energy and water supply	22,343	2,090	410	502	25,345
Construction	15,992	7,542	3,854	1,151	28,539
Development of building projects	5,971	2,851	2,393	293	11,508
Trade	41,401	13,426	3,186	1,923	59,936
Transport and communication	20,245	5,548	797	154	26,744
Hotels and restaurants	7,216	1,392	1,035	154	9,797
Financial and insurance services	439,565	2,188	24	15	441,792
Holding companies	6,962	628	-	-	7,590
Real estate and housing	56,926	28,816	6,936	547	93,225
Services	19,242	7,121	1,527	781	28,671
Public administration	248,583	1,384	526	-	250,493
Education, health and art	7,022	1,324	474	81	8,901
Households	389,549	17,950	8,112	4,751	420,362
Total	**1,347,210**	**111,059**	**31,291**	**14,432**	**1,503,992**

Credit risk exposure by business segment and risk category

The segment reporting is based on the business segments as described in Note 27.

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
June 2019					
Retail	436,207	46,613	23,215	6,069	512,104
Corporates	300,323	64,505	6,062	8,746	379,636
Group Markets	331,270	1,242	118	-	332,630
ALM & LCC	354,015	340	116	27	354,498
Total	**1,421,815**	**112,700**	**29,511**	**14,842**	**1,578,868**
December 2018					
Retail	435,262	44,898	22,786	5,970	508,916
Corporates	285,980	64,624	8,385	8,435	367,424
Group Markets	289,734	1,503	-	-	291,237
ALM & LCC	336,234	34	120	27	336,415
Total	**1,347,210**	**111,059**	**31,291**	**14,432**	**1,503,992**

Credit risk exposure by business segment and IFRS 9 treatment

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
June 2019							
Retail	486,966	19,198	5,871	65	512,100	4	512,104
Corporates	348,159	18,135	8,184	492	374,970	4,666	379,636
Group Markets	326,477	418	-	-	326,895	5,735	332,630
ALM & LCC	351,620	139	27	-	351,786	2,712	354,498
Total	**1,513,222**	**37,890**	**14,082**	**557**	**1,565,751**	**13,117**	**1,578,868**
December 2018							
Retail	484,434	18,715	5,704	59	508,912	4	508,916
Corporates	329,070	24,689	7,946	472	362,177	5,247	367,424
Group Markets	284,930	748	-	-	285,678	5,559	291,237
ALM & LCC	333,855	290	27	-	334,172	2,243	336,415
Total	**1,432,289**	**44,442**	**13,677**	**531**	**1,490,939**	**13,053**	**1,503,992**

Stage 1 and Stage 2 comprise not impaired credit risks, while Stage 3 includes impaired credit risks. POCI (purchased or originated credit impaired) consists of credit risks already impaired when purchased or originated.

General principles for credit loss allowances

The general principles and standards for credit loss allowances are governed by internal policies in the Group. According to IFRS 9, credit loss allowances are calculated for all components of the credit risk exposure which are measured at amortized cost (AC) or at fair value through other comprehensive income and include other demand deposits, debt securities, loans and advances as well as finance lease and trade receivables. Provisions for loan commitments and financial guarantees are calculated if they are IFRS 9 impairment relevant.

In the area of expected credit loss (ECL) modelling and calculation of ensuing credit loss allowances (CLA), the Group has concluded that one of the key drivers of the expected impact from adopting the ECL model required by IFRS 9 is the assessment of significant increase in credit risk (SICR) for exposures that are not identified as credit-impaired as at the date of initial application of IFRS 9 (for retrospective application) or as at any given reporting period after transition to IFRS 9 (for prospective application). In this respect, across portfolios and product types, quantitative and qualitative indicators are defined for assessing SICR, including the indicator of 30 days-past-due.

Quantitative indicators include adverse changes in annualized lifetime probability of default and in 12-month probability of defaults with significance being assessed by reference to a mix of relative and absolute change thresholds. Generally the indicators for probability of default are determined to reflect the risk as a „point-in-time" measure and with consideration of forward-looking information („FLI"). The thresholds are established at PD segment level or client rating level, as necessary, and are subject to initial and on-going validation.

Qualitative SICR indicators include forbearance-type flags, work-out transfer flag, information from early-warning-system (if it is not sufficiently considered in rating) and fraud indicators. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and timely. The related group-wide and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework.

The „low credit risk exemption" allowed by IFRS 9 for „investment grade" assets or other assets deemed „low risk" (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) has been implemented with limitations in Erste Group. Thus, the potential activation of this exemption is limited to particular types of debt instruments and counterparty categories, and only if supported by sufficient „low risk" evidence. On this basis, the „low risk exemption" is expected to occasionally apply to some debt security exposures and only exceptionally to loans.

The calculation of credit loss allowances is done on a daily basis on single exposure level and in the contractual currency of the exposure. To compute the credit loss allowance, the Group applies an expected credit loss (ECL) model based on a three stages approach that either leads to a twelve-month ECL or to a lifetime ECL.

The three stages approach applies to financial instruments which are not categorized as purchased or originated credit-impaired financial assets which form a category on their own. Depending on the impairment status and the assessment of the development of credit risk, the financial instruments are assigned to one of three stages.

Stage 1 includes financial instruments at initial recognition and financial assets without a significant increase in credit risk since initial recognition irrespective of their credit quality. In stage 1, the credit risk loss allowances are calculated as twelve-months ECL.

Stage 2 includes financial instruments with a significant increase in credit risk but not credit-impaired at the reporting date. In stage 2, the credit risk loss allowances are calculated as lifetime ECL.

Stage 3 includes financial assets which are credit-impaired at the reporting date. In principle, a financial instrument becomes credit-impaired when the customer defaults. The Group generally applies a customer view which leads to an impairment of all claims even if the customer defaults only on one of several transactions. On the other side, an upgrade to a non-defaulted rating grade implies that the total exposure ceases to be impaired. In stage 3, the credit loss allowances are calculated as lifetime ECL.

Credit loss allowances are calculated individually or collectively. The individual approach is applied in case of exposures to significant defaulted customers and consists of the individual assessment of the difference between the gross carrying amount and the net present value of the expected cash flows which are estimated by workout or risk managers. The discounting of the cash flows is based on the effective interest rate.

A customer is classified as significant if the total on- and off-balance exposure exceeds a predefined materiality limit. Otherwise, the customer is considered as insignificant and a rule-based approach is used for the calculation of the specific allowance. Under this approach, allowances are calculated as the product of gross carrying amount and loss given default (LGD), where LGD depends on characteristics such as time in default or the stage of the workout process.

Collective allowances are calculated for exposures to non-defaulted customers according to a rule-based approach irrespective of the significance of the customer. The level of collective allowances depends on the gross carrying amount, the probability of default, the loss given default and the credit conversion factor in case of off-balance-sheet exposures. The result of discounting future cash flows to their present values is taken into consideration in the LGD calculation.

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of collective allowances may differ from the risk parameters compliant to capital requirement regulations if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

Loans and advances to customers

The tables on the following pages present the structure of the customer loan book, excluding loans to central banks and credit institutions broken-down by different categories. Loans and advances to customers comprise:
- loans to customers at FVPL;
- loans and advances to customers at AC;
- finance lease receivables;
- trade and other receivables.

On the next pages loans and advances to customers are presented by:
- business segment and risk category;
- business segment and IFRS 9 treatment;
- business segment and coverage of non-performing loans to customers by loan loss allowances;
- business segment and coverage by loan loss allowances and IFRS 9 treatment;

Loans and advances to customers by business segment and risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Total
June 2019					
Retail	366,423	42,169	21,190	5,992	435,774
Corporates	224,252	52,131	5,506	6,826	288,715
Group Markets	20,238	859	18	-	21,115
ALM&LCC	713	340	115	21	1,189
Total	**611,626**	**95,499**	**26,829**	**12,839**	**746,793**
December 2018					
Retail	356,400	40,432	21,090	5,897	423,819
Corporates	211,252	51,517	5,908	6,727	275,404
Group Markets	5,063	951	-	-	6,014
ALM&LCC	1,487	14	118	21	1,640
Total	**574,202**	**92,914**	**27,116**	**12,645**	**706,877**

Loans and advances to customers by business segment and IFRS 9 treatment

in CZK million	Stage 1	Stage 2	Stage 3	POCI	Gross customer loans (AC)	Not subject to IFRS 9 impairment	Total
June 2019							
Retail	412,943	16,970	5,797	64	435,774	-	435,774
Corporates	267,578	14,263	6,311	492	288,644	71	288,715
Group Markets	20,898	217	-	-	21,115	-	21,115
ALM&LCC	1,042	126	21	-	1,189	-	1,189
Total	**702,461**	**31,576**	**12,129**	**556**	**746,722**	**71**	**746,793**
December 2018							
Retail	401,677	16,451	5,633	58	423,819	-	423,819
Corporates	250,155	18,418	6,291	472	275,336	68	275,404
Group Markets	5,661	353	-	-	6,014	-	6,014
ALM&LCC	1,347	273	20	-	1,640	-	1,640
Total	**658,840**	**35,495**	**11,944**	**530**	**706,809**	**68**	**706,877**

Non-performing loans and advances to customers by business segment and coverage by loan loss allowances

	Non-performing		Gross customer loans		Loan loss allowances	Collateral for NPL		NPL ratio		NPL coverage (exc collateral)	NPL collateralisation ratio	
in CZK million	Total	AC	Total	AC	AC	Total	AC	Total	AC	AC	Total	AC
June 2019												
Retail	5,992	5,992	435,774	435,774	6,182	1,598	1,598	1.38%	1.38%	103.17%	26.67%	26.67%
Corporates	6,826	6,826	288,644	288,644	6,254	1,675	1,675	2.36%	2.36%	91.62%	24.54%	24.54%
Group Markets	-	-	21,115	21,115	9	-	-	0.00%	0.00%	-	-	-
ALM&LCC	21	21	1,189	1,189	148	-	-	1.77%	1.77%	704.76%	0.00%	0.00%
Total	**12,839**	**12,839**	**746,722**	**746,722**	**12,593**	**3,273**	**3,273**	**1.72%**	**1.72%**	**98.08%**	**25.49%**	**25.49%**
December 2018												
Retail	5,897	5,897	423,819	423,819	6,130	1,581	1,581	1.40%	1.40%	104.00%	26.80%	26.80%
Corporates	6,727	6,727	275,404	275,336	6,366	1,027	1,027	2.40%	2.40%	94.60%	15.30%	15.30%
Group Markets	-	-	6,014	6,014	9	-	-	0.00%	0.00%			
ALM&LCC	21	21	1,640	1,640	290	-	-	1.30%	1.30%	1402.40%	0.00%	0.00%
Total	**12,645**	**12,645**	**706,877**	**706,809**	**12,795**	**2,608**	**2,608**	**1.80%**	**1.80%**	**101.20%**	**20.60%**	**20.60%**

Loans and advances to customers at AC and coverage by loan loss allowances by business segment and IFRS 9 treatment

	Loans to customers				Loan loss allowances						
in CZK million	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 2 coverage ratio	Stage 3 coverage ratio	POCI coverage ratio
June 2019											
Retail	412,943	16,970	5,797	64	965	1,355	3,785	2	8.50%	66.47%	12.04%
Corporates	267,578	14,263	6,311	492	941	457	4,576	241	2.80%	74.10%	36.46%
Group Markets	20,898	217	-	-	8	1	-	-	0.70%	-	-
ALM&LCC	1,042	126	21	-	8	120	20	-	97.30%	98.35%	-
Total	**702,461**	**31,576**	**12,129**	**556**	**1,922**	**1,933**	**8,381**	**243**	**6.20%**	**70.50%**	**33.64%**
December 2018											
Retail	401,677	16,451	5,633	58	950	1,393	3,785	2	8.50%	67.20%	4.30%
Corporates	250,101	18,418	6,291	472	1,025	524	4,576	241	2.80%	72.70%	51.20%
Group Markets	5,661	353	-	-	7	2	-	-	0.70%		
ALM&LCC	1,347	273	20	-	4	266	20	-	97.30%	97.60%	
Total	**658,786**	**35,495**	**11,944**	**530**	**1,986**	**2,185**	**8,381**	**243**	**6.20%**	**70.20%**	**46.10%**

29.2 Market Risk

The table below summarizes the VaR values as at 31 December 2018 and 30 June 2019 on the confidence level of 99%. The table shows only the Bank's amounts:

in CZK million June 2019	Total Market Risk	Correlation Effect	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Volatility Risk	Commo-dity risk	Credit Spread risk
Trading book								
Daily value	13	(1)	13	1	-	-	-	1
Monthly value	60	(4)	60	3	1	-	-	3
Average of daily values per year	17	(1)	17	1	-	-	-	1
Average of monthly values per year	81	(5)	80	4	1	-	-	3
Banking book								
Daily value	107	(51)	122	7	-	-	-	30
Monthly value	504	(240)	573	30	-	-	-	141
Average of daily values per year	124	(50)	118	7	-	-	-	48
Average of monthly values per year	583	(233)	556	33	-	-	-	227
December 2018								
Trading book								
Daily value	12	-	12	-	-	-	-	-
Monthly value	58	(2)	57	1	1	-	-	2
Average of daily values per year	21	-	21	-	-	-	-	-
Average of monthly values per year	97	(2)	97	1	1	-	-	2
Banking book								
Daily value	87	(33)	71	7	-	-	-	41
Monthly value	407	(155)	335	35	-	-	-	192
Average of daily values per year	235	(59)	213	6	-	-	-	75
Average of monthly values per year	1,101	(277)	999	28	1	-	-	350

In addition, the Bank uses stress testing or an analysis of impacts of adverse developments in market risk factors on the market value of the trading book and on the parts of the banking book revalued to market values. Scenarios are developed on the basis of historical experience and expert opinions of the Macroeconomic Analyses Department. The stress testing is undertaken on a monthly basis and its results are reported to Financial Markets Risk Management Committee (FMRMC).

29.3 Liquidity Risk

The liquidity risk is defined in line with the principles set out by the Basel Committee on Banking Supervision and the CNB. Accordingly, a distinction is made between market liquidity risk, which is the risk that the entity cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that a credit institution will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting daily operations and its financial condition.

The Group reports Liquidity Coverage Ratio („LCR") to the national regulator according to the Delegated Act. Both LCR and Net Stable Funding Ratio („NSFR") for the Group have been significantly above 100% for a long time due to good health and high liquidity in the Czech banking system. The Bank also regularly reports Additional Liquidity Monitoring Metrics (ALMM) to the national regulator, which complements already existing Basel III liquidity risk ratios in the form of several detailed liquidity risk reports/measures.

30. Fair value of financial instruments

All financial instruments are measured at fair value on recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments carried at fair value

The measurement of fair value at the Bank is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which the fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Description of valuation models and parameters

The Group uses valuation models that have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently. As a consequence of the negative interest environment, shifted Black Scholes valuation model is used for interest rate options for the respective currencies. For this model negative interest rates are no restriction.

Loans. IFRS 9 regulation significantly changed accounting classification of assets. Not SPPI (solely payments of principal and interest) compliant loans are to be valued at fair value. The methodology to compute fair value of these assets corresponds to the basic present value technique where expected cash flows of assets are discounted by the full rate including risk premium required for non-market risk based part of the interest rate to be compliant with fair value definition. The credit risk is recognized by adjusting contractual cash flows to come to expected cash flows accounting for customer's probability of default and loss given default. These adjusted cash flows are then discounted by effective discount rate incorporating other risk/cost components. The complex interest rate assets are valued by Monte Carlo simulation approach to include convexity correction and time value of embedded options.

Securities. For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features such as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash flow models and more sophisticated modeling techniques including methods described for OTC-derivatives.

Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price (bid for long position, ask for short position). For other investments in non-trading equity instruments the fair value is determined by standard valuation models using also unobservable input parameters.

OTC-derivative financial instruments. Derivative instruments traded in OTC markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices) are valued by using standard valuation models. These models include discounting cash flow models, option models of the Black-Scholes. Models are calibrated on quoted market data (including implied volatilities). Valuation models for more complex instruments also use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used.

The Bank values derivatives at mid-market levels. The derivatives position value is adjusted of close-out adjustment to take into account impact of bid/ask spread to the valuation. Parameters are reviewed on a regular basis or in case of significant market moves.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA, the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Group's credit quality. Modelling of the expected exposure is based on option replication strategies for most of the counterparties and the products. For Ministry of Finance of the Czech Republic and for counterparties with Credit Support Annex ('CSA') agreements in place with higher threshold amounts Monte Carlo approach is applied, netting is considered. For CSA counterparties with small threshold amounts no CVA/DVA was taken into account. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices.

According to the described methodology the accumulated CVA-adjustments amounted to CZK (153) million and the total DVA-adjustment amounted to CZK 28 million.

Validation and control

The responsibility for valuation of financial instruments measured at fair value is independent from the trading units. In addition, The Bank has implemented an independent validation function in order to ensure separation between units responsible for model development, fair value measurement and validation. The aim of independent model validation is to evaluate model risks arising from the models' theoretical foundation, the appropriateness of input data (market data) and model calibration.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to Level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. More particular, the evaluated fair value can qualify as Level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

These include exchange traded derivatives (futures, options), shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as Level 2.

If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as Level 2 of the fair value hierarchy. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

These include OTC derivatives, less liquid shares, bonds and funds as well as own issues.

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor on the basis of valuation models that rely entirely on observable market data. In these cases individual valuation parameters which are not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as Level 3 of the fair value hierarchy. For Level 3 valuations besides observable parameters typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters. Furthermore, internally calculated cost of equity and adjustments made on the equity (in the adjusted net asset value method) are unobservable parameters for the valuation of non-trading equity instruments.

These include shares, participations and funds not quoted, illiquid bonds as well as loans, own issues and deposits.

	Quoted market prices in active markets Level 1		Marked to model based on observable market data Level 2		Marked to model based on non-observable inputs Level 3		Total	
in CZK million	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
ASSETS								
Financial assets – held for trading	62	69	9,659	9,894	363	349	10,084	10,312
Derivatives	-	-	9,451	9,743	363	349	9,814	10,092
Other trading assets	62	69	208	151	-	-	270	220
Non-trading financial assets – FVPL	13	13	265	279	1,248	1,160	1,526	1,452
Equity instruments	-	-	-	-	755	755	755	755
Debt securities	13	13	265	279	422	337	700	629
Loans and advances	-	-	-	-	71	68	71	68
Financial assets – FVOCI	30,017	29,551	5,746	6,847	5,008	3,229	40,771	39,627
Equity instruments	-	-	-	-	1,634	1,252	1,634	1,252
Debt securities	30,017	29,551	5,746	6,847	3,374	1,977	39,137	38,375
Derivatives Hedge Accounting	-	-	1,752	1,119	23	33	1,775	1,152
Total assets	**30,092**	**29,633**	**17,422**	**18,139**	**6,642**	**4,771**	**54,156**	**52,543**
LIABILITIES								
Financial liabilities held for trading	-	-	10,034	10,167	21	5	10,055	10,172
Derivatives	-	-	10,034	10,167	21	5	10,055	10,172
Other trading liabilities	-	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	3,244	1,935	-	-	3,244	1,935
Deposits from customers	-	-	3,244	1,935	-	-	3,244	1,935
Debt securities issued	-	-	-	-	-	-	-	-
Derivatives Hedge Accounting	-	-	1,564	2,109	-	-	1,564	2,109
Total liabilities	**-**	**-**	**14,842**	**14,211**	**21**	**5**	**14,863**	**14,216**

The allocation of the appropriate level of positions is determined at the end of the reporting period.

Changes in volumes of Level 1 and Level 2

This paragraph describes the changes in Volumes of Level 1 and Level 2 of financial instruments measured at fair value in the statement of financial position.

	June 2019		December 2018	
in CZK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	585	-	626
Net transfer from Level 2	-	-	(625)	-
Net transfer from Level 3	-	6,829	-	(191)
Purchases/sales/expiries	(12,290)	(34,941)	(11,993)	(2,008)
Changes in derivatives	-	(292)	-	(1,210)
Total year-to-date change	**(12,290)**	**(27,819)**	**(12,618)**	**(2,783)**

In the first half of 2019 the relevant unquoted bonds were reclassified from Level 1 to Level 2 due to lower market activity.

The reclassification of securities from Level 1 and from Level 2 to Level 3 was caused by a decrease in market liquidity.

Movements in Level 3 of financial instruments measured at fair value

The following tables show the development of fair value of securities for which valuation models are based on non-observable inputs:

in CZK million		**Gain/loss in profit or loss**	**Gains/ losses OC**	**Pur-chases**	**Sales/ Settle-ments**	**Transfer into Level 3**	**Transfer out of Level 3**	**Currency trans-lation**	
	Jan 2019								**June 2019**
Assets									
Financial assets HfT	348	(16)	-	45	(1)	55	(68)	-	363
Derivatives	348	(16)	-	45	(1)	55	(68)	-	363
Other financial assets held for trading	-	-	-	-	-	-	-	-	-
Non-trading financial assets at FVPL	1,160	94	-	33	(41)	2	-	-	1,248
Equity instruments	755	-	-	-	-	-	-	-	755
Debt securities	337	93	-	33	(41)	-	-	-	422
Loans and advances	68	1	-	-	-	2	-	-	71
Financial assets at FVOCI	3,230	-	388	-	(21)	1,421	-	(10)	5,008
Equity instruments	1,252	-	382	-	-	-	-	-	1,634
Debt securities	1,978	-	6	-	(21)	1,421	-	(10)	3,374
Loans and advances	-	-	-	-	-	-	-	-	-
Hedge accounting derivatives	33	-	-	23	-	-	(33)	-	23
Total assets	**4,771**	**78**	**388**	**101**	**(63)**	**1,478**	**(101)**	**(10)**	**6,642**
	Jan 2018								**June 2018**
Assets									
Financial assets – HfT	105	(84)	-	5	-	65	-	-	91
Derivatives	105	(84)	-	4	-	65	-	-	90
Other trading assets	-	-	-	1	-	-	-	-	1
Non-trading financial assets at fair value through profit or loss	3,015	14	-	67	(2,260)	12	-	6	854
Equity instruments	380	-	-	-	-	-	-	-	380
Debt securities	348	14	-	65	(38)	12	-	6	407
Loans and advances	2,287	-	-	2	(2,222)	-	-	-	67
Financial assets – FVOCI	2,871	-	208	109	-	1,194	-	-	4,382
Equity instruments	1,029	-	237	-	-	-	-	-	1,266
Debt securities	1,842	-	(29)	109	-	1,194	-	-	3,116
Total assets	**5,991**	**(70)**	**208**	**181**	**(2,260)**	**1,271**	**-**	**6**	**5,327**

A part of the OTC derivatives was categorized as Level 3 / was recategorized into Level 3 because credit valuation adjustment (CVA) has a material impact on the market value for these derivatives and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs). Part of Level 3 derivatives was recategorized into Level 2 because CVA has not a material impact on the market value of these derivatives any more. In 2019 and in 2018 FVOCI/available for sale financial assets (equities and bonds) for which valuation models are based on non- observable inputs were transferred into Level 3.

The gains or losses of Level 3 financial instruments classified as 'Financial assets – held for trading', 'Non-trading financial assets at fair value through profit or loss' and 'Hedge accounting derivatives' is disclosed in the income statement line item 'Net trading result'. Gains or losses from derecognition of 'Financial assets at fair value through other comprehensive income' is shown in the income statement line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'. Impairment of 'Financial assets at fair value through other comprehensive income' is disclosed in the line item 'Impairment result from financial instruments'. Level 3 gains or losses in other comprehensive income disclosed in the balance sheet line item 'Financial assets at fair value through other comprehensive income' are reported directly in equity under 'Change in fair value reserve'.

Level 3 movements. The reclassification of securities to Level 3 was caused by a decrease in market liquidity.

Gains or losses on Level 3 instruments held at the reporting period's end and which are included in profit or loss are as follow:

in CZK million	June 2019 Unrealized gain/loss in profit or loss	Dec 2018 Unrealized gain/loss in profit or loss
ASSETS		
Financial assets – held for trading	(16)	105
Derivatives	(16)	105
Non-trading financial assets at fair value through profit or loss	94	335
Equity instruments	-	375
Debt securities	93	(40)
Loans and advances	1	-
Financial assets at fair value through other comprehensive income	-	(37)
Debt securities	-	(37)
Hedge accounting derivatives	-	33
Total	**78**	**436**

Sensitivity analysis for Level 3 measurements

The following table shows the sensitivity analysis using reasonably possible alternatives per product type:

	Positive fair value changes when applying alternative valuation parameters		Negative fair value changes when applying alternative valuation parameters	
in CZK million	**2019**	**2018**	**2019**	**2018**
Derivatives	-	12	-	(14)
Income statement	-	12	-	(14)
Debt securities	71	57	(95)	(76)
Other comprehensive income	71	57	(95)	(76)
Equity instruments	139	115	(277)	(231)
Income statement	57	52	(114)	(106)
Other comprehensive income	82	63	(163)	(125)
Total	**210**	**184**	**(372)**	**(321)**
Income statement	**57**	**64**	**(114)**	**(120)**
Other comprehensive income	**153**	**120**	**(258)**	**(201)**

In estimating these impacts, mainly changes in credit spreads (for bonds), PDs, LGDs (for CVA of derivatives) and market values of comparable equities were considered. An increase (decrease) of spreads, PDs and LGDs result in a decrease (increase) of the corresponding market values.

Following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:
- For debt securities range of credit spreads between +100 basis points and – 75 basis points;
- For equity related instruments the price range between −10% and +5%;
- For CVA on derivatives PDs rating upgrade/downgrade by one notch, the range for LGD between −5% and +10%.

The Group has considered the impact of the revaluation of Visa Europe Ltd. equity instrument and recalculated the fair value of its holding in Visa Europe Ltd. to reflect the market conditions (the movement is reported in the line Equity insrtuments Other comprehensive income of the above mentioned sensitivity analysis).

Fair value of financial instruments not recognised at fair value

The following table shows fair values and fair value hierarchy of financial instruments whose fair value is disclosed in the notes for 30 June 2019 and for the year-end 2018. For assets without contractual maturities (e.g. cash and cash equivalents), the carrying amount appro imates their fair value.

in CZK million June 2019	Carrying amount (balance sheet)	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
ASSETS					
Cash and cash balances	54,869	54,869	-	-	-
Financial assets at amortised costs	1,363,934	1,377,109	219,805	12,157	1,145,146
Loans and advances to banks	413,822	414,164	-	-	414,164
Loans and advances to customers	725,627	730,977	-	-	730,977
Debt securities	224,485	231,968	219,805	12,157	5
Finance lease receivables	1,971	1,971	-	-	1,971
Trade and other receivables	6,861	6,861	-	-	6,861
LIABILITIES					
Financial liabilities measured at amortised costs	1,345,074	1,340,920	-	7,803	1,333,117
Deposits from banks	292,755	292,985	-	-	292,985
Deposits from customers	1,041,283	1,036,989	-	-	1,036,989
Debt securities issued	7,893	7,803	-	7,803	-
Other financial liabilities	3,143	3,143	-	-	3,143
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	(75)	-	-	(75)
Irrevocable commitments	n/a	(529)	-	-	(529)
December 2018					
ASSETS					
Cash and cash balances	63,914	63,914	-	-	-
Financial assets at amortised costs	1,281,034	1,284,101	198,040	11,776	1,074,285
Loans and advances to banks	389,844	390,011	-	-	390,011
Loans and advances to customers	685,639	684,270	-	-	684,270
Debt securities	205,551	209,820	198,040	11,776	4
Finance lease receivables	2,006	2,006	-	-	2,006
Trade and other receivables	6,351	6,351	-	-	6,351
LIABILITIES					
Financial liabilities measured at amortised costs	1,279,931	1,281,024	-	5,397	1,275,627
Deposits from banks	318,861	322,485	-	-	322,485
Deposits from customers	952,506	950,036	-	-	950,036
Debt securities issued	5,458	5,397	-	5,397	-
Other financial liabilities	3,106	3,106	-	-	3,106
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	n/a	(57)	-	-	(57)
Irrevocable commitments	n/a	(155)	-	-	(155)

In the table above, positive fair values of financial guarantees and commitments are shown with a positive sign whereas negative fair values are shown with a negative sign.

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets at amortised cost are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair value of deposits and other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spreads. These positions are assigned to the Level 3 category. For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available. For issued securities where the fair value cannot be retrieved from quoted market prices, the fair value is calculated by discounting the future cash flows.

31. Contingent assets and liabilities

in CZK million	June 2019	December 2018
Amounts owed under guarantees and letters of credit	23,401	23,298
Undrawn loan commitments	116,679	123,458
Total	**140,080**	**146,756**

There have not been any material changes since year-end 2018 in the assessment of the influence of the outcome of the litigation cases in which Česká spořitelna, a.s. and some of its subsidiaries are involved with respect of the financial and/or earnings situation of the Group.

32. Events after the balance sheet date

There are no significant events after the balance sheet date.

Definitions of Alternative Performance Indicators

In line with the General Directive issued by ESMA (European Securities and Markets Authority) are Alternative Performance Indicators defined as financial indicators of historical or future financial performance, financial position or cash flow.

Alternative Performance Indicators that can be determined directly from the consolidated financial statement:

Alternative Performance Indicator		Financial statement
Net interest income	A	Consolidated income statement
Net fee and commission income	B	Consolidated income statement
Dividend income	C	Consolidated income statement
Net trading result	D	Consolidated income statement
Gains/losses from financial instruments measured at fair value through profit or loss	E	Consolidated income statement
Net result from equity method investments	F	Consolidated income statement
Rental income from investment properties and other operating leases	G	Consolidated income statement
Operating income	**H=A+B+C+D+E+F+G**	**Consolidated income statement**
Personnel expenses	I	Consolidated income statement
Other administrative expenses	J	Consolidated income statement
Depreciation and amortisation	K	Consolidated income statement
Operating expenses	**L=I+J+K**	**Consolidated income statement**
Operating result	**H+L**	**Consolidated income statement**
Cost/Income ratio	**-L/H**	**Consolidated income statement**
Non-interest income/Operating income	**(B+C+D+E+F+G)/H**	**Consolidated income statement**
Non-trading financial assets at fair value through profit or loss – loans and advances to customers	M	Consolidated statement of financial position
Financial assets at amortised costs – loans and advances to customers	N	Consolidated statement of financial position
Finance lease receivables	O	Consolidated statement of financial position
Trade and other receivables	P	Consolidated statement of financial position
Financial liabilities at fair value through profit or loss – deposits from customers	Q	Consolidated statement of financial position
Financial liabilities at amortised cost – deposits from customers	R	Consolidated statement of financial position
Finance lease liabilities to customers	S	Consolidated statement of financial position
Loans and advances to customers	**T=M+N+O+P**	**Consolidated statement of financial position**
Deposits from customers	**U=Q+R+S**	**Consolidated statement of financial position**
Loans and advances to customers/deposits from customers	**V=T/U**	**Consolidated statement of financial position**

The purpose of the Alternative Performance Indicators:

Operating income shows the amount of bank income from common business activities.

Operating expenses express the volume of bank costs used for common business activities.

Operating result gives information about the success rate of common business activity. It shows the amount of financial resources that was earned from common business activity.

Cost/Income Ratio – This indicator expresses the volume of operating expenses consumed to achieve the operating income. The ratio gives a clear view of how efficiently the bank is being run – the lower it is, the more profitable the bank is.

Non-interest Income/Operating Income – The indicator shows the share of income other than interest income on total income from common business activity.

Loans to Customers/Deposits from Customers – The indicator shows the share of customer deposits used for funding of customer loans.

Alternative Performance Indicators that cannot be determined directly from the consolidated financial statements:

ROA
Česká spořitelna use the ROA (Return on Assets) indicator to show how efficient a Bank's management is at using its assets to generate earnings. It is calculated as a ratio of consolidated Net result in the accounting period attributable to the owners of the parent company (Consolidated income statement) to the average monthly volume of total assets (internal figure for 13 periods – calculates with balances as of 1 January of the corresponding year and the last days of all months of the corresponding year).

ROE
The ROE (Return on Equity) indicator measures the efficiency of equity utilization, and its final value expresses the share of the net profit attributed to one Czech Crown of the equity. It is calculated as a ratio of the consolidated Net result in the accounting period attributable to the owners of the parent company (Consolidated income statement) to the average monthly volume of equity attributable to the owners of the parent (internal figure for 13 periods – calculates with balances as of 1 January of the corresponding year and the last days of all months of the corresponding year).

Net Interest Margin
Česká spořitelna uses the indicator as the representation of the profitability of interest-bearing assets. It is calculated as a ratio where the numerator is the sum of the consolidated Net Interest Income, Dividend Income, Net result from equity method investments and Rental income from investment properties and other operating leases decreased by the depreciation of these assets (Consolidated income statement), and the denominator is the average monthly volume (internal figure for 13 periods – calculates with balances as of 1 January of the corresponding year and the last days of all months of the corresponding year) of the sum of Non-trading financial assets at fair value through profit or loss, Financial assets at fair value through other comprehensive income, Financial assets at amortised costs, Finance lease receivables to customers, Investments in associates and Investment properties (Consolidated statement of financial position).

Ratio of Defaulted Receivables from Clients to Total Volume of Receivables from Clients
The indicator is the basic indicator of the quality of bank loan portfolio. It is calculated as a ratio of consolidated gross loans and advances to defaulted customers to consolidated gross loans and advances to customers.

Ratio of Loss Allowances to NPL Coverage
The indicator expresses the volume of provisions relative to risk loans and is used by the Bank as one of the basic indicators for monitoring of the credit risk coverage. It is calculated as a ratio of consolidated impairment loss allowances to customers to consolidated gross loans and advances to defaulted customers.

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