ANNUAL REPORT

'18

SBERBANK CZ, A.S.

1. TABLE OF CONTENTS

This annual report provides a true and accurate picture of the financial position, business activities and profit and loss of the Bank for the previous fiscal period and of the outlook for the future financial situation, business activities and profit and loss. Unless otherwise stated, the data and information in this report are always reported as of 31 December 2018.

2. BANK PROFILE

Corporate name	**Sberbank CZ, a.s.**
Company identification number	25083325
Tax identification number	CZ25083325
Registered office	U Trezorky 921/2, Jinonice, 158 00 Prague 5, Czech Republic
Legal form	Joint-stock company
File No. in the Commercial Register	B 4353 maintained by the Municipal Court in Prague, Section B, Insert 4353
Date of incorporation	31 October 1996
Subject of enterprise	Banking transactions and financial services of all types in accordance with Sections 1(1) a), 1(1) b) and 1(3) a) – o) of Act No. 21/1992 Coll., on Banks, as amended, which are listed in the banking licence issued under the above Act.
Bank code	6800
BIC/SWIFT	VBOECZ2XXXX
Data box identifier	f94gyc6
LEI	31570010000000029583
Phone	+420 800 133 444
Fax	+420 221 969 951
E-mail	mail@sberbankcz.cz
Website	www.sberbank.cz
Banking supervisory authority	Czech National Bank
Law	Czech Republic

3. INTRODUCTION BY THE MANAGEMENT BOARD

Ladies and gentlemen,
dear clients, partners and shareholders,

The year 2018 was marked by transformations, including in the composition of the Management Board. Despite this, the Bank managed to achieve solid sales volumes.

In general, the Czech banking market is highly competitive and well regulated, which was reflected in low interest margins and influenced the parameters and price terms of retail products. Costs grew and the regulatory requirements increased, too. The Czech banking client is knowledgeable and has high expectations – products or services regarded as premium yesterday are now standard. Therefore, all banks have started to invest heavily in the future and this trend will continue in 2019 as well.

The Bank completed a successful year and is launching preparations for the future. Almost the entire Management Board was changed, the branch network underwent a reorganisation, the organisational structure was simplified, internal synergies were activated to address the increased fluctuation, key projects were strengthened and the General Data Protection Regulation (GDPR) was successfully implemented. At the same time, the Bank continued to develop business activities in all target segments, with an emphasis on helpful and top-quality client service and an attractive product offering, complemented by new products and online services. These changes, which will also continue in 2019, will produce a lean and modern bank with a healthy asset structure and which is able to fulfil its clients' financial ambitions.

Despite strong competition in the banking market, low interest rates and pressure on interest income, the Bank achieved a profit after tax of CZK 377 million, which was reduced by higher operating costs associated with ongoing changes and regulatory requirements. The Bank recorded increased interest in consumer loans and also achieved solid results in insurance and investment revenue, where the range of investment products expanded. In the segment of corporate banking, the good result was supported by new volumes for corporations and small and medium enterprises, as well as by significant syndicated loans in which the Bank participated. Profit from financial operations before the creation of reserves and loss provisions amounted to CZK 2.398 billion, i.e. 7.6% more on a year-on-year basis. Total assets amounted to CZK 79.76 billion and the number of active clients increased to 117,056. The total volume of client deposits grew slightly to CZK 66.1 billion, while the total volume of client loans increased by 4% to CZK 62.9 billion. Despite the growth in business results, total operating costs increased by 8.5% to CZK 1.577 billion.

Thanks to prudent risk management, the Bank maintained a low share of non-performing loans (NPL) last year, which decreased to 2.63%. The capital adequacy ratio reached the level of 16.18%, i.e. well above the threshold required by the regulator, which allows further development of the Bank[1]. Concentration risk decreased significantly as well.

In particular, I would like to thank our clients, who have allowed the Bank to develop and move further by their decision to choose our products or services. We want to surprise and please clients, the focus of our activities, with the quality of our services. We are building a bank that exceeds their expectations. However, thanks also go to all employees of the Bank – for everything they achieved and did in 2018. Their work is a manifestation of the highest level of professionalism, team spirit and commitment to the success of the entire Bank.

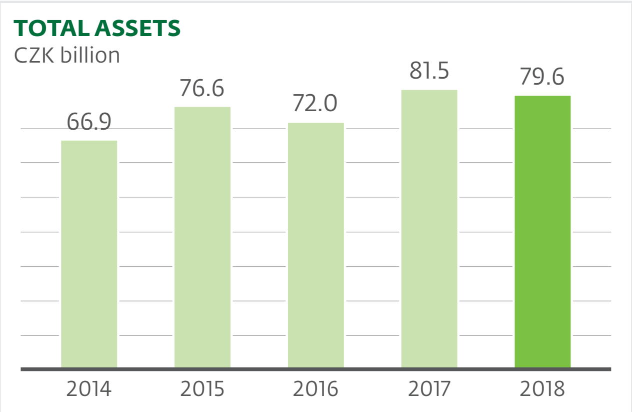
Edin Karabeg
Chairman of the Management Board

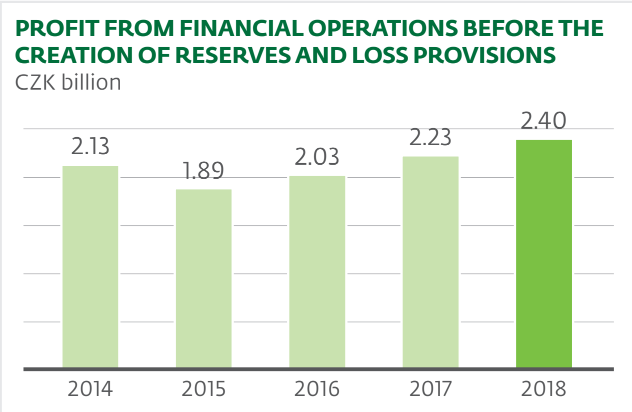
[1] See Alternative Performance Indicators, Chapter 17.

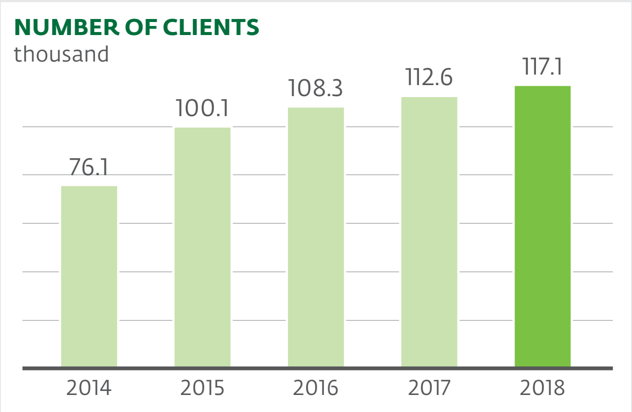
4. KEY FIGURES IN SUMMARY

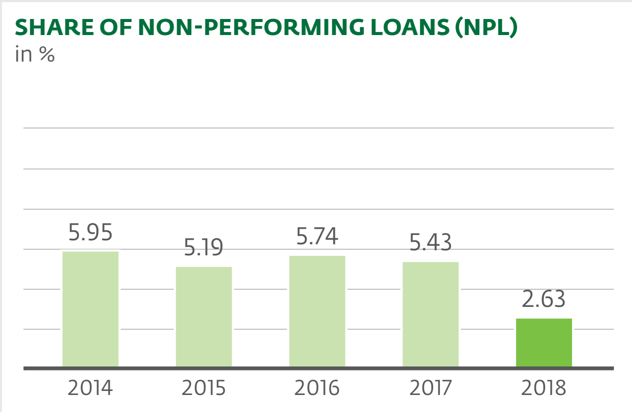
in millions CZK	2018	2017	2016	2015	2014
Total assets	79,755	81,464	71,965	76,609	66,860
Capital Adequacy Ratio	16.18%	16.44%	16.55%	17.49%	16.18%
Liabilities to clients, including debt securities in issue	67,101	66,043	59,049	61,537	50,417
Receivables from clients	62,902	60,483	55,613	50,781	54,147
Profit from financial operations before the creation of reserves and loss provisions	2,398	2,228	2,028	1,888	2,133
Administrative expenses	1,577	1,454	1,398	1,379	1,274
Profit on ordinary activities before tax	478	531	336	37	481
Profit for the year	377	424	272	23	383
Number of clients	117,056	112,559	108,310	100,116	76,137
Number of employees*	840	924	851	846	825
Number of points of sale	25	28	28	29	26
Share of non-performing loans (NPL)	2.63%	5.43%	5.74%	5.19%	5.95%

* registered number of employees as at 31 December









5. MOST IMPORTANT EVENTS OF THE YEAR

In January…

At the end of the month, the annual New Year's party was held for all the employees of the Bank. Among other things, the best individuals and teams of employees were announced and awarded at the event.

On 29 January 2018, Mr Vladimír Šolc resigned from his position as a member and chairman of the Management Board with effect from 31 January 2018, which was acknowledged by the Bank's Supervisory Board by its decision.

The Bank's FAIR Savings PLUS savings account was placed third in the Savings Accounts category of the Financial Product 2017 competition announced by the renowned financial portal Finparáda.cz.

In February…

On 11 February 2018, the Bank launched a campaign to support the FAIR Loan with the lowest rate of 4.8% and a guarantee of a better rate. The Bank guaranteed a reduction in the interest rate by 1% to a minimum o 4.8% to clients who received a better offer from our competitors during the repayment period of a FAIR Loan or FAIR Consolidation.

In March…

On 23 March 2018, the Supervisory Board decided on the election of Mr Edin Karabeg as a member of the Management Board and CEO for a regular term of office of three years with effect from 26 March 2018 in accordance with Article 16 (2) of the Articles of Association.

On 26 March 2018, the Supervisory Board decided to acknowledge the resignation of Mr Karel Soukeník from the position as a member of the Management Board with effect from 6 April 2018 and approved an agreement to terminate the service agreement of a member of the Management Board concluded between Mr Karel Soukeník and the Bank.

The Bank became the main partner of the Family Run running series, which takes place as part of the nationwide Night Run sport event. The Sberbank Family Run race took place from Spring to Autumn 2018 in eight Czech cities.

On 30 March 2018, the Bank raised interest rates on CZK term deposits and improved rates for clients by up to 0.30% p.a.

The Bank supported the entry of eToro, the world's leading social business network with more than 9 million registered investors from 170 countries, to the Czech Republic.

In April…

On 18 April 2018, a regular meeting of the Audit Committee and the Supervisory Board was held, where, among other things, the Bank's financial results for 2017 were discussed.

The Bank's Annual Report and Financial Statements for 2017 were prepared and subsequently approved by the sole shareholder of the Bank, published on the Bank's website and sent to the Czech National Bank.

The Bank celebrated the grand opening of the Jihlava branch at a new address in the historic city centre with the aim to further improve the services the branch provides to citizens and businesses.

In May…

Since May, Bank clients can open an account easily and online themselves. In the e-shop they can choose the most suitable variant of the FAIR account MINI, AKTIV or OPTIMAL without having to visit a branch.

44 employees of the Bank joined the project called "Do práce na kole" (To Work on a Bike). Every day they ran, cycled or walked to the Bank – totalling 12,634 km in the month and reducing 1.6 tonnes of carbon dioxide from the environment.

In June…

On 13 June 2018, the Supervisory Board decided on the election of Mr Daniel Krumpolc as a member of the Management Board responsible for corporate banking and on the election of Mr András Kaliszký as a member of the Management Board responsible for the Bank's operations, for a regular term of office of three years with effect from 13 June 2018.

On 20 June 2018, a regular meeting of the Supervisory Board was held.

After a complete reconstruction, the Bank opened a modernised branch in a brand new, airy and modern environment in the Vaňkovka Shopping Gallery in Brno.

In July…

On 11 July 2018, the Supervisory Board acknowledged the resignation of Mr Gerhard Randa as a member and chairman of the Supervisory Board and approved the termination of Gerhard Randa's position on the Supervisory Board with effect from 5 July 2018.

On 11 July 2018, the Bank's sole shareholder acknowledged the resignation of Mr Gerhard Randa as a member and chairman of the Supervisory Board with effect from 5 July 2018.

The Bank prepared new products for corporate clients trading abroad. The advantageous packages FX RET Comfort and FX RET Basic include, for a monthly fixed fee, payments in domestic and foreign currency, payment cards, online account management and the FX RET platform for simple online currency exchange.

In August…

The Bank introduced accelerated payments at no charge in mid-August. Domestic payments entered online or in mobile banking by 12:00 on the same day will be credited to an account in another bank on the same day; on average, up to 60% of payments are transferred on the same day.

On 19 August 2018, the Bank launched a campaign to support FAIR Loan and FAIR Consolidation with the lowest rate of 4.8% p.a. As one of the most advantageous consumer loans on the market, FÉR Loan is a favourite of clients, thanks in part to clear terms and transparent interest rates.

In September…

On 19 September 2018, a regular meeting of the Supervisory Board acknowledged the Bank's semi-annual report as of 30 June 2018.

The Ostrava branch of the Bank moved closer to its clients and celebrated the grand opening of its new premises in the city centre. Located in an attractive and pleasant environment, the new branch is now more accessible to clients.

The Bank supported the Leontinka Foundation. As part of the Sberbank Golf Cup benefit tournament for Leontinka, the Bank joined the Leontinka Foundation's project aimed at providing financial support to visually impaired children. The corporate clients of the Bank, among others, took part in the tournament named Každá rána dobrá (Every Shot Good).

In October…

On 15 October 2018, the Bank increased interest rates on savings accounts and term deposits. For FAIR Savings PLUS in combination with FAIR Account AKTIV or OPTIMAL, the Bank newly provides interest of 1.03% p.a. on deposits up to CZK 300,000.

In November...

On 1 November 2018, the sole shareholder elected Mr Dirk Adolf Hinze as a member of the Supervisory Board.

On 1 November 2018, the Supervisory Board acknowledged the resignation of Ms Elena Viklová as a member of the Supervisory Board and approved the termination of Ms Elena Viklová's position on the Supervisory Board with effect from 1 November 2018.

The Bank's sole shareholder acknowledged the resignation of Ms Elena Viklová as a member of the Supervisory Board with effect from 1 November 2018.

On 29 November 2018, the sole shareholder dismissed Mr Béla Czigony as a member of the Audit Committee with effect from 29 November 2018 and appointed Mr Dirk Adolf Hinze as a member of the Audit Committee with effect from 30 November 2018.

The Bank participated in the Movember project and together with its employees collected almost CZK 130,000, the third highest amount in the Czech Republic, which placed the Bank among the largest contributors to the cancer prevention movement.

In December...

On 14 December 2018, a regular meeting of the Audit Committee and the Supervisory Board was held.

On 19 December 2018, the Supervisory Board acknowledged Mr Jiří Antoš's resignation from his position on the Management Board and approved the termination of Mr Jiří Antoš's position on the Management Board with effect from 31 December 2018.

The Bank launched new FAIR repayment insurance for consumer loans, bringing several significant unprecedented innovations and benefits, including significantly improved insurance conditions and coverage in the event of unexpected life situations.

The Bank launched a winter event for clients with an offer of consumer FAIR loans and FAIR consolidation in the amount from CZK 100,000 to CZK 1,000,000 with a bonus rate of 2.89% p.a., with no management fees and without the need to open a current account. The only condition for obtaining the bonus rate of 2.89% p.a. and the return of 20% of the granted loan is proper repayment for a period of 96 months.

Bank employees fulfilled more than 300 Christmas wishes for clients of retirement homes and children staying in children's homes, specifically in the St. Vavřinec Nursing Home in Chrastava, the Kamenná Nursing Home, the Mašťov Children's Home and the Laguna Psáry Home.

6. SBERBANK GROUP

6.1. Sberbank Europe

The Vienna-based banking group Sberbank Europe AG is a wholly-owned subsidiary of Russia's largest bank, Sberbank of Russia, which provides banking services to more than 70% of the Russian population. Sberbank Europe AG operates on eight European markets – the Republic of Austria, the Federal Republic of Germany, Bosnia and Herzegovina (Sarajevo and Banja Luka), the Republic of Croatia, the Czech Republic, the Republic of Hungary, the Republic of Slovenia and the Republic of Serbia. Across Europe, it serves approximately 713,000 clients, operates 188 branches and employs more than 4,000 people. As of 31 December 2018, it reported net profit of EUR 34 million and total assets of EUR 11.7 billion.

Strategies

Since 2012, when Sberbank of Russia took over Volksbank International AG's banking group as part of its international expansion and started to offer the services of this group under the new Sberbank Europe brand, there have been a number of major events that have transformed Sberbank Europe into a full-fledged, profitable banking group of a European format with its own funding, focussed on both individuals and corporations as well as SMEs in the region of Central and Southeastern Europe. As part of one of the world's most dynamic and successful financial services providers and the largest bank in the Russian Federation at the same time, Sberbank Europe aims to build bridges between Russia and European markets.

Sberbank Europe's vision is to win clients for a lifetime and to become the first choice in foreign trade financing on the markets in Europe, the Russian Federation and the CIS, where the Group is active.

The key to creating long-term relationships with clients and ensuring a high level of their satisfaction is a comprehensive product offering with attractive conditions for individuals and corporations, as well as small and medium-sized enterprises, that fit the given purpose. In countries where the Group is active, the number of clients has been increasing steadily since Sberbank entered the European market, as confirmed by growing trust in the company.

Sberbank Europe believes that the banking group will become successful and profitable by offering premium services based on fast and efficient processes, digitisation and a unified approach to clients across all sales channels.

The changing needs of clients and their expectations from financial service providers are mainly based on accelerated digitisation, technological changes and demographic development. Sberbank Europe is aware that in order to meet the needs of its clients, it must undergo a profound transformation into a digitised banking group, and, therefore, it is gradually digitising and simplifying all of its processes to deliver high quality, appropriate and competitive products on equal terms, accessible to clients anytime both online and offline.

Sberbank Europe stands on a solid financial foundation (with client loans funded from client deposits) that allows the Group to lend to regional clients, thereby supporting the development and prosperity of Central and Southeastern Europe.

6.2. Information on Relationships

Sberbank Europe AG is the entity directly controlling the Bank and is part of the Group. Sberbank of Russia is the entity directly controlling Sberbank Europe AG and indirectly controlling the Bank, and is part of the Group. The structure of the Group, including the organisational chart, is described in the Report on Relationships (see Chapter 21).

Control is exercised mainly through decisions of the sole shareholder in executing the powers of the General Meeting (e.g. through an amendment to the Bank's Articles of Association) and through members in the bodies of the Bank, i.e. the Supervisory Board and the Audit Committee (e.g. the Supervisory Board appoints and dismisses members of the Management Board of the Bank).

The Bank is not dependent on any other company in the Group.

The Bank complies with and is governed by Act No. 90/2012 Sb. on business corporations (the "Business Corporations Act"). The Business Corporations Act stipulates that anyone who, using their influence in a business corporation, significantly and decisively affects the actions of that business corporation to its detriment, is obliged to provide compensation for the damage, unless they prove that they could have reasonably assumed that they acted in an informed manner and in the defensible interest of the entity affected.
The measures to ensure that the controlling entity does not abuse the control arise from the Business Corporations Act. They include in particular the duty of the Management Board to prepare a report on relationships between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity for the past fiscal period, and the duty of the controlling entity to compensate the controlled entity for any damage incurred. The Report on Relationships for 2018 is presented in the chapter entitled Report on Relationships (see Chapter 21).

6.3 Sberbank Europe's business model

Sberbank Europe's business model is continuing to evolve around four pillars:

- **Profitability:** Following its successful development on the CEE markets, Sberbank Europe will focus on utilising its capital and resources to further grow the business in its subsidiaries.
- **Self-funded or self-sustainable:** In addition to previous achievements in optimising its funding mix and decreasing its dependency on shareholder's support, Sberbank Europe will primarily focus on prudent capital management and risk-weighted assets in order to achieve maximum return on capital.
- **Modern:** Sberbank Europe will continue to modernise its digital infrastructure and develop the right ratio of physical and online availability of its services worldwide to ensure a consistent approach to clients across all sales channels.
- **Light:** Sberbank Europe will work further on continuous improvement of its operations and on managing the entire Group as efficiently as possible.

7. BANK BODIES

7.1. Management Board

Chairman of the Management Board

Edin KARABEG
Chairman of the Management Board
Chief Executive Officer

Member of the Management Board since: 26 March 2018
Chairman of the Management Board since: 26 March 2018
Banking experience: 20 years
Management experience: 12 years

Edin Karabeg was born in Austria on 18 January 1972. He holds a bachelor's degree in economics and management from the Vienna branch of Webster University and earned an MBA degree in a programme offered by the IMADEC institution in Vienna in cooperation with the Faculty of Economics of the University of Texas in Austin. He started his career at the Organization for Security and Cooperation in Europe as a Personal Officer. In 2003, he moved to Bank Austria Creditenstalt AG (Unicredit Group) as International Risk Manager and from there to HVB Splitska banka in the Republic of Croatia. From 2006, he worked at Unicredit CAIB in Vienna as Equity Analyst and subsequently as Business Manager. He held the post of CEO and Member of the Management Board of Capital Bank Macedonia in charge of risk management; from 2010 he worked in Hypo-Alpe-Adria International AG in leading positions, among other things he was CEO of Hypo Alpe Adria Leasing and Hypo Alpe Adria Leasing Macedonia, as well as a member of the Management Board and chairman of the Management Board in several subsidiaries of this company. From October 2012 to February 2018, he was CEO of Sberbank BH, a member of the Sberbank Europe group.

Since 26 March 2018, he has held the position of the Bank's CEO and chairman of the Management Board.

He is not a member of the bodies of any other companies.

Members of the Management Board

Dušan BARAN
Deputy Chairman of the Management Board
Member of the Management Board
responsible for finance management

Member of the Management Board since:
1 September 2017
Banking experience: 23 years
Management experience: 17 years

Dušan Baran was born on 6 April 1965 in Sušice. He graduated from the Faculty of Mathematics and Physics of Charles University, the School of Banking in Colorado and completed other educational programmes in the USA. Between 1993 and 2013, he worked for Česká spořitelna, a.s., where he served, among others, as a member of the Management Board (1998–1999), chairman of the Management Board (1999–2000) and deputy chairman of the Management Board (2000–2013). From 2014 to August 2017, he provided professional financial management advisory services to senior executives and owners of financial institutions and companies. Since 1 September 2017, he has been a member of the Management Board of the Bank responsible for finance management.

He is a member of the Supervisory Board of the Sberbank CZ Endowment Fund; he is not a member of the bodies of any other companies.

Jiří ANTOŠ

Member of the Management Board responsible for retail banking and marketing

Member of the Management Board since: 11 July 2013

Member of the Management Board until: 31 December 2018

Banking experience: 20 years

Management experience: 20 years

Jiří Antoš was born in Roudnice nad Labem on 7 September 1972. He studied economics at the Banking Institute College in Prague. In 1993–1994 he worked for Mignon, a.s. as a broker. From 1994 to 1998 he worked as Regional Retail Sales Manager at Agrobanka a.s. Between 1998 and 2004 he worked at GE Capital Bank, a.s. as Quality Manager (1998–2000), Senior Quality Manager (2000–2001) and Head of Retail Sales Support Department (2001–2004). In 2004–2006 he worked in Bratislava for Poštová Banka, a.s. as Retail Sales Director, and in 2006–2011 he was a partner and CEO of the consulting company CapacityPro, s.r.o. In 2011–2012 he worked in Vienna at Raiffeisen Bank International as Head of Sales, Service & Distribution. In 2013 he became Head of Sales and Distribution at Sberbank Europe AG in Vienna. Since 2013 he has been a member of the Management Board of the Bank responsible for retail banking and marketing.

He is the chairman of the Supervisory Board of the Sberbank CZ Endowment Fund; he is not a member of the bodies of any other companies.

Jindřich HORNÍČEK

Member of the Management Board responsible for risk management

Member of the Management Board since: 1 February 2016

Banking experience: 17 years

Management experience: 12 years

Jindřich Horníček was born in Brno on 18 August 1977 and studied economics at Masaryk University. In 2000–2001 he worked at Kasolvenzia Morava s.r.o., where he managed problematic receivables. In 2002, he joined Volksbank CZ, a.s., where he worked in various positions, including Relationship Manager for the business unit (2001–2002), Risk Manager (2002–2007), Head of SME Credit Risk (2007–2009) Head of SME and Retail Credit Risk (2009–2010), Head of the Credit Risk Division (2010–2012) and Head of the Underwriting Division (2012–2016). In February 2016 he became a member of the Management Board of the Bank responsible for risk management.

He is a member of the Supervisory Board of the Sberbank CZ Endowment Fund; he is not a member of the bodies of any other companies.

András KALISZKY

Member of the Management Board responsible for banking operations

Member of the Management Board since: 13. June 2018
Banking experience: 14 years
Management experience: 18 years

András Kaliszky was born on 17 January 1968 in Budapest. He graduated from the Technical University in Budapest and has a master's degree in Business Administration and Management at the University of Wisconsin in Millwaukee. In 1998–2002 he worked for PricewaterhouseCoopers Ltd. – PWC Consulting as Senior Consultant, Manager and Senior Manager. From 2003 to 2004, he worked for IBM Business Consulting as Senior Manager. Between 2001 and 2014, he worked at UniCredit Bank Hungary, from 2008 to 2014 as a member of the Management Board responsible for the company operations. In 2014–2018, he was a member of the Management Board of Raiffeisen Bank Hungary responsible for organisation operations.

He is not a member of the bodies of any other companies.

Daniel KRUMPOLC

Member of the Management Board responsible for corporate banking

Member of the Management Board since: 13. June 2018
Banking experience: 18 years
Management experience: 18 years

Daniel Krumpolc was born in Prague on 11 July 1970. He graduated from the University of Economics. In 2000–2018 he worked for Citigroup Citi Commercial Bank (CCB) – Citibank Prague in various positions, including Senior Relationship Manager (2000–2008), Head of Middle Market Department (2008–2011), Head of SME Sales (2011–2012) and Head of CITI COMMERCIAL Bank Division for the Czech Republic and Slovak Republic.

He is not a member of the bodies of any other companies.

Members of the Management Board whose membership ended in 2018

Vladimír ŠOLC

Date of membership termination: 31 January 2018

With effect on 31 January 2018 the Management Board position as CEO of the Bank was terminated. Mr Vladimír Šolc was a member of the Management Board from 1 August 2013.

In connection with the termination of the office of Mr Vladimír Šolc on the Management Board, the remaining members of the Management Board assumed responsibility for the organisational units subordinated to Mr Vladimír Šolc until the appointment of a new member of the Management Board as CEO of the Bank (Mr Edin Karabeg was appointed to this position on 26 March 2018).

Karel SOUKENÍK

Date of membership termination: 6 April 2018

With effect on 6 April 2018 the Management Board position was terminated. Mr Karel Soukeník was a member of the Management Board from 1 October 2013.

Jiří ANTOŠ

Date of membership termination: 31 December 2018

With effect on 31 December 2018 the Management Board position of Chief Retail Officer was terminated. Mr Jiří Antoš was a member of the Management Board from 11 July 2013.

In connection with the termination of the office of Mr Jiří Antoš on the Management Board, Mr Edin Karabeg as CEO assumed responsibility for the organisational unit Retail subordinated to Mr Jiří Antoš.

Committees Established by the Management Board

Assets and Liabilities Management Committee

The Committee members with voting rights are:
Member of the Management Board responsible for Finance Management, Chief Executive Officer, Member of the Management Board responsible for Risk Management, Member of the Management Board responsible for Retail Banking, Member of the Management Board responsible for Corporate Banking, Head of OU 026 ALM/Treasury and Head of OU 070 Integrated Risk Management.

Edin KARABEG
Chief Executive Officer and Chairman of the Management Board

Jiří ANTOŠ
Member of the Management Board responsible for retail banking

Jindřich HORNÍČEK
Member of the Management Board responsible for risk management

Daniel KRUMPOLC
Member of the Management Board responsible for corporate banking

Dušan BARAN
Member of the Management Board responsible for finance management

Pavel SÜSSER
Head of OU 026 ALM/Treasury

Tomáš HANZLÍK
Head of OU 070 Integrated Risk Management

Non-Performing Loan Management Committee

The Committee members with voting rights are all members of the Management Board of the Bank, Head of Organisational Unit 037 Workout & Restructuring and Head of Organisational Unit 073 Credit Risk.

Edin KARABEG
Chief Executive Officer and Chairman of the Management Board

Jiří ANTOŠ
Member of the Management Board responsible for retail banking

Jindřich HORNÍČEK
Member of the Management Board responsible for risk management

András KALISZKY
Member of the Management Board responsible for banking operations

Dušan BARAN
Member of the Management Board responsible for finance management

Daniel KRUMPOLC
Member of the Management Board responsible for corporate banking

Jiřina MEVALDOVÁ
Head of OU 037 Workout & Restructuring

Martin VAKOČ
Head of OU 073 Credit Risk

Credit Committee

The Committee members with voting rights are all members of the Management Board of the Bank, Head of Organisational Unit 036 Underwriting Division.

Edin KARABEG
Chief Executive Officer and Chairman of the Management Board

Jiří ANTOŠ
Member of the Management Board responsible for retail banking

Jindřich HORNÍČEK
Member of the Management Board responsible for risk management

Daniel KRUMPOLC
Member of the Management Board responsible for corporate banking

Dušan BARAN
Member of the Management Board responsible for finance management

Dmitry KHARIN
Head of OU 036 Underwriting Division

Retail Committee

The Committee members with voting rights are members of the Management Board responsible for Retail Banking, Head of Organisational Unit 058 Segments & Marketing, Head of Organisational Unit 155 Retail Products & CRM, Head of Organisational Unit 090 Distribution, Head of Organisational Unit 056 Digital Banking, Head of Organisational Unit 120 Controlling (only in cases defined in the Bylaws).

Jiří ANTOŠ
Member of the Management Board responsible for retail banking

Ondřej HAVLÍK
Head of OU 058 Segments & Marketing

Gabriela BRŮHOVÁ
Head of OU 155 Retail Products & CRM

Jan KOTARA
Head of OU 090 Distribution

Libor VOLEK
Head of OU 056 Digital Banking

Martin BREYL
Head of OU 120 Controlling

Risk Committee

The Committee members with voting rights are all members of the Management Board of the Bank, Head of Organisational Unit 070 Integrated Risk Management and Head of Organisational Unit 073 Credit Risk.

Edin KARABEG
Chief Executive Officer and Chairman of the Management Board

Jiří ANTOŠ
Member of the Management Board responsible for retail banking

Jindřich HORNÍČEK
Member of the Management Board responsible for risk management

András KALISZKY
Member of the Management Board responsible for banking operations

Dušan BARAN
Member of the Management Board responsible for finance management

Daniel KRUMPOLC
Member of the Management Board responsible for corporate banking

Tomáš HANZLÍK
Head of OU 070 Integrated Risk Management

Martin VAKOČ
Head of OU 073 Credit Risk

Operating Committee

(formerly the Project Portfolio Committee)

The Committee members with voting rights are all members of the Management Board of the Bank.

Edin KARABEG
Chief Executive Officer and Chairman of the Management Board

Jiří ANTOŠ
Member of the Management Board responsible for retail banking

Jindřich HORNÍČEK
Member of the Management Board responsible for risk management

András KALISZKY
Member of the Management Board responsible for banking operations

Dušan BARAN
Member of the Management Board responsible for finance management

Daniel KRUMPOLC
Member of the Management Board responsible for corporate banking

7.2. Supervisory Board

Deputy chairman of the Supervisory Board

Arndt RÖCHLING

Member of the Supervisory Board since: 2 November 2016
Deputy chairman of the Supervisory Board since: 16 November 2016
Banking experience: 16 years
Management experience: 12 years

Arndt Röchling was born in the Federal Republic of Germany on 20 October 1967. He graduated from the University of Passau, majoring in Business Management with a focus on banking, finance, organisation and human resources. He wrote and defended his doctoral thesis at the University of Frankfurt an der Oder. In 2003–2007 he worked in various positions at Raiffeisen Zentralbank Austria AG. In 2007–2009 he headed the Financial Controlling Department at Raiffeisenbank Russia. In 2009–2015 he was a member of the Management Board of Raiffeisenbank Russia responsible for finance management. In 2015–2016 he was a member of the Management Board of Deutsche Bank in the Russian Federation, and since 2016 he has been a member of the Management Board of Sberbank Europe AG in Vienna responsible for finance management.

Membership in the bodies of other companies:

He is a member of the Management Board of Sberbank Europe AG in Vienna, chairman of the Audit Committee of Sberbank Srbija a.d. Beograd in the Republic of Serbia, Chairman of the Supervisory Board, Chairman of the Nomination Committee, Chairman of the Risk Committee and Chairman of the Remuneration Committee of Sberbank a.d. Sarajevo in Bosnia and Herzegovina and Chairman of the Supervisory Board of Sberbank a.d. Banja Luka in Bosnia and Herzegovina.

Members of the Supervisory Board

Reinhard KAUFMANN

Member of the Supervisory Board since: 14 June 2013
Banking experience: 16 years
Management experience: 14 years

Reinhard Kaufmann was born in Austria on 22 May 1971. He graduated from the Technical University of Vienna and the University of Vienna. In 1997–2000 he headed the Cost Controlling Department at Raiffeisenlandesbank Niederösterreich-Wien AG. In 2005–2012 he headed the Controlling Department at Volksbank International AG. In 2012–2015 he headed the Group Controlling Department at Sberbank Europe AG. In 2015 he became the Head of the Accounting/Reporting/Tax Department at Sberbank Europe AG.

Membership in the bodies of other companies:

He is the chairman of the Audit Committee at Sberbank BH d.d. Sarajevo in Bosnia and Herzegovina and a member of the Management Board of ALB EDV GmbH.

Stefan Karl ZAPOTOCKY

Member of the Supervisory Board since: 13 October 2017
Banking experience: 42 years
Management experience: 33 years

Stefan Karl Zapotocky was born in Austria on 3 December 1952. He graduated from the Technical University of Vienna. He worked for ERSTE Bank AG from 1976 to 1988. Between 1988 and 1991, he held the post of Deputy of the New Issues and Business in the International Capital Market Division. From 1991 to 2000, he held the post of the CEO and Head of Securities and Capital Markets at Bank Austria AG. From 2000 to 2006, he worked as CEO of Wiener Börse AG. He was a member of the Management Board of BAST Unternehmensbeteiligungs AG/LPC Capital Partners from 2000 to 2016. Since December 2017, he has been a member of the Management Board of Sberbank Europe AG.

Membership in the bodies of other companies:
He is a member of the Management Board of Sberbank Europe AG in Vienna, the Chairman of the Supervisory Board of Sberbank banka d.d. in the Republic of Slovenia, the Deputy Chairman of the Audit Committee of Sberbank banka d.d. in Republic of Slovenia and a member of the Supervisory Board of Breitenfeld AG in the Republic of Austria.

Dirk Adolf HINZE

Member of the Supervisory Board since: 1 November 2018
Banking experience: 22 years
Management experience: 28 years

Dirk Adolf Hinze was born on 11 July 1951 in Wuppertal, the Federal Republic of Germany. He graduated from the University of Wuppertal. In 1982–1997 he worked at Citibank in the Federal Republic of Germany and in New York as Management and Sales Trainer, Head of Training Centre Department, Head of Management Training Department, Training Director, Sales Director and Area Director. From 1998 to 2002 he held the position of Chief Director responsible for Retail Clients and Small and Medium-Sized Enterprises in Československá obchodní banka, a.s. In 2002–2004 he was a member of the Executive Committee of Československá obchodní banka, a.s. in Bratislava. In the period of 2004–2007, he worked in the German branch of GE Money Bank as the director of retail banking and a member of the Management Board. In 2007–2011 he was a member of the Management Board of Raiffeisenbank Russia. He has been an independent consultant since 2012.

He is not a member of the bodies of any other companies.

According to the requirements of Business Corporations Act on partcicipation of the Bank's employees on Supervisory Board members election and in accordance with the Articles of Association of Bank, the Supervisory Board of the BAank has nine members with the effect from 14 January 2019. In accordance with Electoral Code of the Bank, the employees of the Bank elected in regular elections following Supervisory Board members:

Petr PODANÝ
Member of the Supervisory Board since: 14 January 2019

Anna CHALOVA
Member of the Supervisory Board since: 14 January 2019

Branko SUŠIĆ
Member of the Supervisory Board since: 14 January 2019

Members of the Supervisory Board whose membership ended in 2018

Hans Gerhard RANDA

Date of membership termination: 5 July 2018

Hans Gerhard Randa was a member of the Supervisory Board from 23 February 2017 (and Chairman of the Supervisory Board from 3 March 2017). His position on the Bank's Supervisory Board was terminated with effect from 5 July 2018

Elena VIKLOVA

Date of membership termination: 1 November 2018

Elena Viklova was a member of the Supervisory Board from 1 January 2016. Her position on the Bank's Supervisory Board was terminated with effect from 1 November 2018.

The Supervisory Board the Bank has not established any committees.

7.3. Audit Committee

Chairman of the Audit Committee

Arndt RÖCHLING

Member of the Audit Committee since: 1 July 2016
Chairman of the Audit Committee since: 4 July 2016
Banking experience: 16 years
Management experience: 12 years

Arndt Röchling was born in the Federal Republic of Germany on 20 October 1967. He graduated from the University of Passau, majoring in Business Management with a focus on banking, finance, organisation and human resources. He wrote and defended his doctoral thesis at the University of Frankfurt an der Oder. In 2003–2007 he worked in various positions at Raiffeisen Zentralbank Austria AG. In 2007–2009 he headed the Financial Controlling Department at Raiffeisenbank Russia. In 2009–2015 he was a member of the Management Board of Raiffeisenbank Russia responsible for finance management. In 2015–2016 he was a member of the Management Board of Deutsche Bank in the Russian Federation, and since 2016 he has been a member of the Management Board of Sberbank Europe AG in Vienna responsible for finance management.

Membership in the bodies of other companies:

He is a member of the Management Board of Sberbank Europe AG in Vienna, chairman of the Audit Committee of Sberbank Srbija a.d. Beograd in the Republic of Serbia, Chairman of the Supervisory Board of Sberbank Srbija a.d. Beograd in the Republic of Serbia, Chairman of the Supervisory Board, Chairman of the Nomination Committee, Chairman of the Risk Committee and Chairman of the Remuneration Committee of Sberbank a.d. Sarajevo in Bosnia and Herzegovina and Chairman of the Supervisory Board of Sberbank a.d. Banja Luka in Bosnia and Herzegovina.

Deputy Chairman of the Audit Committee

Reinhard KAUFMANN

Member of the Audit Committee since: 18 April 2014
Deputy chairman of the Audit Committee since: 1 August 2017
Banking experience: 16 years
Management experience: 14 years

Reinhard Kaufmann was born in Austria on 22 May 1971. He graduated from the Technical University of Vienna and the University of Vienna. In 1997–2000 he headed the Cost Controlling Department at Raiffeisenlandesbank Niederösterreich-Wien AG. In 2005–2012 he headed the Controlling Department at Volksbank International AG. In 2012–2015 he headed the Group Controlling Department at Sberbank Europe AG. In 2015 he became the Head of the Accounting/Reporting/Tax Department at Sberbank Europe AG.

Membership in the bodies of other companies:

He is the chairman of the Audit Committee at Sberbank BH d.d. Sarajevo in Bosnia and Herzegovina and the Executive Director of ALB EDV GmbH.

Member of the Audit Committee

Dirk Adolf HINZE

Member of the Audit Committee since: 30 November 2018
Banking experience: 22 years
Management experience: 28 years

Dirk Adolf Hinze was born on 11 July 1951 in Wuppertal, the Federal Republic of Germany. He graduated from the University of Wuppertal. In 1982–1997 he worked at Citibank in the Federal Republic of Germany and in New York as Management and Sales Trainer, Head of Training Centre Department, Head of Management Training Department, Training Director, Sales Director and Area Director. From 1998 to 2002 he held the position of Chief Director responsible for Retail Clients and Small and Medium-Sized Enterprises in Československá obchodní banka, a.s. In 2002–2004 he was a member of the Executive Committee of Československá obchodní banka, a.s. in Bratislava. In the period of 2004–2007, he worked in the German branch of GE Money Bank as the director of retail banking and a member of the Management Board. In 2007–2011 he was a member of the Management Board of Raiffeisenbank Russia. He has been an independent consultant since 2012.

He is not a member of the bodies of any other companies.

Members of the Audit Committee whose membership ended in 2018

Béla CZIGONY

Date of membership termination: 29 November 2018

Béla Czigony was a member of the Bank's Audit Committee from 12 June 2017. His position on the Bank's Audit Committee was terminated with effect from 29 November 2018.

7.4. Sole Shareholder

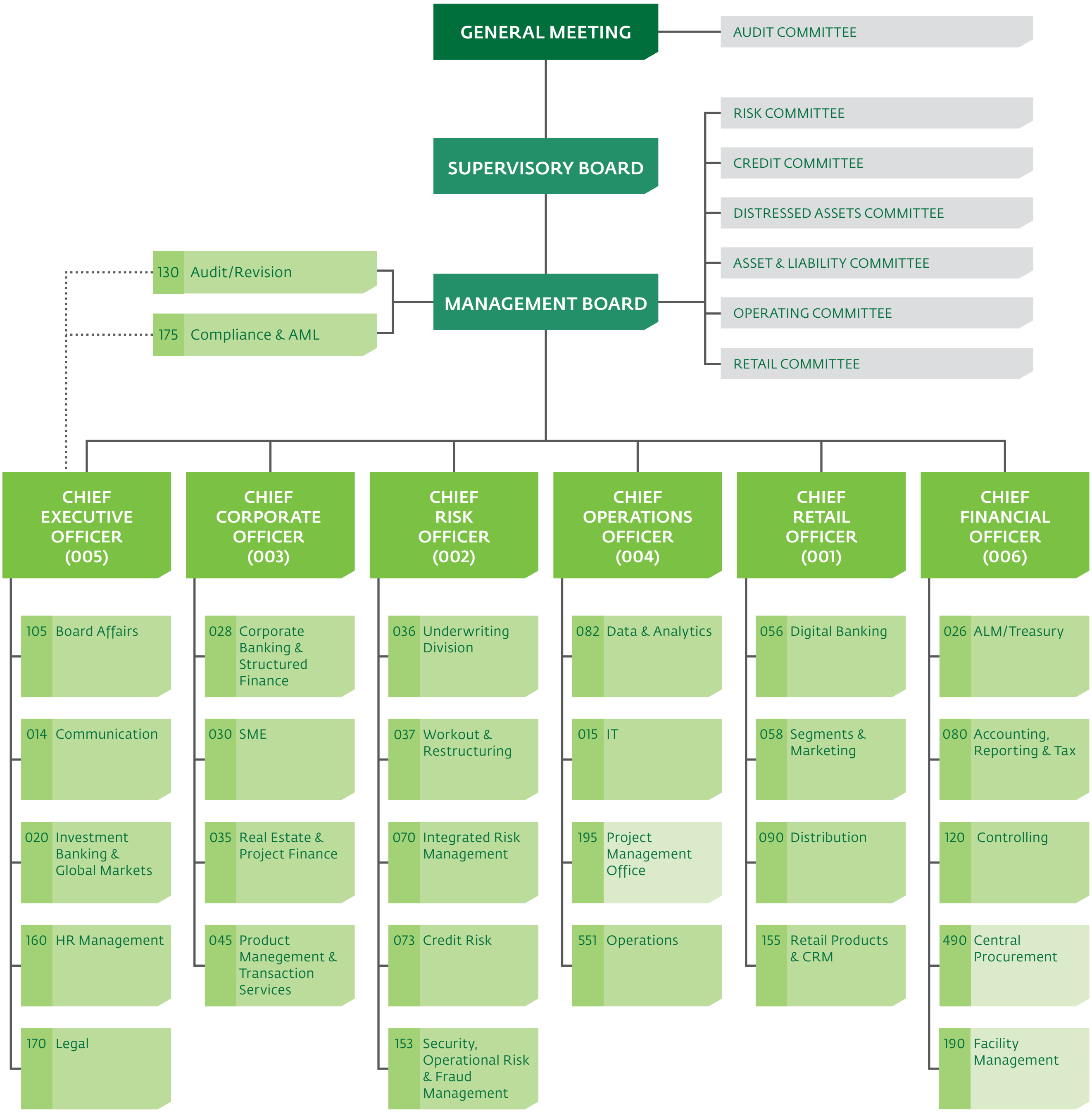
Sberbank Europe AG

Registration number: FN 161285i

Sberbank Europe AG is the sole shareholder of the Bank.

It is based in Vienna at:
Schwarzenbergplatz 3, 1010 Vienna, Republic of Austria

8. ORGANISATIONAL CHART



Legend:

- Board Rezort (BoD Member)
- Committee
- Department B – 1
- Unit / B – 2

ORGANIZATIONAL CHART
SBERBANK CZ, A.S.

Valid: 31.12.2018

9. ECONOMIC CONDITIONS

The Czech economy continued to do well in 2018. Gross domestic product (GDP) adjusted for price effects and seasonality rose by 3.0% in 2018, according to the Czech Statistical Office's preliminary estimate. This growth was largely the result of domestic demand, in particular by the formation of gross fixed capital and by household expenditures on final consumption. The growth of gross value added (GVA) was mostly the result of industry and the sectors of trade, transport, storage, accommodation and catering. The construction sector and the information and communication activities sector also experienced high GVA growth. Nevertheless, the year-on-year growth of the Czech economy in 2018 slowed to 3.0% from 4.5% in 2017.

The economy's performance at the end of the year grew at a faster pace than in the previous quarter, and on a quarter-on-quarter comparison the GDP growth pace was the highest for the last six quarters. In the last quarter of the previous year, GDP grew by 1.0% quarter-on-quarter and by 2.9% year-on-year. GDP growth in Q4 was driven mainly by foreign demand. Domestic demand for investment goods also contributed significantly to the growth.

Compared to 2017, economic growth last year slowed for the whole year and for the fourth quarter as well. In the last quarter of 2017, GDP grew by 5% year-on-year. In comparison with the other quarters of last year, however, year-on-year growth in Q4 was the second fastest. In Q1 of 2018, the economy grew by 4.1%, in the next two quarters only by 2.4%.

According to estimates, in 2019 the economy will slow to 2.7%, which will still be a solid performance. This year, domestic demand, especially household consumption and corporate and government investments, should drive economic growth.

According to economists, the Czech Republic has shifted its GDP per capita in purchasing power parity to 91% of the EU average, which is the highest in Central and Eastern Europe, with only Spain being one percentage point higher.

Employment grew by 1.6% last year. In Q4, employment was 0.4% higher than in the previous quarter, up by 1.5% compared to the same quarter of the previous year.

According to the Czech Statistical Office, consumer prices in the Czech Republic grew by 2.1% on average last year. It was the third highest average annual inflation rate over the last ten years. The inflation rate was higher only in 2012, namely 3.3%, and in 2017, when it was 2.5%. Inflation was affected last year mainly by rising prices of housing and fuel and by higher prices for food, non-alcoholic and alcoholic beverages and tobacco. The increase in inflation was also due to rising prices of catering and accommodation, other goods and services. In contrast, clothing became cheaper. Consumer prices recorded the lowest year-on-year growth in Q1 (by 1.9%). In other quarters, the price growth was faster.

In December 2018, consumer prices rose by 2% year-on-year, as in November. The year-on-year increase in the price level was again affected mainly by housing prices and prices of other goods and services, where the prices of personal care products and services, insurance and financial services increased. Prices of alcoholic beverages, tobacco, transport and catering and accommodation increased as well. Vegetables were also more expensive, including potatoes by 41.7%.

Based on economists' estimates, inflationary pressures will continue to grow in 2019, driven by a tight labour market and solid wage growth. This will be accompanied by an increase in energy prices, especially electricity and gas for households, and possibly also food prices as a result of a worse harvest.

Source:
CSO, The Development of the Czech Economy in Q1 to Q3 2018

10. REPORT OF THE MANAGEMENT BOARD

10.1. Introduction

10.1.1. Meeting the Objectives in 2018

In 2018, the Bank successfully continued to develop its business activities. In all target customer segments – retail, SME and corporate banking – the Bank focused on the effective management of interest income and expenses as well as on an increase in income from fees. The aim of the client portfolio management was to retain and develop relationships with clients through cross-selling of products and services.

RETAIL BANKING RESULTS

Retail banking had another record year and is gradually becoming a key segment for the Bank in the Czech Republic. Despite the strongly competitive environment, the Bank continued to grow in the number of clients, to increase sales of key retail products (consumer loans, consolidations, savings accounts or mortgages) and to successfully develop cooperation with external sales networks that provide clients with banking products – especially consumer loans, consolidations, mortgages and business loans. From the perspective of business results, the Retail segment saw significant growth in the volume of loans provided – by 16%. In particular, the sales of consumer and business loans increased significantly.

NEW PRODUCT OFFERINGS FOR CITIZENS

In January 2018, FAIR Savings PLUS was named the third best savings account of 2017 according to the results of the Financial Product 2017 competition of the financial portal Finparáda.cz. In the last three years, the savings accounts of the Bank have scored in competition. FAIR Savings PLUS has been one of the key products among the best savings accounts for deposits of up to CZK 300,000 for a long time. As a result of the increase in market interest rates, in 2018 the Bank increased interest rates on both savings accounts and term deposits, which are a suitable instrument for conservative clients.

Despite constant pressure on interest rate growth, the Bank offered a rate of around 2.5% p.a. on mortgage loans to its clients and thus continued the previous year's trend, when it had become many clients' first choice for housing financing. As for FAIR Lending, the Bank continued with a transparent offer in which the client learns the rate immediately based on the amount financed and the maturity. In addition, the Bank also lowered its minimum interest rate during the year to 4.8% p.a. for FAIR Consolidation, enabling clients to make their current loans cheaper through consolidation. Thanks to this attractive offer supported by the marketing campaign, we achieved record sales that significantly exceeded 2017, which had already been successful.

Last year, the Bank in cooperation with BNP Paribas Cardif pojišťovna, a.s. launched a new generation of consumer loan repayment insurance, which, with its parameters and conditions, became the best product in its category.

In 2018, the Bank also adjusted its credit products in the segment of entrepreneurs and small businesses with annual turnover of up to CZK 25 million. In the first quarter, the Bank extended attractive guaranteed fixed rates up to CZK 1 million, which the Bank still sees as a major competitive advantage. Anyone interested in a loan always knows in advance what interest rate they will receive. The process of pre-approved offers for existing bank clients has undergone a major change. The main adjustment is speeding up and simplification of the process. In the middle of the year, the Bank reviewed the documents submitted by the client to a credit application. Thanks to these and other adjustments, there were record sales of Corporate FAIR loans, which grew by 18% year-on-year. At the end of the last year, the Bank raised interest rates on professional savings accounts for selected professional groups (lawyers, notaries, etc.). Business FAIR Savings PLUS thus remains among the most advantageous products on the market in its category.

As part of the appreciation of funds, the Bank offers the clients an investment advice service. In addition to one-off investments in the wide range of mutual funds of investment companies NN Investment Partners C.R., a.s. and Generali Investments CEE, investiční společnost, a.s., in bonds and regular investments, the Bank also introduced a product for the most experienced investment clients – the Fund of a qualified investor, RSBC Czech-Moravian Real Estate Fund SICAV, a.s.

CORPORATE BANKING RESULTS

In the corporate banking segment, in 2018 the Bank managed to conclude a relatively large number of new transactions with existing clients, while welcoming new interesting clients to the bank at the same time. This year, the Bank focused mainly on the diversification of its existing portfolio, increasing non-interest products revenue and adjustments in work organisation aimed at supporting sales activities. Despite the decline in assets, the Bank managed to significantly increase its revenues in this segment and to reach record volumes.

SME banking continued its previous growth and enjoyed a successful year, gaining new client deposits, primarily in the form of savings accounts or current account balances. Deposits, together with income from hedge operations, contributed most to the surpassing of SME plans.

The Bank continues to focus on eastern markets in export financing. Compared to the previous year, the volume of transactions increased by 13%, mainly due to bank guarantees, the financing of receivables from export documentary letters of credit and pre-export financing.

ASSETS OF THE BANK

The Bank owns four floors of the M-Palác administrative building located at Heršpická 5 in Brno. In 2018, the Bank sold the building in Jihlava with the land located at Benešova 15, including the developed land.

All movable assets (furniture, IT equipment, technological equipment of the buildings, etc.) have been brought to rented premises of the Bank or the Bank's own premises and serve for the operation of **25 business branches** and two corporate centres.

The net book value of the land, buildings and equipment amounted to **CZK 243 million as of 31 December 2018** (CZK 263 million as of 31 December 2017).

STRATEGIC PROJECTS OF THE BANK

In addition to achieving the Bank's business goals, one of the important priorities is to successfully implement key projects. Their aim is to develop and implement new products and services, to increase the efficiency of the Bank's internal processes and systems, and, last but not least, to meet new regulatory requirements.

The Bank devoted much of its efforts to the implementation of a new card system. In November, the Bank launched a new pilot operation of card issuance. The project on new online and mobile banking, bringing a modern user interface and functionalities, went into the first phase of the pilot process.

In addition to these key projects, the Bank launched a project to modernise and automate the processes for providing unsecured loans to citizens. This system will be used by bank advisors as early as in the second half of 2019. In the course of the year, the Bank continued to robotise back office processes in order to increase client service speed and efficiency. Achieving business results was also supported by the implementation of the online opening of current accounts via the e-shop or a new platform for clients' finance planning, which is used by the Bank's advisors at branches.

From the regulatory projects, the Bank managed to ensure all adjustments related to the new GDPR Regulation, to prepare the PSD2 Developer Portal, to complete the implementation of IFRS 9, to improve the management of groups of related clients, to implement MiFID II regulation, to prepare data sources for Anacredit reporting and to complete the remaining parts of the amendment of the Payment System Act.

There was a significant increase in Intangible Assets by 36% on a year-on-year basis, which was related mainly to project investments in IT technologies. Similar to the previous year, investments in the new multichannel banking and in the payment card issuance project were less significant. A significant part was also spent on software solutions for regulatory projects (PSD2 and GDPR).

10.1.2. Expected Bank Development and Financial Position of the Bank in 2019

The Bank has sufficient capital and liquidity for its further development, as well as adequate reserves to cover any unforeseen and undesirable market developments. The financing of the Bank is secured through the stable volume of client deposits.

In 2019, the Bank will focus on further improvement of selected products and services for retail and corporate clients, a gradual increase in market share in key customer segments and availability for the Bank's clients through physical distribution network and digital channels.

As part of its organic growth and portfolio diversification strategy, the Bank will focus on efficient spending of resources and cost-effectiveness.

On the basis of the results achieved so far, the Bank's business plans and projected conditions in the banking market, the management of the Bank expects successful development of its business to continue in 2019.

10.2. Awards received in 2018

In 2018, the Bank again built on the positive evaluation of products, services and social responsibility from previous years.

The Bank ranked third in the competition **Financial Product 2018** held by the renowned financial portal Finparáda.cz. In January 2019, the product FAIR Savings PLUS was declared as the third best savings account of

2018. In recent years, the savings accounts of the Bank have regularly ranked among the best in this competition. **The three best products in each category are always announced in the competition in which all the financial products of the selected types offered in the Czech Republic by banks, insurance companies, and pension and investment companies are automatically included.**

The Bank participated in the Movember project and together with its employees collected almost CZK 130,000, the third highest amount in the Czech Republic, which ranks the Bank among the largest contributors to the cancer prevention movement.

The most innovative digital bank in Central and Eastern Europe, Global Finance Magazine
According to the prestigious Global Finance magazine, Sberbank is the most innovative digital bank in Central and Eastern Europe. The main evaluation criterion is the active use of the latest technologies in providing services to banking clients.

The best bank of Central and Eastern Europe 2018, The Banker
According to The Banker magazine, Sberbank is the third best bank in Central and Eastern European in 2018. The criterion for evaluation is, among other things, profitability, return on capital or Tier 1 capital according to financial reporting for 2017. Sberbank was also announced as the best bank for business transactions in Central and Eastern Europe in the 2018 Transaction Banking Awards ranking.

The largest credit card transactions processor, the Nilson Report
According to a prestigious professional publication, the Nilson Report, Sberbank is the world's sixth largest processor of payment card transactions, with more than 9 billion transactions processed. In 2016 and 2017, the Bank was also evaluated as the largest payment card transaction processor in Europe.

The international agency Brand Finance published a ranking of the world's top brands in 2018. Sberbank ranked first in the strongest brands category. As in the previous year, the Bank also ranked first on the list of the strongest and most valued brands in Central and Eastern Europe. Last year, according to Brand Finance, the Sberbank brand strength index rose from 90 to 93 points and the brand value rose from USD 11.6 billion to USD 12.4 billion.

We greatly appreciate these awards, as they are proof of our responsibility towards our clients and the whole Bank.

10.3. Individual Areas

10.3.1. Retail Banking

In the area of banking services for retail clients, the Bank was successful in 2018. Sales of key products increased, as did the number of clients. From the perspective of business results, the Retail segment saw significant growth in the volume of loans provided – by 16%. In particular, the sales of consumer and mortgage loans increased significantly.

Even more than the increase in the number of clients, we were pleased with the further positive development in the portfolio structure. The Bank pursued its business strategy focused on affluent clients. From the Bank's perspective, the revenue growth per client by almost 20%, documenting the fact that the increasing number of products used is crucial. Moreover, according to regular feedback, our clients were more satisfied with our services, as confirmed by the results of mystery shopping and the rapidly increasing NPS (Net Promoter Score).

To provide clients with higher comfort, the Bank continued to modify the interior of its branches according to high internal standards. In 2018, the changes affected branches in Jihlava, Ostrava and Brno Vaňkovka.

Traditionally, our digital sales channel (e-shop) contributed greatly to achieving the record results; for example, it contributes to the sales of consumer loans or consolidations and savings accounts by approximately 10%. It enables the clients to use our services throughout the Czech Republic easily and conveniently without having to visit one of our branches.

In the course of the year, the Bank continued to amend its products and to make them more attractive for private individuals as well as for the Micro segment. In the Micro segment, the attractive Guaranteed Fixed Rate was extended up to CZK 1 million fully in line with the Bank's strategy of keeping a fair approach, offering transparent interest rates and informing the client of the rate immediately based on the amount financed and the maturity. In FAIR Consolidation, the Bank lowered its lowest rate to 4.8% p.a. during the year, and this change also led to a further increase in FAIR loan's market share and to another historically highest volume of FAIR loans during the Bank's existence.

Mortgage products under the name FAIR Mortgage were again very popular with bank clients in 2018, and despite the gradual rise in interest rates on the mortgage market, new mortgages approached CZK 7 billion.

The Bank's savings accounts are still among the most attractive savings accounts in the Czech market, which is confirmed by the fact that FAIR Savings PLUS has regularly finished high in the voting on the renowned financial portal Finparáda.cz over the last few years, as well as by the steady interest of clients in the safe and advantageous deposit of a contingency reserve.

Additional services are still popular for the Bank's clients, particularly in the field of bank insurance and investments. The Bank offers repayment insurance products for consumer and mortgage loans and insurance products for payment cards (such as travel insurance and insurance of card and personal items) in cooperation with BNP Paribas Cardif Pojištovna as the insurance provider. Property insurance is offered in cooperation with Generali Pojišťovna, a.s. More and more clients are also using additional investment services. The Bank offers investment advisory services in a wide range of investment funds from NN Investment Partners C.R., a.s., and Generali Investments CEE, investiční společnost, a.s., and at the same time allows investments in a number of domestic and foreign bonds.

10.3.2. SME Banking

SME clients traditionally represent one of the key segments for the Bank. Loans granted to SME clients account for 29% of the Bank's credit business (compared to 34% in 2017), which also includes the Corporate, SME, and Retail segments. A slight decrease occurred primarily due to rapid growth in the Retail Banking segment. SME Banking spans three specific subsegments: traditional corporate SME banking with seven regional teams, a dedicated team for real estate financing projects (Real Estate) and a team for the public sector.

The SME division offers clients a wide range of banking services and products. This starts with cash management, the appreciation of funds, various forms of financing, including financing for foreign trade, up to the hedging of payment, currency and interest rate risks.

SME Banking was very successful in 2018. It built on the revenue growth from previous years and was very successful in attracting new deposits in the form of savings accounts, savings accounts with a notice period, as well as through the accumulation of working balances on the current accounts of newly acquired clients. The income from deposits and from customer hedging transactions was the main reason why the income plan of the SME division was exceeded in 2018.

In 2018, three points of sale were closed in order to make the business network more efficient. At the same time, a new strategy was implemented, based on building long-term relationships with clients and on active approach to potential clients, development of bankers and simplification of internal processes in order to provide comprehensive services and maximum flexibility.

One of the first steps in the implementation of strategic changes included a leaner management structure and the decision to strengthen the capacity of the sales network. Steps were also initiated to streamline the loan process – the backbone of the business process. From the client's perspective, these changes will translate into a significant acceleration of decision making on the conditions for the availability of loan products.

These and many other major or minor changes, measures, and innovations in SME banking, combined with the favourable macroeconomic situation and the more limited but persistent business opportunities of clients and target clients of the Bank towards Eastern Europe, create conditions for meeting the significant growth objectives and the achievement of the high ambitions of SME banking in 2019.

10.3.3. Corporate banking

In 2018, the Bank managed to conclude a relatively large number of new transactions with existing clients, while also welcoming new interesting clients. This year, the Bank focused mainly on the diversification of its existing portfolio, increasing non-interest products revenue and adjustments in work organisation aimed at supporting sales activities.

Interest rates on the Czech crown hit bottom before slightly increasing at the end of the year. Despite this decrease in the market rates, risk premiums on loans continued to decline as a result of extreme liquidity on financial markets, as well as due to strong competition. On the other hand, economic growth and related investment activity in the corporate sector had a positive impact.

In the past year, the Bank dealt with a number of complex situations, which also affected the financial results of the division. At the end of the first half, there was an intra-group transfer of one significant exposure of EUR 500 million outside the Czech Republic due to sanctions. Therefore, in the second half of the year, the Bank focused on replacing the shortfall of these assets with new transactions, in which the Bank partially succeeded and several significant credit agreements were concluded with existing and new clients by the end of the year. The total production of new assets thus reached CZK 4.3 billion, which is a significant increase compared to CZK 2.2 billion in 2017. However, in spite of great efforts, the Bank failed to increase its assets year-on-year, totalling CZK 8.3 billion (compared to CZK 9.2 billion in 2017).

Despite this decline in assets, our team managed to significantly increase revenue and to reach record operating revenue. The moderate decline in credit activity revenue was fully offset by revenue from non-credit activities, mainly from the growth in deposit clients, but also by the activity of new non-credit clients in the area of currency and interest rate risk management. A one-off gain of around EUR 2 million due to a change in the structure of the existing financing and the related increase in remuneration also contributed significantly.

The risk profile of the portfolio, which is one of the key performance indicators for the Bank, declined only slightly in the form of additional provisioning for several existing exposures. No new significant problematic case appeared in the portfolio, despite the complications in the management of a higher number of traditional Czech companies widely reported in the media. The Bank also managed to avoid these exposures thanks to the high-quality risk management.

In 2019, the Bank will continue to focus on asset diversification with the aim of building a portfolio that will better withstand market fluctuations. This strategy also includes increasing the number of active clients. Risk and its minimisation will remain a key parameter in the Bank's thinking and approach to new business opportunities.

10.3.4. Export & Trade Finance

In the area of Export & Trade Finance (ETF) in 2018, the Bank focused primarily on providing export customer loans with EGAP insurance, especially to Eastern markets. Clients' interest in bank guarantee products, financing of receivables from export letters of credit and pre-export financing increased as well. Compared to 2017, the volume of trades increased by 13%.

Based on cooperation with other subsidiaries of the Group, the Bank focused mainly on markets in the Russian Federation and in other countries of the former Soviet Union. The detailed knowledge of these countries is also provided to the Bank's clients – exporters that can choose from a wide range of products when financing individual transactions.

In 2019, the Bank plans to further expand its product portfolio for exporters in cooperation with its parent company and to introduce new possibilities for financing exports to the Russian Federation.

10.3.5. Global Markets

GLOBAL MARKETS TRADING

In the course of 2018, the Global Markets organisational unit extended its business cooperation with other banking counterparties on the financial markets. Cooperation with Sberbank CIB Russia continued, especially in transactions in Russian roubles (RUB), allowing the Bank to keep its position as the leading service provider in RUB. Within the Sberbank Europe group, cooperation in the area of money and derivative markets with individual sister entities was further strengthened.

The activity of the Global Markets Trading organisational unit grew in both areas of its main focus, i.e. in the area of processing deals related to the effective management of the Bank's liquidity and in the area of providing the products of Global Markets to corporate and institutional clients. Most of trading activities grew year-on-year in terms of trading volumes, number of active clients using the services of the organisational unit, as well as the number of concluded transactions and revenues. In 2018, the so-called "large trading book" concept was introduced, meaning increased exchange rate or interest rate activity within a conservative trading strategy.

GLOBAL MARKETS SALES

In 2018, the majority of foreign exchange transactions still consisted of spot exchange transactions. However, in connection with Bank clients' hedging of foreign exchange risks, the number of derivative transactions, especially currency futures, increased significantly. Client activity aimed at hedging exchange rate risks was recorded throughout 2018.

Not only in the first half of the year, Bank clients were provided with interest rates in CZK that were still relatively low and concluded standard interest rate hedging products, such as IRS (interest rate swaps), with a maturity of up to 10 years. The Global Markets organisational unit also contributed significantly to ensuring a stable and long-term liquidity in all major currencies.

This year, the distribution of Sberbank's electronic platform to its clients continued at growing pace. The platform allows Bank clients to trade on the spot foreign exchange market in online mode.

As far as securities are concerned, clients continued to favour primarily safe investments with guaranteed interest income. In 2018, the Bank continued its standard offer of bonds, including Czech government bonds and the offer of mutual funds.

Overall, Global Markets achieved several tangible successes compared to 2017. In particular, revenues from derivative transactions and revenues from deposit transactions increased. The distribution of the e-FX platform to clients as part of Global Markets' active offer enabled Global Market Sales staff to intensify services in other areas of sales.

In 2019, the Global Markets division will continue to strive to acquire target clients of the Bank with an emphasis on the corporate banking segment and will also focus on the development of other combined product packages for clients, where the Global Markets Sales product is a major component. The Bank will seek to maintain existing clients and attract new ones by offering traditionally professional services as well as by providing tailor-made product solutions. In the area of Global Markets Trading, the Bank will intensively develop interbank market trading with the aim of identifying arbitrage operations within the conservative trading strategy.

10.3.6. IT

In 2018, IT participated in the implementation of key projects and continued the transformation into a target architecture that enables faster and more flexible changes in IT applications and systems.

The Bank devoted much of its effort to the implementation of a new card system. In November, the Bank launched a new pilot operation of card issuance. The project of new online and mobile banking, bringing a modern user interface and functionalities, went into the first phase of the pilot process. The outputs of both projects are planned for the middle of 2019, when Bank clients will first be able to use them. In addition to these key projects, the Bank launched a project to modernise and automate the processes for providing unsecured loans to citizens. This system will be used by bank advisors as early as in the second half of 2019. In the course of the year, the Bank continued to robotise back office processes in order to increase client service speed and efficiency.

Besides these key projects, IT also supported business results by the implementation of online opening of current accounts via e-shop or by a new platform for clients' finance planning, which is used by the Bank's advisors at branches. As part of the Bank's digitisation, an end-to-end online banking product provision project was launched and the paperless processes initiative of implementing a DMS tool continued.

From the regulatory projects, the Bank managed to ensure all adjustments related to the new GDPR Regulation, to prepare the PSD2 Developer Portal, to complete the implementation of IFRS 9, to improve the management of groups of related clients, to implement MiFID II regulation, to prepare data sources for Anacredit reporting and to complete the remaining parts of the amendment of the Payment System Act.

In the field of IT development, the Bank began to implement agile elements of development, focusing on creating a knowledge base and tests automation. At the architecture level, the Bank switched to the pilot operation of a new operative 24x7 database and ESB built on the basis of a service-oriented architecture (SOA).

In IT operations, the Bank switched to a full 24×7 system support mode, introduced more advanced monitoring and alerting tools, as well as a new Mobile Device Management for mobile workforce and focused on upgrading legacy applications. Work also began on a new IT Service Management Tool (ITSM), which will be operational in the first half of 2019.

10.3.7. Digital Banking

The number of visits to the Bank's website www.sberbank.cz from mobile devices increased by 8% in 2018. Online sales of banking products continued to grow in 2018 thanks to the improved performance of online campaigns. Although the Bank did not record more visits to the e-shop than in the previous year, it achieved record sales of loans, with year-on-year increase in volume by 8%. In 2018, the e-shop and Sberbank Online Banking were expanded to include direct opening of the current account. Clients will therefore be able to open a current account from home without having to visit one of our branches.

The Bank's clients are increasingly using online and mobile banking. The number of active online banking users who have logged on at least once a month increased by percentage points in 2018. The Bank recorded the largest increase in **active mobile banking users**, whose number increased year-on-year by **36%**. The **number of transactions in online banking** grew by more than **50%**. The successful pilot operation of the new online and mobile banking took place in the second half of 2018. For clients, the new online banking will be available during 2019.

In 2018, the Digital Banking team continued to further develop digital channels and end-customer services. There were a number of improvements and changes in both the online sales process itself and the acquisition of new clients. The positive change was noticed by users of social networks thanks to the quality content and fast responses to their posts. The unique video content created by the Bank's employees has received a very positive response. Excellent digital service and sales is one of the Bank's top priorities for 2019.

10.3.8. Human Resources Management

The Bank sees human capital management as a key part of strategic management. Employees represent the greatest potential in building long-term partner relationships with Bank clients, in achieving business objectives and in creating a well-functioning foundation for all the activities of the Bank.

In 2018, the Bank focused on its effective organisational structure, which is related to changes in the structure and membership of the Bank's Management Board. Another priority was the preparation of projects and measures in the regulatory area and the adjustment of internal guidelines.

In the first half of 2018, the Bank implemented changes to the remuneration schemes related to EBA regulations. It has developed measures that comply with the General Data Protection Regulation (GDPR) and set up procedures for passing professional examinations under the Consumer Credit Act.

In addition, the Bank prepared changes in the area of employee benefits, especially in the form of a contribution to leisure and optional employee benefits, a so-called cafeteria.

In the field of performance management, the Bank implemented a new group system for evaluation and management of performance that reflects the values and competencies valid throughout the Sberbank Europe group.

In the area of education, a concept of development of managers and key employees was implemented.

In the second half of 2018, changes in the Bank's organisational structure continued in order to increase efficiency and reduce personnel costs.

In line with the Bank's strategy, selected teams of business units and of project and lean management were reinforced.

Changes in the organisational structure will also continue in 2019 in connection with further efficiency increases and the fulfilment of the Bank's strategic objectives.

10.3.9. Marketing

In 2018, the Bank's marketing activities focused primarily on three main areas – consumer loan sale support, increased knowledge of the Sberbank brand and customer experience improvement.

The Bank continued to focus on growth throughout the year, especially in the area of loans. Customer loans were supported by four strong campaigns throughout 2018. The main channels remained mass media, especially television and online media. More than in the previous year, the Bank also used radio and sponsoring of specific programmes.

Significant support, including print and outdoor advertising, was also used during the year in the modification and relocation of selected branches of the Bank to more convenient and accessible sites. The Bank's clients can use better locations and services in Jihlava, Ostrava and Brno (in the Vaňkovka Shopping Gallery). We believe that client comfort will thus continue to increase.

The advertising campaigns and marketing activities met the set objectives and Sberbank brand awareness has continued to grow on a year-to-year basis. To the Bank's great joy, attention to increasing customer satisfaction is paying off. The Net Promoter Score, measured on a daily basis at the level of individual bankers, was increasing gradually throughout the year and significantly exceeded initial expectations.

In 2019, the Bank intends to contribute more to the growth of the Sberbank portfolio and to substantially increase its presence in digital channels.

10.3.10. Communication

Throughout the year, the Department of Communication informed employees, clients, media and the general public on all of the Bank's key activities, such as the introduction of a new product line, the Bank's financial performance, meeting the objectives and the implementation of key projects, as well as activities in the area of social responsibility. The department conducted open and interactive communication across all major communication groups, mainly thanks to the active participation of members of the Management Board and senior management in internal and external communication.

The Bank communicated with the public primarily through the media. When cooperating with editorial offices, emphasis is put on speed and clarity of the information provided. The Bank also informed clients and the public regularly through its website and social media. In doing so, the Bank selects the forms that best address the target audiences, such as videos, short messages and photos on social media. The Bank also focuses on providing advice and increasing financial literacy in the area of money management and orientation in financial products.

In internal communication, the Bank put emphasis on the regular personal communication of employees with the Management Board. For example, the Bank organises regular meetings to present the financial results, fulfilment of the goals and projects of the Bank as well as the visits of the Management Board in regional teams and branches of the Bank, and obtains opinions and feedback from employees at so-called skip-level meetings and other informal events.

Another important part of the internal communication strategy is deepening the corporate culture focused on the client, cooperation and leadership. For example, the Bank supported corporate culture and employee commitment by the selection of the best employees and teams of the year.

As part of its event management and sponsorship activities, the Bank organised and supported dozens of important business, cultural, social, charitable and sports events.

In 2018, social responsibility was also an important part of the activities of the Department of Communication and of the entire Bank. Employees had the opportunity to nominate projects supported by the Sberbank CZ Endowment Fund, to engage in volunteer activities and to support non-profit organisations. The Bank increasingly involved its clients and friends in these activities. For more information, see the chapter on Corporate Social Responsibility.

10.3.11 Comment on IFRS Financial Results

In accordance with the International Financial Reporting Standards (IFRS), the Bank posted net and audited profit of CZK 377 million for 2018. Compared of 2017, this is a decrease of 11%. The main reason is administrative costs, which grew year-on-year by 8.5% and reached CZK 1.58 billion. Another reason was a 41% increase in credit loss provisions to the final CZK 303 million, which was caused by a methodological change in the recognition of provisions (the implementation of the standard IFRS 9) and also by extremely low credit loss provisions in 2017. On the revenue side, the Bank performed better than last year. Operating income increased by 7.6% year-on-year to a total of CZK 2.4 billion.

STATEMENT OF COMPREHENSIVE INCOME

Net interest income grew by CZK 134 million on a year-on-year basis, which represents an increase of 8.2%. Growth was evident in both interest income calculated by the effective interest rate method and in interest expenses. Interest income increased by almost 10% to a total of CZK 2.1 billion and interest expenses increased by 15.8% to a total of CZK 293 million. Both effects were mainly due to a change in market rates, which was enabled by a 1.25 percentage point increase in the two-week repo rate to a final 1.75%. Interest income on deposits deposited with the CNB quadrupled year-on-year and exceeded CZK 100 million.

Net fee and commission income income increased by 2.4% on a year-on-year basis to a total of CZK 418 million. The Bank recorded a 1.6% decline in fee income, but this was offset by 12.6% decline in fee and commission expenses. The decrease in fee income occurred mostly in the area of fee income for foreign currency transactions (-19%), which was increased in 2017 compared to other years due to a higher number of these transactions, caused by the termination of the CNB's exchange rate intervention in April 2017.

Net profit from financial instruments at fair value through profit or loss and foreign exchange was down by 14.4% year-on-year to CZK 149 million. This was mainly due to the development of the Czech crown's exchange rate and also due to less trading opportunities than in 2017, when the end of CNB intervention contributed to the increase.

Net gain from other financial instruments, which was not recognised in 2017, amounted to CZK 51 million at the end of 2018. This was due to the recognition of gains from insignificant loan modifications in accordance with IFRS 9 requirements.

Credit loss expense on financial assets in 2018 amounted to CZK 303 million, reflecting the good quality of the loan portfolio, successful settlement of non-performing loans and, last but not least, favourable macroeconomic situation. The share of non-performing loans in the total portfolio decreased year-on-year from 5.43% as of 31 December 2017 to 2.63% at the end of 2018. Although the cost of credit losses on financial assets is higher than in 2017, this is mainly due to a methodological change in the calculation of loss provisions from 1 January 2018, when the new IFRS 9 came into force requiring the loss provisions to be created on the principle of expected losses. Loss provisions are thus created already when the loan is granted and not only when the loan's value is objectively reduced. In 2017, provisioning costs were also extremely low due to the successful resolution of some problematic loans and favourable macroeconomic situation.

Administrative expenses increased by 8.5% year-on-year, by CZK 123 million to the final CZK 1.58 billion in absolute terms. The main reason for this is the emergence of transformation costs that are associated with the effort to create a modern, responsive and efficient bank. The Bank was very successful in reducing administrative costs, which, despite ongoing changes, declined by 3.2% year-on-year. On the contrary, personnel costs, which reflected the Bank's transformation the most, recorded a nearly 12% increase by CZK 105 million. The reason for the increase in personnel costs was both the increased number of employees in the first half of the year and the costs of severance payments and valorisation of employee salaries. Depreciation, especially of intangible assets, also increased by 30.3% to CZK 142 million, due to capital investment in operating IT systems.

Other operating expenses increased by 21% year-on-year to a final CZK 80 million. The largest item was a contribution to the Crisis Resolution Fund and the Securities Dealers Guarantee Fund of CZK 46 million.

Income tax was down by 5.6% on a year-on-year basis to CZK 101 million, which is associated with a decline in pre-tax profit. Deferred tax and the calculation of the tax payable estimate were influenced by the recognition of some non-tax deductible expenses, such as the introduction of a new employee benefit – a contribution to Cafeteria, which led to an increase in the effective tax rate to 21.13%.

STATEMENT OF FINANCIAL POSITION

In 2018, the total assets of the Bank decreased by CZK 1.7 billion year-on-year to CZK 79.8 billion. On the asset side, a more than 2% decline in the overall balance was recorded primarily in balances with the central bank (CZK -5.3 billion), and on the liabilities side in liabilities to banks (CZK -2.4 billion) and liabilities from debt securities issued (CZK -0.9 billion).

ASSETS

Cash and deposits with central banks decreased by almost a third on a year-on-year basis. This decrease was mainly due to the decrease in balances with the central bank by CZK 5.3 billion. Cash decreased by 12.6% year-on-year due to the closure of three branches during 2018. The Bank's liquidity position, despite its decrease in the last year, is still on a very good level. The share of highly liquid assets[2] in the total assets as of the end of 2018 amounts to more than 19%.

Loans and advances to customers grew by 4% on a year-on-year basis and, by the end of 2018, amounted to CZK 62.9 billion. The increase in lending was mostly due to products of the retail banking segment, namely mortgage loans, which grew year-on-year by 20%, as well as consumer loans, which grew year-on-year by 26%. During the year, the loan portfolio was significantly affected by the early repayment of several large corporate loans totalling over CZK 4 billion.

In 2018, the Bank bought **debt securities** and increased their total value to CZK 1.1 billion. The largest part of the newly purchased bonds consisted of Czech government bonds, which were included in the Bank's portfolio in a total value of CZK 800 million.

Intangible assets increased significantly, by 36%, on a year-on-year basis to the total amount of CZK 650 million. The increase of CZK 173 million is mainly related to project investments in information technology. The most important were the investments in multichannel banking and in the project of payment card issuance. A significant amount was also spent on software solutions for regulatory projects (PSD2 and GDPR).

Property, plant and equipment of the Bank decreased in value by CZK 20 million (-7.6%) during 2018. This change was largely due to the sale of the building in Jihlava, where the Bank's branch had previously been located.

The development of other Bank assets is connected with standard operation. There were no other significant events during the year that could have a fundamental impact on the movement of these items.

LIABILITIES

A significant decrease in **deposits to banks** by 45% to less than CZK 3 billion is related to a change in the two-week repo rate, which rose by 1.25 percentage points during the year. Therefore, other banks preferred to use the opportunity to place their funds with the CNB offering higher interests.

Due to clients, which represent the main source of financing of the Bank's assets, grew by 3% to CZK 66.1 billion on a year-to-year basis. This was a net increase of CZK 2.0 billion. The highest interest was recorded in term deposits, which rose by 34.4% year-on-year to CZK 12.7 billion. Overall liabilities to SME and corporate clients grew compared to the previous year, while liabilities to retail clients decreased slightly.

Debt securities in issue decreased on a year-on-year basis by more than 47% to CZK 1 billion. This was caused by the standard repayment of one issue of mortgage bonds. The portfolio of issued debt securities consists almost exclusively of mortgage bonds. The issued deposit bills of exchange, which in the past formed a significant portion of these payables, are now in decline on the Czech market and constitute only a fraction of the total volume.

Other liabilities of the Bank[3] decreased by 29% to a total of CZK 650 million. For the most part, this item of the balance sheet is formed by temporary and short-term liabilities arising from the continued clearance of domestic and foreign payment transactions and can show considerable volatility.

Subordinated liabilities shown by the Bank in the amount of CZK 180 million as of the end of 2018 represent the subordinated debt from the parent company Sberbank Europe AG, the sole shareholder of the Bank. This liability, which is part of Tier 2 regulatory capital, has been adopted by the Bank in order to comply with the internally prescribed capital buffer that aims to ensure compliance with regulatory requirements for the total capital adequacy of the Bank under standard market conditions.

EQUITY

The equity of the Bank as of the end of 2018 amounted to CZK 8.7 billion. The decrease compared to 2017 was caused by an adjustment to the initial application of IFRS 9 in the total amount of CZK -429 million (after taxation). This reduction was realised in the item **retained earnings**, which, even after including the profit of 2018, decreased by CZK 73 million to a total of CZK 1.7 billion.

There was no increase in the Bank's equity by the shareholder in the course of 2018. There was also no dividend payment. The profit from 2017, following the legal allocation to the statutory reserve fund, remained part of the Bank's equity as "Retained earnings".

[2] Highly liquid assets are the sum of the lines "Cash and balances with central banks" and "Receivables from banks" and "Investment securities – realisable" in the "Statement of Financial Standing" presented in the annual financial statements.

[3] Other liabilities of the Bank include items in the statement of financial position presented in the annual financial statements: current income tax payable, other liabilities, accrued revenues and expenses, reserves.

11. PRODUCTS AND SERVICES

PRODUCTS FOR SME CLIENTS AND CORPORATIONS WITH AN ANNUAL TURNOVER FROM CZK 1.25 BILLION

The Bank offers the Business Current Account to corporate clients for everyday banking. In addition to domestic payments, clients can also use a special Sberbank payment within the international payment system, discounted payments in euros to selected banks in the Sberbank Group and discounted incoming and outgoing rouble payments from/to any bank in the Russian Federation.

For the appreciation of available funds, the Bank offers a Savings Account for corporate clients and term deposits. In relation to the appreciation of funds, the Bank also offers solutions customised to meet the needs of each client through Global Markets.

The Bank demonstrates advantageous conditions and expertise in products and services related to the rouble. In this area, the Bank secured a strong market position, mainly thanks to the rapid processing of transactions and a strong partner on the rouble market. In the area of risk hedging and the foreign exchange market, the Bank offers a variety of hedging options according to the individual needs of clients.

The Bank supports Czech companies that wish to enter foreign markets where the Sberbank Group operates in the process of opening accounts. These services work together with partner sister banks in the Russian Federation, the Republic of Croatia, the Republic of Slovenia, the Republic of Serbia, Bosnia and Herzegovina, and the Republic of Hungary.

The Bank offers a full range of financing to companies – operational financing, investment loans, structured financing, etc. The Bank's financing services are based on an individual approach that takes into account the specific requirements of each client. Clients from the corporate sector who focus on investment and property development can take advantage of the special financing Real Estate Department, which has a long tradition at the Bank. The Bank also offers specialised products in the public and agricultural sectors. An integral part of this is financing with the support of Českomoravská záruční a rozvojová banka, a.s.

Financing of export and foreign trade with specialised products and services, including the use of knowledge and the base of the Sberbank Group, is another pillar of the Bank's offer.

PRODUCTS FOR ENTREPRENEURS AND SMALL BUSINESSES WITH A TURNOVER OF UP TO CZK 25 MILLION

In 2018, the Bank adjusted its credit products. In the first quarter, the Bank extended attractive guaranteed fixed rates for up to CZK 1 million, which the Bank still sees as a major competitive advantage. Anyone interested in a loan always knows in advance what interest rate they will receive. The process of pre-approved offers for existing bank clients has undergone a major change. The main adjustment is speeding up and simplification of the process. In the middle of the year, the Bank reviewed the documents submitted by clients to credit applications. Thanks to these and other adjustments, there were record sales of Corporate FAIR Loans, which grew by 18% year-on-year.

On the deposit products side, 2018 did not bring any major changes. Corporate clients can continue to choose from three types of Corporate FAIR accounts: MINI, AKTIV and OPTIMAL; Individual entrepreneurs can take advantage of FAIR Account ENTREPRENEUR (PODNIKATEL). At the end of this year, the Bank raised interest rates on professional savings accounts for selected professional groups (lawyers, notaries). Business FAIR Savings PLUS thus remains among the most advantageous products on the market in its category.

In 2019, the Bank will focus in the lending area on accelerating processes and on finding attractive benefits for clients. On the current account side, the Bank plans to modify packages for entrepreneurs.

PRODUCTS FOR THE RETAIL SEGMENT

Retail clients can use, for all their financial needs, the entire line of FAIR (FÉR) products; this line is characterised by zero fees, transparent conditions and the possibility to check the price quickly and easily. In 2018, the product range was further modified to be even more attractive for clients.

Despite constant pressure on interest rates growth, the Bank offered a rate of around 2.5% p.a. on mortgage loans to its clients and thus continued the previous year's trend, when it had become many clients' first choice for housing financing. As for FAIR Lending, the Bank continued with a transparent offer in which the client learns the rate immediately based on the amount financed and the maturity. In addition, the Bank also lowered its minimum interest rate during the year to 4.8% p.a. for FAIR Consolidation, enabling clients to make their current loans cheaper through consolidation. Thanks to this attractive offer supported by the marketing campaign, we achieved record sales that significantly exceeded 2017, which had already been successful. As a necessary supplementary product, the Bank offers, in cooperation with BNP Paribas Cardif pojišťovna, a.s., a new generation of the consumer loan repayment insurance, which, with its parameters and conditions, became the best product in its category on the market.

In the area of savings accounts, the key product is FAIR Savings PLUS, which has long been at the top of the most advantageous savings accounts for deposits up to CZK 300,000, which is also confirmed by the repeated placement in the category of savings accounts of the Financial Product competition announced by the renowned financial portal Finparáda.cz. Clients who also use an AKTIV, OPTIMAL or ENTREPRENEUR (PODNIKATEL) FAIR Account are automatically provided with a better interest rate. As a result of the increase in market interest rates, in 2018 the Bank increased the interest rates on both savings accounts and term deposits, which are a suitable instrument for conservative clients.

As part of the appreciation of funds, the Bank offers the clients an investment advice service. In addition to one-off investments in the wide range of mutual funds of investment companies NN Investment Partners C.R., a.s. and Generali Investments CEE, investiční společnost, a.s., in bonds and regular investments, where clients have an opportunity to optimise distribution of their free funds among classic savings products and investment products with potentially higher return, the Bank also introduced a product for the most experienced investment clients – the Fund of a qualified investor, RSBC Czech-Moravian Real Estate Fund SICAV, a.s.

The FAIR Account, which offers three variants – MINI, ACTIVE (AKTIV) and OPTIMAL – strengthened its market position mainly through zero fees for active clients, advantageous savings for active users and the option of maintaining accounts in foreign currencies free of charge. The OPTIMAL FAIR Account again ranked very high in independent comparisons as a current account suitable for affluent clients.

12. RISK MANAGEMENT

12.1. Introduction

The Bank maintains a prudent and balanced approach to risk management in order to achieve reasonable returns at an acceptable risk level. The applicable regulations and risk strategy of the Bank constitute the basis for this. The Bank determines the internal guidelines and keeps it up to date, maintains a system of regulatory and internal limits, the amount of and compliance with which are regularly monitored, and in cooperation with its parent company continuously develops advanced risk management tools.

The major general principles of the risk management process are the optimisation of the relationship between risk and the expected return, an effective internal control system, the segregation of duties, the identification and analysis of risks, portfolio diversification and, last but not least, ensuring the accuracy and completeness of data in banking systems. The Bank management is regularly informed about the degree of risk taken, and the risk management system is monitored and evaluated.

Within the organisational structure of risk management, the Management Board has the central position; the Management Board determines the risk management strategy, approves the risk appetite of the Bank with regard to the medium-term strategy of the Bank, approves all key documents in the area of risk management, approves the models for credit risk management, and decides on significant risk positions.

Risk management is ensured by the Risk Management Division, which is managed by a designated member of the Management Board. The organisational units under the Risk Management Division analyse the Bank's risk position, determine methods for management of individual risks, check compliance with limits, provide information on the results that are identified and potentially approve risk positions within the established authority.

The following committees form an essential part of the risk management system:

Risk Committee, to which the Management Board of the Bank has delegated decision making in the following areas:

- approving the risk management principles and basic methods, limits, scenario assumptions and any other parameters used in the risk management process, monitoring credit, market and operational risks (including compliance with limits), and approving corrective measures when limits are exceeded or adverse development trends occur,
- approving the methodology of the creation, monitoring and updating of models for risk management and approving other models for risk management, and
- monitoring the adequacy, reliability and effectiveness of internal guidelines, procedures and limits for risk management.

Assets and Liabilities Management Committee, which primarily considers the current and prospective interest and currency risks in the investment portfolio, as well as liquidity risks, financing and management of the regulatory capital in order to optimise the revenue-risk profile.

Credit Committee, which in particular decides on the acceptance of credit risk in relation to individual counterparties, notably by approving the amount of new exposures and regular revisions of the credit risk of the existing exposures.

Non-Performing Loan Management Committee, which in particular makes decisions in the following areas:

- approving the principles of management of non-performing loans,
- considering and approving internal guidelines, methodologies and work procedures related to the management of non-performing loans,
- setting principles for increasing the exposure of clients with respect to non-performing loans,
- deciding on how to address individual significant non-performing loans within the extent of the approval powers granted to the Committee,
- setting rules for the management of individually insignificant non-performing loans,
- monitoring the development of non-performing loans and taking corrective measures in the case of undesirable developments, decision-making on granting approval powers for solving non-performing loans to the staff of Problematic Receivables organisational unit, to Head of Problematic Receivables organisational unit and to the member of the Management Board responsible for risk management.

The Committee members are members of the Management Board of the Bank and executive officers from the respective areas of risk management. Information on the Executive Committees of the Bank's Management Board, including their composition, can be found in Chapter 7 of this Annual Report.

The Risk Management Division consists of the following five organisational units:

- Integrated Risk Management, which is involved in the preparation of the risk management strategy, is responsible for monitoring the capital adequacy ratio and measuring the risk position in the Bank's credit portfolio and is also responsible for managing market risk and liquidity risk.
- Credit Risk, which is responsible for credit risk management and establishing the credit processes,
- Underwriting, which assess the credit risk level received by the Bank and approves/recommends decisions on the limits for the Bank's counterparties,
- Restructuring and Workout, which is responsible for debt recovery,
- Security, Operational Risk and Fraud Management, which is responsible for information security, operational risk management and fraud risk prevention.

12.2. Capital Adequacy Ratio

To determine the capital requirement, the Bank uses the Standardized Approach for Credit Risk and for Operational Risk. For market risk the Bank calculates the capital requirement for general risk of the trading portfolio using a maturity-based method, for specific risk of the trading portfolio and for currency risk.

Forecasts of the Bank's capital adequacy ratio are prepared regularly on the basis of the data on the existing structure of assets and their projected future development, in particular in the area of loans provided. There is an Emergency Action Plan in the event of emergency situations having a negative effect on the Bank's capital adequacy ratio.

In accordance with regulatory requirements, the Bank has sufficient capital to cover risks.

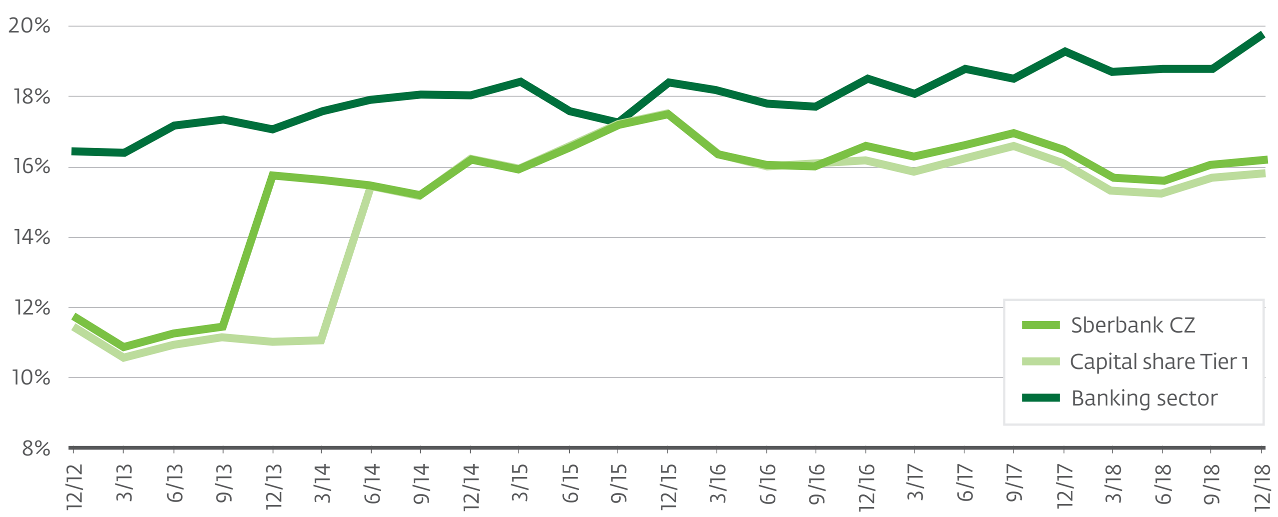
In accordance with the requirements of Pillar II of the Basel Capital Accord known as Basel III, at least once a year the Bank evaluates the adequacy of its capital with respect to all significant risks (Internal Capital Adequacy Assessment Process).

12.3. Credit Risk

Providing loan products is one of the main business activities of the Bank. This corresponds to the emphasis that is placed on credit risk management. The Bank applies a conservative policy to managing credit risks. Each transaction that is knowingly accepted by the Bank should generate a profit which is at least adequate to the level of risk borne. In particular, the Bank adheres to the following principles:

- It is necessary to avoid any credit risk level that would threaten the very existence of the Bank.
- Non-quantifiable residual credit risks are continually limited to an appropriate level by the continuous improvement of processes and systems and employee training.

DEVELOPMENT OF CAPITAL ADEQUACY INDICATOR



- A sufficient capital volume is used to cover the credit risk.
- Credit criteria and the minimum requirement for the funding of counterparties are defined in such a way that it is possible to manage the quality of newly provided credit transactions in accordance with the Bank's risk capacity.

The credit risk management process includes identifying risks, measuring risk exposure, monitoring limits and adopting measures to reach an optimal level of credit risk. The process takes place at the level of the individual counterparties of the client's bank, as well as at the level of the credit portfolio.

In evaluating the credit quality of the client, the Bank focuses mainly on the analysis of the client's financial and non-financial condition, the client's ability to repay the loan provided from their cash flow, and experience with the client.

The credit quality of each client is assessed, among other things, by using an internal rating tool corresponding to the type of client or the type of financing under assessment. Each client is classified into one of 26 grades on the internal rating scale. Each rating grade is assigned a fixed annual probability of default of the client, which is used as one of the parameters of the decision-making process. The rating tools are regularly tested and adjusted accordingly to ensure that the estimated probability of default of the client is correct.

Another criterion to be assessed when assessing a loan proposal is the quality of hedging instruments, while the Bank generally does not accept credit exposures the approval of which requires the accepted collateral. The catalogue of these instruments defines the acceptable types of collateral, the method used for determining their fair value, the frequency of revaluation and the responsibilities of each department of the Bank.

The assessment and approval of loan proposals is independent of the business units. The approval powers are delegated by the Management Board and are divided into several levels. The Bank carries out regular monitoring of individual exposures in order to monitor the quality of the credit portfolio. This process increases the likelihood that future client defaults will be recognised early. In this case, the Bank has established a system for the timely settlement of problematic receivables, which reduces the probability of incurring losses through providing loans.

Regular evaluation of compliance with the system of limits is an integral part of the Bank's credit risk management. The Bank sets limits for both the portfolio and individual transactions. Within the system of limits, both regulatory (binding) limits and internal limits are evaluated.

The Bank assesses receivables from clients in terms of a possible decline in their value, especially with regard to a rating downgrade, delays in repayment or any other breach of the original contractual terms by the counterparty.

The Bank assesses the impairment of receivables according to IFRS 9 from two perspectives:
1. Collective impairment, which is applied to each group of assets on the basis of statistical models and is covered by collective loss provisions.
2. Individual impairments that are associated with individual loans for which there is objective evidence of impairment, which is covered by individual loss provisions.

As part of the implementation of IFRS 9, the Bank classifies individual financial instruments into three different groups, each representing a different rate of credit risk increase compared to the risk expected at the time the financial instrument was granted. Depending on which group a financial instrument is assigned to, the Bank determines the expected loss from the financial instrument within one year or up to the maturity of the financial instrument.

12.4. Market Risks

The main instrument for market risk management is a system of limits for individual types of market risks. Compliance with these limits is monitored regularly. The Management Board, members of the Risk Committee and the relevant business units are to be informed without undue delay of any exceeded limit and the related corrective measures. Limits are set internally by the parent company or the regulatory provisions of the CNB and are approved by the Risk Committee. Stress testing of market risks is run regularly.

The Bank manages the currency risk by closing its FX position through hedging transactions. The FX position in individual currencies is monitored daily and compared with the applicable limits.

The Bank quantifies the interest rate risk using monitoring tools that are based on contractual and behavioural re-fixing of the interest rate for individual assets, liabilities and off-balance sheet items of the Bank.

The basic instrument is the interest rate risk gap report compiled on a daily basis, which is followed by simulations of the impact of interest shocks (standardized shock, BCBS recommended scenarios and other scenarios) on the economic value (NPV) of the balance sheet. Other tools include the analysis of the impact of interest rate variations on the Bank's net interest income (NII) and the analysis of the impact of assumptions and models on the Bank's interest rate risk.

The results of these analyses are monitored and compared with the applicable limits. The Bank mitigates the interest rate position resulting from long-fixed assets by interest rate swaps.

From a regulatory standpoint, the Bank holds a large trading portfolio. Positions in this portfolio are monitored on a daily basis and compared with the applicable limits. The Bank calculates the capital requirement for general, specific and currency risk. Stress testing of trading book positions takes place regularly.

12.5. Liquidity risk

Operational liquidity risk management is carried out daily by monitoring short-term and long-term liquidity indicators in the main individual currencies, as well as the aggregate for all currencies. On the basis of the development of these indicators, the Bank continually manages its liquidity position. The Bank distinguishes between the contractual maturity of the balance sheet items and the modelled expected maturity.

On a bi-weekly basis, the Bank develops stress scenarios of its liquidity position based on data on the existing structure of assets and liabilities and their expected behaviour in model stress situations. A contingency plan has been prepared for the theoretical possibility of extraordinary circumstances threatening the Bank's liquidity.

Bank management is informed about the development of the Bank's liquidity and the measures taken through the Assets and Liabilities Management Committee.

12.6. Operational Risk

In accordance with regulatory requirements, the Bank has the necessary internal guidelines for operational risk management, including information security, business continuity, outsourcing and an internal control system that is set for the individual processes at all organisational levels.

The basic methods that are applied include the avoidance, reduction, transfer and acceptance of operational risk. The operational risk management process includes risk identification, recording, evaluation and assessment, including measures to minimise risk, and takes place at the level of actual events as well as hypothetical risks.

To manage and identify operational risk, the Bank uses the collection of operational risk events, their classification and subsequent evaluation, so-called Risk Self-Assessment and scenario analysis for risks with a high impact on the Bank and a low frequency of occurrence.

On the basis of identified operational risks, the Bank takes measures aimed at effectively minimising the probability of the occurrence of similar events, and the measures are designed not only according to the frequency of occurrence and volume of the realised/projected financial impact but also with regard to the seriousness and cause.

The Bank has also drawn up contingency plans for critical situations and the restoration of operations to ensure business continuity to the fullest extent possible, and recovery plans for key IT applications.

12.7. Concentration Risk

Sufficient diversification of the underlying credit risk is ensured by a system of limits of concentration risk with respect to groups of connected clients, sectors in which clients operate, and countries. The Bank also sets a capital requirement for concentration risk within the Internal Capital Adequacy Assessment Process.

In the area of liquidity, the degree of concentration of client deposits is monitored, regularly compared with the applicable limits, and presented to the bank's management.

13. CORPORATE GOVERNANCE

In accordance with Section 9 of the Articles of Association of Sberbank CZ, a.s., the Bank's internal structure system is dual. The bodies of the Bank are the General Meeting, the Management Board, the Supervisory Board and the Audit Committee. Only private individuals may be members of the Management Board, the Supervisory Board and the Audit Committee. Members of the bodies are obliged to exercise their duties with due professional care and diligence and to respect the prohibition of competition to the extent stipulated by law.

13.1. General Meeting

The General Meeting is the supreme body of the Bank.

Sberbank Europe AG is the sole owner of all the Bank's shares and as the sole shareholder of the Bank it exercises the powers of the General Meeting. The decisions of the sole shareholder are written and, if required by law, take the form of a notarial deed. The sole shareholder has the right to require that the Management Board and the Supervisory Board take part in the decision-making process that occurs within the capacity of the General Meeting.

The powers of the General Meeting include in particular making decisions on the following:

- amending the Articles of Association,
- increase or decrease of registered capital,
- issue of convertible or priority bonds,
- appointing and dismissing members of the Supervisory Board, approving performance agreements with members of the Supervisory Board and their amendments,
- appointing and dismissing members of the Audit Committee, approving performance agreements with members of the Audit Committee and their amendments,
- approving the annual financial statements and making decisions on the distribution of profits or the covering of losses,
- considering the report on the bank's business activities and its assets,
- appointing an auditor to perform the statutory audit,
- submitting an application for the admission of the Bank's shares for trading on the European regulated market or for the exclusion of shares from this trading,
- transferring, leasing or pledging an enterprise, winding up the Bank with liquidation or transforming the Bank,
- changing the rights attached to individual classes or types of shares,
- restricting the transferability of registered shares,
- excluding or limiting the pre-emptive right to acquire convertible and priority bonds, and excluding or limiting the pre-emptive right to acquire new shares,
- increasing the registered capital with material non-cash contributions,
- changing the subject of enterprise,
- approving the Supervisory Board's Rules of Procedure,
- approving the Audit Committee's Rules of Procedure.

The General Meeting cannot reserve the right to make decisions on matters that have not been vested in the General Meeting by law or by the Articles of Association.

In 2018, the sole shareholder of the Bank adopted in particular the following major decisions in the capacity of the General Meeting:

- **Decision of the sole shareholder acting in the capacity of the General Meeting dated 19 April 2018**
  Through this decision, the sole shareholder in particular considered and acknowledged the report on the Bank's business activities and its assets, acknowledged the report on relationships for 2017, approved the annual financial statements for 2017, decided on the Management Board's proposal for the distribution of profit for 2017 and determined the external auditor for 2018.

- **Decision of the sole shareholder acting in the capacity of the General Meeting dated 23 May 2018**
  By this decision, the sole shareholder approved the new Rules of Procedure of the Supervisory Board and the new Rules of Procedure of the Audit Committee.

- **Decision of the sole shareholder acting in the capacity of the General Meeting dated 21 September 2018**
  By this decision, the sole shareholder acknowledged the Bank's semi-annual report as of 30 June 2018.

- **Decision of the sole shareholder acting in the capacity of the General Meeting dated 1 November 2018**
  By this decision, the sole shareholder appointed Mr Dirk Adolf Hinze as a member of the Supervisory Board.

- **Decision of the sole shareholder acting in the capacity of the General Meeting dated 29 November 2018**
  By this decision, the sole shareholder dismissed Mr Béla Czigony as a member of the Audit Committee and appointed Mr Dirk Adolf Hinze as a member of the Audit Committee.

13.2. Supervisory Board

The Supervisory Board is a supervisory body that oversees the performance of the Management Board and the activities of the Bank. The Supervisory Board checks whether the Management Board performs its duties in accordance with the law and the Articles of Association and whether members of the Management Board act in the interests of the Bank and with due professional care and diligence. Members of the Supervisory Board perform their duties with due professional care and diligence. No one is authorised to give to the Supervisory Board any instructions related to its statutory duty to supervise the activities of the Management Board.

According to the valid Articles of Association of the Company, the Supervisory Board consists of six members (since 30 May 2018) and of nine members since 14 January 2019. At least one member of the Supervisory Board is an independent member.

Members of the Supervisory Board are elected and dismissed by the General Meeting for a four-year term of office. Members of the Supervisory Board elect the chairman and deputy chairman of the Supervisory Board from among their ranks. A member of the Supervisory Board cannot be a member of the Management Board or a person authorised to act on behalf of the Bank.

Members of the Supervisory Board are listed in the Chapter Bank Bodies (see Chapter 7.2).

Members of the Supervisory Board are liable to the Bank for any damage they cause due to a breach of their legal obligations. Members of the Supervisory Board are functionally responsible to the Bank represented by the shareholder.

The Supervisory Board is authorised to appoint Supervisory Board committees with decision-making powers. Given the size of the Bank, no such Supervisory Board committees are set up and their competence is exercised by the Supervisory Board itself.

The Supervisory Board shall meet at least twice a year. Meetings of the Supervisory Board shall be convened by the Chairman or Deputy Chairman of the Supervisory Board or their representative. The Supervisory Board is quorate if an absolute majority of its members are present. Resolutions of the Supervisory Board shall be adopted by a simple majority. If the numbers of votes are equal, the vote of the chairman of the Supervisory Board (in the chairman's absence the vote of the deputy chairman) shall decide. Minutes of every meeting shall be drawn up. The Supervisory Board may also adopt decisions outside of its meetings, in writing or using technical means (per rollam decisions). Details are laid down in the Supervisory Board's Rules of Procedure, approved by the General Meeting.

The responsibilities of the Supervisory Board include in particular:

- reviewing the annual financial statements and the proposal of the Management Board for the distribution of profit or covering of loss, and submitting its opinion to the General Meeting,
- informing the General Meeting of the results of the Supervisory Board's supervisory activities,
- electing and dismissing members of the Management Board, approving performance agreements with members of the Management Board and their amendments,
- approving the Management Board's Rules of Procedure,
- approving the allocation of organisational units among members of the Management Board within the Bank's organisational chart,
- supervising whether the management and control system is functional and effective, including the evaluation at least once a year,
- regularly discussing the strategic direction of the Bank,
- evaluating the activities of internal audit and compliance,
- expressing its opinion on proposals of the Management Board for the appointment of persons to the positions of risk management, compliance and internal audit, or their dismissal,
- determining the remuneration policy with respect to persons in positions of risk management, compliance and internal audit.

The Supervisory Board gives consent to the Management Board for certain acts specified in the Bank's Articles of Association, such as establishing, relocating and closing a branch, or determining the Bank's annual budget.

Meetings and per rollam decisions of the Supervisory Board

In 2018, four regular meetings of the Supervisory Board were held, specifically on 18 April 2018, 20 June 2018, 19 September 2018 and 14 December 2018, at which the Supervisory Board made decisions on matters that fell within its authority. In addition to the aforesaid meetings, the Supervisory Board adopted a number of other per rollam decisions.

Major per rollam decisions adopted by the Supervisory Board in 2018 include:

- **Written decision of the Supervisory Board dated 23 March 2018**
  The Supervisory Board decided on the election of Mr Edin Karabeg as a member of the Management Board as CEO of the Bank.

- **Written decision of the Supervisory Board dated 5 June 2018**
  In compliance with the bank's internal guidelines, the Supervisory Board assessed and subsequently decided on the credibility and professional competence of the nominated candidate, Mr Dirk Adolf Hinze, to perform the function as a member of the Bank's Supervisory Board. The Supervisory Board assessed that it would have sufficient collective knowledge, skills and experience and would be considered eligible for its activities as a whole.

- **Written decision of the Supervisory Board dated 13 June 2018**
  The Supervisory Board decided on the election of Mr Daniel Krumpolc and Mr András Kaliszký as members of the Management Board.

- **Written decision of the Supervisory Board dated 26 October 2018**
  In accordance with the Bank's internal guidelines, the Supervisory Board assessed and subsequently decided on the credibility and professional competence of Mr Branko Sušić, Ms Anna Chalová, Mr Jan Novák, Mr Martin Breyl, Mr Martin Žaba, Mr Petr Podaný and Mr Tomáš Bajus to serve as members of the Supervisory Board.

- **Written decision of the Supervisory Board dated 1 November 2018**
  The Supervisory Board acknowledged the resignation of Ms Elena Viklová from her position as a member of the Supervisory Board and approved the termination of Ms Elena Viklová's position on the Supervisory Board with effect from 1 November 2018.

- **Written decision of the Supervisory Board dated 19 December 2018**
  The Supervisory Board acknowledged Mr Jiří Antoš's resignation from his position as a member of the Management Board and approved the termination of Mr Jiří Antoš's position on the Management Board with effect from 31 December 2018.

13.3. Management Board

The Management Board is the governing body of the Bank responsible for the business management of the Bank and representing the Bank in all matters. The Management Board is responsible for establishing, maintaining and evaluating the functional and efficient management and control system of the Bank as a whole and in parts. The Management Board exercises the rights of the employer. No one is authorised to instruct the Management Board as to the management of the Bank's business unless the law provides otherwise.

According to the valid Articles of Association of the Company, the Management Board consists of six members (since 30 May 2018). Members of the Management Board are elected and dismissed by the Supervisory Board for a three-year term of office, unless the relevant performance agreement provides otherwise. Re-election is permissible. Members of the Management Board elect the chairman of the Management Board from among their ranks. During the term of office, the Supervisory Board may dismiss the individual members of the Management Board.

Members of the Supervisory Board are listed in the Chapter entitled Bank Bodies (see Chapter 7.1).

Members of the Management Board shall perform their duties with due professional care and diligence and act in good faith and in the best interests of the Bank and the shareholder. They are experts in managing large corporations with international experience and the capacity for teamwork. Their function requires continuous improvements in the field as well as in the area of corporate governance, a proactive approach to the fulfilment of obligations, the ability to contribute to the development of the Bank's strategy and, last but not least, loyalty to the Bank. Members of the Management Board shall adhere to high ethical standards and are responsible for ensuring that the Bank complies with applicable laws. They are personally accountable for any damage they cause to the Bank due to a breach of legal obligations and are functionally responsible to the Bank represented by the Supervisory Board and the shareholder.

The Management Board may establish executive committees (for more information, see the Subchapter 13.4 entitled Committees Established by the Management Board).

The Management Board shall meet according to the Bank's needs, but at least once a month. Meetings of the Management Board shall be convened by the Chairman of the Management Board or the Chairman's representative. The Management Board is quorate if an absolute majority of its members are present. Resolutions of the Management Board shall be adopted by a simple majority. In the case of equal numbers of votes, the chairman of the Management Board shall have the deciding vote. The Management Board may also adopt decisions outside of its meetings in writing or using technical means (per rollam decisions). Details are laid down in the Management Board's Rules of Procedure, approved by the Supervisory Board.

The responsibilities of the Management Board include in particular:

- approving and regularly assessing the overall Bank's strategy, the organisational structure of the Bank, the human resource management strategy, the risk management strategy, the strategy related to capital and capital ratios, the strategy for the development of the information and communication system, the principles of the internal control system and the security policy,
- approving new products and other issues that are of fundamental importance or that may have significant impact on the Bank,
- approving the statutes of executive committees,
- approving the strategic and periodic plan of internal audit,
- proposing the persons in charge of ensuring the performance of the risk management function, the compliance function and the internal audit function or their dismissal to the Bank's Supervisory Board,
- assessing the credibility and suitability of individuals in key functions of the Bank,
- making decisions on actions outside the ordinary course of the Bank's trade,
- determining the principles of human resources management, including the principles for the selection, remuneration, evaluation and motivation of employees,
- submitting ordinary, extraordinary, consolidated or interim financial statements and proposal for distribution of profit or loss in accordance with the Bank's Articles of Association to the General Meeting for approval,
- ensuring proper bookkeeping of the Bank.

Responsibilities of the individual members of the Management Board are divided by fields (sections) in the organisational chart approved by the Supervisory Board. The functions of individual members of the Management Board are defined by the Bank's internal guideline. Each member of the Management Board manages the section that has been assigned to that member and makes decisions on matters falling within the competence of that member's section separately, unless the decision-making on the matter in question falls within the competence of the Management Board as a whole. The division of powers among the individual members of the Management Board shall be without prejudice to the overall responsibility of the members of the Bank's Management Board. Members of the Management Board shall inform one another of any significant matters dealt with at the level of their respective sections and also of those matters that may have an impact on other sections.

The Management Board regularly informs the Supervisory Board about the operation of the Bank and provides the Supervisory Board with the necessary materials and instruments. The Management Board is also obliged to inform the Supervisory Board about any events that may be of major importance to the Bank.

The Management Board decides on all Bank matters that are not reserved by law or the Articles of Association for the General Meeting, the Supervisory Board or the Audit Committee.

13.4. Committees Established by the Management Board

The Management Board is authorised to establish executive committees in accordance with the Bank's Articles of Association and Decree No. 163/2014 Sb. on the performance of the activities of banks, credit unions and investment firms. In accordance with this authority, the Management Board established the executive committees listed below and defined their authorities, powers, composition and the course of action in the bylaws of the respective executive committees. Members of the executive committees are listed in the Chapter entitled Bank Bodies (see Chapter 7).

In 2018, the bylaws of all executive committees were updated. The aim of the revision of the bylaws was to make them clear and simple and, if possible, to unify the manner of acting and decision making across the executive committees of the Management Board.

Assets and Liabilities Management Committee

The Asset and Liabilities Management Committee is an executive committee with the main task to manage and evaluate the effects of interest rates developments, exchange rates, liquidity, funding opportunities and monitoring of risk-weighted assets developments, level regulatory capital and profit forecasts, i.e. the main elements affecting regulatory capital requirements. It makes decisions on the rules for managing assets and liabilities, considers the current and prospective interest and currency risks in the investment portfolio, as well as liquidity risks, financing and management of the regulatory capital in order to optimise the revenue-risk profile.

The Assets and Liabilities Management Committee shall meet at least once a month. Meetings of the Committee shall be convened by the secretary of the Committee (Head of OU 026 ALM/Treasury).

The Committee is quorate with the cumulative fulfilment of the following conditions:

1) An absolute majority of the Committee members with voting rights is present or otherwise involved (using technical means).
2) At least three members of the Management Board are present or otherwise involved (using technical means).
3) The chairman or deputy chairman of the Committee (or their representative) is present or otherwise involved (using technical means).

Resolutions of the Committee shall be adopted by a simple majority of the present members of the Committee with voting rights. If the numbers of votes are equal, the vote of the chairman or the deputy chairman of the Committee (or their representative) shall decide. Each member of the Management Board is entitled to exercise his/her right of veto when voting on individual items on the agenda of the meeting. If the right of veto is exercised, the vetoed proposal is postponed until the next meeting of the Management Board to be discussed and decided upon. Minutes of every meeting of the Committee shall be drawn up. Under certain conditions, the Committee may adopt decisions outside of meetings in writing (per rollam decisions). Detailed information shall be set out in the Bylaws of the Assets and Liabilities Management Committee.

Credit Committee

The Credit Committee is an executive committee that manages credit risk. It decides on credit cases which entail credit risks, unless the decision-making has been delegated to the individual approval authorities within the Bank, and on cases where the Risk Committee or the Management Board has decided so, and on other matters pursuant to the Credit Committee bylaws.

The Credit Committee shall meet at least once a week. The meeting is convened by the secretary of the Credit Committee.

The Committee is quorate with the cumulative fulfilment of the following conditions:

1) An absolute majority of the Committee members with voting rights is present or otherwise involved (using technical means).
2) A member of the Management Board responsible for risk management or their representative is present or otherwise involved (using technical means).
3) The Head of OU 036 Underwriting Division or their deputy is present or otherwise involved (using technical means).

Resolutions of the Committee shall be adopted by a simple majority. If the numbers of votes are equal, the vote of the chairman of the Committee (member of the Management Board responsible for risk management) shall decide. Minutes of every meeting of the Committee shall be drawn up. Under certain conditions, the Committee may adopt decisions outside of meetings in writing (per rollam decisions). Detailed information shall be set out in the Bylaws of the Credit Committee.

Non-Performing Loan Management Committee

The Non-Performing Loan Management Committee is an executive committee that manages and deals with non-performing loans of the Bank. It establishes and approves the principles of non-performing loans management, management strategies and action plans, monitors the development of non-performing loans and takes corrective measures in the event of undesirable developments.

The Non-Performing Loan Management Committee shall meet at least once a week. The meeting is convened by the secretary of the Non-Performing Loan Management Committee (Head of OU 037 Workout & Restructuring) or their representative.

The Committee is quorate with the cumulative fulfilment of the following conditions:

1) An absolute majority of the Committee members with voting rights is present or otherwise involved (using technical means).
2) A member of the Management Board responsible for risk management and any other member of the Management Board is present or otherwise involved (using technical means).

Resolutions of the Committee shall be adopted by a simple majority. If the numbers of votes are equal, the vote of the chairman of the Committee (member of the Management Board responsible for risk management) shall decide. The chairman of the Committee is entitled to veto a decision. Minutes of every meeting shall be drawn up. Under certain conditions, the Committee may adopt decisions outside of meetings in writing (per rollam decisions). Detailed information shall be set out in the Bylaws of the Non-Performing Loan Management Committee.

Retail Committee

The Retail Committee is the executive committee for Retail Banking. It approves non-credit products for retail clients of the Bank including their changes, and credit products for retail clients including their changes that do not require Risk Committee approval, and also provides support to the Bank's board member responsible for retail banking to perform activities falling under their functional responsibilities.

The Retail Committee shall meet at least once a fortnight. Meetings of the Committee shall be convened by the secretary of the Committee (Head of OU Segments & Marketing).

The Committee is quorate with the cumulative fulfilment of the following conditions:
1) An absolute majority of the Committee members with voting rights is present or otherwise involved (using technical means).
2) A member of the Management Board responsible for retail banking or their representative is present or otherwise involved (using technical means).

Resolutions of the Committee shall be adopted by a simple majority. If the numbers of votes are equal, the vote of the chairman of the Committee (member of the Management Board responsible for retail banking) shall decide. The chairman of the Committee is also entitled to veto a decision. Minutes of every meeting shall be drawn up. Under certain conditions, the Committee may adopt decisions outside of meetings in writing (per rollam decisions). Detailed information shall be set out in the Bylaws of the Retail Committee.

Risk Committee

The Risk Committee is the Bank's Executive Committee for Risk Management. It approves risk management rules, monitors credit, market and operational risks and approves corrective measures. The Risk Committee does not decide on individual credit risk cases but deals with the risk profile of the Bank as a whole.

The Risk Committee shall meet at least once a month. Meetings of the Committee shall be convened by the secretary of the Committee (Head of OE 070 Integrated Risk Management).

The Committee is quorate if an absolute majority of the Committee members with voting rights is present and, at the same time, the member of the Management Board responsible for risk management is present, or Head of OU 070 Integrated Risk Management is present and the member of the Management Board resp033onsible for risk management or the member of the Management Board responsible for finance management is present.

Resolutions of the Committee shall be adopted by a simple majority. A member of the Management Board responsible for risk management has veto power. Minutes of every meeting shall be drawn up. Under certain conditions, the Committee may adopt decisions outside of meetings in writing (per rollam decisions). Detailed information shall be set out in the Bylaws of the Risk Committee.

Operating Committee

The Operating Committee is the Executive Committee, which replaced the Project Portfolio Committee on 18 September 2018. It decides on matters relating to the Bank's project portfolio management and is responsible for strategic management, approving and planning of projects within the Bank. Its core competencies include, in particular, prioritising projects, evaluating the economic benefits of projects, deciding on projects implementation and approving the annual project plan.

The Committee shall meet at least once a month. The meeting is convened by the secretary of the Committee (OU 195 Project Management Office).

The Committee is quorate if an absolute majority of the Committee members with voting rights is present or otherwise involved (using technical means) and at the same time the chairman or deputy chairman is present or otherwise involved (using technical means).

The Committee resolutions shall be adopted by simple majority of the present Committee members with voting rights, provided that the chairman or deputy chairman of the Committee voted in favour of the resolution too. If the numbers of votes are equal, the vote of the chairman of the Committee (in the chairman's absence the vote of the deputy chairman) shall decide. Minutes of every meeting shall be drawn up. Under certain conditions, the Committee may adopt decisions outside of meetings in writing (per rollam decisions). Detailed information shall be set out in the Bylaws of the Operating Committee.

13.5. Audit Committee

The Audit Committee consists of three members. The members of the Audit Committee are apointed and dismissed by the General Meeting for the period until the end of the third General Meeting, which decided on the annual financial statements for the third calendar year following the election. If the General Meeting is not held by the deadline, the term of office ends on 30 June of the third calendar year following the election (the calendar year in which the members of the Audit Committee were elected is not counted in this period), unless the General Meeting decides otherwise . Members of the Audit Committee elect and dismiss the chairman and deputy chairman of the Audit Committee from Committee members themselves.

Members of the Audit Committee are listed in the Chapter entitled Bank Bodies (see Chapter 7.3).

The Audit Committee shall meet at least twice a year. The Committee is quorate if an absolute majority of the Committee members is present or otherwise involved (using technical means) and at the same time the chairman or deputy chairman of the Audit Committee is present. Resolutions of the Committee shall be adopted by a simple majority. If the numbers of votes are equal, the vote of the chairman of the Committee (in the chairman's absence the vote of the deputy chairman) shall decide. The Committee may also adopt decisions outside of its meetings, in writing or using technical means (per rollam decisions). Further information is laid down by the Rules of Procedure of the Audit Committee, approved by the General Meeting.

The responsibilities of the Audit Committee include in particular:

- monitoring the process of compiling the annual financial statements and submits recommendations to the Management Board and the Supervisoyr Board to ensure the integrity of the accounting and financial reporting systems
- evaluating the effectiveness of the Bank's internal controls, internal audit and risk management system,
- monitoring the process of the statutory audit of the annual financial statements,
- assessing the independence of the statutory auditor,
- approving the provision of other non-audit services,
- recommending an auditor to the Supervisory Board,
- providing the General Meeting with information about the Audit Committee's activities.

The Committee also carries out other tasks and matters entrusted to the Committee by the Articles of Association or the relevant legislation.

Meetings of the Audit Committee:

In 2018, two regular meetings of the Audit Committee were held, on 18 April 2018 and 14 December 2018, at which the Audit Committee made decisions on matters that fell within its authority. In addition to the above-mentioned meetings, the Audit Committee adopted some per rollam decisions. An example is the decision on the appointment of Mr Reinhard Kaufmann as deputy chairman of the Committee and the approval of the Committee's activity report for the period from April 2017 to April 2018.

13.6. Trustworthiness & Competence Policy

The Bank shall ensure that members of its governing body, members of its Supervisory Board and individuals in a key function of the Bank are trustworthy, sufficiently qualified and experienced. For this purpose, the Bank shall establish internal rules to assess and evaluate such persons. The suitability and professional competence of the members of the Management Board and the Supervisory Board are assessed by the Bank's Supervisory Board within its competence. The Management Board is a body assessing the suitability and professional competence of individuals in key functions.

MEMBERS OF THE BANK'S MANAGEMENT BOARD
The members of the Management Board must have sufficient knowledge, skills and experience to perform their functions. They are required to have basic theoretical banking knowledge that enables them to understand the Bank's operation and major risks. The assessment criteria include, in particular, education, management experience, financial market experience, knowledge in defined areas, criminal and administrative integrity, compliance with professional standards, an orderly financial situation, time requirements and absence of conflict of interest.

When assessing the suitability of Management Board members, the suitability of the Management Board as a whole must be considered, too. The Management Board must have sufficient collective knowledge, skills and experience.

MEMBERS OF THE BANK'S SUPERVISORY BOARD
The members of the Supervisory Board must have knowledge, skills and experience corresponding to performance of their functions. They are required to have basic theoretical banking knowledge that enables them to understand the Bank's operation and major risks. The evaluation criteria include, in particular, education, professional experience, basic knowledge in defined areas, criminal and administrative integrity, compliance with professional standards, an orderly financial situation, time requirements and absence of conflicts of interest. The Chair of the Bank's Supervisory Board is subject to increased demands with regard to the performance of his/her duties.

When assessing the suitability of Supervisory Board members, the suitability of the Supervisory Board as a whole must be considered. The Supervisory Board of the Bank must have sufficient collective knowledge, skills and experience.

PERSONS IN KEY FUNCTIONS
Persons in key functions must have sufficient knowledge, skills and experience relevant to their job positions. The assessment is based on a comprehensive consideration of criteria. The assessment criteria include education and expert knowledge relevant to the respective tasks of persons in key functions. The criminal and administrative integrity and the absence of conflicts of interest of these persons are assessed as well.

Members of the Management Board, members of the Supervisory Board and persons in a key function of the Bank must be competent not only at the beginning of the performance of their duties but permanently throughout the performance of their duties. For this purpose, regular training and courses are organised for these people.

The suitability of the person under consideration must be assessed before the person is selected/appointed or re-elected. Persons being assessed are obliged to fill in the forms and provide other documents and materials required for their evaluation. The body evaluating the persons under consideration comes out of the forms and documents received from the persons being assessed for this purpose, and after evaluating them, it decides whether the person being assessed is credible and suitable. The body that elects/appoints the persons being assessed shall follow the result of the assessment.

The policy on the principles of credibility and professional competence shall not apply to senior management, unless they also hold key functions. When these persons are being recruited, however, similar criteria as for the persons in key functions are taken into account to ensure that only qualified and experienced people are hired. These persons are evaluated by the HR Management organisational unit, potentially in cooperation with a relevant member of the Management Board.

13.7. OECD Code of Corporate Governance

The Bank voluntarily complies with the main standards of corporate governance laid down in the **Code of Corporate Governance based on OECD Principles (2004)**, the Czech version of which is published on the website of the Ministry of Finance of the Czech Republic.

The Bank respects the principles of corporate governance that best reflect the manner in which the Bank does its business, the Bank's interests and the Bank's shareholder. These basic standards of corporate governance are reflected in the Articles of Association and in the related internal guidelines of the Bank. A number of recommendations arising from the aforesaid Code are also reflected in Act No. 90/2012 Sb. on business corporations and other laws of the Czech Republic.

The Bank's bodies and their powers are described in the chapter entitled Corporate Governance (see Chapter 13).

The main principles of corporate governance to which the Bank adheres include in particular:

- **Protection of shareholders' fundamental rights** (especially the right to the transfer of shares, the right to receive timely and regularly the information on the Bank from other Bank bodies, the right to elect and dismiss members of the Supervisory Board, the right to participate in the profits of the Bank, the right to participate in making decisions on significant changes in the Bank by amending the Articles of Association),
- **Prohibition of abuse of insider information by members of the governing bodies and employees** (in particular the prohibition of using opportunities for personal gain, conflicts of interest, competitive conduct and misusing the company's assets; members of the governing bodies are obliged to act with due professional care and diligence),
- **Publishing** (important information relating to the Bank and its activities is published on the website of the Bank in Czech and possibly also in English),
- **Transparency** (especially the statutory auditor's independence and its assessment by the Audit Committee, access to regular, reliable and sufficiently detailed information in the annual and semi-annual reports of the Bank, information on the ownership structure of the Bank, preparing the report on relationships, evaluating the integrity and professional competence of members of the governing bodies, report on the activities of the Management Board),
- **Responsibilities of the Management Board and the Supervisory Board** (in particular the obligation to act with due professional care and diligence, electing and dismissing members of the Supervisory Board by the General Meeting, electing and dismissing members of the Management Board by the Supervisory Board, submitting the report on the Management Board's activities to the General Meeting, submitting the report on the Supervisory Board's activities to the General Meeting, monitoring and resolving potential conflicts of interest).

In addition to the aforesaid Code, the Bank voluntarily complies with the following codes that are published at websites www.czech-ba.cz and www.akatcr.cz:

- Ethical Code of the Czech Banking Association,
- Ethical Code of the Capital Market Association,
- Code for Loans and Housing (CBA Standard No. 18/2005, the principles of provision of pre-contractual information related to housing loans),
- Bank-Client Code (CBA Standard No. 19/2005, the code of conduct between banks and clients),
- Code of Client Mobility (CBA Standard No. 22/2009, client mobility - the process of changing banks),
- CBA standards in the payment system.

The codes and CBA standards are incorporated in the bank's Code of Conduct of Employees and internal work procedures.

13.8. Diversity Policy

Although the Bank has not yet implemented a diversity policy as an internal document, it complies with the requirements for the diversity of members of the governing bodies. The diversity requirement is mentioned in the internal guideline on principles of credibility and professional competence.

In this internal guideline, the Bank considers, among other things, the personal characteristics of candidates for new members of the Management Board and the Supervisory Board when assessing and evaluating their credibility and professional competence. Moreover, it places emphasis on their education, professional knowledge and experience, especially considering the fact that the body as a whole should be sufficiently diverse and the body should be able to perform its duties properly, not only in accordance with regulatory requirements but also with requirements for the quality of personnel management. A greater diversity of the human factor in these bodies creates a more creative and innovative environment in which people are able to respond more flexibly to new challenges that today's regulated world of banking brings in a large number. A Bank body as a whole must have sufficient collective knowledge, skills and experience to understand all the activities of the Bank, ranging from day-to-day operations, the main risks associated with the subject of enterprise and corporate governance to specific knowledge of the banking industry and its regulatory environment. Individual members are selected to complement each other, both in terms of their professional knowledge and their experience, so that the body as a whole is capable of performing its functions.

The selection of such candidates for membership of the bodies is a demanding and regulated process, in which an assessment is performed of whether the candidate has sufficient experience and skills for the job and is the right person to fit in and thus creates, together with the other members, a competent and sufficiently diverse group of people which will, as a whole, be able to perform its function properly. When a candidate is being selected, great emphasis is put on the professional competence and experience of the individuals, taking into account their personality.

Since the Bank is, on the basis of its size and the number of employees, a medium-sized company with a lower number of members in its governing bodies, it is more difficult to achieve a high level of diversity than in the case of large companies.

The Management Board consists of six members (since 30 May 2018), the Supervisory Board of six members (since 30 May 2018) and an Audit Committee of three members. The legislation determines special rules for the composition of the Audit Committee so that the Committee is professionally competent to perform its function, and the Bank follows these rules in the selection process to comply with the statutory requirement. The Management Board consists of men from 41 to 53 years of age, with 14 to 22 years of experience in the banking sector and with 12 to 20 years of management skills. They acquired their education either in the Czech Republic or abroad.

In 2018, the Supervisory Board consisted of five men and one woman aged between 33 and 74, with 10 to 42 years of experience in the banking sector and 19 to 33 years of management skills. The Supervisory Board was diverse in terms of geographical origin, with two citizens of the Federal Republic of Germany, one citizen of the Russian Federation and three citizens of the Republic of Austria. Since 2018, the Supervisory Board underwent changes in its composition and staffing that will be completed in 2019. With effect from 14 January 2019, the Supervisory Board will consist of nine members. In 2018, two members of the Supervisory Board resigned, the General Meeting appointed one new member, and Bank employees elected three new members from themselves.

The Bank is aware of the importance of diversity principles and intends to focus on setting goals in this area in the upcoming years.

13.9. Internal Control

Internal control is a process whose participants are the Management Board, executives and all other employees, and which is designed to provide reasonable assurance regarding the achievement of the Bank's objectives relating to:

- effectiveness and efficiency of operations,
- identification, measurement and mitigation of risks,
- reliability of financial reports,
- compliance with applicable laws and regulations.

An effective internal control system provides reasonable (not absolute) assurance of security of property, reliability of financial information and compliance with laws and regulations. This concept of reasonable assurance lies in a constant evolution and implementation of internal controls and constitutes a tool of the bank's Management Board to achieve an optimum balance between the risk of business processes and the level of controls necessary to ensure the achievement of the bank's business objectives.

The internal control system methodology is based on internal control principles as recommended by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This approach provides the Bank with a good-quality, clear, practical basis for its own internal control system.

The Management Board ensures the setting of appropriate control principles, procedures and activities supporting the control objectives at all levels, and is responsible for maintaining the functionality and effectiveness of the internal control system.

In the management of key risks within the risk tolerance levels set by the bank's Management Board, each head of an organisational unit identifies appropriate internal controls with respect to the cost/benefit indicator. In accordance with the identified risks, the relevant processes and associated risks are subject to checks (controls).

The competent officer prepares a plan of checks and controls that includes an overview of ongoing checks and controls in the unit for each organisational unit. For each check or control, it is stated how its execution is documented. All control activities, including related responsibilities, powers and internal guidelines, can be traced back.

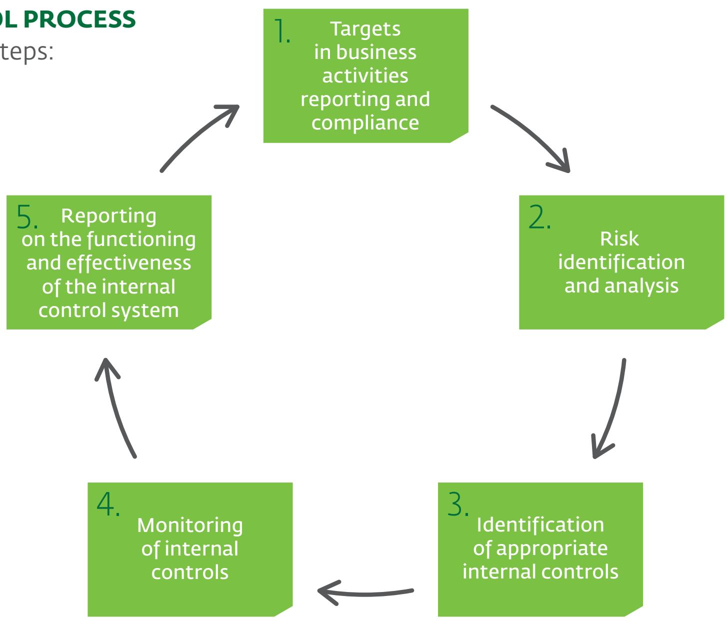
As part of the internal control system, the bank has established the following types of controls:
- operational controls – routine controls of an everyday nature,
- periodic controls – controls with a minimum of a one-week execution interval,
- managerial controls/key control indicators – monitoring of the execution of operational or periodic controls by the authorised person,
- extraordinary controls – control investigations – their aim is to discover the objective causes of any negative findings.

The established control mechanisms are periodically reviewed and updated as necessary.

The internal control system is continuously monitored and evaluated. Its functionality and effectiveness is regularly assessed by the Management Board and the Audit Committee. An internal audit independently reviews the Bank's activities, including the risk management system and the internal control system.

The process of accounting and financial reporting may be exposed to risks of inaccuracies resulting from human or technical factors. The Bank attempts to minimise these risks in the following ways::
- prepared accounting principles, which are described in the notes to the annual financial statements,
- detailed methodological guidelines and operating procedures for all areas of accounting, which are used in everyday accounting practice,
- standard inventory process,
- established internal controls for accounting,
- efforts to automate bookkeeping to the greatest possible extent.

THE INTERNAL CONTROL PROCESS
consists of the following steps:



14. REMUNERATION

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14.1. Principles for Remuneration of Senior Management

Senior managers of the Bank are members of the Management Board and members of the Supervisory Board.

Members of the Management Board are listed in the Chapter Bank Bodies (see Chapter 7).

The Supervisory Board as a body with the power to elect and dismiss members of the Management Board approves the service agreement with the individual members of the Management Board; among other things, this agreement governs the method of remuneration of the member, i.e. the amount of income.

The Supervisory Board has not established any committees, not even a remuneration committee.

The sole shareholder exercising the powers of the General Meeting is a body with the power to elect and dismiss members of the Supervisory Board. The majority of members of the Bank's Supervisory Board are not entitled to remuneration or any other claims for the performance of their duties. The members of the Supervisory Board thus perform this function for free. Only the so-called independent members of the Supervisory Board (i.e., persons who are not employees of the Sberbank Group) are remunerated for the performance of their duties on the basis of a relevant service agreement on the performance of the function of a member of the Supervisory Board concluded with these persons in accordance with the relevant provisions of the Business Corporations Act.

In 2018, only one service agreement for the performance of the function of a member of the Supervisory Board was concluded, namely the service agreement for the performance of the function of a member of the Supervisory Board dated 1 November 2018 concluded between the Bank and Mr Dirk Adolf Hinze.

The chairman of the Management Board and members of the Management Board are remunerated on the basis of their respective service agreements on the performance of the function of a member of the Management Board, concluded with them in accordance with the relevant provisions of the Business Corporations Act. The service agreement on the performance of the function of a member of the Management Board has been approved by the Supervisory Board. The Bank pays fixed monthly remuneration to the chairman of the Management Board and members of the Management Board for their management activities and other activities related to the performance of their duties as members of the Management Board.

In 2018, service agreements on the performance of the function of a member of the Management Board were concluded with three new members of the Management Board, i.e. Mr Edin Karabeg, Mr András Kaliszky and Mr Daniel Krumpolc, due to the establishment of their term of office by a decision of the Supervisory Board. These Service Agreements have been approved by the Supervisory Board.

The basic principles for remuneration the members of the Management Board are regulated in the internal guideline entitled "Remuneration Policy". The aforementioned internal guideline, which was approved by the Supervisory Board on 11 December 2018, is regulated in accordance with European and Czech law. The concluded service agreements reflect the principles for determining the remuneration of members of the Management Board governed by this internal guideline.

The remuneration of the members of the Management Board corresponds to their authority, tasks, expert knowledge and experience. The chairman of the Management Board and members of the Management Board are remunerated with regard to the assessment of their performance, which is measured based on the fulfilment of the defined performance criteria. The performance criteria determined in cooperation with Sberbank Europe are set for each calendar year and are derived from the financial goals (profit of Sberbank Europe before tax, profit of the Bank before tax and profit of the managed organisational unit) and from the fulfilment of structural duties. The variable remuneration component is up to 100% of the fixed component. The bonus is a variable remuneration component and is subject to regulatory requirements of the CNB and the European Banking Authority. The regulatory requirements including possible consequences are also set out in the Performance Agreements with the individual members of the Management Board.

The Supervisory Board approves the variable component of the remuneration of members of the Management Board in accordance with the approved budget of the Bank.

As an institution with an organisational structure of medium complexity, the Bank does not apply the payment of variable components in non-cash instruments.

The variable remuneration component is paid out within a three-year period. 60% of the variable remuneration component is paid out immediately, i.e. without delay, and the payment of the remaining 40% of the variable remuneration component is deferred for a period of three years. The entitlement to the variable remuneration component with deferred maturity is only awarded if to do so is sustainable from the point of view of the overall financial situation of the Bank. The remuneration with deferred maturity is paid out gradually in three payments, provided that no more than one payment a year should be made. The "malus" institute (denial of the entitlement to the payment of the variable remuneration component) and the "clawback" institute (the callback of the remuneration already paid out) shall also apply to the members of the Management Board. The rules for applying these institutes are set out in detail in the internal guideline Remuneration Policy.

In addition to the aforementioned monthly remuneration and annual bonuses, members of the Management Board are also entitled to:

- meal vouchers in the amount of CZK 100 (the employer pays 55%),
- contribution to a supplementary pension of 300 CZK/month,
- five weeks of holiday,
- payment of the difference between the gross monthly income and sickness benefit in the event of incapacity for work of up to three months during one calendar year,
- car allowance instead of a company car,
- if a member of the Management Board is dismissed before the end of their term of office, the severance payment shall be 50% of their gross annual income.

The chairman of the Management Board, members of the Management Board, members of the Supervisory Board or persons related to them do not own shares or options to purchase shares of the Bank, since these are not publicly traded.

With the exception of the aforesaid service agreements, there are no other agreements concluded between members of the Management Board and the Bank that might be substantial and beneficial upon the termination of the legal relationship from the perspective of the annual report's users.

14.2. Income of Senior Management

Senior managers are members of the Management Board and members of the Supervisory Board.

1. Income of the Management Board

Service agreements on the performance of the function of members of the Management Board have been concluded with the individual members of the Management Board, under which the members of the Management Board are remunerated. In accordance with their service agreements and the Remuneration Policy, the members of the Management Board received the following incomes in 2018:

in millions of CZK	2018
Fixed part of remuneration	55,380
Variable part of remuneration*	6,073
Total financial income	61,453
Income in kind**	0.701

* The variable part of remuneration consists of bonuses paid for the previous years.

** The income in kind is the sum of additional taxation of 1% of the purchase value of the vehicle for the entire year and for all members of the Management Board.

The above amounts represent the sum of the income received by the individual members of the Management Board for 2018.

The sum of all the unpaid variable components of the remuneration of the members of the Management Board with deferred maturity amounts to CZK 4,879,096.67.

The above amounts are based on the managerial skills, expertise and experience of the individual members of the Management Board and on the overall benefit to the Bank.

This income was paid based on meeting the financial, qualitative and development criteria and based on the efficiency criteria.

2. Income of the Supervisory Board

Only one member of the Supervisory Board received a financial income for the performance of their function in 2018, amounting to CZK 63,500.

14.3. Fees Charged by Audit Companies for 2018

In CZK thousands	Audit services provided by an auditor of Financial Statements	Non-audit services provided by an auditor and the companies within its group	Consulting services	Other	TOTAL
Ernst & Young Audit, s.r.o. and Ernst & Young, s.r.o.	**7,200**	**1,926**			**9,126**
PricewaterhouseCoopers Česká republika, s.r.o.			3,085	39	3,124
Deloitte Advisory Sp z.o.o., Polsko				520	520
Deloitte Advisory, s.r.o.			6,647		6,647
KPMG Česká republika, s.r.o.			9,976	690	10,666
TOTAL	**7,200**	**1,926**	**19,708**	**1,249**	**30,083**

15. CORPORATE SOCIAL RESPONSIBILITY

15.1. Introduction

In 2014, Directive 2014/95/EU of the European Parliament and of the Council amending Directive 2013/34/EU concerning the disclosure of non-financial and diversity information by certain large undertakings and groups (the "EU Directive") was adopted. This EU Directive was implemented in the Czech Accounting Act No. 563/1991 Sb. There is a requirement for larger companies and undertakings to process and publish a report on non-financial information, the first one to be prepared for 2017. The report may be processed as part of the company's annual report or as a separate report. This report contains selected non-financial information related to the company, such as environmental awareness, social and employment issues, human rights, the fight against corruption and bribery, etc.

Pursuant to Section 32g(7) of the Act No. 563/1991 Sb. on Accounting, the Bank is exempted from the obligation to prepare a report on non-financial information. The reason for the exemption is the fact that Sberbank Europe AG prepares the report on non-financial information in accordance with the European legislation for the entire group, including the Bank. This stated consolidated report on non-financial information will be published at website www.sberbank.at.

The Bank's major pillars especially include the active involvement of its employees in the Bank's volunteer programme, environmentally responsible behaviour of the Bank, support for landscape restoration and charity. Funds are distributed from the Sberbank CZ Endowment Fund to non-profit organisations for projects by which the Bank aim at improving the lives of specific people and making them more enjoyable.

Volunteering by the Bank employees

The Bank organised three volunteer days in 2018, with 27 employees participating. The Bank helped non-profit organisations with e.g. spring planting and cleaning in the House of Peaceful Old Age in Brno, and with cleaning the grounds of the Hluboš Castle, which should be rebuilt into a social enterprise. Almost 430 employees have been involved in the Volunteering project since its launch in 2012. The Bank pays one day's full salary a year for each employee to help the needy.

Purchase of products

In the course of the year, the Bank's employees had several opportunities to directly support the association Práh Jižní Morava and the endowment fund Svoboda by purchasing products. This way the employees supported both organizations with the total amount of almost CZK 20,000.

Collection of school supplies

In September, a material collection of school supplies for vulnerable children and youth was held among the Bank's employees. The partner of the event was the organization of the House of Three Wishes (Dům tří přání). The Bank's employees from all over the country joined the collection.

Christmas Gifts to the Needy

During the seventh year of the Dárky pro potřebné (Gifts for the Needy) event, our employees fulfilled Christmas wishes of children, seniors and people with disabilities. In total, the employees bought over 300 gifts.

As part of the event, the Bank cooperated with the Kamenná Nursing Home in Brno, the St. Vavřinec Nursing Home in Liberec, the Mašťov Children's Home and the Laguna Psáry Home.

The clients of these facilities had previously created lists of their Christmas wishes, which were delivered to the Bank's employees. The employees then divided the gift wishes among themselves and bought and wrapped the gifts. The Department of Communication took care of the correct distribution to the facilities mentioned above. The wishes that were fulfilled included toys, cosmetics, clothes, household supplies, small electronic items and books. The Bank's employees from the whole country joined the popular initiative.

Promotion of cancer prevention

In November, the Bank participated actively in the global campaign for the prevention of prostate and testicular cancer – the Movember Project. The Bank's employees contributed almost CZK 130,000 and thus became the third most successful team donor in the Czech Republic.

Almost all the employees of the Bank were actively involved in Movember. Among other things, they baked moustached biscuits for sale for charities. The money that was collected was donated to the "Muži proti rakovině" endowment fund for the prevention and treatment of prostate and testicular cancer.

SBERBANK PODPORUJE
MOVEMBER

Promoting a Barrier-Free Environment

More than three-quarters of the Bank's branches have been gradually transformed into barrier-free offices. In the case of the branch reconstruction, the Bank intends to continue in this activity.

15.2. Sberbank CZ Endowment Fund

The Bank provides funds for charitable activities through the Sberbank CZ Endowment Fund, which was established in 2012 as a charitable fund and later transformed into a separate legal entity in March 2014. The funds supports only non-profit organisations registered in the Czech Republic (in particular foundations, endowment funds, associations, community organisations and churches), and only on the condition that the resources are used solely for purposes that are consistent with the Fund's charitable goals and mission as set out in the Memorandum of Association; the areas that are supported include in particular the following:

- vulnerable children and supporting the activities of children living in socially substandard conditions,
- vulnerable women and supporting activities for women living in socially substandard conditions,
- promoting education and financial literacy,
- people with disabilities,
- seniors,
- environmental projects.

In 2018, the Administrative Board of the Sberbank CZ Endowment Fund decided to support the following six projects with the total amount of CZK 120,000.

- CZK 30,000 for a weekend meeting for young people from children's homes – so-called adult training, Spolu dětem o.p.s. (Together for Children, Public Service Company),
- CZK 20,000 for the purchase of trees that were planted in the Beskydy Mountains by the employees of the Bank, ČSOP Salamandr (Czech Union for Nature Conservation),
- CZK 20,000 for contribution to training of an assistance dog for boy Tom, Kouzelná přání z. s. (Magical wishes, registered association),
- CZK 15,000 for a rehabilitation stay in the Hájek Centre for Sofia, Rodinné a mateřské centrum Lhota pod Libčany (Family and Parent Centre Lhota pod Libčany),
- CZK 15,000 for rehabilitation stay for Lukáš within the Pomoc Lukášovi (Help to Lukáš) collection, Liberecko, z.s. (registered association),
- CZK 20,000 for recondition stay for blind clients and guide dogs, VODICÍ PES, z. s. (GUIDE DOG, registered association).

15.3. Environmental Protection

The Bank participates in environmental protection and landscape restoration. The Bank was the first bank to begin to measure and reduce its carbon footprint under the SLEDUJEME/SNIŽUJEME CO_2 (WE MONITOR/ REDUCE CO_2 EMISSIONS) programme. At the same time, the Bank has long been supporting the planting of trees in the Beskydy PLA.

Business Trips

In 2014, the Bank successfully launched the internal application Car Share, which supports car sharing. When planning a company car trip, the ride is entered in a special application on the intranet. Any colleague who is going the same way can join the ride. This system of travelling reduced the average fuel consumption per employee in the years 2014–2018.

The Bank also actively promoted environmentally responsible behaviour through a project called "Do práce na kole" (To Work on a Bike), under which 44 employees rode 12,634 kilometres.

15.4. Respecting Human Rights

In carrying out banking activities, the Bank does not forget the fundamental human rights and moral values on which civilised society is based. The Bank is aware of its social responsibility and fully respects fundamental human rights and freedoms. The company identifies with the current positive trends and recognises that the right to have a payment account, among other things, is one of the basic rights of modern society.

The Bank always acts to avoid and prevent the financing of terrorism and other business transactions with entities that grossly violate human rights.

15.5. Fight Against Corruption and Bribery

The Bank fully recognises values and attitudes expressing zero tolerance of all forms of direct or indirect bribery or corruption. As a member of the Czech Banking Association, the Bank consistently adheres to the Ethical Code of the Czech Banking Association, which is one of the cornerstones of conduct of member banks, expressing, among other things, the requirement for a transparent approach and execution of banking activities in the financial market.

Being aware of the seriousness and meaning of corruption, the Bank has established and further elaborated specific measures that effectively prevent corruption or abuse of power by its employees. These rules of conduct are mandatory for all employees of the Bank and are observed without exception also in other relationships to which the Bank is a contractual party.

15.6. Social and Employment Issues

The Bank supports its employees in the area of mental and physical health, and this was confirmed in the last year in the area of the employee benefits and care for employees.

- The Bank is focused on better drawing of holiday time and makes sure that its employees plan their days off and draw them to the greatest extent possible.
- In order to support the work-life balance of its employees, the Bank provides employees with five paid personal days off in addition to the regular five weeks of holiday.
- The Bank actively promotes volunteerism; employees can register for charitable work and their absence of a length of one day is paid.
- The Bank organises workshops and events to promote the health of its employees, e.g. the prevention of breast cancer, etc.
- The Bank supports the setting of a work-life balance, among other things, by educational actions in the areas of stress management, sleep hygiene, back health, etc.
- In order to strengthen team spirit, the Bank continues to support sport, cultural and social activities.
- The Bank also negotiated a higher number of discounts for employees at the Bank's partners and other third parties.
- Finally, the Bank allows its employees to work from home when working conditions allow so

16. ADDITIONAL INFORMATION

16.1. Shares

The Bank's shares are ordinary registered shares, are numbered if so provided by law, and are issued as book-entry securities. Book-entry shares are registered with the Central Securities Depository Prague (Centrální depozitář cenných papírů, a.s.).

The Bank has issued 561,198 dematerialised registered shares with a par value of CZK 5,000 per share. The total volume of the issue is CZK 2,805,990,000.

The registered capital that has been paid up in full amounts to CZK 2,805,990,000.

The holder of all the above shares is the sole shareholder – Sberbank Europe AG, with its registered office at Schwarzenbergplatz 3, 1010, Vienna, Republic of Austria.

The shares are freely transferable. The shares are not traded on the regulated European market.

The Bank has not issued any convertible bonds which carry the right to their exchange for shares, or any priority bonds which carry the right to a preferential subscription for shares.

There are no programmes on the basis of which employees and members of the Management Board may acquire shares of the Bank, options on such shares or other rights to them under preferential conditions.

During 2018, the Bank did not own any of the controlling entity's own shares or shares.

No members of senior management hold any shares constituting an ownership interest in the Bank.

No rating has been assigned to the shares of the Bank.

Basic rights and obligations of shareholders:

The basic rights and obligations of shareholders are governed by the Articles of Association and Act No. 90/2012 Sb. on business corporations.

All the shares carry the same rights and obligations.

Each shareholder has the right to participate in the management of the Bank through the General Meeting and the right to participate in the Bank's profits approved for distribution.

Shareholders shall exercise their rights and fulfil their obligations assigned to them under the Articles of Association and applicable laws at the General Meeting or outside it. Each shareholder is entitled to attend the General Meeting, to vote, to request and receive explanations of matters relating to the Bank or entities controlled by the Bank, and to raise objections and submit counterproposals. The voting rights attached to shares are not limited. The voting right of each shareholder is associated with the respective share. Each share with a par value of CZK 5,000 represents one vote. The total number of votes is 561,198.

The structure of the Bank's equity is presented in a separate financial statement in the Financial Position Statement in Chapter 18.

Equity in millions CZK	**31.12.2018**	31.12.2017
Registered capital	2,806	2,806
Agio	4,015	4,015
Reserve fund	187	166
Retained profit	1,694	1,767
Total equity	**8,702**	**8,754**

COMPANY SHARES:

Type	ordinary shares
Form	561,198 registered shares
Appearance	book entry
Number of shares	561,198
Total issue volume	CZK 2,805,990,000
Nominal value per share	CZK 5,000
Share tradability	the shares are not traded on any public market

The Bank has not issued any convertible bonds which carry the right to their exchange for shares, or any priority bonds which carry the right to a preferential subscription of shares.

MANAGEMENT BOARD:
Members of the Management Board are elected and recalled by the Supervisory Board for a term of office of three years, unless their service agreements stipulate a different term. Management Board members can be re-elected. The election and dismissal of a member of the Management Board is carried out at a meeting of the Supervisory Board, which has a quorum if a majority of members are present. Supervisory Board decisions are adopted by a simple majority. If the numbers of votes are equal, the vote of the Chairman of the Supervisory Board (in the Chairman's absence, the vote of the Deputy Chairman or their representative) shall decide.

The Management Board is the Company's statutory body. The Management Board is the governing body of the Company and represents the Company in all matters. It is responsible for the creation, implementation, monitoring and inspection of the Company's business plans, for the organisation of the Company's activities and exercises the rights of an employer. The Management Board decides on all company matters that are not reserved by law or the Articles of Association for the General Meeting, the Supervisory Board or the Audit Committee. A detailed description of the Management Board's powers is set out in Section 15 of the Company's Articles of Association. The Management Board of the Company does not have any special powers pursuant to Section 118 (5) (h) of the Capital Market Undertakings Act.

COMPANY ARTICLES OF ASSOCIATION:
The amendment of the Company's Articles of Association is the responsibility of the Company's General Meeting in accordance with the provisions of the Business Corporations Act.

The Company has not entered into any significant agreements that become effective, change or expire in the event of a change in control of the Bank. The Company has not entered into any agreements with members of the Management Board or employees to whom it would owe performance in the event of the termination of their function or employment in connection with a takeover bid.

The Company has not introduced any programs that would allow employees and members of the Management Board to acquire the Company's participation securities, options on such securities or other rights under preferred conditions.

16.2. Mortgage Bonds

The aggregate liabilities under all mortgage bonds in circulation issued by a single issuer must be fully covered by claims or parts thereof under mortgage loans (ordinary cover), or by an alternative method (alternative cover). Only claims under mortgage loans or parts thereof not exceeding **70% of the pledge value** of the pledged real estate property securing these claims may be used for the ordinary cover of the aggregate liabilities under all mortgage bonds in circulation. So far, the Bank has never used any alternative cover.

As of 31 December 2018, the cover of the issued mortgage bonds by mortgage loans amounted to CZK 2.589 billion. Bond liabilities (principal and accrued interest) were covered by more than 257%. The pledge value of real estate properties securing these loans is CZK 6.844 billion. The Bank is obliged to check claims, revaluate real property regularly and monitor compliance of the pledges with the Land Register. The cover sufficiency is monitored by the Bank daily.

All completed issues of the Bank's mortgage bonds were duly repaid at maturity. The Bank may register new issues of mortgage bonds on the Prague Stock Exchange. No rating has been assigned to the Bank or to any mortgage bonds issued by the Bank.

ISIN bonds: **CZ0002003254** and **CZ0002003460** were issued on the basis of the Bond Programme 2010 of the Bank, the base prospectus of which was approved by the decision of the Czech National Bank, Ref. No. 2013/10785/570, dated 27 September 2013, effective on the same date.

Issue of mortgage bonds (MB) of the Bank for the year ending on 31 December 2018:

MORTGAGE BONDS VB CZ 2.30% MATURING IN 2018

- Identification code (ISIN): CZ0002003254
- Issue date, form: 24 October 2013, in bearer form, dematerialised
- Total issue volume: CZK 1 billion
- Nominal value, quantity: CZK 10,000, 100,000 pieces
- Coupons: fixed annual interest rate of 2.30% payable annually in arrears
- Trading on: Prague Stock Exchange
- Maturity period: The MB were redeemed at their nominal value on 24 October 2018

MORTGAGE BONDS VB CZ 2.00% MATURING IN 2020

- Identification code (ISIN): CZ0002003460
- Issue date, form: 26 June 2014, in bearer form, dematerialised
- Total issue volume: CZK 1.3 billion
- Nominal value, quantity: CZK 10,000, 130,000 pieces
- Coupons: fixed annual interest rate of 2.00% payable annually in arrears
- Trading on: Prague Stock Exchange
- Maturity period: The mortgage bonds will be redeemed at their nominal value on 26 June 2020

In accordance with the provisions on enhanced client protection under Directive 2004/39/EC of the European Union on markets in financial instruments (The Market in Financial Instruments Directive) – MiFID, the Bank published on its website the method for calculating the mortgage bond market price (https://www.sberbankcz.cz/obcane/investovani/hypotecni-zastavni-listy – under "Appendices" and "Mortgage Bond Calculation").

Detailed information on the Bank's mortgage bond issues is available on the website www.sberbankcz.cz. (https://www.sberbankcz.cz/obcane/investovani/hypotecni-zastavni-listy)

16.3. Judicial Proceedings

Passive litigation:

In 2015, the Bank paid CZK 129.4 million to Mgr. Daniel Schaffer in damages on the basis of the final decision of the court of second instance. The Bank strongly disagrees with this court decision and has filed an extraordinary appeal against it with the Supreme Court of the Czech Republic. The appellate proceedings are still pending.

At the end of 2018, no litigation against the Bank with a presumed significant impact on the Bank's position had been initiated.

Debt collection:

At the end of 2018, the Bank had in particular the following claims against its clients:

- the Bank's claim in the amount of CZK 302,005,083.32 registered in insolvency proceedings against a client of the Bank (PO)
- the Bank's claim in the amount of CZK 84,893,413.98 registered in distraint proceedings against a client of the Bank (PO)
- the Bank's claim in the amount of CZK 42,487,563.93 registered in insolvency proceedings against a client of the Bank (PO)
- the Bank's claim in the amount of CZK 39,390,573.72 registered in insolvency proceedings against a client of the Bank (PO)
- the Bank's claim in the amount of CZK 28,932,920.07 registered in insolvency proceedings against a client of the Bank (PO)
- the Bank's claim in the amount of CZK 28,562,113.60 registered in insolvency proceedings against a client of the Bank (PO)
- the Bank's claim in the amount of CZK 24,036,642.23 registered in insolvency proceedings against a client of the Bank (PO)
- the Bank's claim in the amount of CZK 22,604,049.58 registered in insolvency proceedings against a client of the Bank (PO)
- the Bank's claim in the amount of CZK 17,470,243.05 registered in distraint proceedings against a client of the Bank (PO)
- the Bank's claim in the amount of CZK 16,040,460.08 registered in insolvency proceedings against a client of the Bank (PO)
- the Bank's claim in the amount of CZK 15,431,614.19 registered in insolvency proceedings against a client of the Bank (PO)

The list of the above active and passive litigation is not exhaustive and includes only major litigation.

16.4. Major Contracts

Except contracts concluded under regular business conditions, no major contracts have been concluded in which the Bank is a contractual party and which might result in a liability or claim of any member of the Group affecting the Bank's ability to fulfil its obligations to holders of securities (bonds) based on the issued securities (bonds).

16.5. Research, Science and Development

In 2018, the Bank invested CZK 85 million in research and development activities (compared to CZK 115 million in 2017). These are mainly internal costs associated with the implementation of projects in the development of information technology. The largest share in these costs is attributable to projects designed to improve multi-channel banking, improve the support of the issuance of payment cards, including transaction processing, and improve the data warehouse.

16.6. Information on contributions to the Guarantee Fund

As an investment firm, the Bank contributes to the Securities Brokers' Guarantee Fund, which provides a guarantee scheme from which the clients of an investment firm that is unable to meet its obligations to its clients are reimbursed. The base for calculating the Bank's contribution for 2018 was CZK 21 million (2017: CZK 20 million) and the contribution for 2018 was CZK 0.4 million (2017: CZK 0.4 million).

16.7. Conflict of interest

The Bank declares that it is not aware of any potential conflicts of interest between the obligations of members of the Management Board, including members of senior management and members of the Supervisory Board to the Bank, and their private interests or other duties.

17. ALTERNATIVE PERFORMANCE INDICATORS

In order to provide a more qualified presentation of financial results and financial performance, the bank presents users with annual reports and additional, alternative indicators of financial performance. These are indicators that are derived from the basic indicators described and presented in the financial statements and the notes thereon, to which they can be reconciled, or additional data needs to be stated if they are not presented elsewhere in the financial statements or in the annual report.

The bank has decided to use the following alternative performance indicators to present the financial results and financial performance.

Total amounts due to clients

An indicator that represents the total liabilities from deposits received and securities issued. It constitutes the total resources which the bank received from non-financial entities.

The indicator is the sum of selected positions of the passive party to the statement of financial position (balance sheet) of the bank presented in the financial statements:

in millions CZK	2018	2017
Total amounts due to clients	**67,101**	**66,043**
– Amounts due to clients	66,088	64,129
– Liabilities from debt securities in issue	1,013	1,914

Profit from financial operations before creation of reserves and loss provisions

This indicator represents the total amount of revenues the Bank has achieved in its main business, including in particular the acceptance of deposits and the provision of loans.

The indicator is the sum of the selected positions of the Bank's statement of comprehensive income presented in the financial statements:

in millions CZK	2018	2017
Profit from financial operations before the creation of reserves and loss provisions:	**2,398**	**2,228**
– Net interest income	1,780	1,646
– Net fee and commission income	418	408
– Net profit from financial instruments at fair value into profit or loss and foreign exchange	149	174
– Net income from other financial instruments	51	0

Share of non-performing loans (NPL)

The indicator represents the proportion of non-performing loans (defaulted loans) listed in the Note 33b) of the Bank's financial statements to the total amount of loans and advances stated in the Bank's statement of financial position:

in millions CZK	2018	2017
Share of non-performing loans (NPL)	2.63%	5.43%
– Loans and advances – non-performing	1,704	3,350
– Loans and advances to clients – gross	64,810	61,678

Return on Average Assets (ROAA)

This indicator represents the average rate of return on the Bank's assets. It is calculated as the quotient of the Net Profit for the Accounting Period and average Total Assets for the relevant accounting period. Net Profit for the Accounting Period is presented in the Statement of Comprehensive Income. The average total assets is calculated as the arithmetic mean of the total assets status values at the end of each month in the relevant accounting period.

in millions of CZK or % p.a.	2018	2017
Net Profit for the Accounting Period	377	424
Average Assets for the Accounting Period	80,011	78,214
Return on Average Assets (ROAA)	0.47%	0.54%

Return On Average Equity (ROAE)

This indicator represents the average rate of return on the Bank's Tier 1 equity. It is calculated as the quotient of the Net Profit for the Accounting Period and average Tier 1 Equity for the relevant accounting period. Net Profit for the Accounting Period is presented in the Statement of Comprehensive Income. The average Tier 1 equity is calculated as the arithmetic mean of the Tier 1 equity status values at the end of each month in the relevant accounting period.

in millions of CZK or % p.a.	2018	2017
Net Profit for the Accounting Period	377	424
Average Tier 1 equity for the accounting period:	7,846	7,984
Return On Average Tier 1 Equity (ROAE)	4.80%	5.31%

Assets Per Employee

This indicator represents the total volume of the Bank's property (assets) reported in the Bank's Statement of Financial Standing (balance sheet) presented in the financial statements per employee. The stated number of employees is the recalculated average registered number of employees.

in millions CZK	2018	2017
Asset volume	79,755	81,464
Number of staff	828	914
Assets Per Employee	96.3	89.1

Administrative expenses per employee

This indicator represents the total volume of the Bank's administrative expenses reported in the Bank's Statement of Comprehensive Income presented in the financial statements per employee. The stated number of employees is the recalculated average registered number of employees. The indicator represents the total administrative expenses of the Bank per employee.

in millions CZK	2018	2017
Administrative expenses	1,577	1,454
Number of staff	828	914
Administrative expenses per employee	1.9	1.6

Net Profit per Employee

This indicator represents the total net profit for the accounting period reported in the Bank's Statement of Comprehensive Income presented in the financial statements per employee. The stated number of employees is the recalculated average registered number of employees.

in millions CZK	2018	2017
Net profit	377	424
Number of staff	828	914
Net Profit per Employee	0.455	0.464

FINANCIAL STATEMENTS

Sberbank CZ, a.s.

Residence:	U Trezorky 921/2, 158 00 Praha 5
Identification number:	25083325
Legal form:	joint-stock company
Primary business:	banking
Date of preparation:	9 April 2019

FINANCIAL STATEMENTS
(Prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

FOR THE YEAR ENDED 31 DECEMBER 2018

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

in CZK million	Note	Year ended 31 December 2018	2017
Interest revenue calculated using the effective interest method		2,092	1,909
Interest expense calculated using the effective interest method		(293)	(253)
Other interest expense and similar charges		(19)	(10)
Net interest income	**3**	**1,780**	**1,646**
Fee and commission income		550	559
Fee and commission expense		(132)	(151)
Net fee and commission income	**4**	**418**	**408**
Net gains from financial instruments at fair value through profit or loss and foreign exchange	5	149	174
Net income from other financial investments	6	51	0
Net gains on derecognition of financial assets measured at amortised cost	7	0	0
Credit loss expense on financial assets		(303)	(215)
Provisions		9	(4)
Administrative expenses	8	(1,577)	(1,454)
Other operating income	9	31	42
Other operating expenses	10	(80)	(66)
Operating profit		**478**	**531**
Profit before income tax		478	531
Income tax expense	11	(101)	(107)
Profit for the year		**377**	**424**
Other comprehensive income			
Net gains on investments in debt instruments measured at FVOCI		0	0
Other comprehensive income for the period, net of tax		**0**	**0**
Total comprehensive income		**377**	**424**
Profit attributable to:			
– Owners of the Bank		377	424
Profit for the period		**377**	**424**
Total comprehensive income attributable to:			
– Owners of the Bank		377	424
Total comprehensive income		**377**	**424**

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

in CZK million	Note	As at 31 December 2018	2017
ASSETS			
Cash and balances with central banks	12	12,165	17,439
Loans and advances to banks	13	1 890	1,892
Derivative financial instruments held for trading	16	235	192
Debt securities at fair value through other comprehensive income	17	811	0
Debt securities at amortised cost (loans and receivables)	17	311	245
Loans and advances to customers	14,15	62,902	60,483
Changes in the fair value of the portfolio of hedged instruments	16	(154)	(70)
Derivative financial instruments to hedge interest rate risk	16	118	57
Prepaid expenses and accrued income	21	70	64
Other assets	21	314	341
Deferred tax assets	20	200	81
Property, plant and equipment	19	243	263
Intangible assets	18	650	477
Total assets		**79,755**	**81,464**
LIABILITIES			
Deposits from banks	22	2,971	5,387
Due to customers	23	66,088	64,129
Derivative financial instruments held for trading	16	145	185
Derivative financial instruments to hedge interest rate risk	16	6	2
Debt securities in issue	24	1,013	1,914
Current income tax liabilities		21	47
Other liabilities	25	553	808
Deferred income and accrued charges	25	22	20
Provisions	26	54	39
Subordinated debt	27	180	179
Total liabilities		**71,053**	**72,710**
EQUITY			
Share capital	28	2,806	2,806
Share premium		4,015	4,015
Statutory reserve		187	166
Retained earnings		1,694	1,767
Total equity		**8,702**	**8,754**
Total equity and liabilities		**79,755**	**81,464**

The accompanying notes are an integral part of these financial statements.

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

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

in CZK million	Share capital	Share premium account	Statutory reserve	Other reserves	Retained earnings	**Total Equity**
As at 1 January 2017	**2,806**	**4,015**	**152**	**0**	**1,357**	**8,330**
Other comprehensive income (recognized directly in equity)	0	0	0	0	0	0
Net profit	0	0	0	0	424	424
Total comprehensive income for 2017	**0**	**0**	**0**	**0**	**424**	**424**
Transfer to reserves	0	0	14	0	(14)	0
As at 31 December 2017	2,806	**4,015**	**166**	**0**	**1,767**	**8,754**
Adjustment on initial application of IFRS 9 (net of tax) (Note 2(b))	0	0	0	0	(429)	(429)
As at 1 January 2018 (restated)	**2,806**	**4,015**	**166**	**0**	**1,338**	**8,325**
Other comprehensive income (recognized directly in equity)	0	0	0	0	0	0
Net profit	0	0	0	0	377	377
Total comprehensive income for 2018	**0**	**0**	**0**	**0**	**377**	**377**
Transfer to reserves	0	0	21	0	(21)	0
As at 31 December 2018	**2,806**	**4,015**	**187**	**0**	**1,694**	**8,702**

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2018

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

in CZK million	Note	2018	Restated 2017
Cash flow from / (used in) operating activities			
Profit before income tax		**478**	**531**
Adjustment for:			
Credit loss on financial assets		303	215
Provisions	26	(9)	(52)
Depreciation and amortization of fixed assets	8	143	109
Gain on disposal of fixed assets	9	(12)	0
(Increase) / decrease in operating assets:			
Due from banks, non-demand, over 3 months		189	74
Financial assets at fair value through profit or loss		(104)	(136)
Loans and advances		(3,225)	(5,085)
Changes in the fair value of the portfolio of hedged instruments		84	70
Other assets		27	35
Prepayments and accrued income		(6)	(14)
Increase / (decrease) in operating liabilities			
Due to banks,		3	(887)
Financial liabilities at fair value through profit and loss		(36)	157
Due to customers		1,959	8,342
Promissory notes and certificates of deposits	24	0	7
Other liabilities		(255)	43
Accruals and deferred income		2	4
Net cash flow from / (used in) operating activities before income tax		**(459)**	**3,413**
Net income tax		(144)	(81)
Net cash flow from (used in) operating activities		**(603)**	**3,332**

in CZK million	Note	2018	Restated 2017
Cash flow from / (used in) investing activities			
Purchase of securities		(880)	0
Purchase of property, equipment and intangible assets		(301)	(299)
Sale of property, equipment and intangible assets		17	0
Net cash flow from / (used in) investing activities		**(1,164)**	**(299)**
Cash flow from / (used in) financing activities			
Repayment of mortgage bonds	24	(933)	(1,337)
Other changes in mortgage bonds	24	32	(18)
Other changes in subordinated liabilities	27	1	(10)
Net cash flow from financing activities		**(900)**	**(1,365)**
Net increase / (decrease) in cash and cash equivalents		**(2,667)**	**1,668**
Cash and cash equivalents at the beginning of the year	**31**	**14,140**	**12,472**
Impact of the changes in the foreign exchange rates on cash and cash equivalents		(11)	(39)
Net increase / (decrease) in cash and cash equivalents		(2,656)	1,707
Cash and cash equivalents at the end of the year	**31**	**11,473**	**14,140**
Operational cash flow from interest			
Interest paid		(312)	(263)
Interest received		2,092	1,909

The accompanying notes are an integral part of these financial statements.

These financial statements were approved for issue by the Management Board on 9 April 2019 and signed on its behalf by:

Signature of the statutory representatives

Dušan Baran
Vice-chairman of the
Management Board

Jindřich Horníček
Member of the
Management Board

Person responsible
for accounting

Alena Sládková

Person responsible
for the preparation of the
financial statements

Libor Nosek

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

Sberbank CZ, a.s. (hereinafter referred to as "the Bank") was incorporated on 31 October 1996. The Bank had 25 domestic regional branches in the Czech Republic as at 31 December 2018 (as at 31 December 2017: 28 branches) and employed 840 people as at 31 December 2018 (as at 31 December 2017: 924 people).

As at 31 December 2018 and 31 December 2017, the ultimate holding company was Sberbank, which is incorporated in Russia and whose registered office is located at 117997 Moscow, 19 Vavilova St. (hereinafter referred to as "Sberbank RU"). The financial statements of the Bank were included in the consolidated financial statements of Sberbank RU. The direct holding company was Sberbank Europe AG (hereinafter referred to as "Sberbank EU"), which is incorporated in Austria.

The Bank's operations primarily consist of the following:
- Providing Czech and foreign currency loans and guarantees
- Accepting and placing deposits in Czech and foreign currencies
- Accepting current and term accounts denominated in Czech and foreign currencies
- Rendering of general banking services through a network of branches and agencies
- Providing foreign exchange transactions on the inter-bank money market
- Providing foreign trade finance and related banking services
- Trading in securities and portfolio management
- Issuing mortgage bonds

Explanation Added for Translation into English

These financial statements have been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

2 Accounting Policies

(a) Statement of compliance and basis of preparation of financial statements

The statutory financial statements, comprising the statement of financial position, statement of comprehensive income and statement of changes in equity, a statement of the cash flow and accompanying notes, of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"). The policies set out below have been consistently applied to all the reporting periods presented if not stated otherwise.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through other comprehensive income, financial assets and liabilities at fair value through profit or loss and all derivative contracts.

The preparation of financial statements to comply with EU IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2 (jj).

The financial statements are rounded to millions of Czech Crowns ("CZK million" or "CZKm") unless otherwise stated.

(b) Changes in accounting policies

The Bank has adopted IFRS 9 with a date of transition of 1 January 2018, which has resulted in changes in accounting. The Bank did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank has elected not to restate comparative figures. Any adjustments to the carrying amount of financial assets and liabilities at the date of transition were recognized in opening retained earnings as at 1 January 2018. The Bank has also elected to continue to apply the hedge accounting requirement of IAS 39 on the adoption of IFRS 9.

As a result, the notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the notes to the financial statements for 2017.

The adoption of IFRS 9 has resulted in changes in the Bank's accounting policies for the recognition, classification and measurement of financial assets and financial liabilities and for the impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments, such as IFRS 7 Financial Instruments: Disclosures.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail mainly in Notes 2(e) and 2(q).

(i) CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

The measurement categories and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at 1 January 2018 are as follows:

	IAS 39		IFRS 9	
(CZKm)	Measurement category	Carrying amount	Measurement category	Carrying amount
Cash and balances with central banks	Loans and receivables	17,439	Amortised cost	17,439
Loans and advances to banks	Loans and receivables	1,892	Amortised cost	1,888
Loans and advances to customers	Loans and receivables	60,483	Amortised cost	59,997
Trading derivative financial instruments	FVPL	192	FVPL	192
Derivative financial instruments to hedge interest rate risk	FVPL	57	FVPL	57
Investment securities	Loans and receivables	245	Amortised cost	229
Trade and other receivables	Loans and receivables	405	Amortised cost	405
Total financial assets		**80,713**		**80,207**

There were no changes to the classification and measurement of the Bank's financial liabilities.

(ii) RECONCILIATION OF STATEMENT OF FINANCIAL POSITION BALANCES FROM IAS 39 TO IFRS 9

The Bank performed an analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

Refer to Note 2(e) for more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the carrying amounts of financial assets in accordance with IAS 39 to their new carrying amounts in accordance with IFRS 9 on 1 January 2018:

(CZKm)	IAS 39 carrying amount 31 December 2017	Reclassi-fications	Expected credit loss allowance	IFRS 9 carrying amount 1 January 2018
Financial assets at amortised cost (loans and receivables)				
Cash and balances with central banks	17,439	0	0	17,439
Loans and advances to banks	1,892	0	(4)	1,888
Loans and advances to customers	60,483	0	(486)	59,997
Investment securities	245	0	(16)	229
Trade and other receivables	405	0	0	405
Financial assets at fair value through profit or loss (mandatory)				
Trading derivative financial instruments	192	0	0	192
Derivative financial instruments to hedge interest rate risk	57	0	0	57
Total financial assets	**80,713**	**0**	**(506)**	**80,207**

The total remeasurement loss net of the related deferred tax effect was recognized in opening reserves at 1 January 2018.

(iii) RECONCILIATION OF IMPAIRMENT ALLOWANCE BALANCE FROM IAS 39 TO IFRS 9

The following table reconciles the prior period closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with IFRS 9 expected loss model at 1 January 2018:

(CZKm)	Allowances/ provisions as at 31 December 2017	Reclassi- fications	Remeasurement reported in retained earnings	Allowances/ provisions as at 1 January 2018
Financial assets measured at amortised cost (loans and receivables)				
Cash and balances with central banks	0	0	0	0
Loans and advances to banks	0	0	4	4
Loans and advances to customers	1,195	0	486	1,681
Investment securities	0	0	16	16
Trade and other receivables	0	0	0	0
Investment securities	1,195	0	506	1,701
Provisions for financial guarantees and other contingent liabilities	29	0	25	54
Deferred tax asset	(61)	0	(102)	(163)
Total loan loss provisions and provisions for financial guarantees and other contingent liabilities net of deferred tax	1,163	0	429	1,592

(iv) CHANGES IN THE PRESENTATION OF INCOME AND EXPENSE RELATING TO FINANCIAL ASSETS AND LIABILITIES

In connection with the transition to IFRS 9 the Bank changed the description of the following rows in the Statement of the comprehensive income to make it more accurate: the line "Net trading income" was changed to "Net gains from financial instruments at fair value through profit or loss and foreign exchange" and the line "Net income from financial investments" was changed to "Net income from other financial investments". In connection with the revision of the IAS 1 the Bank changed the description of the line "Interest income and similar income" to "Interest revenue calculated using the effective interest method". Comparative financial information reported on these lines were not adjusted. The line "Interest expense and similar charges" was divided into "Interest expense calculated using the effective interest method" and "Other interest expense and similar charges". The comparative financial information was adjusted to comply with the new structure.

(c) Operating segments reporting

The Bank determines and presents operating segments based on the information which is internally presented to the Management Board as the Bank's main operating decision making body with regard to resources to be allocated to the segment and to assess its performance.

The operating segment is a component of the Bank:

- That engages in business activities from which revenues and expenses may arise (including revenues and expenses related to transactions with other components of the Bank);
- Whose operating results are regularly reviewed by the Bank's Management Board to make decisions about resources to be allocated to the segment and to assess its performance; and
- For which discrete financial information is available.

(d) Foreign currency translation

FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency").

The financial statements are presented in CZK, which is the Bank's functional and presentation currency.

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates quoted by the Czech National Bank are recognized in "Net gains from financial instruments at fair value through profit or loss and foreign exchange".

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of "Net gains from financial instruments at fair value through profit or loss and foreign exchange". Translation differences on non-monetary items, such as equities classified as financial assets at fair value through other comprehensive income, are included in the other comprehensive income in the "Revaluation reserve" in equity.

(e) Financial assets and their valuation from 1 January 2018

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss ("FVPL");
- Fair value through other comprehensive income ("FVOCI"); or
- Amortised cost.

The Bank does not have any equity instruments.

The classification requirements of debt instruments depend on::

- The Bank's business model for managing the asset; and
- Whether the characteristics of the asset pass so called SPPI test (future contractual cash-flows are solely payments of principal and interest).

The business model reflects how the Bank manages the assets in order to generate cash flow. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets, from the sale of assets or both. Factors considered by the Bank in determining the business model for a group of assets include part experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments cash flows represent solely payments of principal and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset fails to pass the SPPI test and is classified and measured at FVPL.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

(i) FINANCIAL ASSETS MEASURED AT AMORTISED COST
This category includes assets that are held for collection of contractual cash flows representing solely payments of principal and interest and that are not designated at FVLP. These assets are measured at amortised cost adjusted by any expected credit loss allowance recognized. Interest income from these financial assets is included in "Interest revenue calculated using the effective interest method". Interest income from financial assets classified in Stages 1 and 2 (see Note 2(q) for definitions) is calculated on the gross carrying amount while under Stage 3, interest revenue is calculated on the net carrying amount (i.e. the gross carrying amount after deducting the impairment allowance).

(ii) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)
This category includes assets that are held for collection of contractual cash flows representing solely payments of principal and interest and for selling the assets and that are not designated at FVLP. These assets are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from other comprehensive income to profit or loss and recognized in Net income from other financial investments. Interest income from these financial assets is included in "Interest revenue calculated using the effective interest method".

(iii) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVPL)
Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss within "Net gains from financial instruments at fair value through profit or loss and foreign exchange".

(iv) RECLASSIFICATION OF FINANCIAL ASSETS
The Bank reclassifies debt investments when and only when its business model for managing those assets changes. Such changes are expected to be very infrequent.

(f) Financial assets and their valuation until 31 December 2017

Until 31 December 2017, the Bank classified its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

(i) FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS
The category of financial assets at fair value through profit or loss had two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset was classified as held for trading if it was acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it was part of a portfolio of identified financial instruments which were managed together and for which there was evidence of a recent actual pattern of short-term profit-taking. Derivatives were also categorized as held for trading unless they were designated as hedging instruments.

Financial assets were designated at initial recognition at fair value through profit or loss when:

- Doing so significantly reduced measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for loans and advances to customers or banks and debt securities in issue;
- The group of financial assets, such as debt securities, were managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel, and on that basis were designated at fair value through profit and loss; or
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modifying the cash flows, were designated at fair value through profit and loss.

Gains and losses arising from the sale and changes in the fair value through profit or loss were recorded in "Net gains from financial instruments at fair value through profit or loss and foreign exchange".

(ii) LOANS AND RECEIVABLES
Loans and receivables were non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank intended to sell immediately or in the short term, which were classified as held for trading, and those that the Bank upon initial recognition designates as fair value through profit or loss; (b) those that the Bank upon initial recognition designated as available for sale; or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration. These assets were carried at amortized cost.

(iii) HELD-TO-MATURITY FINANCIAL ASSETS
Held-to-maturity investments were non-derivative financial assets with fixed or determinable payments and fixed maturities that were quoted in an active market which the Bank's management had the positive intention and ability to hold to maturity. These assets were carried at amortized cost. If the Bank had sold other than an insignificant amount of held-to-maturity assets before maturity (other than in certain specific circumstances), the entire category had to be reclassified as available for sale. Furthermore, the Bank would have been prohibited from classifying any financial assets as held-to-maturity during the following two years.

(iv) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale investments were intended to be held for an indefinite period of time, which may have been sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These assets were carried at fair value.

Gains and losses arising from changes in the fair value of available-for-sale financial assets were recognized directly in equity, until the financial asset was derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity was recognized in profit or loss. Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale were recognized in the profit for the period. Dividends on available-for-sale equity instruments were recognized in the profit for the period when the Bank's right to receive payment was established.

(g) Financial liabilities and their valuation

The Bank classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and other financial liabilities. The classification of financial assets and liabilities is based on management's intention at initial recognition and the relevant criteria for classification have to be met.

(i) FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The category of financial liabilities at fair value through profit or loss had two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments which are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial liabilities are designated at initial recognition at fair value through profit or loss when:

- Doing so significantly reduced measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for loans and advances to customers or banks and debt securities in issue;
- The group of financial liabilities, such as debt securities, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel, and on that basis are designated at fair value through profit and loss; or
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modifying the cash flows, are designated at fair value through profit and loss.

Gains and losses arising from the sale and changes in the fair value through profit or loss are recorded in "Net gains from financial instruments at fair value through profit or loss and foreign exchange".

(ii) OTHER FINANCIAL LIABILITIES

The Bank classifies all financial liabilities in this category, except for those classified in the category of financial liabilities at fair value through profit or loss in accordance with those rules for classification in that category. Other financial liabilities are carried at amortized cost.

The Bank issues mortgage bonds. Re-purchased mortgage bonds directly decrease the liabilities from issued securities.

(h) Recognition and derecognition of financial assets and liabilities

Regular-way purchases and sales of financial assets and liabilities are recognized on the settlement date.

Financial assets and liabilities are initially recognized at fair value plus transaction costs for all financial assets and liabilities not measured at fair value through profit or loss. Financial assets and liabilities measured at fair value through profit or loss are initially recognized at fair value, and transaction costs are recognized in the statement of comprehensive income under "Fee and commission expense". Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

(i) Determination of fair value

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 measurable date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date.

The fair values of quoted investments in active markets are based on current bid prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no active market for a financial asset, the Bank establishes the fair value using valuation techniques that maximize the use of relevant observable inputs. These include for example the use of a discounted cash flow analysis and other valuation techniques commonly used by market participants.

The Bank's accounting methods on fair value are disclosed in Note 34.

(j) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(k) Derivative financial instruments and hedge accounting

The Bank has elected to continue to apply the hedge accounting requirements of IAS 39 on the adoption of IFRS 9.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Sources for fair value measurement of the derivatives are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The methodology for the credit value adjustment ("CVA") and the debit value adjustments ("DVA") for derivatives is based on Sberbank Europe Group methodology. The basic principle of the CVA and DVA calculation is to estimate the expected loss during the lifetime of the derivative.

The Bank occasionally purchases or issues financial instruments containing embedded derivatives. Certain derivatives, such as the conversion option in a convertible bond, are embedded in hybrid contracts. If the hybrid contract contains a host that is a financial asset, then the Bank assesses the entire contract as described in the financial assets section above for classification and measurement purposes.

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed under IFRS 9. The embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the host contract is not carried at fair value through profit or loss and the separate instrument with the same terms would meet the definition of a derivative. These embedded derivatives are measured at fair value with changes in fair value recognized in the profit for the period unless the Bank chooses to designate the entire hybrid contract at fair value through profit or loss.

The Bank has prepared a methodology for hedge accounting for interest rate risk management. This methodology is applied when hedging the risk decided by the responsible unit of the Bank. On the initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at inception and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value due to the change of interest rates of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80 - 125%.

For interest risk management of certain assets or liabilities, the Bank designates the fair value hedge relationship. The objective of such a hedge relationship is to protect the Bank from the effect of the fair value fluctuation of the hedged asset or liability which affects the profit and loss. Changes in the fair value of the hedging derivative are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk, in the same line item in the comprehensive income. Related interest income / expense from the hedging instrument is recorded in "Other interest and similar income" or "Other interest expense and similar charges", revaluation of the hedging instrument is recognized in "Net gains from financial instruments at fair value through profit or loss and foreign exchange". The change in fair value of the hedged item attributable to the risk hedged measured at amortised cost is recorded on a separate line "Changes in the fair value of the portfolio of hedged instruments" in the Statement of financial position. The change in fair value of the hedged item and is also recognized in the statement of income in "Net gains from financial instruments at fair value through profit or loss and foreign exchange".

If the derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. For fair value hedges relating to items carried at amortised cost, any adjustment to the carrying value is amortised through the statement of income over the remaining term of the hedge using the effective interest rate method. Amortization begins as soon as an adjustment exists but no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognized, the unamortized fair value is recognized immediately in the statement of income.

The Bank designates certain derivatives as hedging instruments in a fair value hedge when the responsible organizational unit of the Bank decides to hedge such risk. The Bank does not apply a cash flow hedge or net investment hedge accounting as risks that can be covered with this type of hedge accounting are not important for the Bank.

(l) Recognition of deferred day one profit and loss

The best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique for which the variables include only data from observable markets.

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) in Net trading income. In cases where the fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the income statement when the inputs become observable, or when the instrument is derecognized.

(m) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading, are recognized in the statement of comprehensive income under "Interest revenue calculated using the effective interest method" and "Interest expense calculated using the effective interest method".

Interest income and expense for interest-bearing financial instruments classified as held for trading, are recognized in the statement of comprehensive income under "Net gains from financial instruments at fair value through profit or loss and foreign exchange".

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of a financial assets or amortized cost of a financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The effective interest rate is established when the financial asset or liability is first recognized and it is revised at the time of the change of the estimated future cash flows arising from the financial instruments with floating interest rate or with non-fixed payments.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3' (refer to Note 2(o)), the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

(n) Fee and commission income and fee expense

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans which are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank has retained no part of the loan package as own participation. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognized evenly over the period in which the service is provided. The same principle is applied for asset management, financial planning and custody services which are continuously provided over an extended period of time. Performance linked fees or fee components are recognized when the performance criteria are fulfilled.

(o) Dividend income

Dividends are recognized in the profit for the period when the Bank's right to receive payment is established.

(p) Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are reclassified in the statement of financial position as assets. The counterparty liability is included in "deposits from banks" or "due to customers", as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as "loans and advances to banks" or "loans and advances to customers", as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(q) Impairment of financial assets from 1 January 2018

The Bank assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instrument assets carried at amortised cost and FVOCI and with exposure arising from loan commitments and financial guarantee contracts. The Bank recognizes a loss allowance for such losses at each reporting date, except for purchased or originated credit impaired assets ("POCI"), where the loss allowance reflects only changes in the ECL since initial recognition. The measurement of ECL reflects:

- An unbiased and probability-based amounts;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Within the measurement of expected credit losses the Bank determines whether there is an increase in the credit risk of a financial instrument and assesses the changes in the credit quality since the initial recognition in order to determine the approach for expected credit loss measurement. The Bank uses both quantitative criteria (quantitative input) and qualitative criteria to identify an increased credit risk, and does not rely solely on the objective evidence, but also takes into account forward looking types of information. By that, the Bank implements the staging concept to divide financial instruments into 3 stages according to their change in the credit quality since the initial recognition:

- If the financial instrument is credit-impaired, then the financial instrument is moved to Stage 3 and the ECL is measured as lifetime expected credit losses.
- If a significant increase in the credit risk ("SICR") since the initial recognition is identified, then the financial instrument is moved to the Stage 2 and the ECL is measured as lifetime expected credit losses.
- If the financial instrument is not credit-impaired on the initial recognition and does not meet criteria for Stage 2 or 3 classification, then it is (moved to) the Stage 1. For the Stage 1, 12-month ECL is measured, i.e. only default events within the next 12 months are considered when assessing the 12-month ECL.
- POCI financial assets are treated as credit-impaired on their initial recognition and their ECL is measured as lifetime expected credit losses.
- The credit risk of financial instruments is continuously monitored by the Bank.

The relation of the Stage determination to the ECL approach is summarized in the table below:

Stage 1	Stage 2	Stage 3
(Initial recognition unless classified as POCI)	(Significant increase in credit risk since initial recognition)	(Credit-Impaired)
12-month ECL	Lifetime ECL	Lifetime ECL

More details of how the ECL allowance is measured are described in Note 33(b).

(r) Impairment of financial assets until 31 December 2017

(i) LOANS AND RECEIVABLES CARRIED AT AMORTIZED COSTS

The Bank assessed as at each balance sheet date whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

The criteria that the Bank mainly used to determine that there was objective evidence of an impairment loss included the following:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy or insolvency proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification was determined by local management for each identified portfolio. In general, the periods used vary between three and six months.

The Bank first assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, and individually or collectively for financial assets that were not individually significant. If the Bank determined that no objective evidence of impairment existed for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Assets that were individually assessed for impairment and for which an impairment loss was or continued to be recognized were not included in a collective assessment of impairment.

The amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced through the use of an allowance account and the amount of the loss was recognized in the profit for the period. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract and under current market conditions.

As a practical expedient, the Bank might measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflected the cash flows that might result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

For the purposes of a collective evaluation of impairment, financial assets were grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considered asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics were relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that were collectively evaluated for impairment were estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank.

Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions that had not affected the period in which the historical loss experience was based and to remove the effects of conditions in the historical period that did not currently exist.

Estimates of changes in future cash flows for groups of assets should have reflected and been directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows were reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment had been recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss was reversed either directly or by adjusting the allowance account. The reversal should not result in a carrying amount of the financial asset that exceeded what the amortized cost would have been had the impairment not been recognized at the date the impairment was reversed. The amount of the reversal was recognized in the profit for the period in "credit loss expense on financial assets".

(ii) ASSETS CLASSIFIED AS AVAILABLE FOR SALE

The Bank assessed as at each statement of financial position date whether there was objective evidence that a financial asset or a group of financial assets was impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost was considered in determining whether the assets were impaired. If such evidence existed for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – was removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the profit for the period on equity instruments were not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increased and the increase could be objectively related to an event occurring after the impairment loss had been recognized in profit or loss, the impairment loss was reversed through the profit for the period.

(iii) ASSETS CLASSIFIED AS HELD TO MATURITY

Bonds classified as held to maturity were regularly tested for impairment. If the Bank concluded that there was objective evidence that a bond was impaired, it was reflected in an allowance account and the impairment loss was recognized in profit or loss. If an event occurring after the impairment had been recognized caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

(s) Restructured and forborne loans and advances

From the date of renegotiation, such loans are treated as individually impaired for a period of twelve months. If a loan performs according to the forbearance schedule, it becomes treated as a loan in default during the subsequent twelve months, and as standard starting the third year from the renegotiation. The impairment of forborne receivables is measured using the original effective interest rate (or credit adjusted effective interest rate). Management continuously reviews the performance of the agreed conditions of forborne loans and the probability of future installments.

The Bank measures loans and advances with forbearance status. The Bank identifies all contracts with clients where contractual conditions were modified in order to relieve existing financial difficulties or in cases where a client might get into financial difficulties if such relief was not granted. Loans and advances with forbearance status can be designated loans and advances in the non-defaulted portfolio and also in portfolio with default. In accordance with regulatory requirements, the Bank regularly evaluates all exposures in the portfolio - on-balance and off-balance exposures in terms of forbearance. Testing is performed at the level of individual loans (contract).

(t) Write offs

When a financial asset is uncollectible, it is written off against the related allowance for credit losses. Such loans are written off after all the necessary procedures had been completed and the amount of the loss had been determined. These procedures mainly included: (i) cession of a loan (if the debt was ceded at a lower price than the face value); (ii) report from the executor that there was no other property of the debtor that might be punished by execution of the loan; and (iii) the final termination of the insolvency proceedings with the debtor.

In the statement of comprehensive income under "credit loss expense on financial assets" proceeded from written-off receivables are also reported.

(u) Intangible assets

The amortization of intangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Software – definite period under the contract, or according to the estimated useful life, or 36 months (if there is no agreement for a definite period or estimation of useful life)
- Audiovisual work – 18 months
- Other – 72 months

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software to use. These costs are amortized on the basis of the expected useful lives.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives.

The cost of depreciation of intangible assets is recognized in the statement of comprehensive income under "Administrative expenses".

(v) Property, plant and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment are stated at historical cost less depreciation. Historical costs of property, plant and equipment and intangible assets include:

- The cost (expenditures that are directly attributable to the acquisition of the items)
- Directly attributable costs necessary to bring the asset into operation
- The estimated costs of dismantling and removing the asset and restoring the place where the property is located
- Borrowing costs incurred for the period of the preparation of the asset for its intended use or sale. The Bank is currently buying property only from its own financial resources.

Tangible and intangible assets with acquisition costs up to CZK 10,000, furniture and hardware up to CZK 2,000, are expensed as acquired.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to "other general administrative expenses" during the financial period in which they are incurred.

Land, assets under construction and works of art are not depreciated. Depreciation on other long-term assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows (in years):

Buildings and construction (including Administrative buildings)	30
Hardware and equipment	4
Fixtures and fitting	6
Safes	12
Motor vehicles	4

The leasehold improvements are depreciated over the term of the lease.

When classifying new assets into depreciation groups, the Bank uses the component approach, i.e. the major components of assets with different useful lives are depreciated separately.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, as at each statement of financial position date.

The cost of depreciation of property, plant and equipment are recognized in the statement of comprehensive income under "Administrative expenses". Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in "Other operating income" or "Other operating expenses" in the profit for the period.

The Bank does not hold any assets for which it would use the revaluation model. All property under Notes 2(u) and 2(v) is depreciated using the cost model. The Bank currently does not own the building, to which IAS 40 Investment property would be applied, i.e. property held primarily to earn rental income or for capital appreciation

(w) Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indicators of impairment can be external (decrease in market prices) or internal (information obtained from a review of useful lives and residual book values) carried out once a year. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that have suffered impairment are reviewed for the possible reversal of the impairment at each reporting date.

(x) Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to "Other general administrative expenses" on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognized as an expense in the period in which the termination takes place.

The Bank currently does not provide finance or operating leasing.

(y) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks (including Mandatory Minimum Reserves), due from banks and due to banks.

(z) Provisions

Provisions for legal claims, restructuring, financial guarantees issued, promises of loans issued, letters of credit issued and other contingent liabilities are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

The method of the calculation of provision for financial guarantee is described in Note 2(aa).

Other provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

(aa) Financial guarantee contracts

The Bank gives financial guarantees, i.e. guarantees and letters of credit. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially measured at fair value on the date the guarantee was given.

Since 1 January 2018, the financial guarantee contracts are subsequently measured at the higher of the amount of the loss allowance (calculated as described in Note 2(q)) and the premium received on initial recognition less amortization of the premium recognized as an income on straight line basis over the duration of the guarantee. The loss allowance is recognized within “provision”.

Until 31 December 2017, the financial guarantee contracts were subsequently measured at the higher of the initial measurement, less amortization of revenue from fees amortized on straight basis in “income from fees and commissions” for the duration of the guarantee and the best estimate of expenses which will be required to settle any financial obligation that existed at the statement of financial position date. These estimates are determined based on experience with similar transactions and the history of past losses, supplemented by the judgment of management and they are recognized as “provisions”.

Any change in the amount of “provisions” is recognized in “provisions” in the statement of comprehensive income.

(bb) Staff costs

Staff costs are included in “administrative expenses” and they also include remuneration of the members of the Managing and Supervisory Board.

EMPLOYEE BENEFITS

The Bank does not provide any employee benefits that are the subject of creating and valuing reserves using actuarial methods in accordance with IAS 19 Employee benefits.

PENSIONS

The Bank currently contributes to a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Bank pays contributions to privately administered pension insurance plans on a contractual or voluntary basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as an employee benefit expense when they are due.

SOCIAL FUND

The Bank creates a social fund to finance the social needs of its employees and employee benefit programs. The allocation to the social fund is recognized in the "administrative expenses".

(cc) Taxation and deferred income tax

INCOME TAX

Income tax payable on profits, based on Czech tax law, is recognized as an expense in the period in which profits arise.

DEFERRED TAX

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

The principal temporary differences arise from the depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions and tax losses carried forward. However, deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The tax effects of income tax losses available for carry-forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Deferred tax related to the fair value re-measurement of financial assets at fair value through other comprehensive income, which is charged or credited directly to equity, is also credited or charged to other comprehensive income.

(dd) Value added tax

The Bank is registered for value added tax ("VAT"). Intangible and tangible fixed assets are stated at acquisition cost including the appropriate VAT. The Bank does not claim a reduced deduction of input VAT as the ratio of the taxable income to the total income of the Bank is such that it is not economical for the Bank to claim the input VAT.

(ee) Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds net of transaction costs and the redemption value is recognized in the profit for the period over the period of the borrowings using the effective interest method.

(ff) Share capital and reserves

SHARE ISSUE COSTS
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

DIVIDENDS ON SHARES
Dividends on shares are recognized in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

RESERVE
In accordance with the Articles of Incorporation, the Bank is required to set aside a reserve in equity.

The reserve represents accumulated transfers from retained earnings. A minimum of 5% of net profit should be allocated annually to the reserve until the amount of a minimum of 20% of share capital is achieved. This reserve is not distributable and can be used exclusively to cover losses.

(gg) Fiduciary activities

The Bank acts as a trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, and other institutions. These assets and income arising thereof are excluded from these financial statements, as they do not belong to the Bank.

(hh) Collateral valuation

The fair value of the collateral is determined using market data, valuation models and independent expert estimations. The dominant type of collateral is residential and non-residential property, where an expert estimation of the market value is conservatively reduced by a factor for the type of collateral. The amounts of reduction factor are based on conservative expert estimations, until the frequency of the realization of collaterals does not allow the determination of these factors on the basis of statistically significant observations. The reported financial effect of collateral is limited up to the carrying amount of the related financial asset.

(ii) IFRS /IAS accounting and reporting developments

A) The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2018:

- **IFRS 9 Financial Instruments: Classification and Measurement**
  This standard had a significant impact on the Bank's financial statements, which is summarized in Note 2(b). For new accounting policies see mainly Notes 2(e) and 2(q).
- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non- financial assets that are not an output of the entity's ordinary activities (e.g. sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. This standard did not have a significant impact on the Bank's financial statements.
- **IFRS 15: Revenue from Contracts with Customers (clarifications)**
  The clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations

amending the wording of the “separately identifiable” principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. These clarifications did not have a significant impact on the Bank’s financial statements.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments have not yet been endorsed by the EU. These amendments had no impact on the Bank’s financial statements.
- **IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. These amendments have not yet been endorsed by the EU. These amendments had no significant impact on the Bank’s financial statements.
- **IAS 40: Transfers to Investment Property (amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. These amendments had no impact on the Bank’s financial statements.
- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**
  The interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This interpretation had no impact on the Bank’s financial statements.
- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. These amendments had no impact on the Bank’s financial statements.
  - **IFRS 1 First-time Adoption of International Financial Reporting Standards**

    This improvement removes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

> **IAS 28 Investments in Associates and Joint Ventures**

The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

B) Standards issued but not yet effective and not early adopted.

- **IFRS 16: Leases**

  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize a right-of-use asset and a lease liability from the majority of leases. Lessees must use this accounting model for all leases except for short-term leases and leases for which the underlying asset is of low value. Lessor's accounting is substantially unchanged. The Bank will be influenced by this standard. According to this standard a new approach will have to be applied for lease contracts for premises where the Bank offers banking services and for lease contracts for personal vehicles, certain IT equipment, etc. This will significantly increase the volume of fixed assets in the statement of financial position and long-term liabilities from these contracts. As at 1 January 2019, the Bank recognized right-of use assets of CZK 436 million and lease liabilities of CZK 432 million.

- **IFRS 17: Insurance contracts**

  This standard is effective for annual periods beginning on or after 1 January 2021. It establishes principles for the recognition, measurement, presentation and disclosure of insurance and reinsurance contracts, life and non-life. This standard has not yet been endorsed by the EU. This standard is expected to have no impact on the Bank's financial statements.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments)**

  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. This amendment has no material impact to the Bank's financial statements.

- **IAS 28: Long-term Interests in Associates and Joint Ventures**

  The amendments clarify that a company applies IFRS 9 Financial Instruments including its impairment requirements to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. This amendment is not expected to have a significant impact on the Bank's financial statements.

- **IFRS 9 Prepayment Features with Negative Compensation (amendments)**

  The amendments are effective for periods on or after 1 January 2019, early adoption is permitted. The amendments allow measurement of financial assets at amortized cost (or at fair value through other comprehensive income) even in the case of negative compensation payments if certain conditions are met. These amendments also contain a clarification regarding the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in derecognition of the financial liability. The Bank is analyzing the impact of these amendments on its financial statements.

- **IFRS 23 Uncertainty over Income Tax Treatments**

  This IFRIC is effective for periods on or after 1 January 2019, early adoption is permitted. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatment. This clarification is not expected to have no impact on the Bank's financial statements.

- **Annual Improvements to IFRS Standards (2015–2017 Cycle)**, which is a collection of amendments to IFRSs. The objective is to remove inconsistencies and clarify wording. Following standards were amended: IFRS 3 Business combinations, IFRS 11 Joint ventures, IAS 12 Income taxes and IAS 23 Borrowing costs. There are separate transitional provisions to each standard, all of which are applicable on or after 1 January 2019. These improvements are not expected to have a significant impact on the Bank's financial statements.
- **IAS 19: Plan Amendment, Curtailment or Settlement (amendments)**

  If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. These amendments have not yet been endorsed by the EU. These amendments are not expected to have a significant impact on the Bank's financial statements.
- **Conceptual Framework in IFRS standards**

  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.
- **IFRS 3: Business Combinations (Amendments)**

  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. These Amendments are not expected to have any impact on the Bank's financial statements.
- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. The Bank is analyzing the impact of these Amendments on its financial statements.

(jj) Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

EXPECTED CREDIT LOSSES

The measurement of ECL requires to use models, assumptions and estimates, applied in various stages of ECL measurement process. Explanation of inputs, assumptions and estimation techniques used in measuring ECL is further described in Note 33(b). Critical accounting estimates and judgements are applied in following areas:

- Determination of SICR criteria;
- Choice of modelling approach and assumptions made within model development;
- Estimates of parameters for which models do not provide statistically significant results;
- Segmentation/grouping of portfolio with similar characteristics for the purpose of ECL measurement;
- Application of forecast of macroeconomic variables;
- Determination of weights of scenarios;
- Determination of fair value of collaterals.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. The valuation techniques include the net present value and discounted cash flow models, a comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free rates, credit spreads, and other premiums used in estimating discount rates, bond prices and foreign currency exchange rates. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

CHARACTERISTICS OF CASH FLOWS FROM FINANCIAL ASSETS

The assessment, of whether the contractual cash flows from a financial asset represent solely payments of principal and interest requires a judgement. The Bank considers whether the contractual terms introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement give rise to contractual cash flows which are not solely payments or principal and interest or not.

DEFERRED TAX

Significant estimates are required in determining deferred income tax. There are many transactions for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of temporary differences is different from the amounts that were initially recorded, such differences will impact the current income tax provision and deferred tax in the period in which such a determination is made.

FUTURE COSTS

The Bank estimates significant future costs that are expected to incur while not a regular costs associated with its activities. These estimates are performed at least once a year, or in moments when identifying future event that may cause such expense. These estimates are booked and recorded as provisions.

3 Net Interest Income

Interest revenue calculated using the effective interest method (CZKm)	2018	2017
Financial instruments at amortised cost (loans and receivables)		
Loans and advances to customers	1,948	1,864
Debt securities	7	6
Due from banks	126	35
Due to banks	3	4
Total financial instruments at amortised cost (loans and receivables)	2,084	1,909
Financial instruments at FVOCI	8	0
Total interest revenue calculated using the effective interest method	**2,092**	**1,909**

Interest revenue from loans and advances to customers and debt securities at amortised cost (CZKm)	2018	2017
Receivables from companies and individuals including consumer loans	1,950	1,866
Receivables from municipalities	1	1
Receivables from governmental bodies	1	1
Other receivables from customers	3	2
	1,955	**1,870**

There was CZK 71 million in interest revenue recognized on impaired receivables in 2018 (2017: CZK 101 million).

There was CZK 4 million in interest revenue recognized on loans and receivables with forbearance measures in 2018 (2017: CZK 64 million).

Interest expense calculated using the effective interest method (CZKm)	2018	2017
Financial liabilities at amortised cost		
Due to customers	246	168
Debt securities in issue	33	72
Due to banks	9	10
Due from banks	5	3
Total interest expense calculated using the effective interest method	**293**	**253**

Other interest expense and similar charges (CZKm)	2018	2017
Interests from hedge accounting	19	10
Total other interest expense and similar charges	**19**	**10**

Net interest income comprises the net interest expense of CZK 19 million for 2018 recognized on hedging instruments (2017: CZK 10 million) and CZK 0 million on hedged items (2017: CZK 0 million).

4 Net Fee and Commission Income

(CZKm)	2018	2017
Fee and commission income	550	559
Fee and commission expense	(132)	(151)
Total net fee and commission income	**418**	**408**

Fee and commission income (CZKm)	2018	2017
International payment transactions	172	170
Domestic payment transactions	64	64
Lending business (those which are not regarded as part of the effective interest rate)	93	95
Foreign exchange, foreign notes and coins transactions	147	159
Securities and custody business	20	19
Other	54	52
Total fee and commission income	**550**	**559**

Fee and commission income from securities and custody business includes CZK 1 million in fee income from custody activities in 2018 (2017: CZK 0 million).

Fee and commission expense (CZKm)	2018	2017
International payment transactions	(4)	(3)
Domestic payment transactions	(3)	(3)
Lending business (those which are not part of the effective interest rate)	(15)	(28)
Foreign exchange, foreign notes and coins transactions	(65)	(75)
Securities and custody business	(1)	(1)
Other	(44)	(41)
Total fee and commission expense	**(132)**	**(151)**

Fee and commission expense from securities and custody business includes CZK 0 million in fee expense from custody activities in 2018 (2017: CZK 0 million).

5 Net Gains from Financial Instruments at Fair Value through Profit or Loss and Foreign Exchanges

(CZKm)	2018	2017
Interest rate trading derivatives	30	32
Foreign exchange trading derivatives	67	(155)
Hedging derivatives	79	55
Hedged items	(84)	(70)
Net foreign exchange gains / (losses)	(32)	211
Foreign exchange	89	101
Total net gains from financial instruments at fair value through profit or loss and foreign exchange	**149**	**174**

6 Net Income from Other Financial Investments

(CZKm)	2018	2017
Net gains from financial assets at amortised cost	50	0
Net gains from financial liabilities at amortised cost	1	0
Total net income from other financial investments	**51**	**0**

Net gains from financial assets at amortised cost were recognized when the contractual cash flows were modified but the modifications did not result in the derecognition of those loans.

7 Net Gains (Losses) from the Derecognition of Financial Assets Measured at Amortised Cost

(CZKm)	2018	2017
Gains from the derecognition of financial assets measured at amortised cost	27	0
Losses from the derecognition of financial assets measured at amortised cost	(27)	0
Total net gains/(losses) from the derecognition of financial assets measured at amortised cost	**0**	**0**

Gains or losses from the derecognition of financial assets measured at amortised cost are usually recognized when a loan is prepaid or when the contractual terms of a loan are substantially modified.

The Bank sold a portfolio of non-performing loans in 2018. Net gains from the sale of CZK 16 million (including the effect of the utilization of previously created allowances for credit losses) is recognized within Credit loss expense on financial assets.

8 Administrative Expenses

(CZKm)	2018	2017
Personnel expenses	979	874
Depreciation and amortization of fixed assets	143	109
Other general administrative expenses	455	471
Total administrative expenses	**1,577**	**1,454**

Personnel expenses (CZKm)	2018	2017
Salaries and bonuses of Management Board members	48	33
Salaries and bonuses of senior management	78	62
Salaries and bonuses of the employees	601	554
Social security costs	219	205
Other personnel costs	33	20
Total personnel expenses	**979**	**874**

Social security costs also include the contribution to the state pension scheme.

MANAGEMENT BONUS SCHEME

Salaries and remuneration of the Members of the Management Board, as well as the remuneration principles and structure, are subject to approval by the Supervisory Board. Key performance indicators of the annual performance bonus are based on the financial results of the Group (Sberbank Europe AG), the Bank (Sberbank CZ, a.s.), profit center / segment and the strategic and individual objectives. An annual performance bonus is paid if the requirements set out in the Group guidelines on remuneration and in the Bank internal guidelines General principles of the remuneration are fulfilled. The annual performance bonus can also be reduced or unpaid in relation to the achievement of the performance objectives.

RETIREMENT BENEFITS

The Bank provides its employees with a defined contribution retirement scheme in accordance with Act No. 42/1994 Coll. The Bank's total expense for the retirement scheme in 2018 was CZK 1.4 million (2017: CZK 1.3 million). The expenses for the retirement scheme are recognized as "Other personnel costs" in the table above.

OTHER GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2018	2017
Rent and leasing	132	133
Information technology	116	101
Marketing and public relations	66	93
Material consumption	27	31
Audit, tax, legal and other consultancy	44	43
Tax and fees	3	2
Other	67	68
Total other general administrative expenses	**455**	**471**

The expenses for audit services represented CZK 7.2 million in 2018 (2017: CZK 7.1 million) and the expenses for non-audit services provided by the statutory auditor represented CZK 1.9 million in 2018 (2017: CZK 1.1 million).

9 Other Operating Income

(CZKm)	2018	2017
Gain on disposal of fixed assets	12	0
Income from the services provided within the group	14	22
Other	5	20
Total other operating income	**31**	**42**

10 Other Operating Expenses

(CZKm)	2018	2017
Deposit insurance	15	16
Contribution fund and Securities Traders Guarantee Fund	46	45
Other	19	5
Total other operating expenses	**80**	**66**

11 Income Tax Expense

(CZKm)	2018	2017
Current tax expense	118	100
Deferred tax expense/(income) (Note 20)	(17)	7
Total income tax expense	**101**	**107**

The following table shows how the tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate:

(CZKm)	2018	2017
Profit before taxation	478	531
Applicable rate	19%	19%
Taxation at applicable tax rate	91	101
Tax effect of non-deductible expenses	9	5
Other	1	1
Total income tax expense	**101**	**107**

In 2018, the effective tax rate adjusted for the effect of the difference between the actual tax due for 2017 and the calculated estimation of the tax for 2017 of CZK 0.3 million was 21.13% (2017: 19.96%).

12 Cash and Balances with Central Banks

The Bank classifies its balances with central banks as financial assets measured at amortised cost. Until 31 December 2017, they were classified in the category "loans and receivables".

(CZKm)	31.12.2018	31.12.2017
Loans and deposits to central bank	10,253	15,551
Mandatory minimum reserves with central banks	1,245	1,178
Cash in hand	603	690
Current accounts with central banks	64	20
Total cash and balances with central banks	**12,165**	**17,439**

Mandatory minimum reserves with the Czech National Bank ("CNB") are generally available for use by the Bank, however it is not actively used for the day-to-day banking business. The limit of the mandatory minimum reserves is fulfilled according to the average balance in reference period. These deposits bear interest at the CZK repo rate, which was 1.75% as at 31 December 2018 (31 December 2017: 0.5%).

13 Loans and Advances to Banks

The Bank classifies its loans and advances to banks in the category of financial assets "loans and receivables".

(CZKm)	31.12.2018	31.12.2017
Analyzed by product and bank domicile		
Current accounts		
Domestic	30	28
Foreign	1,025	1,242
Total current accounts	1,055	1,270
Term deposits		
Foreign	836	622
Total term deposits	836	622
Total gross loans and advances to banks	1,891	1,892
Allowances for credit losses	(1)	0
Total loans and advances to banks	**1,890**	**1,892**

Loans and advances to banks of CZK 1,765 million (2017: CZK 1,577 million) are included in the item cash and cash equivalents (Note 31).

For an analysis of loans and advances to banks according to their credit quality see Note 33(b).

Changes in the allowances for credit losses may be analyzed as follows:

(CZKm)	Stage 1
As at 1 January 2018	4
Reversal of allowances for credit losses	(3)
As at 31 December 2018	**1**

14 Loans and Advances to Customers

The Bank classifies its loans and advances to customers as financial assets measured at amortised cost. Until 31 December 2017, they were classified in the category “loans and receivables”.

(CZKm)	31.12.2018	31.12.2017
Analyzed by product		
Investment loans	26,443	28,389
Working capital financing	4,576	5,408
Mortgages	28,952	24,039
Consumer loans	4,839	3,842
Gross loans and advances	64,810	61,678
Allowances for credit losses (Note 15)	(1,908)	(1,195)
Total loans and advances	**62,902**	**60,483**

In 2018 and 2017, the Bank pledged no loans and advances to customers as collateral for received loans and advances.

For an analysis of individual categories of loans and advances to customers according to their credit quality see Note 33(b).

Changes in the gross carrying amount of the loans and advances to customers in 2018 can be analyzed as follows:

Retail (CZKm)	Stage 1	Stage 2	Stage 3	POCI	**Total**
As at 1 January 2018	33,360	5,290	1,294	0	39,944
Transfers:					
Transfer from Stage 1 to Stage 2	(1,297)	1,297	0	0	0
Transfer from Stage 1 to Stage 3	(190)	0	190	0	0
Transfer from Stage 2 to Stage 1	1,040	(1,040)	0	0	0
Transfer from Stage 2 to Stage 3	0	(111)	111	0	0
Transfer from Stage 3 to Stage 1	7	0	(7)	0	0
Transfer from Stage 3 to Stage 2	0	42	(42)	0	0
New financial assets originated or purchased	10,710	817	50	0	11,577
Financial assets derecognized	(5)	(5)	(49)	0	(59)
Repayments, drawdowns, accrued interest	(7,459)	(1,007)	(683)	0	(9,149)
Other changes	10	1	1	0	12
As at 31 December 2018	**36,176**	**5,284**	**865**	**0**	**42,325**

Corporate (CZKm)	Stage 1	Stage 2	Stage 3	POCI	**Total**
As at 1 January 2018	16,181	3,491	2,062	0	21,734
Transfers:					
Transfer from Stage 1 to Stage 2	(575)	575	0	0	0
Transfer from Stage 1 to Stage 3	(50)	0	50	0	0
Transfer from Stage 2 to Stage 1	204	(204)	0	0	0
Transfer from Stage 2 to Stage 3	0	(61)	61	0	0
Transfer from Stage 3 to Stage 2	0	147	(147)	0	0
New financial assets originated or purchased	8,022	501	94	0	8,617
Financial assets derecognized	0	0	(40)	0	(40)
Repayments, drawdowns, accrued interest	(6,170)	(485)	(1,293)	0	(7,948)
Modifications not resulting in derecognition	0	0	50	0	50
Other changes	54	16	2	0	72
As at 31 December 2018	**17,666**	**3,980**	**839**	**0**	**22,485**

The increase in the total amount of Retail loans and advances to customers mainly results from the increase in the portfolio of mortgage and consumer loans. The Corporate loans portfolio was affected by prepayments of several significant corporate loans in the total amount of about CZK 4 billion.

The contractual amount outstanding on financial assets that were written off during 2018 and are still subject to enforcement activity was CZK 50 million as at 31 December 2018.

15 Credit Loss Expense on Loans and Advances to Customers

The movement in allowance for impairment of loans and advances to customers in 2017 can be analyzed as follows:

(CZKm)	Retail	Corporate	Total
As at 1 January 2017	327	815	1,142
Allocation to provision for loan impairment	312	376	688
Reversal of provision for loan impairment	(303)	(168)	(471)
Loans written off during the year as uncollectible	(163)	0	(163)
Net foreign exchange difference	(1)	0	(1)
As at 31 December 2017	**172**	**1,023**	**1,195**

The movement in allowances for credit losses of loans and advances to customers in 2018 can be analyzed as follows:

Retail (CZKm)	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January 2018	219	211	467	0	897
Transfers:					
Transfer from Stage 1 to Stage 2	(10)	56	0	0	46
Transfer from Stage 1 to Stage 3	(3)	0	57	0	54
Transfer from Stage 2 to Stage 1	5	(29)	0	0	(24)
Transfer from Stage 2 to Stage 3	0	(8)	31	0	23
Transfer from Stage 3 to Stage 1	0	0	(2)	0	(2)
Transfer from Stage 3 to Stage 2	0	1	(6)	0	(5)
New financial assets originated or purchased	104	32	41	0	177
Financial assets derecognized	(5)	(6)	(63)	0	(74)
Foreign exchange differences	0	0	0	0	0
Change in gross carrying amount	(89)	(103)	(85)	0	(277)
Other changes	8	10	5	0	23
As at 31 December 2018	**229**	**164**	**445**	**0**	**838**

Corporate (CZKm)	Stage 1	Stage 2	Stage 3	POCI	**Total**
As at 1 January 2018	170	182	432	0	784
Transfers:					
Transfer from Stage 1 to Stage 2	(9)	78	0	0	69
Transfer from Stage 1 to Stage 3	(1)	0	36	0	35
Transfer from Stage 2 to Stage 1	1	(8)	0	0	(7)
Transfer from Stage 2 to Stage 3	0	(10)	10	0	0
Transfer from Stage 3 to Stage 1	0	0	0	0	0
Transfer from Stage 3 to Stage 2	0	13	0	0	13
New financial assets originated or purchased	113	32	0	0	132
Financial assets derecognized	0	0	(40)	0	(40)
Foreign exchange differences	0	1	0	0	1
Change in gross carrying amount	(58)	1	(4)	0	(61)
Other changes	13	27	104	0	144
As at 31 December 2018	**229**	**303**	**538**	**0**	**1 070**

The Corporate and Retail segments are determined in accordance with the Basel III standardized approach as opposed to Note 32, where the segments are defined based on the Bank's organizational structure.

The increase in allowances to loans portfolio was mainly driven by the change in the methodology in the calculation of ECLs. From 1 January 2018 the allowances are calculated for expected credit losses, i.e. they are created since the drawdowns of the loans. Previously allowances had not been created until an objective evidence of an impairment of the loan existed.

The total amount of undiscounted expected credit losses from POCI financial assets initially recognized in 2018 at their initial recognition was CZK 0 million.

16 Derivative Financial Instruments

TRADING DERIVATIVE FINANCIAL INSTRUMENTS

The Bank's trading activities primarily involve providing various derivative products to its customers and managing positions for its own account. The trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position and which do not meet the criteria of hedge accounting.

The contract or nominal amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2018 and 31 December 2017 are set out in the table below. The contract or nominal amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with market risk or credit risk of such transactions.

	31.12.2018				31.12.2017			
(CZKm)	Contract/ Nominal Assets	Contract/ Nominal Liabilities	Fair value positive	Fair value negative	Contract/ Nominal Assets	Contract/ Nominal Liabilities	Fair value positive	Fair value negative
Interest rate derivatives								
Swaps	6,477	6,477	82	44	4,815	4,815	61	39
Options	42	42	1	0	0	0	0	0
Total interest rate derivatives	6,519	6,519	83	44	4,815	4,815	61	39
Foreign exchange derivatives								
Swaps	7,742	7,603	127	83	9,186	9,087	127	50
Forwards	3,383	3,412	25	18	3,549	3,650	4	96
Total foreign exchange derivatives	11,125	11,015	152	101	12,735	1,737	131	146
Total	**17,644**	**17,534**	**235**	**145**	**17,750**	**17,552**	**192**	**185**

Fair value gains less losses from trading derivatives are recognized within the "Net gains from financial instruments at fair value through profit or loss and foreign exchange".

DERIVATIVE FINANCIAL INSTRUMENTS TO HEDGE INTEREST RATE RISK
An interest rate risk arises when interest-sensitive assets have different maturities or revaluation characteristics than the corresponding interest-sensitive liabilities. The Bank's objective for Management of interest rate risk in the Banking Book is to reduce the structural interest rate risk and thus the volatility of net interest margins.

The Bank is exposed to interest rate risk arising from an increase in long-term interest rates which would result in a decrease in fair value of fixed-rate loans and uses interest rate swaps to hedge this risk.

The Bank establishes the hedging ratio by matching the nominal value of the hedging derivatives with the principal of the loan portfolio being hedged.

Financial derivatives designated as hedging instruments are as follows:

	31.12.2018			31.12.2017		
(CZKm)	Contract/ Nominal amount	Fair value positive	Fair value negative	Contract/ Nominal amount	Fair value positive	Fair value negative
Derivative financial instruments to hedge interest rate risk						
Interest rate swaps	9,850	118	6	5,200	57	2
Total derivative financial instruments to hedge interest rate risk	**9,850**	**118**	**6**	**5,200**	**57**	**2**

The following table shows the nominal amounts of hedging derivatives by remaining contractual maturity:

(CZKm)	31.12.2018	31.12.2017
1 – 5 year	9,850	5,200
Total nominal amounts	9,850	5,200

The average fixed rate from hedging interest rate swaps was 1.45% as at 31 December 2018 (2017: 1.05%).

The total result from hedging derivatives is as follows:

(CZKm)	2018	2017
Changes in the fair value of hedging derivatives (Note 5)	79	55
Net interest paid (Note 3)	(19)	(10)
Total result from hedging derivatives	**60**	**45**

The following table summarizes the information on hedged items:

(CZKm)	Line within the Statement of financial position	Carrying amount – assets 31.12.2018	31.12.2017
Loans designated as hedged items	Loans and advances to customers	9,850	5,200
Accumulated fair value adjustment on hedged items	Changes in the fair value of the portfolio of hedged instruments	(154)	(70)
from which: amount relating to hedged items no more being adjusted for hedging gains and losses		0	0

The hedge ineffectiveness may be analyzed as follows:

(CZKm)	2018	2017
Change in value used for calculation of hedge ineffectiveness of		
– hedging instruments	79	70
– hedged items	(84)	(71)
Hedge ineffectiveness recognized in profit or loss*	(5)	(1)

*The hedge ineffectiveness is reported within "Net gains from financial instruments at fair value through profit or loss and foreign exchange".

The main sources of ineffectiveness in the hedge relationships are:
- CVA, DVA and close out adjustment reflected in the valuation of hedging derivatives;
- Differences in the payment dates of the interest rate swaps and the loans.

17 Debt Securities

(CZKm)	31.12.2018	31.12.2017
Measured at amortised cost (loans and receivables)		
Unlisted debt securities – gross	314	245
Allowance for credit losses	(3)	0
Total measured at amortised cost (loans and receivables)	311	245
Measured at FVOCI		
Listed debt securities – fair value	811	0
Total investment securities	**1,122**	**245**

(CZKm)	Measured FVOCI	Measured at amortised cost	Total investment securities
As at 1 January 2017 and 31 December 2017	0	245	245
Remeasurement as at 1 January 2018	0	(16)	(16)
Additions	811	69	880
Change in the allowance for credit losses	0	13	13
As at 31 December 2018	**811**	**311**	**1,122**

The Bank pledged no securities as at 31 December 2018 and 2017.

18 Intangible Assets

(CZKm)	Software	Development in progress	Other	Total
Costs				
As at 1 January 2017	524	158	1	683
Additions	174	86	0	260
Transfer	0	0	0	0
Disposal	(2)	0	(1)	(3)
As at 31 December 2017	696	244	0	940
Additions	182	62	0	244
Transfer	0	0	0	0
Disposal	(22)	0	0	(22)
As at 31 December 2018	856	306	0	1 162
Accumulated amortization				
As at 1 January 2017	(414)	0	(1)	(415)
Amortization charge	(50)	0	0	(50)
Disposals (accumulated amortization)	1	0	1	2
As at 31 December 2017	(463)	0	0	(463)
Amortization charge	(71)	0	0	(71)
Disposals (accumulated amortization)	22	0	0	22
As at 31 December 2018	(512)	0	0	(512)
Net book value				
As at 1 January 2017	**110**	**158**	**0**	**268**
As at 31 December 2017	**233**	**244**	**0**	**477**
As at 31 December 2018	**344**	**306**	**0**	**650**

19 Property and Equipment

(CZKm)	Land and buildings	Leasehold improve-ment	Equipment	Other	Construction in progress	Total
Costs						
As at 1 January 2017	180	184	210	140	6	720
Additions	0	7	8	18	12	45
Transfer	0	0	0	0	0	0
Disposal	0	(1)	(10)	(10)	(6)	(27)
As at 31 December 2017	180	190	208	148	12	738
Additions	1	17	36	9	0	63
Transfer	0	0	0	0	0	0
Disposal	(19)	(19)	(57)	(21)	(6)	(122)
As at 31 December 2018	162	188	187	136	6	679
Accumulated depreciation						
As at 1 January 2017	(114)	(86)	(147)	(91)	0	(438)
Depreciation charge	(6)	(17)	(20)	(16)	0	(59)
Transfer	0	0	0	0	0	0
Disposals (accumulated depreciation)	0	1	11	10	0	22
As at 31 December 2017	(120)	(102)	(156)	(97)	0	(475)
Depreciation charge	(5)	(17)	(24)	(19)	0	(65)
Transfer	0	0	0	0	0	0
Disposals (accumulated depreciation)	14	15	54	21	0	104
As at 31 December 2018	(111)	(104)	(126)	(95)	0	(436)
Net book value						
As at 1 January 2017	**66**	**98**	**63**	**49**	**6**	**282**
As at 31 December 2017	**60**	**88**	**52**	**51**	**12**	**263**
As at 31 December 2018	**51**	**84**	**61**	**41**	**6**	**243**

20 Deferred Tax Assets

Deferred tax was calculated on all temporary differences under the liability method using the 19% income tax rate which is the expected applicable rate at recognition.

The movement on the deferred tax account is as follows:

(CZKm)	Total
As at 1 January 2017	88
Deferred tax income/(expense) (Note 11)	(7)
As at 31 December 2017	81
Impact of IFRS 9 remeasurement (Note (2(b))	102
As at 1 January 2018	183
Deferred tax income/(expense) (Note 11)	17
Financial assets measured at FVOCI	0
As at 31 December 2018	**200**

Deferred tax asset and liability are attributable to the following items:

(CZKm)	31.12.2018	31.12.2017
Allowances for credit losses	177	56
Fixed assets	(14)	(6)
Provisions	37	31
Total deferred tax asset	**200**	**81**

The deferred tax credit / (debit) in the statement of income comprises of the following temporary differences:

(CZKm)	2018	2017
Allowances for credit losses	20	(2)
Depreciation of fixed assets	(8)	0
Provisions	5	(5)
Total (Note 11)	17	(7)

The Bank's management believes it is probable that the Bank will fully realize its gross deferred income tax assets based upon the Bank's current and expected future level of taxable profits and the expected offset from gross deferred income tax liabilities.

21 Other Assets, Prepaid Expenses and Accrued Income

(CZKm)	31.12.2018	31.12.2017
Prepayments and accrued income	70	64
Other debtors, net of provisions	46	50
Anticipated receivables	6	4
Cash in transfer	237	236
Other receivables	25	51
Total other assets, prepaid expenses and accrued income	**384**	**405**

22 Deposits from Banks

The Bank classifies its deposits from banks in the category of financial liabilities measured at amortized cost.

(CZKm)	31.12.2018	31.12.2017
Analyzed by product and bank domicile		
Domestic	0	2
Foreign	270	496
Total current accounts	270	498
Domestic	16	255
Foreign	2,456	4,437
Total term deposits	2,472	4,692
Foreign	229	197
Total other deposits from banks	229	197
Total deposits from banks	**2,971**	**5,387**

The Bank provided collateral for its obligations by pledge of securities (Note 17).

Deposits from banks in the amount of CZK 2,457 million (2017: CZK 4,876 million) are included in the item cash and cash equivalents (Note 31).

23 Due to Customers

In 2018 and 2017, the Bank did not measure any due to customers measured at fair value against profit and loss accounts. The Bank classifies its due to customers in the category of financial liabilities measured at amortized cost.

Due to customers measured at amortized cost (CZKm)	31.12.2018	31.12.2017
Analyzed by product		
Current accounts	25,048	25,405
Term deposits	12,695	9,443
Savings accounts with notice period	1	1
Savings accounts	28,344	29,280
Total due to customers	**66,088**	**64,129**
Analyzed by customer type		
Private companies	23,393	22,286
Individual – households	26,802	26,697
Individual – entrepreneurs	2,371	2,661
Government bodies	8,926	8,042
Non-profit institutions	648	568
Insurance companies and pension funds	1,924	1,938
Other financial institutions	2,024	1,937
Total due to customers	**66,088**	**64,129**

The Bank has not provided any collateral for its liabilities.

24 Debt Securities in Issue

The Bank classifies its debt securities in issue in the category of financial liabilities “measured at amortized cost”.

(CZKm)	Issue date	Currency	Maturity date	31 12.2018	31.12.2017
Issued mortgage bonds					
Issue HZL 2,30/18	24 October 2013	CZK	24 October 2018	0	852
Issue HZL 2,00/20	26 June 2014	CZK	26 June 2020	1,006	1,055
Total issued mortgage bonds				1,006	1,907
Promissory notes and certificates of deposits					
Promissory notes and certificates of deposits short-term				7	7
Total promissory notes and certificates of deposits				7	7
Total debt securities in issue				**1,013**	**1,914**

The changes in the debt securities in issue can be analyzed as follows:

(CZKm)	Mortgage bonds	Promissory notes and certificates of deposits	Total
As at 1 January 2017	3,262	0	3,262
Withdrawal	0	7	7
Repayment	(1,337)	0	(1,337)
Other changes	(18)	0	(18)
As at 31 December 2017	1,907	7	1,914
Withdrawal	0	7	7
Repayment	(933)	(7)	(940)
Other changes	32	0	32
As at 31 December 2018	**1,006**	**7**	**1,013**

In 2018, the Bank did not issue any mortgage bonds. The Bank repaid a mortgage bonds issue HZL 2.30/18 in 2018.

Issued mortgage bonds are collateralized by the Bank’s receivables arising from the granted mortgages in line with Czech regulatory requirements.

25 Other Liabilities and Accruals and Deferred Income

(CZKm)	31 12.2018	31.12.2017
Accruals and deferred income	22	20
Payments in transit	99	137
Other clearing accounts	128	362
Other creditors	90	239
Anticipated payables	204	41
VAT and other tax payables	9	8
Other	23	21
Total other liabilities and accruals and deferred income	**575**	**828**

26 Provisions

(CZKm)	Provisions for financial guarantees and other contingent liabilities	Other operating provisions	Total provisions
As at 1 January 2017	40	51	91
Release	(26)	(41)	(67)
Cover of costs	0	(13)	(13)
Additions	16	13	29
Remeasurement	(1)	0	(1)
As at 31 December 2017	29	10	39
IFRS 9 remeasurement (Note 2(b))	25	0	25
As at 1 January 2018	54	10	64
Release	(42)	0	(42)
Cover of costs	0	(1)	(1)
Additions	23	10	33
As at 31 December 2018	**35**	**19**	**54**

Other operating provision includes also provisions for the removal of technical improvements for the property of third parties, the Bank performed mainly in connection with the lease contracts to the premises in which the Bank operates its banking business.

27 Subordinated Debt

(CZKm)	Total
As at 1 January 2017	189
Foreign exchange differences	(10)
As at 31 December 2017	179
Foreign exchange differences	1
As at 31 December 2018	**180**

The Bank classifies its subordinated debt in the category of financial liabilities “measured at amortized cost”.

The Bank received the subordinated debt of EUR 7 million from its parent company Sberbank Europe AG, the sole shareholder, on 29 December 2016. The annual interest rate of the subordinated debt is 3.741 % p.a. and its maturity is 29 December 2023. The Bank has drawn this subordinated debt to cover the capital buffer internally defined by the Bank. The purpose of this buffer is to ensure the fulfillment of requirement for the total capital adequacy ratio. The subordinated debt was drawn under standard market conditions.

28 Equity

There was no change in issued shares in 2018 and 2017.

Issued shares carry standard shareholder's rights. Shares do not carry any special rights that would, for example, restrict or prioritize dividend payment or allow repayment equity back to shareholders.

Share capital (CZKm)	31.12.2018	31.12.2017
Voting shares	2,806	2,806
Issued, paid and registered by the Commercial register	**2,806**	**2,806**

Issues of shares ISIN	Date of issue	Nominal value of share	Number of shares	Nominal value
		CZK		CZKm
CZ0008040201	23.10.1998	5,000	30,000	150
CZ0008040201	23.10.1998	5,000	100,000	500
CZ0008040201	7.8.2002	5,000	4,600	23
CZ0008040201	7.8.2002	5,000	15,400	77
CZ0008040201	23.11.2005	5,000	3,165	16
CZ0008040201	23.11.2005	5,000	10,555	53
CZ0008040201	31.7.2006	5,000	6,565	33
CZ0008040201	31.7.2006	5,000	21,895	109
CZ0008040201	20.12.2006	5,000	8,479	42
CZ0008040201	20.12.2006	5,000	28,281	142
CZ0008040201	16.5.2007	5,000	8,336	42
CZ0008040201	16.5.2007	5,000	27,804	139
CZ0008040201	21.12.2007	5,000	16,488	82
CZ0008040201	21.12.2007	5,000	54,992	275
CZ0008040201	30.7.2008	5,000	14,882	74
CZ0008040201	30.7.2008	5,000	49,634	248
CZ0008040201	18.4.2014	5,000	160,122	801
			561,198	**2,806**

As at 31 December 2018 and 2017 the nominal value of ordinary securities was CZK 5,000.

29 Contingent Liabilities and Commitments

Commitments to provide a loan, loan guarantees to third parties and guarantees from the acceptance of letters of credit expose the Bank to credit risk and to loss in the event of a client's inability to meet his obligations. Various commitments and contingent liabilities arise in the normal course of business involving elements of credit, interest rate and liquidity risk.

Contingent liabilities include:

(CZKm)	31.12.2018 Contractual amount	31.12.2017 Contractual amount
Documentary credits	123	12
Provision for documentary credits	(1)	0
Net documentary credits	122	12
Financial guarantees	1,696	1,907
Provision for guarantees (Note 26)	(15)	(23)
Net financial guarantees	1,681	1,896
Undrawn formal standby facilities, credit lines	6,313	5,916
Provision for un-drawn credit lines (Note 26)	(19)	(6)
Net un-drawn formal standby facilities, credit lines	6,294	5,910
Total in net amount	**8,097**	**7,806**

Undrawn credit lines are irrevocable.

Since 1 January 2018 the provisions for financial guarantees and other contingent liabilities had been calculated as described in Notes 2(q), 2(aa) and 33(b). The Bank's credit risk exposure on loan commitments and financial guarantee contracts as at 31 December 2018 is analyzed in Note 33(b).

Until 31 December 2017, the calculation of the provision for financial guarantees and other contingent liabilities was based on the following probability of outflow for loans and advances in default:

- If the client was classified as substandard, the probability of outflow was 50% for issued financial guarantees;
- If the client was classified as doubtful or loss, the probability of outflow was 100% for issued financial guarantees;
- If the client was classified as substandard, doubtful or loss, the probability of outflow was 100% for credit-related commitments;
- If the client was classified as substandard, doubtful or loss, the probability of outflow was 100% for letters of credit.

Uncertainties about the amount or timing of any resulting outflows of economic benefits were summarized in the probability of outflow and the credit conversion factor (which is 50% for loan commitments and letters of credit and 100% for guarantees) and were reflected in the provision.

The Bank assumed that the possibility of any outflow in the settlement was remote for loans and advances without default.

The amount and timing of the drawdown of off-balance assets were calculated with internal models. Drawdown can happen at anytime during the lifetime of the contract.

30 Other Contingent Liabilities

LITIGATION

There was no litigation, which is expected to have a significant impact on the financial position of the Bank as at 31 December 2018.

TAXATION

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations the respective tax authorities may apply in a number of areas. As a result, the Bank has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Czech tax authorities are authorized to perform tax inspections for three years retrospectively. The last tax inspection was for the year 2007.

ASSETS UNDER MANAGEMENT AND CUSTODY

(CZKm)	31.12.2018	31.12.2017
Assets held under custody	7	7

Assets held under custody are shown at nominal value.

(CZKm)	31.12.2018	31.12.2017
Assets held under management	3,667	3,200

Assets held under management are shown at fair value.

Management considers that no present obligations were associated with these fiduciary duties as at 31 December 2018 and 2017.

OPERATING LEASE COMMITMENTS (THE BANK AS LESSEE)

Future minimum lease payments (cash outflow) under land, building and equipment operating leases are as follows:

(CZKm)	31.12.2018	31.12.2017
Up to 3 months	27	26
Not later than 1 year	70	72
Later than 1 year and not later than 5 years	235	234
Later than 5 years	58	27
Total future minimum lease payments	**390**	**359**

31 Cash and Cash Equivalents

Analysis of the balances of cash and cash equivalents as shown in the balance sheets:

(CZKm)	31.12.2018	31.12.2017	1.1.2017
Cash and balances with central banks (Note 12)	12,165	17,439	12,975
Loans and advances to banks due up to 3 months (Note 13)	1,765	1,577	1,566
Deposits from banks due up to 3 months (Note 22)	(2,457)	(4,876)	(2,069)
Total cash and cash equivalents	**11,473**	**14,140**	**12,472**

32 Operating Segments

The Bank has the following four reportable segments in 2018 and 2017. These operating segments are the Bank's strategic business units which offer different products and services, and are managed separately because they require different technology, product distribution and service rendering methods and marketing strategies. The Management Board reviews the internal management reports for each of these strategic business units on a monthly basis.

- **Retail banking:** Private individuals and entrepreneurs and companies with a turnover of less than EUR 1 million;
- **Corporate banking:** Companies with turnover greater than EUR 50 million and non-banking institutions in the financial sector;
- **SME banking:** Small companies and entrepreneurs with turnover from 1 to EUR 50 million;
- **Treasury:** Asset and liability management, dealing.

The result of other Bank activities (head office expenses, unallocated expenses and eliminating and reconciling items) is reported within the reconciliation of the reportable segment revenues, profit or loss, assets and liabilities and other material items with corresponding items in the Bank's financial statements. The methods of reporting the segments' profit and loss, assets and liabilities is in accordance with the methods of reporting profit and loss, assets and liabilities of the aggregate Bank level.

In 2018 and 2017, no client of the Bank (or group of related persons) generated more than 10% of the total revenues of the Bank.

The accounting policies of the reportable segments are the same as described in the Note 2.

The information regarding the results of each reportable segment is included below. The performance is measured based on the segment profit before income tax, as included in the internal management reports that are reviewed by the Bank's Management Board.

Operating segment information for 2018

(CZKm)	Retail banking	Corporate Banking	SME	Treasury and others	Total
Net interest income	1,011	276	551	(58)	1,780
Non-interest income	181	240	205	(8)	618
Total segment revenue	1,192	516	756	(66)	2,398
Segment expense	(937)	(260)	(364)	(56)	(1,617)
Other material non-cash items:					
Allocation to allowances for credit losses	(138)	(171)	25	0	(284)
Reversal of allowances for credit losses	54	0	20	0	74
Receivables written off	(42)	0	(51)	0	(93)
Reportable segment profit before income tax	129	85	386	(122)	478
Reportable segment assets	36,735	8,096	18,050	16,874	79,755
Reportable segment liabilities	34,494	11,641	20,773	4,145	71,053
Capital expenditure	139	31	68	63	301
Depreciation	(78)	(5)	(6)	(54)	(143)

Operating segment information for 2017

(CZKm)	Retail banking	Corporate Banking	SME	Treasury and others	Total
Net interest income	815	289	554	(12)	1,646
Non-interest income	215	171	193	45	624
Total segment revenue	1,030	460	747	33	2,270
Segment expense	(857)	(225)	(338)	(114)	(1,534)
Other material non-cash items:					
Allocation to provision for loan impairment	(234)	(220)	(696)	0	(1,150)
Reversal of provision for loan impairment	215	13	715	0	943
Receivables written off	0	0	2	0	2
Reportable segment profit before income tax	154	28	430	(81)	531
Reportable segment assets	31,057	9,243	20,425	20,739	81,464
Reportable segment liabilities	34,991	10,659	19,651	7,409	72,710
Capital expenditure	114	34	75	76	299
Depreciation	(56)	(3)	(4)	(46)	(109)

The method of the expense allocation among reportable segments was changed in 2018. The comparatives for 2017 were adjusted to ensure data comparability.

Reconciliations of reportable segments profit before income tax and assets and liabilities		
(CZKm)	2018	2017
Profit before income tax		
Total profit before income tax for reportable segments	478	531
Profit before income tax	478	531
Assets		
Total assets for reportable segments	79,755	81,464
Total assets	79,755	81,464
Liabilities		
Total liabilities for reportable segments	71,053	72,710
Total liabilities	71,053	72,710

Total Bank revenue is generated solely by the reportable segments.

The vast majority of the Bank's total revenues is generated from customers domiciled in the Czech Republic.

All of the Bank's fixed assets are located in the Czech Republic.

33 Financial Risks

(a) Strategy in using financial instruments

The Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating interest rates and for various periods and seeks to earn above-average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might become due.

The Bank seeks to raise its interest margins by obtaining above-average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet receivables and advances but the Bank also enters into guarantees and other commitments such as letters of credit and other similar contingent liabilities.

(b) Credit risk

The Bank defines credit risk as the risk that counterparty will cause a financial loss for the Bank by failing to discharge a contractual obligation.

Credit risk management is performed in close co-operation with the Bank's parent company and together with the Bank's strategy and risk appetite reflects the risk strategy and risk-appetite of shareholders.

A conservative strategy for credit risk management is applied. Considered within the general context of the overall business relations existing with each respective customer, every transaction for which the Bank knowingly undertakes risk should yield a contribution margin that is commensurate with the specific risk incurred.

The Bank structures the levels of accepted credit risk by regular measurement of the risk exposure, monitoring of the limits and taking appropriate procedures leading to a decrease in the accepted level of credit risk. This process is performed for each individual borrower and the whole loan portfolio. When deciding about the acceptance of a new exposure, an analysis of the customer's cash flow and the overall financial situation is a key factor, as well as the existing experience with the customer together with the quality of received collateral. The decision-making is performed independently from the sales units.

The capital requirement for credit risk in the investment portfolio is calculated using the standardized approach.

The table below summarizes the maximum exposure to credit risk before collateral held or other credit enhancements, the financial effect of collateral held and other credit enhancements and the maximum exposure to credit risk less the effect of collateral held or other credit enhancements. Included in the table are the Bank's assets and liabilities at net carrying amounts.

As at 31.12.2018 (CZKm)	Exposure to credit risk before collateral held or other credit enhancements	Financial effect of collateral held and other credit enhancements	Exposure to credit risk less the effect of collateral held or other credit enhancements
Balance sheet credit risk exposures			
Loans and advances to banks	1,890	0	1,890
Loans and advances to customers:			
Corporate loans:			
Investment loans	18,929	9,616	9,313
Working capital financing	2,419	169	2,250
Mortgages	67	59	8
Total corporate loans	21,415	9,844	11,571
Retail loans:			
Investment loans	6,293	4,596	1,697
Working capital financing	1,812	68	1,744
Mortgages	28,808	24,576	4,232
Consumer loans	4,574	0	4,574
Total retail loans	41,487	29,240	12,247
Total loans and advances to customers	62,902	39,084	23,818
Derivative financial instruments	353	0	353
Securities at FVOCI	811	0	811
Securities at amortised cost	311	0	311
Other exposures	384	0	384
Total balance sheet credit risk exposures	66,651	39,084	27,567
Off-balance sheet credit risk exposures (nominal amount)			
Financial guarantees	1,696	0	1,696
Loan commitments and other credit related liabilities	6,436	0	6,436
Total off-balance sheet credit exposures	8,132	0	8,132
Total credit exposures	**74,783**	**39,084**	**35,699**

As at 31.12.2017 (CZKm)	Exposure to credit risk before collateral held or other credit enhancements	Financial effect of collateral held and other credit enhancements	Exposure to credit risk less the effect of collateral held or other credit enhancements
Balance sheet credit risk exposures			
Loans and advances to banks	1,892	0	1,892
Loans and advances to customers:			
Corporate loans:			
Investment loans	21,460	11,160	10,300
Working capital financing	3,123	771	2,352
Mortgages	77	72	5
Total corporate loans	24,660	12,003	12,657
Retail loans:			
Investment loans	6,234	4,087	2,147
Working capital financing	1,970	663	1,307
Mortgages	23,913	20,344	3,569
Consumer loans	3,706	3	3,703
Total retail loans	35,823	25,097	10,726
Total loans and advances to customers	60,483	37,100	23,383
Derivative financial instruments	249	0	249
Investment securities – debt securities	245	0	245
Other exposures	405	0	405
Total balance sheet credit risk exposures	63,274	37,100	26,174
Off-balance sheet credit risk exposures (nominal amount)			
Financial guarantees	1,907	0	1,907
Loan commitments and other credit related liabilities	5,928	0	5,928
Total credit exposures relating to off-balance sheet items	7,835	0	7,835
Total credit exposures	**71,109**	**37,100**	**34,009**

Corporate loans include loans and advances to customers with a total exposure above EUR 1 million or with an annual turnover of at least EUR 50 million. Segments Corporate/Retail are determined in accordance with the Basel III standardized approach for the calculation of the capital requirement for credit risk in investment portfolios as opposed to Note 32, where the segments are defined based on the Bank's organizational structure.

COLLATERAL HELD AND OTHER CREDIT ENHANCEMENTS
Collateral held and other credit enhancements may be summarized by the collateral type as follows:

(CZKm)	31.12.2018	31.12.2017
Financial effect of collateral held and other credit enhancements		
Bank and similar guarantees	794	1,247
Mortgage right on real estate	35,527	32,176
Financial collateral	887	751
Other	1,876	2,926
Total financial effect of collateral held and other credit enhancements	**39,084**	**37,100**

Accounting policies for collateral are presented in Note 2(hh).

In 2014, the Bank received a guarantee agreement from Sberbank Europe covering the difference between the estimation of market value of collateral and the value of collateral that the Bank accepts for risk purposes. The value of this guarantee is CZK 53.3 million and is part of the line "Financial collateral".

From 2015–2018, the Bank did not receive any cash-flow from the guarantee described. The amount of the guarantee was reduced to an amount of CZK 35 million in 2016 and to CZK 23 million in 2017 because of the derecognition of two loans covered by the guarantee. There was no loss connected with the derecognition that should be covered by cash-flows from the guarantee. The amount of the guarantee was CZK 22 million as at 31 December 2018 and 2017.

LOANS AND ADVANCES

The Bank's exposure to credit risk from loans and advances is summarized as follows:

(CZKm)	31.12.2018 Loans and advances to customers	31.12.2018 Loans and advances to banks	31.12.2017 Loans and advances to customers	31.12.2017 Loans and advances to banks
Performing	63,106	1,891	58,328	1,892
Non-performing	1,704	0	3,350	0
Gross loans and advances	**64,810**	**1,891**	**61,678**	**1,892**
Allowances for credit losses	(1,908)	(1)	(1,195)	0
Net loans and advances	**62,902**	**1,890**	**60,483**	**1,892**

The Bank uses internal rating models for the purposes of managing and monitoring the quality of the loan portfolio. Each borrower is based on its credit quality assigned to specific rating grade. This rating grade represents the probability of client default within one year ("PD").

The current rating scale consists of 26 rating grades, where the 26th grade is reserved for customers in default (for Corporate banking the 25th grade also indicates default).

The internal rating has to be periodically updated. Validation and parameter changes are carried out in cooperation with the parent company.

Loans and advances are classified as follows in accordance with the CNB's regulations:

- Performing exposures (exposures without default) are allocated rating grades 1-25 and can be classified as follows:
  - > Standard – principal and interest payments are regularly paid and none of them are overdue for more than 30 days and there is no reason to doubt the full repayment without the usage of collateral for collecting the receivable,
  - > Watched – when there has been an identified deterioration of the debtor's financial situation since the recognition of the receivable or principal or interest payments are paid with problems, but none of them is overdue more than 90 days and a full collection of the receivable without the usage collateral for collecting the receivable is probable considering the financial and economic situation of the debtor.
- Non-performing exposures (exposures in default) are allocated the rating on 26 (or rating grade 25 for Corporate banking). A part of the receivable is overdue for more than 90 days or the full repayment of the receivable is not probable without the realization of the collateral because of the financial and economic situation of the debto.

Rating scale (valid since 1 January 2015):

Rating Grade	Risk	Min PD	Average PD	Max PD
1	Low	0.00%	0.02%	0.03%
2	Low	0.03%	0.04%	0.04%
3	Low	0.04%	0.05%	0.06%
4	Low	0.06%	0.07%	0.08%
5	Low	0.08%	0.10%	0.11%
6	Low	0.11%	0.13%	0.16%
7	Low	0.16%	0.18%	0.22%
8	Low	0.22%	0.25%	0.30%
9	Low	0.30%	0.35%	0.41%
10	Low	0.41%	0.48%	0.56%
11	Low	0.56%	0.66%	0.78%
12	Low	0.78%	0.91%	1.07%
13	Medium	1.07%	1.25%	1.47%
14	Medium	1.47%	1.73%	2.02%
15	Medium	2.02%	2.38%	2.79%
16	Medium	2.79%	3.27%	3.84%
17	Medium	3.84%	4.51%	5.29%
18	Medium	5.29%	6.20%	7.28%
19	High	7.28%	8.54%	10.03%
20	High	10.03%	11.77%	13.81%
21	High	13.81%	16.20%	19.01%
22	High	19.01%	22.31%	26.19%
23	High	26.19%	30.73%	36.06%
24	High	36.06%	42.32%	49.66%
25	High	49.66%	58.28%	100.00%
26	Default	100.00%	100.00%	100.00%

Table of external ratings converted to the internal rating:

Rating Grade	Risk	PD (for 1 year)	Rating S&P	Rating Fitch	Rating Moody's
1	Low	0.02%	AAA	AAA	Aaa
1	Low	0.02%	AA+	AA+	Aa1
1	Low	0.02%	AA	AA	Aa2
1	Low	0.02%	AA-	AA-	Aa3
1	Low	0.02%	A+	A+	A1
2	Low	0.04%	A	A	A2
3	Low	0.05%	A-	A-	A3
4	Low	0.07%	A-	A-	A3
5	Low	0.10%	BBB+	BBB+	Baa1
6	Low	0.13%	BBB+	BBB+	Baa1
7	Low	0.18%	BBB	BBB	Baa2
8	Low	0.25%	BBB-	BBB-	Baa3
9	Low	0.35%	BBB-	BBB-	Baa3
10	Low	0.48%	BB+	BB+	Ba1
11	Low	0.66%	BB+	BB+	Ba1
12	Low	0.91%	BB	BB	Ba2
13	Medium	1.25%	BB-	BB-	Ba3
14	Medium	1.73%	BB-	BB-	Ba3
15	Medium	2.38%	B+	B+	B1
16	Medium	3.27%	B	B	B2
17	Medium	4.51%	B	B	B2
18	Medium	6.20%	B-	B-	B3
19	High	8.54%	CCC+	CCC+	Caa1
20	High	11.77%	CCC+	CCC+	Caa1
21	High	16.20%	CCC	CCC	Caa2
22	High	22.31%	CCC-	CCC-	Caa3
23	High	30.73%	CC	CC	Ca
24	High	42.32%	C	C	C
25	High	58.28%	C	C	C
26	Default	100.00%	C	C	C

Expected credit loss measurement in the year 2018

As described in Note 2(q), the Bank is using a "three-stage" model for impairment based on changes in credit quality since initial recognition as required by IFRS 9. The key judgements and assumptions adopted by the Bank are described below:

SIGNIFICANT INCREASE IN CREDIT RISK ("SICR")

Within the IFRS 9 methodology, the SICR is based on both quantitative and qualitative criteria.

Quantitative criteria for a SICR is presented by an absolute threshold for the rating change since the initial recognition. A change in the internal rating by 7 notches (worsening) from the initial recognition is considered as a SICR factor in the staging process. An exception from this rule is applied when the internal rating at reporting month is lower or equal to 8. Moreover, when there is an evidence of past due more than 30 days on contractual payments of a financial instrument, then it is always assumed that the SICR is automatically triggered (backstop).

Qualitative criteria are represented by a Forbearance flag and a Monitoring status. The forbearance flag aims to identify those transactions where the credit risk might by affected by contractual modifications taken by the Bank in order to prevent a default. The Bank assumes that such modifications represent a significant increase in the credit risk and a forborne flag is assumed as a SICR factor. The monitoring status is the result of a regular and ongoing credit review of non-retail customers combined with the Early warning system of the Bank. The objective of the credit review, in short, is to assess the credit quality of the debtor and its ability to pay for the debt and meet the contractual conditions. The result of the monitoring with the Red zone color is assumed as a SICR factor. The Bank additionally implements the Watch list flag as a SICR factor. The Watch list enables to capture an increased credit risk whenever it is identified by the Bank, regardless of timelines of regular and ongoing credit reviews.

The Low credit risk exemption is not applied for low risk portfolios by the Bank.

1. Credit-impaired assets and definition of default

The Bank has a methodology for the classification of financial assets in place (i.e. default policy), which defines when a financial instrument is in default, which is aligned to the definition of credit-impaired. In order to classify an asset as in default, one or more predefined criteria have to be met.

Quantitative criteria: the objective evidence of the impairment is represented by the fact that the borrower is more than 90 days past due on its contractual payments.

Qualitative criteria are set to represent the unlikeliness to pay the debt in full by borrower, without realization of collateral (if any). The main criteria are:

- Probability of default based on internal rating scale is greater than 50%;
- Insolvency proceeding of the borrower;
- Distressed restructuring (granted concession by lender to borrower in financial difficulties);
- Borrower is deceased;
- Significant breach of terms/conditions from borrower, including financial covenant(s);
- Frauds;
- Material execution on borrower exists;
- Internal credit Monitoring results in Black zone color;
- Borrower defaults in other banks from Sberbank Europe group.

Some default criteria are assessed on an asset level (days past due, forbearance/concessions), others on a borrower's level (rating, financial health, insolvency, bankruptcy). The Bank recognizes the defaults on a client level and all financial assets of the borrower are then classified as in default.

The definition of a default is not only used for the determination of Stage 3, but consistently for credit risk management purposes, including the credit risk models development.

2. Reversal from Stage 2 and 3 to Stage 1

A reversal from the Stage 3(2) to the lower stages is only possible when none of stage 3(2) criteria are present for one full subsequent month. Moreover, the modifications of assets in terms of forbearance measures and distressed restructuring have specified periods to be passed before it is assumed that the increased credit risk (or impairment) has ceased to exist and the flags/triggers are not removed before that time passes and at the same time no other trigger occurs in the meantime.

(ii) INPUTS, ASSUMPTIONS AND ESTIMATION TECHNIQUES USED WHEN MEASURING ECL

The Bank measures the ECL on either a 12-month or lifetime basis, according to the Stage of financial instruments, as shown in the table in the Note 2(q). The expected credit losses are calculated by a multiplication of the Probability of default (PD), the Exposure at default (EAD) and the Loss given default (LGD). The definitions are as follows:

- PD is the probability of a borrower defaulting (as per paragraph Credit-impaired assets and definition of default) within a specified period. The period is either a 12-month or lifetime, based on the type of loss allowance to be measured. Lifetime is determined as time to the contractual maturity of the financial instrument being measured.
- EAD represents the amount that is expected to be owed at the time of default. The time of default is linked to the period of PD, which is used for calculation, i.e. 12-month PD is associated with EAD after 12 months from the reporting date. In the case of lifetime estimates, the EAD is determined for each consecutive year based on contractual repayments. For contracts with an undefined maturity, a simplified assumption on the application of average maturity length instead of contractual cash flows is used. When the exposure is secured by a collateral, then the EAD is further broken-down separately for an unsecured amount and for secured amounts segmented by collateral type segments. This is done in order to be able to apply the LGD values defined per collateral type segments. Within the EAD estimates, the amount of undrawn credit lines (typically for revolving products and off-balance sheet exposures) are taken into account via a Credit Conversion Factor (CCF), which determines the percentage of the undrawn credit to be drawn-down at the time of default. The Bank applies regulatory CCF values used within Risk weighted assets calculation under Pillar I.
- LGD is defined as an expected relative level of loss on defaulted exposure. LGD is estimated separately for unsecured part of exposures and for collateralized part of exposures, based on collateral type segments. LGD values are defined regardless of the period and loss allowance type and are applied to EAD segments, hence overall LGD on exposure level is changing over the time, dependent on structure of collateralization of the exposure.

PD and EAD values are projected over future years and applied to individual exposures. When the lifetime ECL is calculated, the product of the PD, the EAD and the LGD is discounted back to the reporting date per each future year using the effective interest rate, to obtain a present value of the future loss.

Estimation techniques used for PD estimates are Markov chains and regression analysis. For LGD the method of weighted averages on historically observed data among segments is used. The methodology of the ECL calculation was developed on a unified basis across the Sberbank Europe group and enables the Bank to adjust it according to its own availability of data and level of detail and quality of data. This means that the level of sophistication is dependent on the number of observations available within each predefined segment. The bank applies Markov chains to estimate the PD both for 12-month and lifetime ECL as a basis, driven by the historical data of Bank. Two major segments are defined, retail and non-retail segments. For these segments the transition matrices are constructed differently – using different periods and weights for averaging of matrices. By multiplication of one-year transition matrices, the projection of the PD profile into the future is performed and incremental (one-year) matrices are calculated. Over the one-year matrices the macroeconomic overlay is applied, with the use of regression analysis. If regression analysis does not provide statistically significant estimates of dependency between observed default rates and macroeconomic data, then this overlay is skipped and the model continues without the overlay.

Models for estimating the parameters used for ECL calculation are updated once a year and then parameters are consistently applied at each reporting date during the whole calendar year.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

(iii) FORWARD LOOKING INFORMATION INCORPORATED IN THE ECL MODELS

The forward looking information is considered both in the SICR assessment and the lifetime PD estimation. Within the SICR, the qualitative criteria of the monitoring result and the calculated zone color from the Bank's early warning system captures forward looking information with respect to increased probability of financial difficulties of the borrower in future.

The lifetime PD estimation is associated with the testing of a dependency of observed default rates on macroeconomic variables. These macroeconomic variables were analyzed for a statistical significance:

- GDP Y-o-Y;
- Industrial production Y-o-Y;
- Unemployment rate;
- Retail sales Y-o-Y;
- Net average wages Y-o-Y;
- Construction output Y-o-Y;
- CPI.

For non-retail segments an analysis was conducted between observed default rates and mentioned macroeconomic variables. For retail segments the transition matrices are split into zones and each zone is tested for dependency. A constraint for models was established, that no more than 2 explanatory variables might be used within one regression model due to number of historical observations used for testing. The level of confidence is set to 95% for the regression coefficients.

When there is no statistically sufficient result of such an analysis for a given portfolio segment, the overlay is skipped and through-the-cycle averages are applied for the PD estimation.

(iv) GROUPING OF INSTRUMENTS FOR LOSSES MEASURED ON A COLLECTIVE BASIS

In order to estimate the parameters used for measurement of the ECL, the financial instruments are segmented into portfolios with similar risk characteristics. The main objective is to obtain a sufficient amount of observations within one group, which is reasonably homogenous, therefore statistical methods can be applied on such a group of instruments. Selected segments reflects the reporting structure of the Bank too.

Table below shows groupings for the collective measurement and overview of final approach to PD and LGD parameters:

Key segment	Borrower's segment	Product group	PD model basis	Macro-overlay	LGD uncolla-teralized	Further segmentation
Non-retail	Corporate	n/a	Historical data	No	100%	Rating grades
	SME	n/a	Historical data	Yes	100%	Rating grades
	Financial institutions, Sovereigns and Central Banks	n/a	Synthetic migration matrix	No	100%	Rating grades
Retail	Micro	n/a	Historical data	No	45%/ model based	DPD buckets
	Private individuals	Mortgage Loans	Historical data	Yes	Model based	DPD buckets
		Consumer Loans	Historical data	Yes	Model based	DPD buckets
		Revolving and Other Loans	Historical data	No	Model based	DPD buckets

Financial instruments in Stage 3 with a current exposure above CZK 5 million are treated individually, until their exposure declines below CZK 1 million or they migrate into a different stage.

SENSITIVITY ANALYSIS:

Set out below are the changes to the ECL that would result from changes in the expected cash flows (loans in the stage 3), from changes in the Rating Grade (Corporate loans in the stages 1 and 2) or changes in the probability of default comparable with the change in the average Rating Grades by the number of Rating Grades set out below (Retail loans in the stages 1 and 2) according to the following, internally defined, sensitivity scenarios:

- Scenario 1: a change in the ECL if the Rating Grades change by 1 or if the expected cash flows change by 5%;
- Scenario 2: a change in the ECL if the Rating Grades change by 2 or if the expected cash flows change by 10%.

Retail	Scenario 1		Scenario 2	
(CZKm)	Negative	Positive	Negative	Positive
Change in the ECL for the Stage 1	91.1	(47.3)	222.2	(81.8)
from which: change from the Stage 1 to the Stage 2	28.5	0	79.6	0
Change in the ECL for the Stage 2	37.8	(27.5)	89.9	(47.5)
from which: change from the Stage 2 to the Stage 3	4.9	0	15.5	0
Change in the ECL for the Stage 3	11.9	(6.0)	23.9	(12.0)
Total change in the ECL	**140.8**	**(80.8)**	**336.0**	**(141.3)**

Corporate	Scenario 1		Scenario 2	
(CZKm)	Negative	Positive	Negative	Positive
Change in the ECL for the Stage 1	147.2	(84.2)	418.7	(145.6)
from which: change from the Stage 1 to the Stage 2	35.3	0	166.7	0
Change in the ECL for the Stage 2	85.0	(87.5)	159.3	(131.5)
from which: change from the Stage 2 to the Stage 3	23.1	0	40.7	0
Change in the ECL for the Stage 3	20.9	(14.0)	42.2	(27.3)
Total change in the ECL	**253.1**	**(185.7)**	**620.2**	**(304.4)**

The change in the Rating Grade of financial instruments in the Stage 1 may result in the SICR and transfer to the Stage 2. The change in the Rating Grade of financial instruments in the Stage 2 may result in the impairment of the financial instrument and transfer to the Stage 3. These effects are disclosed on separate rows and are not included in the total change in the ECL rows.

The Bank's exposure to credit risk from loans and advances as at 31 December 2018 is summarized as follows:

As at 31.12.2018 (CZKm)	12-month ECL Stage 1	Lifetime ECL Stage 2	Lifetime ECL Stage 3	POCI	Total
Low risk	28,376	2,613	0	0	30,989
Medium risk	24,276	4,755	0	0	29,031
High risk	1,190	1,896	0	0	3,086
Default	0	0	1,704	0	1,704
Gross loans and advances to customers	53,842	9,264	1,704	0	64,810
Allowances for credit losses	(458)	(467)	(983)	0	(1,908)
Net loans and advances to customers	**53,384**	**8,797**	**721**	**0**	**62,902**

As at 31.12.2018 (CZKm)	Retail	Corporate	Total
Stage 1 – 12-month ECL			
Gross loans and advances	36,176	17,666	53,842
Financial effect of collateral	24,918	7,857	32,775
Stage 2 – Lifetime ECL			
Gross loans and advances	5,284	3,980	9,264
Financial effect of collateral	3,930	1,711	5,641
Stage 3 – Lifetime ECL			
Gross loans and advances	865	839	1,704
Financial effect of collateral	392	276	668
POCI			
Gross loans and advances	0	0	0
Financial effect of collateral	0	0	0
Total gross loans and advances to customers	**42,325**	**22,485**	**64,810**
Total financial effect of collateral	**29,240**	**9,844**	**39,084**

The Bank's exposure to credit risk from loans and advances as at 31 December 2017 is summarized as follows:

As at 31.12.2017 (CZKm)	Neither past due nor impaired	Past due not impaired	Past due, individually impaired	Total
Low risk	30,824	8	0	30,832
Medium risk	25,300	72	0	25,372
High risk	1,999	125	0	2,124
Default	0	0	3,350	3,350
Gross loans and advances to customers	58,123	205	3,350	61,678
Allowance for impairment for credit risks	(274)	(17)	(904)	(1,195)
Net loans and advances to customers	**57,849**	**188**	**2,446**	**60,483**

Loans and advances from 1 up to 90 days overdue were not considered to be impaired by an individual impairment provision as at 31 December 2017.

Until 31 December 2017, the Bank performed an assessment for the individual impairment of loans and advances that were above the materiality threshold. Individually, impaired loans and advances include exposures corresponding to the sub-categories of substandard, doubtful and loss loans and receivables in accordance with regulatory classifications. Therefore, they also included loans and advances more than 90 days overdue. The remaining loans and advances from financial activities were considered within the collective evaluation of impairment and for the calculation of the portfolio provision.

The table below summarizes the gross amount of loans and advances to customers by business segment along with the fair value of related collateral held by the Bank as security.

As at 31.12.2017 (CZKm)	Retail	Corporate	Total
Neither past due nor impaired			
Loans and advances – gross	35,343	22,780	58,123
Financial effect of collateral	24,594	10,375	34,969
Past due not impaired			
Loans and advances – gross	185	20	205
Financial effect of collateral	104	8	112
Past due, individually impaired			
Loans and advances – gross	849	2,501	3,350
Financial effect of collateral	399	1,620	2,019
Total loans and advances – gross	**36,377**	**25,301**	**61,678**
Total financial effect of collateral	**25,097**	**12,003**	**37,100**

LOANS AND ADVANCES UNDER FORBEARANCE MEASURES AND MODIFIED LOANS

The Bank performs the restructuring of loans and advances in cases where according to the assessment of the current legal and financial situation of the client it would probably suffer a loss if the restructuring was not performed. The restructuring mainly includes a modification of the repayment schedule, adjustment of interest rates, forgiveness of past due interests or extending the payment of the principal or accessory amounts or transformation of an overdraft current account to a loan.

The allowance for impairment of loans under forbearance measures is calculated using the same methodology as for other loans and receivables.

The Bank maintains the evidence of loans and advances under forbearance measures and evaluates their status on a quarterly basis. Restructured loans and receivables are rated with grade 26 according to current rating scale.

Forborne loans and receivables according to degree of impairment:

As at 31 December 2018 (CZKm)	Forborne loans and receivables	Received collateral	Total loans and receivables to customers	Received collateral
Stage 1	12	95	53,842	32,775
Stage 2	2,224	428	9,264	5,641
Stage 3	661	83	1,704	668
POCI	0	0	0	0
Gross loans and receivables	**2,897**	**606**	**64,810**	**39,084**
Allowances for credit losses	(633)	0	(1,908)	0
Net loans and receivables	**2,264**	**606**	**62,902**	**39,084**

As at 31 December 2017 (CZKm)	Forborne loans and receivables	Received collateral	Total loans and receivables to customers	Received collateral
Not impaired	2,174	488	58,328	35,081
Impaired	1,911	1,336	3,350	2,019
Gross loans and receivables	**4,085**	**1,824**	**61,678**	**37,100**
Allowance for impairment	(436)	0	(1,195)	0
Net loans and receivables	**3,649**	**1,824**	**60,483**	**37,100**

The reconciliation from the opening balances to the closing balances of the forborne loans and receivables

(CZKm)	Retail	Corporate	Celkem
As at 1 January 2017	414	1,670	2,084
New forborne receivables	62	2,368	2 430
Change in forborne receivables (repayments, increase)	(43)	(180)	(223)
Segment reclassifications	(17)	17	0
Forborne receivables written off	(2)	0	(2)
Sale of forborne receivables	(6)	0	(6)
Healed forborne receivables	(100)	(98)	(198)
As at 31 December 2017	**308**	**3,777**	**4,085**
As at 1 January 2018	308	3,777	4,085
New forborne receivables	50	102	152
Change in forborne receivables (repayments, increase)	(8)	(12)	(20)
Segment reclassifications	(123)	123	0
Forborne receivables written off	(5)	(20)	(25)
Sale of forborne receivables	(1)	0	(1)
Healed forborne receivables	(91)	(1,203)	(1,294)
As at 31 December 2018	**130**	**2,767**	**2,897**

The following table includes summary information for loans and advances to customers with a lifetime ECL as at the date of modification whose cash flows were modified during 2018.

(CZKm)	31.12.2018
Amortised cost before modification	2,059
Net modification gain	50
Amortised cost after modification	2,109

As at 31 December 2018 the gross carrying amount of loans and advances to customers that have been modified at a time when the loss allowance was measured at an amount equal to lifetime ECL and for which the loss allowance has changed to an amount equal to 12-month ECL was CZK 0 million.

LOANS AND ADVANCES TO BANKS

For receivables from banks, the internal grade is derived from external ratings provided by recognized rating agencies.

(CZKm)	31.12.2018	31.12.2017
Low risk	1 877	1,892
Medium risk	14	0
Gross loans and advances to banks	**1,891**	**1,892**
Allowances for credit losses	(1)	0
Net loans and receivables to banks	**1,890**	**1,892**

All loans and advances to banks as at 31 December 2018 were in the Stage 1 and the impairment provision for 12-month expected credit losses was created.

No allowance for credit losses to loans and advances to banks was created as at 31 December 2017, because all receivables were being properly repaid.

DEBT SECURITIES

The table below presents an analysis of debt securities by rating agency designation as at 31 December 2018 and 31 December 2017, based on Moody's external ratings.

As at 31 December 2018 (CZKm)	At FVOCI	At amortised cost	Total
Aaa to A3	811	314	1,125
Total debt securities	**811**	**314**	**1,125**

As at 31 December 2017 (CZKm)	Classified as loans and receivables	Total
Aaa to A3	0	0
Total debt securities	**245**	**245**

All debt securities as at 31 December 2018 were in the Stage 1 and the allowance for 12-month expected credit losses was created.

No impairment provision to debt securities was created as at 31 December 2017.

CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE

Diversification is one of the key principles in managing credit risk. The Bank fully adheres to regulatory limits for an exposure to single economically-linked groups of customers. The Bank applies a limit of EUR 150 million (CZK 3,859 million as of 31 December 2018) for the Sberbank group entities. The Bank applies a limit of 25% of regulatory capital for other economically linked groups of customers (CZK 2,080 million as of 31 December 2018). The Bank had receivables to six economically linked groups with exposure exceeding 10% of regulatory capital as of 31 December 2018 (six as of 31 December 2017).

Additionally, the Bank places and monitors limits on the amount of risk accepted in relation to both geographical and industry sectors.

Geographical sectors

As at 31 December 2018 (CZKm)	Domestic	European Union	Other Europe	Other	Total
Assets					
Loans and advances to banks	30	1,404	297	159	1,890
Loans and advances to customers	55,656	6,357	720	169	62,902
from which forborne loans	297	1,967	0	0	2,264
Debt investment securities	1,122	0	0	0	1,122
Derivative financial instruments	50	303	0	0	353
Other financial assets	378	6	0	0	384
Total financial assets	**57,236**	**8,070**	**1,017**	**328**	**66,651**

As at 31 December 2017 (CZKm)	Domestic	European Union	Other Europe	Other	Total
Assets					
Loans and advances to banks	28	1,407	383	74	1,892
Loans and advances to customers	53,642	6,372	387	82	60,483
from which forborne loans	1,617	2,032	0	0	3,649
Debt investment securities	245	0	0	0	245
Derivative financial instruments	15	214	20	0	249
Other financial assets	405	0	0	0	405
Total financial assets	**54,335**	**7,993**	**790**	**156**	**63,274**

Industry sectors

As at 31 December 2018 (CZKm)	Real estate	Trade and services	Manu-factor-ing	House-holds	Finan-cial institu-tions	Public sector	Other indus-tries	Total
Assets								
Loans and advances to banks	0	0	0	0	1,890	0	0	1,890
Loans and advances to customers	9,136	8,416	10,050	33,690	1,130	416	64	62,902
from which forborne loans	16	56	2,105	85	1	0	1	2,264
Investment securities	0	0	266	0	45	811	0	1,122
Derivative financial instruments	17	13	25	0	298	0	0	353
Other financial assets	1	15	0	1	367	0	0	384
Total financial assets	**9,154**	**8,444**	**10,341**	**33,691**	**3,730**	**1,227**	**64**	**66,651**

As at 31 December 2017 (CZKm)	Real estate	Trade and services	Manu-factor-ing	House-holds	Finan-cial institu-tions	Public sector	Other indus-tries	Total
Assets								
Loans and advances to banks	0	0	0	0	1,892	0	0	1,892
Loans and advances to customers	9,523	8,987	12,762	27,979	651	502	79	60,483
from which forborne loans	19	202	3,334	92	1	0	1	3,649
Investment securities	0	0	200	0	45	0	0	245
Derivative financial instruments	4	0	13	0	232	0	0	249
Other financial assets	1	36	(6)	8	366	0	0	405
Total financial assets	**9,528**	**9,023**	**12,969**	**27,987**	**3,186**	**502**	**79**	**63,274**

DERIVATIVES

The Bank maintains strict control limits on credit risk from derivative positions, by both amount and term. Credit risk exposure is expressed by a credit equivalent, which in relation to derivatives is only a small fraction of the derivative's notional amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security which is required for credit transactions is obtained for credit risk exposures on these instruments.

FINANCIAL INSTRUMENTS SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR ARRANGEMENTS

The following table sets out the analysis of possible impact of enforceable master netting agreements to the Bank's financial position.

31 December 2018				Gross amounts – enforceable master netting agreements		
(CZKm)	Gross amount	Gross amount netting	Net amount reported	Financial instrument	Financial collateral	**Net amount**
Assets						
Derivatives	301	0	301	(89)	(196)	16
Total Assets	**301**	**0**	**301**	**(89)**	**(196)**	**16**
Liabilities						
Derivatives	96	0	96	(87)	(6)	3
Total Liabilities	**96**	**0**	**96**	**(87)**	**(6)**	**3**

31 December 2017				Gross amounts – enforceable master netting agreements		
(CZKm)	Gross amount	Gross amount netting	Net amount reported	Financial instrument	Financial collateral	**Net amount**
Assets						
Derivatives	230	0	230	(50)	(175)	5
Total Assets	**230**	**0**	**230**	**(50)**	**(175)**	**5**
Liabilities						
Derivatives	50	0	50	(50)	0	0
Total Liabilities	**50**	**0**	**50**	**(50)**	**0**	**0**

CREDIT-RELATED COMMITMENTS AND ISSUED GUARANTEES

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Payment guarantees and standby letters of credit with the characteristics of credit substitutes carry the same credit risk as loans. Documents and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to losses in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The credit risk exposure from the off-balance sheet items can be analyzed as follows:

31 December 2018	12-month E	Lifetime ECL		
(CZKm)	Stage 1	Stage 2	Stage 3	Total
Financial guarantees issued – contractual amount				
Low risk	619	14	0	633
Medium risk	923	57	0	980
High risk	5	77	0	82
Default	0	0	1	1
Total financial guarantees issued	1,547	148	1	1,696
Provision for guarantees	(13)	(1)	(1)	(15)
Net financial guarantees issued	**1,534**	**147**	**0**	**1,681**
Undrawn formal standby facilities, credit lines – contractual amount				
Low risk	4,343	0	0	4,343
Medium risk	2,022	7	0	2,029
High risk	47	13	0	60
Default	0	0	4	4
Total undrawn formal standby facilities, credit lines	6,412	20	4	6,436
Provision for un-drawn credit lines	(16)	(3)	(1)	(20)
Net un-drawn formal standby facilities, credit lines	**6,396**	**17**	**3**	**6,416**

(c) Market risk

The Bank defines market risk as a risk of loss resulting from changes in market prices, foreign exchange rates and rates on financial markets. The Bank manages its trading an investment portfolio separately.

(i) TRADING BOOK RISK
Trading book risks result from fluctuations of the fair value of instruments in this portfolio. The Bank monitors general, specific and foreign currency risk from its business activities. The risks are monitored using various reports and measures (e.g. volume of exposures and gains/losses resulting from these exposures). The trading activities are restricted by set limits.

The Bank uses a conservative trading strategy primarily based on searching for arbitrary opportunities. The most frequently traded instruments are foreign currency forwards and swaps, interest rate swaps, bonds, money market deposits and loans.

Revaluation of derivatives to fair value is done on a daily basis to comply with market and regulatory standards.

ANALYSIS OF POSITIONS

The following tables summarizes the total exposure in the Bank's trading book. This disclosure is based on nominal amount of individual instruments.

As at 31 December 2018 (CZKm)	CZK	EUR	USD	Others	Total
Interest rate instruments	5,367	1,151	0	0	6,518
Foreign currency instruments					
– assets	2,925	3,500	12	48	6,485
– liabilities	(3,460)	(2,942)	(22)	(48)	(6,472)

As at 31 December 2017 (CZKm)	CZK	EUR	USD	Others	Total
Interest rate instruments	4,161	654	0	0	4,815
Foreign currency instruments					
– assets	3,589	3,940	43	157	7,729
– liabilities	(3,874)	(3,168)	(510)	(164)	(7,716)

The tables below summarizes the remaining contractual maturity of trading book instruments. This disclosure is based on nominal amount of individual instruments.

As at 31 December 2018 (CZKm)	Within 1 year	1 – 4 years	Over 4 years	Total
Interest rate instruments	156	1,061	5,301	6,518
Foreign currency instruments				
– assets	4,457	2,028	0	6,485
– liabilities	(4,453)	(2,019)	0	(6,472)

As at 31 December 2017 (CZKm)	Within 1 year	1 – 4 years	Over 4 years	Total
Interest rate instruments	3	2,417	2,394	4,815
Foreign currency instruments				
– assets	6,000	1,729	0	7,729
– liabilities	(5,989)	(1,727)	0	(7,716)

(ii) CURRENCY RISK

The Bank defines currency risk as a risk of financial loss from changes in foreign exchange rates.

The Bank's financial position and its cash flows are exposed to fluctuations in the prevailing foreign currency exchange rates. The Bank manages its open foreign currency position using foreign exchange deals (spots, forwards and swaps). The total open foreign currency position and foreign exchange derivatives on behalf of clients are included in the trading portfolio. The Bank sets limits on the level of open currency position by currency and in total for all currencies. Open foreign currency positions are monitored on a daily basis and stress testing over the foreign exchange rates fluctuations is done and reported on a regular basis.

SENSITIVITY ANALYSIS

The tables below summarize the Bank's exposure to currency risk. It is expressed by the sensitivity analysis demonstrating the impact of the change in the CZK foreign exchange rate against significant currencies on the balance sheet, on the Bank's annual net profit and other equity components.

In 2018, the impact of an appreciation / (depreciation) of the CZK foreign exchange rate against the EUR and USD by 20% was tested (in 2017: against the EUR by 10% and against USD by 20%). These thresholds are derived from historical data. The increase in the EUR threshold results from the CNB's decision to discontinue its EUR/CZK exchange rate commitment. The table below summarizes the impact of the valuation of assets and liabilities denominated in these currencies on the Bank's annual net profit and other components of its equity.

The Bank has set limits on open currency positions in each currency. Within these limits, the Bank maintains currency position so that it is balanced in all currencies. The impact of foreign exchange rate changes on net profit in the individual currencies, as well as in the aggregate for all currencies, is not significant.

As at 31 December 2018	EUR		USD	
(CZKm)	20%	-20%	20%	-20%
Assets				
Cash and balances with central banks	(14)	14	(9)	9
Loans and advances to banks	(236)	236	(85)	85
Loans and advances to customers	(1,874)	1,874	(57)	57
Other assets	(6)	6	(3)	3
Unsettled transactions with currency instruments	(1,002)	1,002	(406)	406
	(3,132)	3,132	(560)	560
Liabilities				
Deposits from banks	534	(534)	1	(1)
Due to customers	1,412	(1,412)	538	(538
Subordinated debt	36	(36)	0	0
Other liabilities	29	(29)	7	(7)
Unsettled transactions with currency instruments	1,224	(1,224)	14	(14)
	3,235	(3,235)	560	(560)
Total (annual net profit)	**103**	**(103)**	**0**	**0**

Changes in the CZK foreign exchange rate against EUR and USD did not have any effect on any component of the Bank's equity other than annual net profit.

As at 31 December 2017	EUR		USD	
(CZKm)	10%	-10%	20%	-20%
Assets				
Cash and balances with central banks	(12)	12	(10)	10
Loans and advances to banks	(144)	144	(13)	13
Loans and advances to customers	(927)	927	(71)	71
Other assets	(3)	3	0	0
Unsettled transactions with currency instruments	(615)	615	(447)	447
	(1,701)	1,701	(541)	541
Liabilities				
Deposits from banks	347	(347)	0	0
Due to customers	637	(637)	390	(390)
Subordinated debt	18	(18)	0	0
Other liabilities	14	(14)	3	(3)
Unsettled transactions with currency instruments	701	(701)	147	(147)
	1,717	**(1,717)**	**540**	**(540)**
Total (annual net profit)	**16**	**(16)**	**(1)**	**1**

Changes in the CZK foreign exchange rate against EUR and USD did not have any effect on any component of the Bank's equity other than annual net profit.

CURRENCY POSITION

The tables below summarize the Bank's exposure to currency risk expressed by an open currency position. Included in the table are the Bank's assets, liabilities and equity at carrying amounts, categorized by currency.

As at 31 December 2018 (CZKm)	CZK	EUR	USD	Other	Total
Assets					
Cash and balances with central banks	11,970	72	46	77	12,165
Loans and advances to banks	30	1,179	423	258	1,890
Loans and advances to customers	53,249	9,368	284	1	62,902
Investment securities	1,122	0	0	0	1,122
Other assets	1,632	30	14	0	1,676
Total assets	68,003	10,649	767	336	79,755
Liabilities and equity					
Deposits from banks	82	2,669	4	216	2,971
Due to customers	55,105	7,058	2,690	1,235	66,088
Debt securities in issue	1,013	0	0	0	1,013
Provisions	47	7	0	0	54
Subordinated debt	0	180	0	0	180
Other liabilities	559	144	37	7	747
Equity	8,702	0	0	0	8,702
Total liabilities and equity	65,508	10,058	2,731	1,458	79,755
Net assets/(liabilities and equity)	**2,495**	**591**	**(1,964)**	**(1,122)**	**0**
Net assets/(liabilities) from unsettled transactions with currency instruments including derivatives	**(1,890)**	**(1,114)**	**1 963**	**1,151**	**110**
Net open currency position	**605**	**(523)**	**(1)**	**29**	**110**

As at 31 December 2018 (CZKm)	CZK	EUR	USD	Other	Total
Off-balance sheet items					
Financial guarantees	1,005	461	1	229	1,696
Loan commitments and other credit related liabilities	5,335	1,080	21	0	6,436
Currency position from off-balance sheet items	**6,340**	**1,541**	**22**	**229**	**8,132**

As at 31 December 2017 (CZKm)	CZK	EUR	USD	Other	Total
Assets					
Cash and balances with central banks	17,203	119	50	67	17,439
Loans and advances to banks	68	1,443	64	317	1,892
Loans and advances to customers	50,776	9,268	353	86	60,483
Investment securities	245	0	0	0	245
Other assets	1,377	27	1	0	1,405
Total assets	69,669	10,857	468	470	81,464
Liabilities and equity					
Deposits from banks	1,609	3,468	2	308	5,387
Due to customers	54,943	6,369	1,951	866	64,129
Debt securities in issue	1,914	0	0	0	1,914
Provisions	16	23	0	0	39
Subordinated debt	0	179	0	0	179
Other liabilities	893	141	16	12	1,062
Equity	8,754	0	0	0	8,754
Total liabilities and equity	68,129	10,180	1,969	1,186	81,464
Net assets/(liabilities and equity)	**1,540**	**677**	**(1,501)**	**(716)**	**0**
Net assets/(liabilities) from unsettled transactions with currency instruments including derivatives	**(1,374)**	**(860)**	**1,500**	**733**	**(1)**
Net open currency position	**166**	**(183)**	**(1)**	**17**	**(1)**

As at 31 December 2017 (CZKm)	CZK	EUR	USD	Other	Total
Off-balance sheet items					
Financial guarantees	706	842	3	356	1,907
Loan commitments and other credit related liabilities	4,961	959	8	0	5,928
Currency position from off-balance sheet items	**5,667**	**1,801**	**11**	**356**	**7,835**

(d) Interest rate risk

The Bank defines interest rate risk as the risk of financial loss because of changes in market interest rates.

The Bank takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Bank exposure to interest rate risk is monitored daily using gap analysis in each foreign currency and is aggregated for all currencies. Sensitivity to changes in the market interest rate is regularly measured via a simulated change of the present value of the interest cash flows from individual interest rate instruments where the interest rate is increased by a standardized value of interest rate shock of 200 basis points (b.p.) based on predefined non-linear scenarios. The testing of the impact of assumptions on prepayments of assets and behavior of assets and liabilities on the output of the sensitivity analysis is tested on a regular basis. Interest rate swaps or other fixed-rate instruments are used to manage interest rate positions.

SENSITIVITY ANALYSIS

The table below summarizes the Bank's exposure to interest rate risks. It is expressed by the sensitivity analysis showing the effect of a change in market interest rates by 100 b.p. on the Bank's annual net profit and other movements in equity. The impact on the Bank's annual net profit and other movements in equity is presented in the following table.

As at 31 December 2018	100 b.p.	(100) b.p.
(CZKm)	Annual net profit / loss	
Assets		
Cash and balances with central banks	111	(111)
Loans and advances to banks	18	(18)
Loans and advances to customers	234	(234)
Securities at amortised cost	2	(2)
Securities at FVOCI	8	(8)
	373	(373)
Liabilities		
Deposits from banks	(28)	28
Due to customers	(353)	353
Subordinated debt	(2)	2
	(383)	383
Derivative financial instruments	**79**	**(79)**
Total	**69**	**(69)**

As at 31 December 2017 (CZKm)	100 b.p.	(100) b.p.
	Annual net profit / loss	
Assets		
Cash and balances with central banks	160	(160)
Loans and advances to banks	18	(18)
Loans and advances to customers	252	(252)
Securities (loans and receivables)	2	(2)
	432	(432)
Liabilities		
Deposits from banks	(51)	51
Due to customers	(342)	342
Debt securities in issue	(2)	2
	(395)	395
Derivative financial instruments	**41**	**(41)**
Total	**78**	**(78)**

Changes in the market interest rates do not have a material effect on the Bank's movements in equity other than annual net profit.

(e) Liquidity risk

The Bank defines liquidity risk as the risk that difficulties in meeting obligations associated with financial liabilities are encountered, or the risk of losing the ability to finance assets.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from the settlement of derivatives. Liquidity risk management is based on both the planning of the cash inflows and cash outflows based on the remaining maturity of the assets and liabilities, and on the experience gained from progress analysis of the previous years. The Bank prepares a liquidity plan which is approved by the Management Board together with the business plan, and both these plans are closely interconnected.

CASH FLOWS FROM BALANCE SHEET FINANCIAL INSTRUMENTS

The table below presents the contractual undiscounted cash flows from the Bank's financial liabilities as compared with total financial assets based on the remaining contractual period as at the statement of financial position date to the contractual maturity date.

31 December 2018 (CZKm)	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total undiscounted cash flows	Total Carrying amount
Non-derivatives financial liabilities						
Deposits from banks	2,971	0	0	0	2,971	2,971
Due to customers	63,365	2,179	587	0	66,131	66,088
Debt securities in issue	0	1,013	0	0	1,013	1,013
Subordinated debt	0	0	214	0	214	180
Total non-derivatives financial liabilities (remaining contractual maturities)	66,336	3,192	801	0	70,329	70,252
Total financial assets (remaining contractual maturities)	17,336	5,855	24,674	40,467	88,332	78,079
Net financial assets/(liabilities)	**(49,000)**	**2,663**	**23,873**	**40,467**	**18,003**	**7,827**

31 December 2017 (CZKm)	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total undiscounted cash flows	Total Carrying amount
Non-derivatives financial liabilities						
Deposits from banks	5,387	0	0	0	5,387	5,387
Due to customers	62,569	1,441	139	0	64,149	64,129
Debt securities in issue	0	886	1,044	0	1,930	1,914
Subordinated debt	0	0	0	219	219	179
Total non-derivatives financial liabilities (remaining contractual maturities)	67,956	2,327	1,183	219	71,685	71,609
Total financial assets (remaining contractual maturities)	21,196	4,367	26,816	40,763	93,142	80,059
Net financial assets/(liabilities)	**(46,760)**	**2,040**	**25,633**	**40,544**	**21,457**	**8,450**

The negative net financial liability with a remaining maturity of less than three months is influenced by the fact that customers are strictly divided into maturity time bands according to their remaining contractual maturities (e.g. current accounts are contained within the "Within 3 months" column). However, as statistical evidence shows it is unlikely that a majority of those customers will actually withdraw their deposits from the Bank at contractual maturity.

CASH FLOWS FROM DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives settled on a net basis

The Bank's derivatives to be settled on a net basis include interest rate swaps, interest rate options and foreign exchange non-deliverable forwards ("NDFs"). The table below analyses contractual undiscounted cash flows from the Bank's derivative financial liabilities settled on a net basis according to the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2018 (CZKm)	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total undiscounted cash flows	Total Nominal amount
Trading derivatives						
Interest derivatives:						
Interest rate swaps: assets	21	73	292	87	473	6,477
Interest rate swaps: liabilities	(18)	(65)	(268)	(81)	(432)	(6,477)
Foreign exchange derivatives:						
NDFs: assets	0	5	0	0	5	5
NDFs: liabilities	0	(5)	0	0	(5)	(5)
Hedging derivatives						
Interest derivatives:						
Interest rate swaps: assets	53	134	419	0	606	9,850
Interest rate swaps: liabilities	(49)	(88)	(354)	0	(491)	(9,850)
Net financial assets/(liabilities)	**7**	**54**	**89**	**6**	**156**	**0**

As at 31 December 2017 (CZKm)	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total undiscounted cash flows	Total Nominal amount
Trading derivatives						
Interest derivatives:						
Interest rate swaps: assets	8	30	115	15	168	4,815
Interest rate swaps: liabilities	(6)	(25)	(102)	(15)	(148)	(4,815)
Hedging derivatives						
Interest derivatives:						
Interest rate swaps: assets	9	32	259	0	300	5,200
Interest rate swaps: liabilities	0	(61)	(181)	0	(242)	(5,200)
Net financial assets/(liabilities)	**11**	**(24)**	**91**	**0**	**78**	**0**

Derivatives settled on a gross basis

The Bank's derivatives to be settled on a gross basis include foreign exchange forwards, foreign exchange swaps and foreign exchange options. The table below analyses contractual undiscounted cash flows from the Bank's derivative financial instruments settled on a gross basis according to the remaining period as at the statement of financial position date to the contractual maturity date.

As at 31 December 2018 (CZKm)	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total Undiscounted cash flows	Total Nominal amount
Trading derivatives						
Foreign exchange derivatives:						
Outflow	(4,928)	(4,064)	(2,019)	0	(11,011)	(11,011)
Inflow	5,014	4,079	2,027	0	11,120	11,120
Total	**86**	**15**	**8**	**0**	**109**	**109**

As at 31 December 2017 (CZKm)	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total Undiscounted cash flows	Total Nominal amount
Trading derivatives						
Foreign exchange derivatives:						
Outflow	(6,851)	(3,911)	(1,974)	0	(12,737)	(12,737)
Inflow	6,866	3,888	1,981	0	12,735	12,735
Total	**14**	**(23)**	**7**	**0**	**(2)**	**(2)**

OFF-BALANCE SHEET ITEMS

The table below analyses the off-balance sheet items of the Bank exposed to a liquidity risk into relevant maturity bands based on the remaining period as at the balance sheet date to the contractual maturity date.

As at 31 December 2018 (CZKm)	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial guarantees	355	584	421	336	1,696
Loan commitments and other credit related liabilities	6,436	0	0	0	6,436
Total	**6,791**	**584**	**421**	**336**	**8,132**

As at 31 December 2017 (CZKm)	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial guarantees	647	595	552	113	1,907
Loan commitments and other credit related liabilities	5,928	0	0	0	5,928
Total	**6,575**	**595**	**552**	**113**	**7,835**

Future minimum lease payments under operating lease commitments are analyzed in Note 30.

DEPOSITS CONCENTRATION

The following table presents the concentration of depositors with the 10 largest deposits from non-financial clients. The ratio represents the share of deposits volume collected with such clients and the volume of total deposits from non-financial clients:

As at 31 December 2018	13.33%
As at 31 December 2017	11.85%

(f) Operational risk

The Bank defines Operational risk as follows: “Operational risk means the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events; also includes legal risk. This definition excludes strategic risk.” To have a better understanding and perception of the specific risks, the Bank defines sub-categories of operational risk as follows: legal risk, compliance risk including conduct risk, IT-related operational risk and cyber risk, outsourcing risk, political and regulatory risk, model risk, and reputational risk.

GENERAL PRINCIPLES OF OPERATIONAL RISK MANAGEMENT

In general, the Bank’s Risk Management process considers the following activities:

- Identifying risks;
- Measuring exposures to those risks aligned with the business strategy and its goals;
- Ensuring that an effective capital monitoring and planning is in place;
- Monitoring exposures and corresponding capital needs on a regular basis by defining risk appetite and limits;
- Taking appropriate measures to control or mitigate risks; and
- Reporting to Senior management and the Management Board on the Bank’s risk profile.

As all business lines are exposed to operational risk, all organizational units, branches and employees of the Bank are responsible for managing Operational Risk in the performance of their main functions.

OPERATIONAL RISK MANAGEMENT ENVIRONMENT

The operational risk management process involves:

- **Identification and Assessment** – For the purpose of identifying and assessing Operational Risk the Bank uses the following instruments in particular: Internal Loss Data Collection and Analysis, Risk and Control Self Assessment (RCSA), Audit findings, Key Risk Indicators (KRI) and Scenario Analysis.
- **Monitoring and reporting** – The Bank has set up a system of regular monitoring and reporting and outputs are submitted to the Risk Committee and the Supervisory Board. It includes reports on identified operational risk events, results of RCSA, measures and the development of their implementation, development of KRI and internal control system. For the purpose of expressing the Risk Appetite, the Bank also monitors the risk indicators defined by the document "Risk Appetite Statement" for the Operational Risk area.
- **Control and Mitigation** – The methods used to control and reduce the risks are: avoidance, mitigation, transfer, and risk acceptance. The individual methods are used depending on the type and degree of risk incurred. Mitigation is mainly achieved through internal control and monitoring measures within the internal control system. The Bank applies a three-line defense system in accordance with an internal regulation within the internal control system, while Operational Risk Management is to be understood as part of the second line of defense. Proactive risk management also focuses on business continuity management and security management.

The Operational Risk Management process takes place at the level of actual events as well as the level of hypothetical risks. That is, the process of Operational Risk management is also applied when introducing new products / processes or establishing outsourcing relationships.

The Bank works closely with the parent company to manage Operational Risk. When calculating the capital requirement for Operational Risk, the Bank applies a Standardized Approach (TSA).

(g) Regulatory capital management

The regulatory capital management process is coordinated within the Sberbank Group in close communication with the Bank's shareholder. It is aimed at:

- ensuring the Bank's long-term stability in relation to existing risks;
- compliance with the supervisory capital requirements (capital adequacy); and
- maintaining a strong capital base to support business expansion

The Bank fulfils the requirement of CNB Decree No. 163/2014 ("the Decree"), the European Parliament and European Commission Directive No.575/2013 and Act No.21/1992 on banks for ongoing compliance with the capital adequacy limit by daily monitoring of risk-weighted assets. Required regulatory capital adequacy reports are filed with the CNB on a monthly basis. The Bank also informs the parent company on the level of compliance with the regulatory capital requirements with the same frequency.

The methodology for the calculation of regulatory capital is defined by the Decree. The Bank ensures that the capital level exceeds regulatory capital requirements in coordination with the parent company.

The Bank estimates capital requirements for coverage of individual risks in compliance with the valid regulatory legislation.

Additionally, the Bank's internal capital adequacy assessment system ensures that internally determined capital resources exceed the internally assessed capital required.

The table below summarizes the composition of the Bank's regulatory capital and risk-weighted assets. During both years, the Bank complied with the regulatory capital adequacy limit of 10.5%.

(CZKm)	2018	2017
Tier 1		
Share capital registered in the Commercial register	2,806	2,806
Share premium account	4,015	4,015
Obligatory reserve funds	187	166
Retained earnings from previous period	1,317	1,343
Usable interim profit	261	290
Less: Intangible assets other than goodwill	(650)	(477)
Other deductible items	(8)	0
Tier 1 capital	**7,928**	**8,143**
Tier 2		
Subordinated debt A	180	179
Tier 2 capital	**180**	**179**
Total regulatory capital	**8,108**	**8,322**
Risk-weighted assets		
Credit risk in investment/banking portfolio	45,943	47,117
Credit risk in trading portfolio	519	184
General interest rate risk	291	0
Operational risk	3,369	3,331
Total risk-weighted assets	**50,122**	**50,632**
Capital adequacy – Tier 1	**15.82%**	**16.08%**
Capital adequacy	**16.18%**	**16.44%**

(h) Maturity analysis of assets and liabilities

The table below analyses assets and liabilities according to when they are expected to be settled or recovered:

As at 31 December 2018 (CZKm)	Within 12 months	After 12 months	Total
ASSETS			
Cash and balances with central banks	12,165	0	12,165
Loans and advances to banks	1,867	23	1,890
Loans and advances to customers	14,325	48,577	62,902
Changes in the fair value of the portfolio of hedged instruments	(154)	0	(154)
Derivative financial instruments	235	0	235
Derivative financial instruments to hedge interest rate risk	118	0	118
Investment securities	812	310	1,122
Intangible assets	0	650	650
Property and equipment	0	243	243
Deferred tax assets	128	72	200
Other assets	314	0	314
Deferred items	70	0	70
Total assets	**29,880**	**49,875**	**79,755**
LIABILITIES			
Deposits from banks	2,971	0	2,971
Due to customers	27,615	38,473	66,088
Derivative financial instruments	145	0	145
Derivative financial instruments to hedge interest rate risk	6	0	6
Debt securities in issue	17	996	1,013
Current income tax liability	21	0	21
Other liabilities	553	0	553
Deferred items	22	0	22
Provisions	6	48	54
Subordinated debt	0	180	180
Total liabilities	**31,356**	**39,697**	**71,053**

As at 31 December 2017 (CZKm)	Within 12 months	After 12 months	Total
ASSETS			
Cash and balances with central banks	17,439	0	17,439
Loans and advances to banks	1,833	59	1,892
Loans and advances to customers	13,605	46,878	60,483
Changes in the fair value of the portfolio of hedged instruments	(70)	0	(70)
Derivative financial instruments	192	0	192
Derivative financial instruments to hedge interest rate risk	57	0	57
Investment securities – loans and receivables	2	243	245
Intangible assets	0	477	477
Property and equipment	0	263	263
Deferred tax assets	34	47	81
Other assets	341	0	341
Deferred items	64	0	64
Total assets	**33,497**	**47,967**	**81,464**
LIABILITIES			
Deposits from banks	5,387	0	5,387
Due to customers	29,208	34,921	64,129
Derivative financial instruments	185	0	185
Derivative financial instruments to hedge interest rate risk	2	0	2
Debt securities in issue	866	1,048	1,914
Current income tax liability	47	0	47
Other liabilities	808	0	808
Deferred items	20	0	20
Provisions	4	35	39
Subordinated debt	0	179	179
Total liabilities	**36,527**	**36,183**	**72,710**

34 Fair Value of Financial Assets and Liabilities

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value. Segments Corporate/Retail are determined in accordance with the Basel III standardized approach.

Fair value of financial assets and liabilities As at 31 December 2018 (CZKm)	Level 1	Level 2	Level 3	Fair value total	Carrying amount
Financial assets					
Loans and advances to banks	0	1,891	0	1,891	1,890
Loans and advances to customers thereof:	0	0	62,177	62,177	62,902
Retail	0	0	37,027	37,027	37,157
Corporate	0	0	25,150	25,150	25,745
Securities at amortised cost	0	0	309	309	311
Financial liabilities					
Deposits from banks	0	2,972	0	2,972	2,971
Due to customers thereof:	0	53,392	12,681	66,073	66,088
Retail	0	28,497	1,333	29,830	29,829
Corporate	0	24,895	11,348	36,243	36,259
Debt securities in issue thereof:	0	0	999	999	1,013
Corporate	0	0	999	999	1,013
Subordinated debt	0	0	226	226	180

Fair value of financial assets and liabilities As at 31 December 2017 (CZKm)	Level 1	Level 2	Level 3	Fair value total	Carrying amount
Financial assets					
Loans and advances to banks	0	1,892	0	1,892	1,892
Loans and advances to customers thereof:	0	0	57,836	57,836	60,483
Retail	0	0	33,087	33,087	35,139
Corporate	0	0	24,749	24,749	25,344
Securities in category loans and receivables	0	0	245	245	245
Financial liabilities					
Deposits from banks	0	5,388	0	5,388	5,387
Due to customers thereof:	0	31,475	32,663	64,138	64,129
Retail	0	26,651	22,993	49,644	49,635
Corporate	0	4,824	9,670	14,494	14,494
Debt securities in issue thereof:		0	1,913	1,913	1,914
Retail	0	0	7	7	7
Corporate	0	0	1,906	1,906	1,907
Subordinated Debt	0	0	221	221	179

The following methods and assumptions were used in estimating the fair values of the Bank's financial assets and liabilities:

LOANS AND ADVANCES TO BANKS

The carrying amounts of current account balances and loans with maturity less than one month are, by definition, equal to their fair values. The fair values of term placements with banks are estimated by discounting their future cash flows using current inter-bank market rates irrespective of credit spread. A majority of the loans and advances re-price within relatively short time spans; therefore, it is assumed their carrying amounts approximate their fair values.

LOANS AND ADVANCES TO CUSTOMERS

The fair value of loans to customers with defined future contractual cash-flows are estimated by discounting their future cash flows using current market rates adjusted for appropriate risk premium that is actually valid for the respective loan at the date of the fair value calculation. For loans with floating interest rates simplified calculation method is used by fixing current rate for future cash-flows and discount factors prediction. For loans without explicitly defined future contractual cash-flows (e.g. overdrafts) the Bank assumes that fair-value is close to the carrying amount. For loans impaired with individual loan loss provision calculated according discounted estimated cash-flows the Bank assumes that fair-value is close to carrying amount decreased by the loan loss provision created.

INVESTMENT SECURITIES

For investment securities measured at amortised cost the Bank assumes that the fair-value approximates their carrying amount.

DEPOSITS FROM BANKS

The fair amounts of current account balances and deposits with maturity less than one month are, by definition, equal to their carrying values. The fair values of other amounts due to banks are estimated by discounting their future cash flows using curr117ent inter-bank market rates irrespective of own credit spread.

DUE TO CUSTOMERS

The fair values of current accounts as well as term deposits with equal to or less than one year remaining maturity approximate their carrying amounts. The fair values of other term deposits are estimated by discounting their future cash flows using rates currently offered for deposits of similar remaining maturities irrespective of their own credit spread.

DEBT SECURITIES IN ISSUE

Mortgage bonds issued are not publicly traded and their fair values are based upon the quoted market prices of the debt securities with similar characteristics. The carrying amounts of promissory notes and certificates of deposit approximate their fair values. Their own credit spread is not considered.

FAIR VALUE HIERARCHY

The table below analyses financial instruments measured at fair value at the end of the reporting period.

Information about fair value measurements are disclosed using a hierarchy that reflects the significance of inputs used in measuring the fair values of financial instruments (they are categorized into three levels):

- Level 1 – fair value measurements using quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 – fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques in which significant inputs are directly or indirectly observable from market data.
- Level 3 – fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs) and these data have significant influence on the measurement. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank has an established control framework with respect to the measurement of fair values of assets and liabilities. These controls include the verification of observable pricing, re-performance of model valuations, a review and approval process for new models and changes to models, quarterly calibration and back-testing of models against observed market transactions, analysis and investigation of significant daily valuation movements and review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments.

As at 31 December 2018: (CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities at fair value	811	0	0	811
Derivative financial instruments	0	235	0	235
Derivative financial instruments to hedge interest rate risk	0	118	0	118
Financial liabilities				
Derivative financial instruments	0	145	0	145
Derivative financial instruments to hedge interest rate risk	0	6	0	6

As at 31 December 2017: (CZKm)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	0	192	0	192
Derivative financial instruments to hedge interest rate risk	0	57	0	57
Financial liabilities				
Derivative financial instruments	0	185	0	185
Derivative financial instruments to hedge interest rate risk	0	2	0	2

In 2018 and 2017, there were no transfers of financial assets or liabilities between Level 1 and 2.

35 Dividends

Final dividends are not accounted for until they have been ratified at the Annual General Meeting. No dividends were paid for the years 2012 to 2017. At the Annual General Meeting held on 19 April 2018 it was approved to transfer the profit for 2017 to allocate retained earnings without dividend payments, the profit was allocated to the reserve fund and retained earnings. The following table discloses the distribution of profit for 2017 and proposed distribution of profit for 2018, which does not assume any dividend payments either.

(CZKm)	2018	2017
Transfer to reserve fund	19	21
Transfer to retained earnings	358	403
	377	424

36 Shareholders

The shareholder structure of the Bank as at 31 December 2018 and 2017 was as follows:

Voting shareholders Name and registered office	Share in %
Sberbank Europe AG, Schwarzenbergplatz 3, Vienna	100.00
	100.00

37 Related Parties

The ultimate parent company is Sberbank RU. The parent company Sberbank Europe AG (formerly Volksbank International AG) and companies within Sberbank Group other than the parent company are part of Other related parties.

The amounts of the income, expense and assets and liabilities balances regarding related parties were as follows:

As at 31 December 2018 and year then ended (CZKm)	Note.	Ultimate Parent	Manage-ment	Other related parties	Total
Interest income	3	4	0	1	5
Commission and fee income	4	0	0	4	4
Net trading income	5	6	0	9	15
Other operating income	9	0	0	15	15
Interest expense	3	0	0	8	8
Commission and fee expense	4	0	0	7	7
Administrative expense	8	0	126	23	149
Due from banks	13	122	0	812	934
Loans and advances	14	0	41	0	41
Derivative financial instruments	16	0	0	0	0
Other assets	21	0	0	2	2
Due to banks	22	2	0	1,622	1,624
Due to customers	23	0	11	0	11
Other liabilities	25	0	0	0	0
Derivative financial instruments	16	0	0	2	2
Subordinated debt	27	0	0	180	180
Guarantees granted and commitments given	29	48	14	257	319
Guarantees granted and commitments received		0	0	422	422
Assets under custody		0	1	0	1

As at 31 December 2017 and year then ended (CZKm)	Note.	Ultimate Parent	Manage-ment	Other related parties	Total
Interest income	3	5	0	1	6
Commission and fee income	4	0	0	1	1
Net trading income	5	1	0	0	1
Other operating income	9	0	0	23	23
Interest expense	3	1	0	7	8
Commission and fee expense	4	0	0	3	3
Administrative expense	8	4	95	22	121
Due from banks	13	307	0	254	561
Loans and advances	14	0	27	0	27
Derivative financial instruments	16	19	0	0	19
Other assets	21	0	0	1	1
Due to banks	22	1,538	0	1,713	3,251
Due to customers	23	0	17	0	17
Other liabilities	25	0	0	3	3
Derivative financial instruments	16	1	0	1	2
Subordinated debt	27	0	0	179	179
Guarantees granted and commitments given	29	1	1	0	2
Guarantees granted and commitments received		1,155	0	1,052	2,207
Assets under custody		0	1	0	1

Loans and advances to customers and individuals include the following receivables from related parties (Note 14):

Receivables from related parties (CZKm)	31.12.2018	31.12.2017
Management of the Bank	25	9
Members of Supervisory Board and Management Board	16	18
Total receivables from related parties	**41**	**27**

In the opinion of the management, all receivables from related parties were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than the normal credit risk or present other unfavorable features.

Due to customers includes the following position with related parties:

Deposits from related parties (CZKm)	31.12.2018	31.12.2017
Management of the Bank	7	11
Members of Supervisory Board and Management Board	4	6
Deposits from related parties	**11**	**17**

Due to banks includes the following position with related parties:

Deposits from related parties (CZKm)	31.12.2018	31.12.2017
Sberbank Moscow	2	1,538
Sberbank Europe	1,035	894
Other related parties (banks in the group)	587	819
Deposits from related parties	**1,624**	**3,251**

It is the management's opinion that deposits from related parties were accepted on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve more than the normal interest rate and liquidity risk or present other unfavorable features (Note 22 and 23).

Key management personnel salaries, benefits and contributions paid:

(CZKm)	31.12.2018	31.12.2017
Short-term employee benefits	107	93
Termination benefits	19	2
Salaries and bonuses of senior management and Supervisory Board members	126	95

Other personnel expenses are disclosed in Note 8.

38 Subsequent Events

Jiří Antoš was acting as a Member of Management Board until 31 December 2018. Petr Podaný, Anna Chalova and Branko Sušić were appointed as new members of the Supervisory Board on 14 January 2019. These changes were reflected in the Commercial Register on 2 March 2019.

There were no other important events which have occurred subsequent to the year-end until the date of preparation of the financial statements and which would have other material impact on the financial statements of the Bank as at 31 December 2018 or would have to be presented in the notes to the financial statements of the Bank as at 31 December 2018.

19. QUANTITATIVE INDICES

The metod used for the calculation of quantitative indices is described and explained in Chapter 17, Alternative Performance Indicators.

CZK thousand	2018	2017	2016	2015	2014
Return on Average Assets ROAA	0.47%	0.54%	0.37%	0.03%	0.55%
Return On Average Equity ROAE	4.80%	5.31%	3.47%	0.29%	5.61%
Assets Per Employee	96,322	89,129	85,673	90,555	81,043
Administrative expenses per employee	1,905	1,591	1,664	1,630	1,544
Net Profit per Employee	455	464	324	27	464
Capital structure					
Tier 1	7,927,609	8,142,938	7,790,782	7,882,836	7,550,114
Paid-up share capital	2,805,990	2,805,990	2,805,990	2,805,990	2,805,990
Paid-up share premium	4,015,635	4,015,635	4,015,635	4,015,635	4,015,635
Legal reserve funds	186,923	165,735	152,134	150,996	131,861
Retained earnings from previous years	1,316,785	1,343,477	1,085,053	1,063,418	699,689
Usable interim profit	260,600	290,000	0	0	0
Tier 2	179,862	178,780	189,140	0	15,032
Deductible items	-658,322	-477,899	-268,030	-153,202	-103,240
Intangible assets	-650,401	-477,463	-267,887	-151,914	-100,305
Capital	**8,107,472**	**8,321,718**	**7,979,922**	**7,882,836**	**7,565,146**
Capital Requirements					
Total capital requirements relating to credit risk	3,675,458	3,769,348	3,595,457	3,352,336	3,496,067
Total capital requirements relating to operational risk	269,522	266,461	260,390	253,440	230,927
Total capital requirements relating to position risk	23,317	0	0	0	0
Total capital requirements relating to currency risk	41,513	14,745	0	0	0
Capital Adequacy Ratio	**16.18%**	**16.44%**	**16.55%**	**17.49%**	**16.21%**

20. CAPITAL REQUIREMENTS

CZK thousand	2018		2017	
	Exposure	Capital requirement	Exposure	Capital requirement
Exposure to regional governments and local authorities	198,833	15,907	213,965	17,117
Exposure to public sector entities	0	0	79	6
Exposure to institutions	672,770	53,822	577,661	46,213
Exposure to corporates	22,989,821	1,839,186	23,895,700	1,911,656
Retail exposure	11,627,347	930,188	11,142,625	891,410
Exposure secured by mortgages on immovable property	8,226,288	658,103	6,651,752	532,140
Exposures in default	808,802	64,704	3,272,627	261,810
Items associated with particularly high risk	108,575	8,686	425,459	34,037
Other items	1,290,847	103,268	923,831	73,906

21. REPORT ON RELATIONSHIPS

The Management Board of the Bank submits, for the accounting period from 1 January 2018 to 31 December 2018, the following Report on Relationships between the Related Entities in accordance with Section 82 et seq. of Act No. 90/2012 Sb. on business corporations, as amended (the "Business Corporations Act").

1) Controlled entity

Sberbank CZ, a.s., Id. No.: 250 83 325, with its registered office at U Trezorky 921/2, Jinonice, 158 00 Prague 5, Czech Republic, entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert 4353 (the "Bank").

2) Controlling entity

The sole shareholder of the Bank is the **Sberbank Europe AG**, with its registered office at Schwarzenbergplatz 3, 1010 Vienna, Austria ("Sberbank Europe").
Sberbank Europe is an entity directly controlling Sberbank CZ.

Sberbank of Russia, with its registered office at 19 Vavilova St., 117997 Moscow, Russian Federation ("Sberbank of Russia") is an entity indirectly controlling the Bank through Sberbank Europe.

More than 50% of Sberbank of Russia is owned by the Central Bank of the Russian Federation, the rest is owned by other persons, and none of them, even together with other persons in concert, owns more than 25% of voting rights, owns a share in its registered capital of more than 25%, is the beneficiary of at least 25% of profit, and controls Sberbank of Russia pursuant to provisions of Section 4(4)(a) points 1, 2, 3 of Act No. 253/2008 Sb., on selected measures against legitimisation of proceeds of crime and financing of terrorism (the "AML Act"). **Pursuant to Section 4(4)(a) point 4 of the AML Act, natural persons who are factually or legally able to exercise directly or indirectly a controlling influence in the Bank shall be members of the governing body of the Bank.**

3) The structure of relationships between the controlling entity and the controlled entity and between the controlled entity and the entities controlled by the same controlling entity, the role of the controlled entity

The Bank is a joint-stock company incorporated under Czech law that operates on the Czech market as an independent bank pursuant to Act No. 21/1992 Sb. on banks, as amended. The Bank provides financial services in accordance with its line of business.

The Bank is part of the international financial group Sberbank. The group is headed by Sberbank of Russia, which owns a number of companies, a list of which is available on the website as well as in the annual report of Sberbank of Russia. Sberbank of Russia operates primarily in the Russian Federation, Central and Eastern Europe (Sberbank Europe), the Republic of Kazakhstan (Subsidiary Bank Sberbank JSC), Ukraine (SBERBANK PJSC), the Republic of Belarus (BPS-Sberbank OJSC), the Republic of Turkey (DenizBank A.S.) and the Swiss Confederation (Sberbank Switzerland AG). It also has representatives in the Federal Republic of Germany and the People's Republic of China and also owns a branch in the Republic of India.

The structure of relationships between the related entities within the Sberbank Group is listed in Annex 1 to this report. This structure shows the mutual relationships between individual related entities within the group. The structure shows the status as of 31 December 2018.

Other entities controlled by the same (directly and indirectly) controlling entity with which the Bank maintains regular mutual relationships are, in particular, the following entities:
Sberbank banka d.d., Sberbank Magyarország Ztr., Sberbank a.d. BL, Sberbank Srbija a.d., Sberbank BH d.d., Sberbank d.d.

The Bank does not control or mediate the control of another entity.

4) Manner and means of controlling

The control is exercised mainly through decisions of the sole shareholder exercising the powers of the General Meeting (e.g. through an amendment to the Bank's Articles of Association) and through members in the bodies of the Bank, i.e. the Supervisory Board and the Audit Committee (e.g. the Supervisory Board appoints and dismisses members of the Management Board of the Bank).

Sberbank Europe exercises its shareholder rights in accordance with the Articles of Association of the Bank and the applicable laws and regulations.

5) Overview of acts performed at the initiative or in the interest of the controlling entity or the entities controlled by it if such acts related to assets exceeding 10% of the equity of the controlled entity established according to the last financial statements

In 2018, the Bank neither adopted nor performed any legal acts relating to assets exceeding 10% of the equity of the controlled entity identified by the last financial statements, at the initiative or in the interest of the related entities.

6) Overview of mutual agreements between the controlled entity and the controlling entity or between the controlled entities

Below is the list of the most important contracts and agreements concluded between the related entities and effective in 2018:

Name of the contract	Subject-matter of the contract	Performance provider	Performance recipient	Market conditions
Contract "Sublicensing QRIC – Order + Acceptance"	Provision of the sub-licence for the QRIC software	Sberbank of Russia	Sberbank CZ	Standard
Contract "Licence Order (ORACLE)"	Provision of licence and support for the Oracle software	Sberbank of Russia	Sberbank CZ	Standard
Annexes 1 to 8 and 10 to 13 to the contract "Licence Order (ORACLE)"	Specific conditions for the provision of and support for the Oracle software	Sberbank of Russia	Sberbank CZ	Standard
Agreement – "Non-Disclosure Agreement"	Arrangement on the obligation to maintain confidentiality of the confidential information under the cooperation	Sberbank of Russia	Sberbank CZ	Standard
Agreement "Data Transfer Agreement"	Determination of the conditions for processing of the personal data of data subjects	Sberbank of Russia	Sberbank CZ	Standard
Agreement "Sublicensing Agreement"	Provision of the sub-licence for the Oracle software	Sberbank of Russia	Sberbank CZ	Standard
Agreement for the Provision of Services	Provision of services of the data centre (the use and operation of technical equipment server + software)	Sberbank of Russia	Sberbank CZ	Standard
Contract "Sublicensing Mercury – Order + Acceptance"	Provision of the sub-licence for the Mercury software	Sberbank of Russia	Sberbank CZ	Standard
Contract "Sublicensing Zeus – Order + Acceptance"	Provision of the sub-licence for the Zeus software	Sberbank of Russia	Sberbank CZ	Standard
Agreement "Connection Agreement No. 40 (FPSU Tokens)"	Provision of services – secure VPN network	Sberbank of Russia	Sberbank CZ	Standard
Contract "Microsoft Unlimited Contract"	Provision of the sub-licence for the Microsoft software	Sberbank of Russia	Sberbank CZ	Standard
Agreement "Connection Agreement No. 30 (FPSU Unit)"	Provision of services – secure VPN network	Sberbank of Russia	Sberbank CZ	Standard

Name of the contract	Subject-matter of the contract	Performance provider	Performance recipient	Market conditions
Annexes 1 to 2 to the contract "Connection Agreement No. 30 (FPSU Unit)"	Acknowledgement of receipt of equipment for the implementation of the provision of services	Sberbank of Russia	Sberbank CZ	Standard
Agreement "Computer Programme Sublicensing Agreement"	Provision of the sub-licence and support for the software (computer programs)	Sberbank of Russia	Sberbank CZ	Standard
Master Agreement "ISDA – Master Agreement, Schedule, CSA"	Determination of the framework conditions for OTC derivative transactions	Sberbank of Russia	Sberbank CZ	Standard
		Sberbank CZ	Sberbank of Russia	
Annex to the master agreement entitled "ISDA – Master Agreement – Credit Support Annex"	Specification of the framework conditions for OTC derivative transactions	Sberbank of Russia	Sberbank CZ	Standard
		Sberbank CZ	Sberbank of Russia	
Amendment "ISDA VM Credit Support Annex"	Changing the conditions for OTC derivative transactions	Sberbank of Russia	Sberbank CZ	Standard
		Sberbank CZ	Sberbank of Russia	
Master Agreement "GMRA Master Agreement"	Determination of the framework conditions for repo transactions	Sberbank of Russia	Sberbank CZ	Standard
		Sberbank CZ	Sberbank of Russia	
Master Agreement "ISDA – Master Agreement, Schedule, CSA"	Determination of the framework conditions for OTC derivative transactions	Sberbank Europe	Sberbank CZ	Standard
		Sberbank CZ	Sberbank Europe	
Amendment "ISDA VM Credit Support Annex"	Changing the conditions for OTC derivative transactions	Sberbank Europe	Sberbank CZ	Standard
		Sberbank CZ	Sberbank Europe	
Contract "Service Level Agreement for Development of IFRS 9 Models"	Development of a model for the estimation of risk parameters, probability of default and loss given default according to International Financial Reporting Standards, 9 impairment models	Sberbank Europe	Sberbank CZ	Standard
Master Agreement "Master Agreement on Personnel Lease"	Negotiation of the framework conditions for the lease of the workforce (employees for the activities within Sberbank Europe)	Sberbank CZ	Sberbank Europe	Standard
Master Agreement "Master Agreement on Personnel Lease"	Negotiation of the framework conditions for the lease of the workforce (employees of Sberbank Europe AG for the activities within the Bank)	Sberbank Europe	Sberbank CZ	Standard
Master Agreement "Master Agreement on Virtual and Partial Personnel Lease"	Negotiation of the framework conditions for the lease of the workforce (employees of the Bank for the activities within Sberbank Europe AG, including the Sberbank Group)	Sberbank CZ	Sberbank Europe	Standard
Annex to the "Master Agreement on Virtual and Partial Personnel Lease"	Negotiation of the lease of the workforce under a master agreement	Sberbank CZ	Sberbank Europe	Standard
Agreement "Subordinated Term Loan Agreement"	Determination of the conditions for drawing a subordinated debt	Sberbank Europe	Sberbank CZ	Standard
Amendment no. 1 to the "Subordinated Term Loan Agreement"	Amendment to the conditions for drawing a subordinated debt	Sberbank Europe	Sberbank CZ	Standard

Name of the contract	Subject-matter of the contract	Performance provider	Performance recipient	Market conditions
Amendment no. 2 to the "Subordinated Term Loan Agreement"	Amendment to the conditions for drawing a subordinated debt	Sberbank Europe	Sberbank CZ	Standard
Agreement "Agreement on the Provision of Services"	Adjusting conditions for the provision of IT services	Sberbank Europe	Sberbank CZ	Standard
Master Agreement "Master Agreement – Granting SW Licences and Services"	Determination of the master conditions for the provision of the licence and support for software (individual software listed in the appendices to the Master Agreement)	Sberbank Europe	Sberbank CZ	Standard
Annexes 1 to 2 to the Master Agreement "Granting of Licence – Midas"	Provision of licence and support for the Midas software	Sberbank Europe	Sberbank CZ	Standard
Master Agreement "Master Agreement for Granting of Software licences and services"	Determination of the master conditions for the provision of licence and support for software (Thomson Reuters – software for trading on markets)	Sberbank Europe	Sberbank CZ	Standard
Agreement "Services Agreement – Strategy Reporting Center"	Provision of services (designing credit strategies and policies for the approval process of retail products)	Sberbank CZ	Sberbank Europe	Standard
Master Agreement "Master Services Agreement"[4]	Determination of the master conditions for the provision of services (Underwriting HUB – submitting UW opinions on business transactions)	Sberbank CZ	Sberbank Europe	Standard
Annexes 1 to 7 to the Master Agreement "Master Services Agreement"	Specific conditions for underwriting HUB	Sberbank CZ	Sberbank Europe	Standard
Contract "Contract on Confidentiality of Protected Information"	Arrangement on the obligation to maintain confidentiality of the confidential information	Sberbank Europe	Sberbank CZ	Standard
Master agreement "Master Participation Agreement"	Determination of the master conditions for mutual cooperation in the provision of financial transactions	Sberbank Europe	Sberbank CZ	Standard
Contract "Audit Group Contract"	Group audit regulation	Sberbank Europe	Sberbank CZ	Standard
Master Agreement "Master Services Agreement"[5]	Determination of the master conditions for the provision of services (Underwriting HUB – submitting UW opinions on business transactions)	Sberbank CZ	Sberbank banka d.d.	Standard
Annexes 1 to 2 to the Master Agreement "Master Services Agreement"	Specific conditions for underwriting HUB	Sberbank CZ	Sberbank banka d.d.	Standard
Master Agreement "ISDA – Master Agreement, Schedule, CSA – Slovenia"	Determination of the framework conditions for OTC derivative transactions	Sberbank banka d.d.	Sberbank CZ	Standard
		Sberbank CZ	Sberbank banka d.d.	
Amendment "ISDA VM Credit Support Annex"	Changing the conditions for OTC derivative transactions	Sberbank banka d.d.	Sberbank CZ	Standard
		Sberbank CZ	Sberbank banka d.d.	

[4,5] Terminated on 31 August 2018.

Name of the contract	Subject-matter of the contract	Performance provider	Performance recipient	Market conditions
Master Agreement "ISDA – Master Agreement, Schedule, CSA – Banja Luka"	Determination of the framework conditions for OTC derivative transactions	Sberbank a.d. Banja Luka	Sberbank CZ	Standard
		Sberbank CZ	Sberbank a.d. Banja Luka	
Amendment "ISDA VM Credit Support Annex"	Changing the conditions for OTC derivative transactions	Sberbank a.d. Banja Luka	Sberbank CZ	Standard
		Sberbank CZ	Sberbank a.d. Banja Luka	
Master Agreement "ISDA – Master Agreement, Schedule, CSA – Serbia"	Determination of the framework conditions for OTC derivative transactions	Sberbank Srbija a.d.	Sberbank CZ	Standard
		Sberbank CZ	Sberbank Srbija a.d.	
Amendment "ISDA VM Credit Support Annex"	Changing the conditions for OTC derivative transactions	Sberbank Srbija a.d.	Sberbank CZ	Standard
		Sberbank CZ	Sberbank Srbija a.d.	
Master Agreement "ISDA – Master Agreement, Schedule, CSA – Bosnia and Herzegovina"	Determination of the framework conditions for OTC derivative transactions	Sberbank BH d.d., Sarajevo	Sberbank CZ	Standard
		Sberbank CZ	Sberbank BH d.d., Sarajevo	
Amendment "ISDA VM Credit Support Annex"	Changing the conditions for OTC derivative transactions	Sberbank BH d.d., Sarajevo	Sberbank CZ	Standard
		Sberbank CZ	Sberbank BH d.d., Sarajevo	
Master Agreement "ISDA – Master Agreement, Schedule, CSA – Hungary"	Determination of the framework conditions for OTC derivative transactions	Sberbank Magyarország Zrt.	Sberbank CZ	Standard
		Sberbank CZ	Sberbank Magyarország Zrt.	
Amendment "ISDA VM Credit Support Annex"	Changing the conditions for OTC derivative transactions	Sberbank Magyarország Zrt.	Sberbank CZ	Standard
		Sberbank CZ	Sberbank Magyarország Zrt.	
Agreement "Service Agreement Consolidated with Amendments"	Determination of the conditions for the provision of services (Underwriting HUB – submitting UW opinions on business transactions)	Sberbank CZ	Sberbank Magyarország Zrt.	Standard
Annexes 1 to 3 to the "Service Agreement Consolidated with Amendments"	Specific conditions for underwriting HUB	Sberbank CZ	Sberbank Magyarország Zrt.	Standard
Master Agreement "ISDA – Master Agreement, Schedule, CSA – Croatia"	Determination of the framework conditions for OTC derivative transactions	Sberbank d.d.	Sberbank CZ	Standard
		Sberbank CZ	Sberbank d.d.	
Amendment "ISDA VM Credit Support Annex"	Changing the conditions for OTC derivative transactions	Sberbank d.d.	Sberbank CZ	Standard
		Sberbank CZ	Sberbank d.d.	
Master Agreement "Master Agreement"	Determination of the conditions for the provision of services (Underwriting HUB – submitting UW opinions on business transactions)	Sberbank CZ	Sberbank d.d.	Standard
Annexes 1 to 5 to the Master Agreement "Master Agreement"[6]	Specific conditions for underwriting HUB	Sberbank CZ	Sberbank d.d.	Standard

[6] Terminated on 31 August 2018.

Name of the contract	Subject-matter of the contract	Performance provider	Performance recipient	Market conditions
Master Agreement “Master Agreement No. 01-1.12/2/2015”	Determination of the master conditions for the provision of technological support	Sberbank Technologies Minsk (Controlled entity Sberbank of Russia)	Sberbank CZ	Standard
Agreement “Non-Disclosure Agreement No. NDA-01-1-12/2/2015”	Arrangement on the obligation to maintain confidentiality of the confidential information under the cooperation	Sberbank Technologies Minsk (Controlled entity Sberbank of Russia)	Sberbank CZ	Standard
Agreement „Guarantee Agreement“[7]	Surety for the loan provided to Safina	Sberbank of Russia	Sberbank CZ	Standard
Agreement “Guarantee and Indemnity”	Guarantee to cover potential losses as a result of what is known as the “haircut” in the real property value for the selected loan transactions	Sberbank Europe	Sberbank CZ	Standard
Agreement for the Provision of IT Services	adjusting conditions for the provision of IT services	ALB-EDV GmbH	Sberbank CZ	Standard
Licence Agreement	Provision of a software sub-licence	ALB-EDV GmbH	Sberbank CZ	Standard
Annex to the Master Agreement	License and maintenance cost – zeb.control.accounting	Sberbank Europe	Sberbank CZ	Standard
Annex to the Master Agreement	Maintenance cost – REDIS – internal audit system	Sberbank Europe	Sberbank CZ	Standard
Annex to the Master Agreement	VisionR – maintenance cost	Sberbank Europe	Sberbank CZ	Standard
Annex 4 to the Master Agreement	Framework agreement on the level of IT services provided by Sberbank Europe	Sberbank Europe	Sberbank CZ	Standard
Annex 1 to the Master Agreement	Local regulations and requirements	Sberbank Europe	Sberbank CZ	Standard
Annex to the Master Agreement	License (APA, ARM, RHUB, systematic internaliser) and maintenance (Murex) cost	Sberbank Europe	Sberbank CZ	Standard
Master Agreement “Master Agreement for Granting of Software licences and Service”	Determination of conditions for the provision of services	Sberbank Europe	Sberbank CZ	Standard
Agreement “Service Level Agreement for Application zeb.control.accounting”	Determination of conditions for the provision of the application	Sberbank Europe	Sberbank CZ	Standard
Annex to the Master Agreement	MIDAS – the cost of development, maintenance and license	Sberbank Europe	Sberbank CZ	Standard
Annex to the Master Agreement	Misys S1/FES, Midas FRA/IRS – license and maintenance cost	Sberbank Europe	Sberbank CZ	Standard

[7] Terminated on 31 August 2018.

The legal predecessor of the Bank is Volksbank CZ, a.s. (“Volksbank CZ”). The Bank as the legal successor acquired as a result of the acquisition all the rights and obligations of Volksbank CZ, including the contractual relationships arising from validly concluded contracts. And, therefore, the list of contracts above does not distinguish between the Bank and Volksbank CZ.

One-off contracts and agreements with insignificant performance concluded with Sberbank Europe AG, Sberbank of Russia, as well as other related parties are not mentioned.

The Bank and Sberbank of Russia enter, on a continuous basis and under standard market conditions, into other relationships as follows:

a) relationships regarding interbank deposits, for which the Bank paid or received interest under standard market conditions,
b) relationships regarding the maintenance of a current account for which the Bank paid or received fees and paid or received interest under standard market conditions,
c) credit transactions in trade finance, for which the Bank received a fee or interest under standard market conditions,
d) operations in the foreign exchange market under standard market conditions,
e) relationships regarding the maintenance of nostro and loro accounts.

The Bank and Sberbank Europe AG enter, on a continuous basis and under standard market conditions, into other relationships as follows:

a) relationships regarding interbank deposits, for which the Bank paid or received interest under standard market conditions,
b) relationships regarding the maintenance of a current account for which the Bank paid or received fees and paid or received interest under standard market conditions,
c) credit transactions in corporate financing, for which the Bank paid or received a fee or interest under standard market conditions,
d) operations in the foreign exchange market under standard market conditions,
e) relationships regarding the maintenance of loro accounts.

The Bank, together with other controlled entities, enter, on a continuous basis and under standard market conditions, into other relationships as follows:

a) money market operations,
b) foreign exchange market operations,
c) maintenance of loro and nostro accounts,
d) maintenance of current accounts for which the Bank paid or received fees and paid or received interest under standard market conditions.

Within the Sberbank Group, the Bank cooperates in group projects, the overall objective of which is to fully exploit the business potential of Central European markets in all segments. The governing body concluded that the relationships are fully comparable with similar contractual relationships which the Bank enters in the field of inter-bank transactions.

7) Assessment of the potential damage to the controlled entity

In 2018, the Bank did not suffer any damage/loss as a result of relationships between related entities. All acts and contracts and agreements were made under standard market conditions.

8) The assessment of relationships between the controlling entity and the controlled entity and between the controlled entity and the entities controlled by the same controlling entity

The Bank operates on the Czech market as a universal and an independent bank in accordance with the applicable laws and regulations, providing financial services to its clients in accordance with its line of business and banking licence. In 2018, the Bank duly observed and complied with the legal and regulatory requirements.

The Bank confirms that in 2018 the controlling entity did not abuse the influence (whether directly or indirectly) of a controlling entity to force the adoption of any measure or to conclude any contract that could result in any damage to the Bank.

The relationships between the Bank and other related entities in 2018 corresponded to standard market conditions and the contracts and agreements concluded with these related entities can be regarded as mutually beneficial. The mutual cooperation between the related entities within the Sberbank Group brings benefits for the Bank, among other things also in the form of strengthening the position of the Bank in the market and expanding the range of financial services to its clients.

The Bank is not aware that the above-mentioned relationships within the Sberbank group create any disadvantages for the Bank.

9) Statement of the Management Board

The Management Board hereby declares that this report has been prepared in accordance with Section 82 et seq. of the Business Corporations Act. This report has been prepared with due care and to the best knowledge of the Management Board so as to fulfil the purpose of the Business Corporations Act and provide a credible Report on relationships between the related entities within the Sberbank Group.

In Prague on 29 March 2019

On behalf of Sberbank CZ, a.s.

....

Edin Karabeg
Chairman of the Management Board

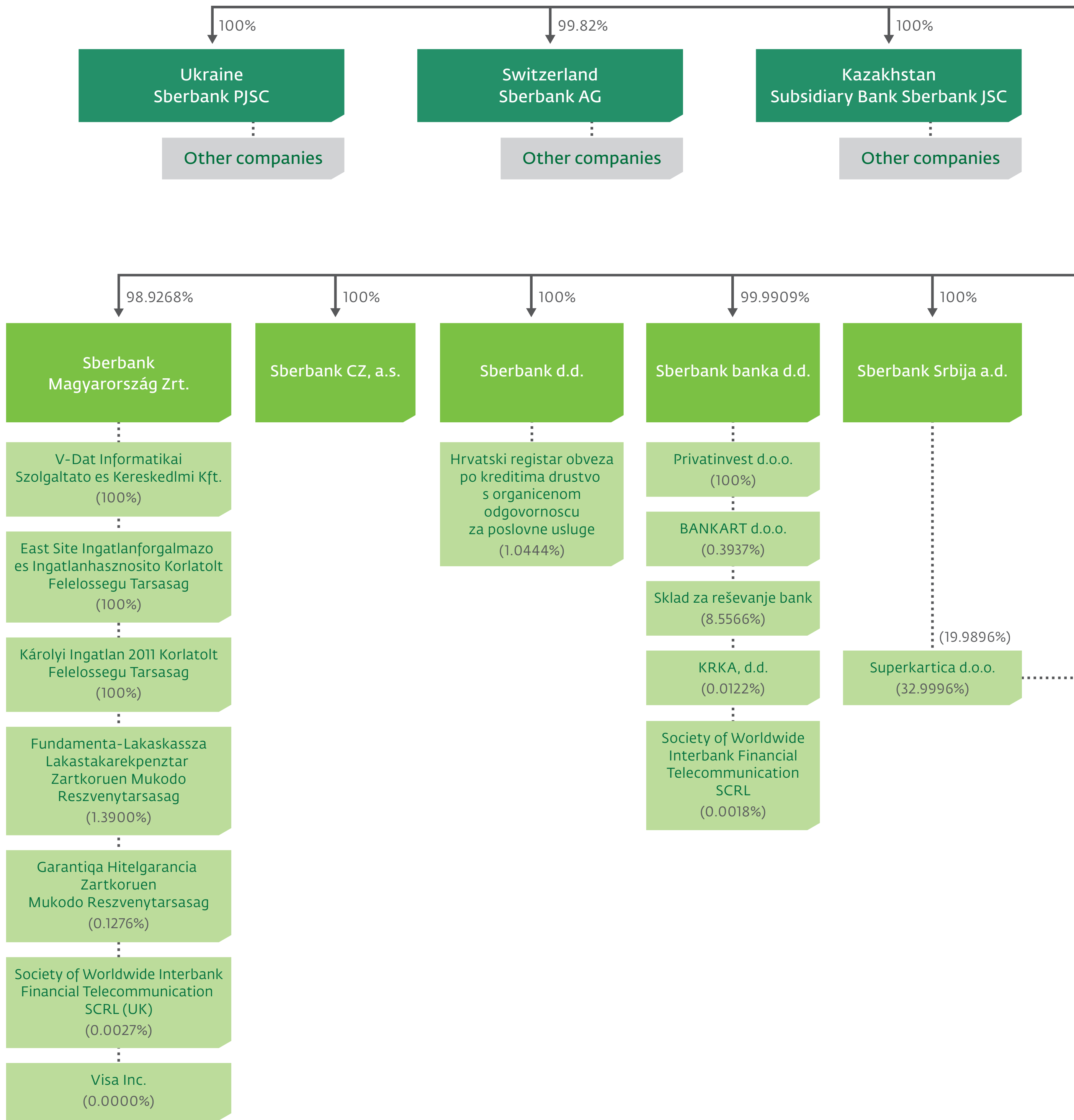
....

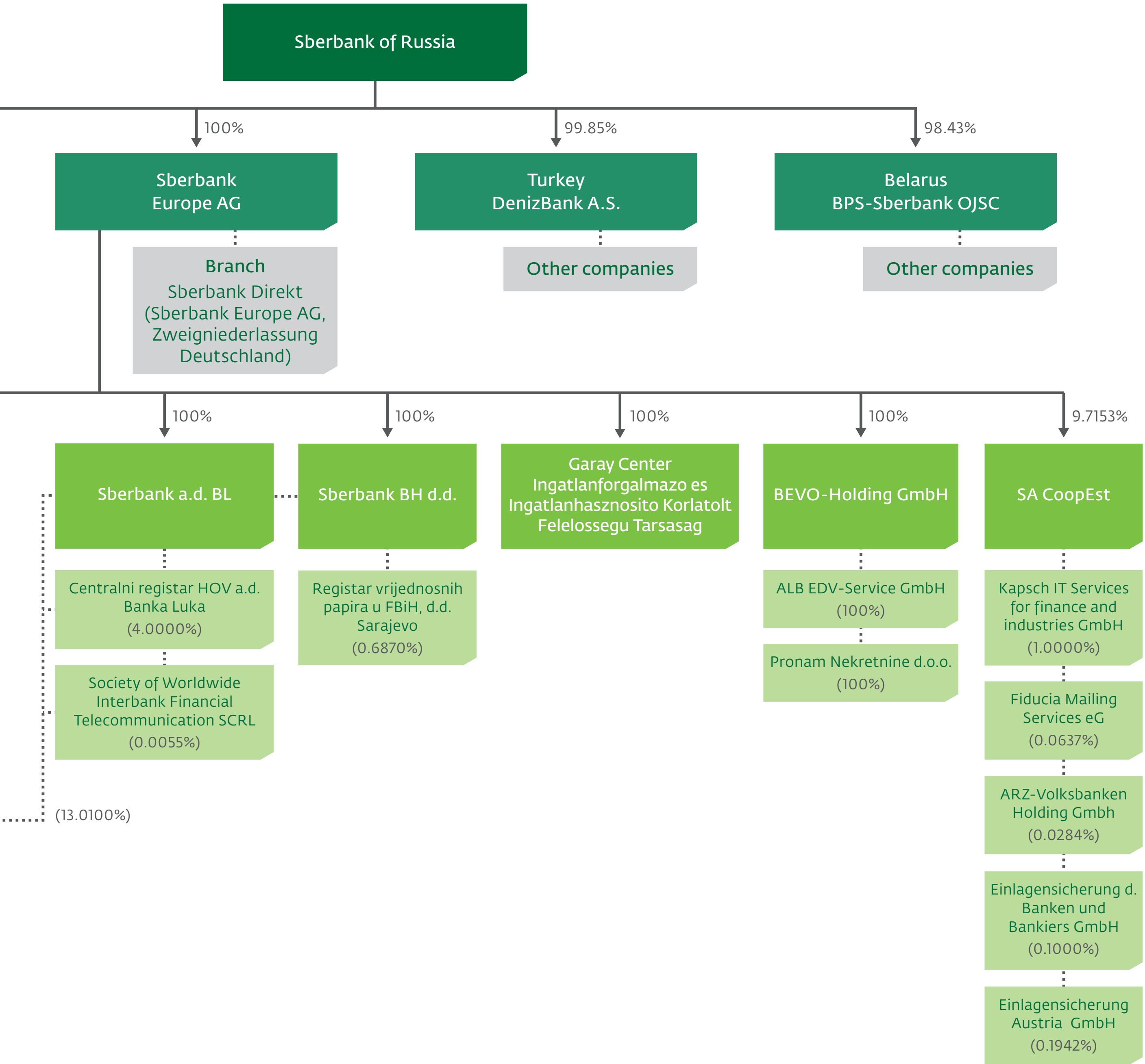
Dušan Baran
Deputy Chairman of the Management Board

APPENDIX NO. 1 TO THE REPORT ON RELATIONSHIPS

Structure of Relationships between Related Entities

Valid as of 31 December 2018




Sberbank of Russia
100%
Sberbank Europe AG
99.85%
Turkey DenizBank A.S.
98.43%
Belarus BPS-Sberbank OJSC
Branch
Sberbank Direkt (Sberbank Europe AG, Zweigniederlassung Deutschland)
Other companies
Other companies
100%
Sberbank a.d. BL
100%
Sberbank BH d.d.
100%
Garay Center Ingatlanforgalmazo es Ingatlanhasznosito Korlatolt Felelossegu Tarsasag
100%
BEVO-Holding GmbH
9.7153%
SA CoopEst
Centralni registar HOV a.d. Banka Luka (4.0000%)
Society of Worldwide Interbank Financial Telecommunication SCRL (0.0055%)
Registar vrijednosnih papira u FBiH, d.d. Sarajevo (0.6870%)
ALB EDV-Service GmbH (100%)
Pronam Nekretnine d.o.o. (100%)
Kapsch IT Services for finance and industries GmbH (1.0000%)
Fiducia Mailing Services eG (0.0637%)
ARZ-Volksbanken Holding Gmbh (0.0284%)
Einlagensicherung d. Banken und Bankiers GmbH (0.1000%)
Einlagensicherung Austria GmbH (0.1942%)
(13.0100%)

22. AFFIDAVIT

We, the undersigned, hereby declare that the Annual Report for the year 2018 provides, to the best of our knowledge, a true and accurate picture of the financial position, business activities and profit and loss of the Bank for the previous fiscal period and of the outlook of the future financial situation, business activities and profit and loss.

In Prague on 9 April 2019

On behalf of Sberbank CZ, a.s.

....
Edin Karabeg
Chairman of the Management Board

....
Dušan Baran
Deputy Chairman of the Management Board

23. INDEPENDENT AUDITOR'S REPORT

Building a better working world

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Sberbank CZ, a.s.:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Sberbank CZ, a.s. (hereinafter also the "Bank") prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Bank, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Sberbank CZ, a.s. as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with IFRS EU.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

A member firm of Ernst & Young Global Limited
Ernst & Young Audit, s.r.o. with its registered office at Na Florenci 2116/15, 110 00 Prague 1 - Nove Mesto, has been incorporated in the Commercial Register administered by the Municipal Court in Prague, Section C, entry no. 88504, under Identification No. 26704153.

Building a better working world

Adequacy of allowances for credit losses in compliance with IFRS 9

The appropriateness of allowances for credit losses is a key area of judgement for the Bank's management. The determination of the expected credit losses is an inherently uncertain process involving various assumptions.

The Bank performs an individual assessment of allowances for credit losses for defined portfolios of exposures. This requires significant judgment of the management regarding the identification of the significant change in credit risk, impairment triggers, probabilities of relevant scenarios for cash flow forecasts and the cash flow forecasts themselves, including collateral realization, all of which involves a high level of complexity due to the changing credit environment.

Further, statistical models are used for the estimation of allowances for credit losses for those exposures not assessed on an individual basis. These also require a significant judgment of management regarding correct segmentation, identification of significant changes in credit risk, inclusion of forward-looking elements as well as the application of management overlay to reflect on circumstances beyond the modelling capabilities. The models themselves also involve complex calculations. Moreover, the changing credit environment might have a negative impact on the stability and sustainability of the models used and on the accuracy of allowances for credit losses calculated using these models.

In the current accounting period, International Financial Reporting Standard 9, Financial instruments ("IFRS 9" or the "Standard") became effective starting 1 January 2018. As a result, the Bank was required to adjust its credit risk models and accounting policies for impairment, and disclose in the notes to the financial statements as at 31 December 2018 the impact of the adoption of IFRS 9. Also, the volume and relevance of the disclosures related to credit risk and impairment were increased with the adoption of IFRS 9.

Due to the significance of exposures that are subject to credit risk and the related impairment estimation, representing 97% of total assets, and the complexity and judgement involved in the calculation of allowances for credit losses, we consider this area to be a key audit matter.

We tested the controls implemented in credit risk management process and assessed their operating effectiveness. We performed analytical review procedures related to the development of the structure and characteristics of the credit portfolio, including the allowances for credit losses.

Specific procedures addressing the credit risk for individually significant exposures included a review of a sample of financial assets and off balance sheet credit exposures, an assessment of each exposure's classification and the adequacy of the individual allowances for credit losses, where relevant. We also selected a sample of collaterals and inspected their existence and their value, for which valuation specialists were involved. The work performed was focused on the exposures with the most risk considering both the quantitative and qualitative factors such as the ownership structure, industry or financial performance.

In respect of statistical models that are used for the estimation of allowances for credit losses we involved risk specialists, inspected the model documentation and other related evidence such as models' governance, segmentation policy, expected credit loss estimation process and assessed their compliance with IFRS 9. We also addressed significant changes implemented in the current period. We verified the application of the models through the recalculation of allowances for credit losses per all stages as defined by IFRS 9 either on the individual or portfolio level.

We also assessed whether the financial statement disclosures appropriately reflect the Bank's exposure to the credit risk and are compliant with IFRS EU.

Refer to the Note 15 Credit loss expense on loans and advances to customers and to the Note 33b Credit risk for the relevant disclosures.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

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

Responsibilities of the Bank's Board of Directors and Audit Committee for the Financial Statements

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

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

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Bank by the General Meeting on 19 April 2018 and our uninterrupted engagement has lasted for 7 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on 5 April 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Bank. In addition, there are no other non-audit services which were provided by us to the Bank and its controlled undertakings and which have not been disclosed in the financial statements.

Ernst & Young Audit, s.r.o.
License No. 401

Lenka Bízová, Auditor
License No. 2331

Douglas Burnham
Partner

9 April 2019
Prague, Czech Republic

24. OUR NETWORK

Head office

PRAGUE
U Trezorky 921/2
158 00 Prague 5
Tel.: +420 800 133 444

Corporate centres

BRNO
M-Palác, Heršpická 5
639 00 Brno
Tel.: +420 543 525 156

HRADEC KRÁLOVÉ
Gočárova třída 718/13
500 02 Hradec Králové
Tel.: +420 495 000 362

JIHLAVA
Matky Boží 1
586 01 Jihlava
Tel.: +420 567 584 526

OSTRAVA
Nádražní 643/11
702 00 Ostrava
Tel.: +420 595 133 415

PLZEŇ
Americká 1981/24
301 00 Plzeň
Tel.: +420 377 350 214

PRAGUE 5
U Trezorky 921/2
158 00 Prague 5
Tel.: +420 221 584 042

ÚSTÍ NAD LABEM
Mírové náměstí 3428/5A
400 01 Ústí nad Labem
Tel.: +420 475 667 009

ZLÍN
Štefánikova 5293
760 01 Zlín
Tel.: +420 577 002 119

Branches

BRNO
M-Palác, Heršpická 5
639 00 Brno
Tel.: +420 543 525 477

BRNO
Panská 2/4
602 00 Brno
Tel.: +420 542 424 970

BRNO
Galerie Vaňkovka,
Ve Vaňkovce 1
602 00 Brno
Tel.: +420 543 552 214

ČESKÉ BUDĚJOVICE
nám. Přemysla Otakara II. č. 27
370 01 České Budějovice
Tel.: +420 386 105 810

FRÝDEK-MÍSTEK
OC Frýda, Na Příkopě 3727
738 01 Frýdek-Místek
Tel.: +420 558 604 611

HRADEC KRÁLOVÉ
Gočárova třída 718/13
500 02 Hradec Králové
Tel.: +420 495 000 358

JIHLAVA
Matky Boží 1
586 01 Jihlava
Tel.: +420 567 584 511

KARLOVY VARY
T. G. Masaryka 854/25
360 01 Karlovy Vary
Tel.: +420 353 244 713

LIBEREC
Soukenné náměstí 26
460 07 Liberec
Tel.: +420 482 428 354

OLOMOUC
Horní náměstí 17
779 00 Olomouc
Tel.: +420 585 202 711

OSTRAVA
Nádražní 643/11
702 00 Ostrava
Tel.: +420 595 133 411

PARDUBICE
17. listopadu 408
530 02 Pardubice
Tel.: +420 466 067 712

PLZEŇ
Americká 1981/24
301 00 Plzeň
Tel.: +420 377 350 211

PRAGUE 1
Na Příkopě 860/24
110 00 Prague 1
Tel.: +420 267 267 911

PRAGUE 1
Václavské nám. 804/58
110 00 Prague 1
Tel.: +420 221 102 301

PRAGUE 2
Lazarská 8
120 00 Prague 2
Tel.: +420 221 584 285

PRAGUE 2
Náměstí I. P. Pavlova 3
120 00 Prague 2
Tel.: +420 221 102 411

PRAGUE 4
Na Pankráci 1724/129
140 00 Prague 4
Tel.: +420 234 706 933

PRAGUE 5
Karla Engliše 3211/1 (Anděl)
150 00 Prague 5
Tel.: +420 257 257 301

PRAGUE 7
Strossmayerovo
náměstí 967/12
170 00 Prague 7
Tel.: +420 220 410 620

PRAGUE 9
Centrum Černý Most,
Chlumecká 765/6
198 00 Prague 9
Tel.: +420 221 101 313

TEPLICE
OC Galerie,
Náměstí Svobody 3316
415 01 Teplice
Tel.: +420 417 543 911

ÚSTÍ NAD LABEM
Mírové náměstí 3428/5A
400 01 Ústí nad Labem
Tel.: 475 667 004

ZLÍN
Štefánikova 5293
760 01 Zlín
Tel.: +420 577 002 111

ZNOJMO
Jana Palacha 1262/11
669 02 Znojmo
Tel.: +420 515 282 511

ATMs

BRNO
Panská 2/4
602 00 Brno
Open 24 hours

BRNO
M-Palác, Heršpická 5
639 00 Brno
Open 24 hours

BRNO
Galerie Vaňkovka,
Ve Vaňkovce 1
602 00 Brno
Open 7 a.m. – 10 p.m.

ČESKÉ BUDĚJOVICE
nám. Přemysla
Otakara II. č. 89/27
370 01 České Budějovice
Open 24 hours

FRÝDEK-MÍSTEK
OC Frýda, Na Příkopě 3727
738 01 Frýdek-Místek
Mon–Sat: Open 7 a.m. – 8 p.m.
Sun: Open 8 a.m. – 8 p.m.

HRADEC KRÁLOVÉ
Gočárova Třída 718/13
500 02 Hradec Králové
Open 24 hours

JIHLAVA
Matky Boží 1
586 01 Jihlava
Open 24 hours

KARLOVY VARY
T. G. Masaryka 854/25
360 01 Karlovy Vary
Open 24 hours

LIBEREC
Soukenné náměstí 26
460 07 Liberec
Open 24 hours

OLOMOUC
Horní náměstí 14/17
779 00 Olomouc
Open 24 hours

OSTRAVA
Nádražní 643/11
702 00 Ostrava
Open 24 hours

PARDUBICE
17. listopadu 408
530 02 Pardubice
Open 24 hours

PLZEŇ
Americká 1981/24
301 00 Plzeň
Open 24 hours

PRAGUE 1
Na Příkopě 860/24
110 00 Prague 1
Open 24 hours

PRAGUE 1
Václavské nám. 804/58 I.
110 00 Prague 1
Open 24 hours

PRAGUE 1
Václavské nám. 804/58 II.
110 00 Prague 1
Mon–Fri: Open 9 a.m. – 7 p.m.

PRAGUE 2
Lazarská 8/13
120 00 Prague 2
Open 24 hours

PRAGUE 2
Náměstí I. P. Pavlova 3
120 00 Prague 2
Open 24 hours

PRAGUE 4
Na Pankráci 1724/129
140 00 Prague 4
Open 24 hours

PRAGUE 5
Karla Engliše 3211/1 (Anděl)
150 00 Prague 5
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PRAGUE 5
U Trezorky 921/2
158 00 Prague 5
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PRAGUE 7
Strossmayerovo
náměstí 967/12
170 00 Prague 7
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Centrum Černý Most,
Chlumecká 765/6
198 00 Prague 9
Open 24 hours

TEPLICE
OC Galerie,
Náměstí Svobody 3316
415 01 Teplice
Open 24 hours

ÚSTÍ NAD LABEM
Mírové náměstí 3428/5A
400 01 Ústí nad Labem
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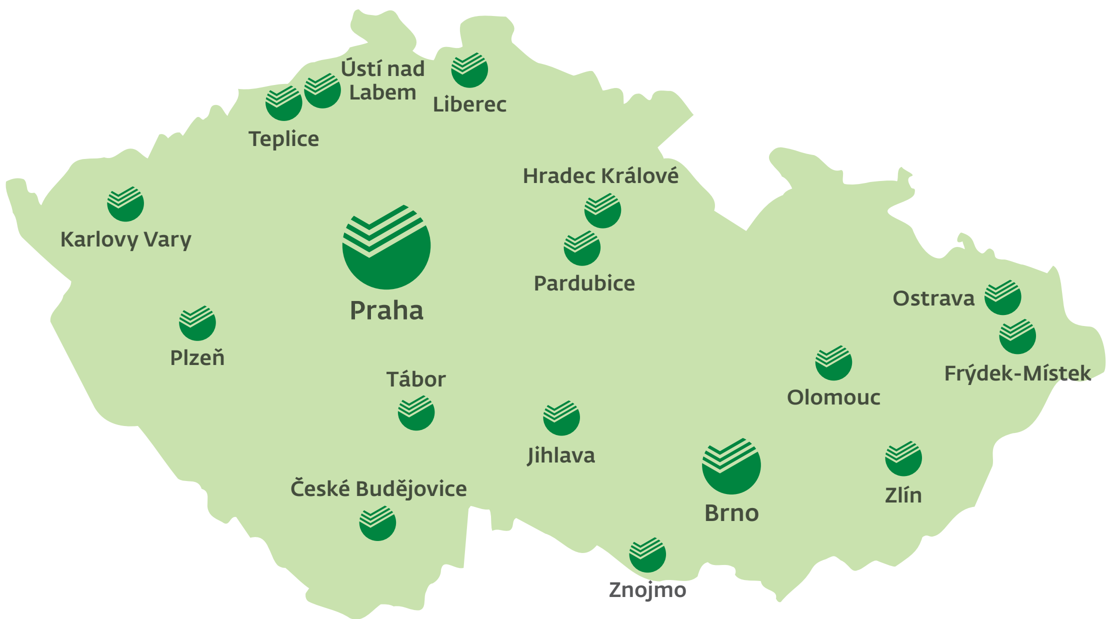
ZLÍN
Štefánikova 5293
760 01 Zlín
Open 24 hours

ZNOJMO
Jana Palacha 1262/11
669 02 Znojmo
Open 24 hours



Sberbank CZ, a.s.

U Trezorky 921/2
158 00 Praha 5, Česká republika
Tel.: +420 221 969 911, Fax: +420 221 969 951
mail@sberbankcz.cz, **www.sberbank.cz**

Sberbank Europe AG

Schwarzenbergplatz 3
1010 Vienna, Austria
Tel.: +43 1 22732-0
office@sberbank.at, **www.sberbank.at**

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