ČESKOMORAVSKÁ ZÁRUČNÍ A ROZVOJOVÁ BANKA, a. s.

2019

ANNUAL REPORT

Českomoravská záruční a rozvojová banka, a.s., (Czech-Moravian Guarantee and Development Bank) is the national promotional bank of the Czech Republic which contributes to its economic and social development. Using state budget funds, funds of regions and EU funds, the Bank provides financial instruments in the form of guarantees, preferential loans and capital inputs.

2019 Annual Report Contents

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Chairman's Introduction

From the business perspective, the year 2019 can be considered the most successful one in the history of the Czech-Moravian Guarantee and Development Bank - Českomoravská záruční a rozvojová banka, a.s. (hereinafter "CMZRB" or "Bank"), and from the strategic perspective it was one of the key years for the Bank. For the first time in its history, the Bank started to administer the funds of state administration agencies other than the ministries exercising shareholding rights in the Bank, and so continues in fulfilling its role of the national development bank successfully. Implementation of CMZRB Strategy for the period 2020 – 2023 will allow the Bank to contribute to the economic and social development of the Czech Republic significantly.

The gradual weakening of the growth of the Czech economy is one of the reasons why CMZRB has seen an increase in demand for its products in recent years. Entrepreneurs need to innovate their production processes and thus maintain their competitiveness despite less favourable market conditions. Preferential financing allows them to continue in investments. This counter-cyclical effect, which is crucial for a cooling economy, is one of the reasons why developed countries are strengthening the role of their national development banks. In 2019, the demand for the bank's guarantee and loan schemes increased year-on-year. CMZRB carried out a record volume of new business cases with small and medium-sized enterprises in its history . With its products, it supported the implementation of projects valued at CZK 16.3 billion. The Bank thus surpassed the record year 2018 by almost a third.

In addition to slowing down growth of the Czech economy, the expansion was also brought by the expanding range of the bank's products and the ongoing adjustment of conditions for existing programmes. Three new products – Expansion-guarantees, INFIN and International Development Cooperation Guarantee – were launched in the first half of 2019. The aim of the Expansion-Guarantee program, prepared by CMZRB in cooperation with the Ministry of Industry and Trade (hereinafter "MIT"), is to facilitate the access of small and medium-sized enterprises to working capital and investment loans from commercial banks, amounting to CZK 40 million. The programme complements the long-term most demanded product Guarantee 2015-2023, which offers guarantees for smaller loans. In cooperation with the Capital City of Prague, CMZRB prepared interest-free financing of innovative projects from the INFIN programme for Prague small and medium-sized enterprises with commercial history shorter than 7 years, and launched the International Development Cooperation Guarantee programme for the Ministry of Foreign Affairs. This programme aims at mitigation of risks of the Czech entrepreneurs investing in developing markets. In December 2019, CMZRB, in cooperation with the Ministry of Labour and Social Affairs, expanded its product range to include the S-ENTERPRISE programme. Using this programme, social entrepreneurs can obtain interest-free loans for the implementation of their investment projects.

During 2019, the Expansion-Loans and Energy Savings programs were modified. The Expansion-Loans program was made available to entrepreneurs operating in the field of waste management and for calamity timber processing. Both of these categories fall into the so-called special supported activities, which means that entrepreneurs receive funding on even more favourable terms than if they implemented a "standard" project. Due to the high demand for these preferential loans, CMZRB ensured an increase in the capacity of this programme by another CZK 2 billion, i.e. to CZK 6.8 billion in 2019. In the Energy Savings programme, the amount of the loans provided was adjusted to the range between CZK 500 thousand and CZK 60 million, where in the case of loans bellow CZK 3 million CMZRB funds up to 90 % of eligible expenses via interest-free loans and with no need for a co-financing commercial partner.

As the government approved the definition of a family business in May 2019, CMZRB and MIT agreed the expansion of support also to these important economic entities. After obtaining a certificate from the Association of Small and Medium-Sized Enterprises and Self-Employed Persons of the Czech Republic, the family companies will be able to apply for support from CMZRB from 1 April this year. As part of the Expansion program, their projects will be included among so-called special supported activities and will be able to draw interest-free loans or guarantees on more favourable terms than before. In addition, the GEN-guarantee within the GUARANTEE 2015-2023 programme will make it easier for small and medium-sized enterprises to hand over the family businesses so that they can continue their operation even after a generation change.

Last year, the CMZRB deepened its cooperation with other state administration bodies and thus opened the way for the creation of further support programmes. For example, in cooperation with the Ministry of the Environment, the Bank is preparing a guarantee programme for individuals to implement energy saving projects under the New Green Savings Programme.

In addition, the Bank continued to be actively engaged in the activities of European associations of development or guarantee institutions such as ELTI, AECM and NEFI. This collaboration brings together the experience from providing support to entrepreneurs across individual countries, identifies challenges and opportunities in the use of EU financial instruments, and allows the Bank to be involved in preparation of the next programming period. Being active in the V4 platform and Three Seas Initiative, the Bank strengthens its position on the European financial market and within EU institutions.

The adopted “CMZRB strategy for the period 2020–2023” has become a key document for the future development of the bank. The bank will be transformed into a group consisting of the parent company, which will be the existing company, i.e. Českomoravská záruční a rozvojová banka, a.s., and two subsidiaries - CMZRB investiční, a.s. (CMZRB Investment) and the National Development Fund SICAV a.s. (hereinafter ”NDF“ or ”Fund“). CMZRB investiční, a.s., was already established in the second half of 2019 with the main mission of providing support to small and medium-sized enterprises through equity instruments. The company will also focus on activities related to revitalization of the brownfields.

The NDF is currently awaiting Czech National Bank’s approval of its application for a licence. However, the founding documents were already signed in February 2020, and negotiations have been underway since mid-2019, culminating in the first phase in the signing of a Memorandum of Cooperation in Establishing the NDF between the MIT, CMZRB and the four largest Czech commercial banks – Československá obchodní banka, Česká spořitelna, Komerční banka and UniCredit Bank. These companies have committed to invest CZK 7 billion in the Fund in the initial phase. The main task of the NDF will be to support the development of the Czech Republic’s infrastructure using private capital, i.e. be cost-effective projects in areas such as transport, education, health, social care, energy and the environment.

Although the bank will continue to focus primarily on support provided to small and medium-sized enterprises in the Czech Republic, it has taken a new direction since last year and faces a number of challenges. Building two more successful companies that will expand CMZRB’s activities will not be easy. Therefore, the Bank will focus on consolidating and deepening of cooperation with all state administration bodies for which it manages support programmes or with which it implements or will implement activities related to the operation of newly emerging subsidiaries. The Bank will expand its cooperation with EU institutions and foreign development banks and will make the most of their know-how. Last but not least, the Bank will remain a stable partner of the Czech entrepreneurs who need support in their development, will continue in establishing and deepening of cooperation with investors, municipalities and other bodies and companies that can contribute to the successful implementation of infrastructure projects in the Czech Republic.

In 2019, the Bank achieved excellent business results and could start to build up the CMZRB Group thanks to its long-term cooperation with commercial banks and leasing companies, but also due to high-quality and professional work performed by current as well as former employees. I would therefore like to extend my sincere thanks to all of them.

I very much appreciate the efforts of the shareholder’s representatives, which enabled us to focus our activities to new areas and to contribute even more to the support given to Czech businesses and development of infrastructure and the economic growth of the Czech Republic. I firmly believe that through our joined efforts in 2020 we will achieve set goals related to the fulfilment of the bank’s new strategy.

Ing. Jiří Jirásek
Chairman of the Board of Directors

Strategy of the Českomoravská záruční a rozvojová banka for the period 2020 – 2023

In 2019, CMZRB developed a strategy for the period from 2020 to 2023, which is based on the long-term concept of the bank's development and was approved by the decision of Bank's sole shareholder acting within the scope of General Meeting's powers. The strategy reflects the needs of economic and social development of the Czech Republic, regions, cities and municipalities and expands the CMZRB's product portfolio in order the Bank effectively uses all available financial resources from both the European Union (ESI funds, InvestEU, EIB Group, etc.) and the Czech Republic (including involvement of private sources), all with minimum impact on the state budget of the Czech Republic.

The new Bank's strategy has three core pillars - „Support to businesses", „Administration of European funds" and „Infrastructure financing".

In the area of „Support to businesses", especially small and medium-sized enterprises, the new strategy aims at making funding available to the business sector and projects with innovative solutions, high added value and sustainable development. This first and still the most important pillar of the bank's business activities will enable, in particular, the long-term efficient drawings of European funds and high leverage effect with zero impact on the state budget. The Bank will provide all available forms of financial instruments, i.e. preferential loans, guarantees and equity instruments. Loans and guarantees will be provided directly by CMZRB through its network of branches; equity instruments will be provided by the Bank's subsidiary CMZRB investiční, a.s., which was established in the second half of 2019.

In the frame of the second pillar „Administration of European funds", the CMZRB will continue to play the role of the leader and knowledge centre in the area of financial instruments, and will provide comprehensive solutions to each management authority. CMZRB will be able to identify the needs of the market and to obtain additional financial resources, namely the funds from InvestEU and other EC programmes, to finance programmes of particular managing authorities and other entities according to their needs. Businesses as well as public sectors are the target groups of this pillar. CMZRB will provide support mainly in the form of preferential loans and guarantees and will also focus on specialized areas, such as energy, innovation, social entrepreneurship, financing of international trade and foreign development investments, etc.

In the frame of the third pillar „Infrastructure financing", the CMZRB, being the national development bank, will provide support to building up and development of the Czech Republic's infrastructure in accordance with the government policy statement and other strategic documents (e.g. National Investment plan), and so the Bank will make its contribution to filling the infrastructure gap existing in the Czech Republic in comparison to the developed EU countries. Doing that, the Bank will cooperate with banks as well as with other financial and non-financial private institutions, and its products will make funding of infrastructure projects easier, more accessible and cheaper. To perform activities within this pillar, the CMZRB will use its newly established investment company the National Development Fund SICAV a.s. (hereinafter "NDF" or "Fund") which after obtaining the licence from the Czech National Bank will administer the funds of private investors. In the initial phase, there will be CZK 7 billion available as the four largest commercial banks – Československá obchodní banka, Česká spořitelna, Komerční banka and UniCredit Bank – committed to invest in the Fund when signing a Memorandum of Cooperation in Establishing the NDF.

When financing infrastructure projects, it will be possible to use private funds in cases of such projects which will generate payback in accordance with the Fund's investment strategy. Funding will take place mainly on the principle of PPP projects. The NDF will focus primarily on the development of transport infrastructure (highways, railways, waterways etc.), healthcare, education and social infrastructure (university campuses, medical facilities, nursing homes for elderly people etc.), energy infrastructure, environmental infrastructure and digital infrastructure (Smart City projects, communication network and internet etc.).

The Strategy of the CMZRB for the period 2020 - 2023 envisages that the Bank will continue to focus on supporting the business sector of the Czech Republic and will expand its scope of activities. The Bank will use financial instruments to support science, research and development, transport, environment, energy sector, education, health and social care etc. The Bank shall focus more on supporting innovative businesses, start-ups and spin-off companies, all in accordance with the National Innovation Strategy "The Country For The Future". Present development and Bank's involvement in the measures adopted by Government of the Czech Republic in relation to the corona virus pandemic, its impact and Bank's reaction are depicted in the Notes to the Financial Statements.

Bank's Governing Bodies

Board of Directors

Chairman	Jiří Jirásek
Members	Ivan Duda
	Ivo Škrabal

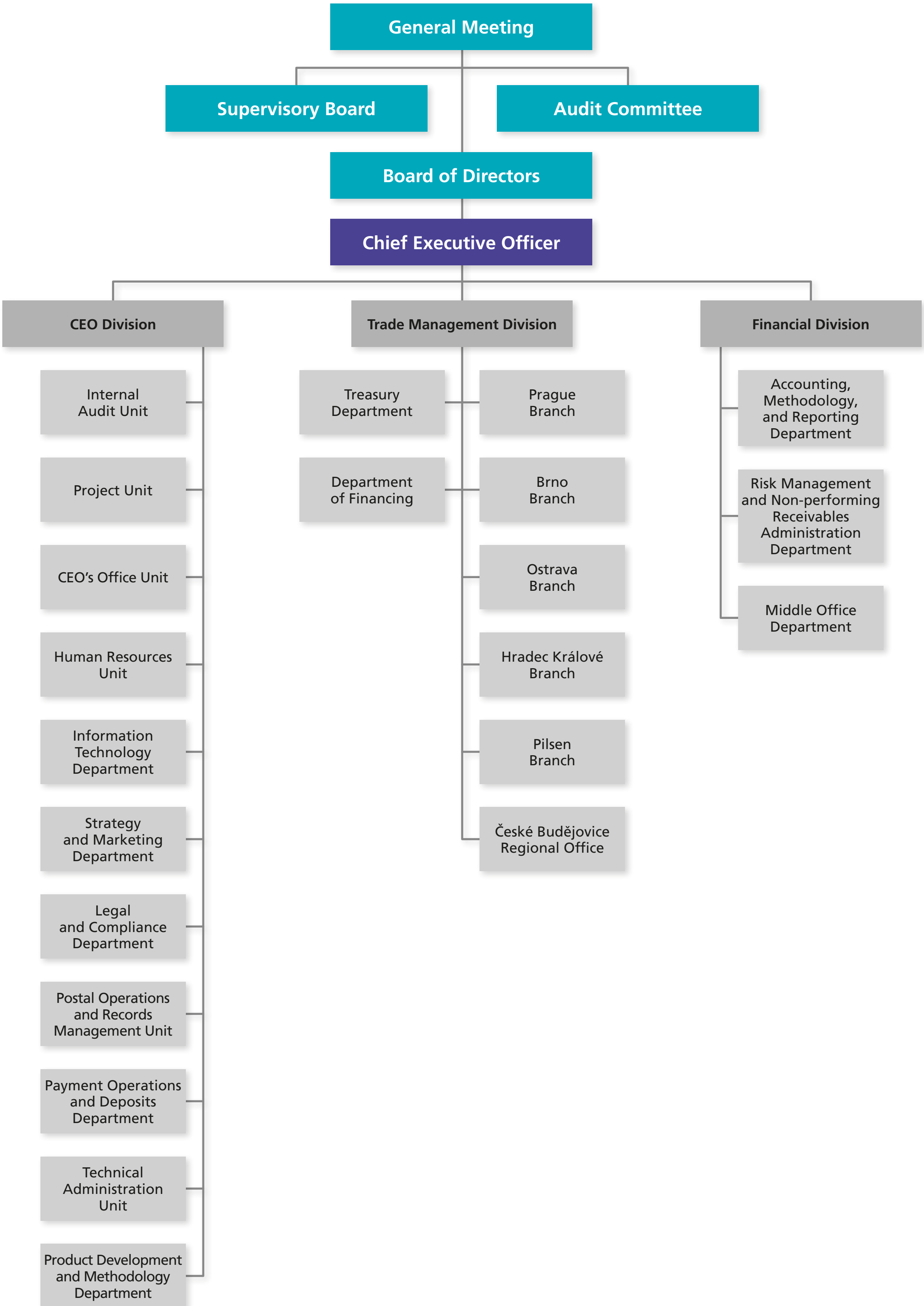
Supervisory Board

Chairman	Robert Szurman (Chairman and member till 19. 11. 2019)
	Pavel Závitkovský (Chairman from 10. 12. 2019)
Vice-Chairman	Pavel Závitkovský (till 9. 12. 2019)
Members	Lenka Dupáková
	Marie Kotrlá
	Jan Dejl (till 20. 6. 2019)
	Olga Nebeská (membership terminated with the end of mandate on 21. 4. 2019, reappointed from 19. 11. 2019)
	Martin Hanzlík, LL.M. (from 20. 11. 2019)

Audit Committee

Chairman	Milan Novák
Vice-Chairman	Pavel Závitkovský
Member	Tomáš Hlivka

Bank’s organization chart



ČESKOMORAVSKÁ ZÁRUČNÍ A ROZVOJOVÁ BANKA, a. s.

REPORT OF THE BOARD OF DIRECTORS ON THE BANK'S BUSINESS ACTIVITIES AND FINANCIAL SITUATION FOR 2019

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Financial results

The Bank's key financial characteristics for 2014–2019

		Unit	2015	2016	2017	2018	2019
Balance sheet total		CZK mil.	30 999	27 612	23 436	24 105	23 983
Assets:	Bank loans and credits	CZK mil.	261	78	262	661	1 133
	Securities accepted by the Czech National Bank for refinancing	CZK mil.	10 474	16 195	15 430	16 886	15 499
	ebt securities	CZK mil.	10 703	4 308	3 047	2 145	1 620
Liabilities and equity:	Shareholder's equity	CZK mil.	4 875	5 359	5 086	4 861	4 929
	Liabilities	CZK mil.	26 124	22 253	18 350	19 244	19 054
	of which: reserves	CZK mil.	3 124	3 165	3 214	3 338	3 583
	funds to cover credit risks	CZK mil.	2 659	2 011	1 990	2 212	2 626
Off-balance sheet:	Guarantees granted	CZK mil.	19 926	18 922	18 622	19 862	24 023
Total revenues		CZK mil.	2 785	2 453	2 023	2 376	2 725
of which:	interests from securities and interbank operations	CZK mil.	376	319	281	404	546
	interests from operations with customers	CZK mil.	454	329	226	164	123
	revenues from fees and commissions	CZK mil.	388	323	293	285	294
Total expenses		CZK mil.	2 589	2 425	1 994	2 348	2 687
of which:	operational costs	CZK mil.	337	483	367	368	371
	et generation of allowances and provisions	CZK mil.	331	102	319	214	207
Profit after tax		CZK mil.	196	28	29	28	38
Capital ratio		%	18.5	19.9	21.5	22.3	21.2

In 2019, the bank carried out a record volume of new business. The volume of transactions in 2019 reached CZK 16.3 billion (in 2018: CZK 12.6 billion), including CZK 2.4 billion of loans and CZK 13.9 billion of guarantees. In the area of guarantee transactions, the bank recorded a significant increase in new transactions within the portfolio guarantee of the EXPANSION program, covered by the European Structural and Investment Funds, which the bank began providing in the second quarter of the year. As in previous years, guarantee transactions under the National Programme were financed mainly from the Bank's own resources and the resources of the program sponsor (Ministry of Industry and Trade) to finance the costs of preferential guarantees under the SME support programmes. Credit transactions were financed mainly from the European Structural and Investment Funds under the EXPANSION programme. The total value of guarantee and credit transactions increased by 27.7% to the total amount of CZK 28.5 billion, where the guarantee transactions increased by 20.9% to CZK 24.0 billion.

In 2019, the bank recorded a positive change in the trend of fee and commission income, where there was a year-on-year increase of this income, while interest income from customer's operations continued to decline due to the fact that newly provided products do not bear interest income and the historical portfolio of interest-bearing loans is gradually repaid. Increased interest income from securities and interbank operations also had a positive impact on the bank's income, also due to the increase in interest rates during 2019.

The net profit after tax amounting to CZK 38 million, is in line with the net profit generation strategy approved by the bank's shareholder, which does not oblige the bank to generate net profit as the primary objective of its financial management. The amount of equity did not change year-on-year and remained at CZK 4.9 billion. As of December 31, 2019, the capital ratio reached 21.2%, i.e. 1.1 percentage points less than at the end of the previous year, which is due to an increase in the bank's risk-weighted assets.

The most significant risk incurred by the bank continued to be credit risk, to which 93.9% of risk-linked capital was allocated. At the end of 2019, all expected credit risk losses were fully covered by created provisions and loss allowances in the amount corresponding to the international accounting standard IFRS 9 and the total balance sheet value of provisions and loss allowances to credit risks reached the value of CZK 5 billion, i.e. 17.7% of the guarantee and loans portfolio. Credit risks of some types of guarantee products were covered by credit risk hedging funds provided by sponsors of particular programmes in the total value of CZK 2.6 billion. At the end of the year, the bank had reserve funds in its equity reaching the amount of CZK 1.35 billion.

The balance sheet total decreased by 0.5% to CZK 24 billion at the end of 2019 (CZK 24.1 billion in 2018). The value of liabilities to financial institutions decreased by CZK 0.9 billion, liabilities to customers increased by CZK 0.6 billion and provisions and reserves increased by CZK 0.2 billion. On the assets side, these changes were matched by an increase in receivables from clients by CZK 1.3 billion, reduction in the value of bonds by CZK 1.9 billion and increase in receivables from banks by CZK 0.5 billion. The value of the balance sheet total does not include bank guarantees issued for loans to small and medium-sized enterprises, which form a significant part of the bank's business activities and credit exposure. Their value at the end of 2019 was CZK 24 billion.

On the assets side, the bank had a portfolio of financial investments of CZK 18.3 billion (76.2% of net assets) placed mainly in government bonds, bonds of selected banks and companies (71.4% of net assets). Loans provided to state institutions form a significant item of net assets (3.8% of net assets) as well as loans to other customers (18.8% of net assets) reported in the item Receivables from customers. The share of non-profit assets in the net balance sheet value reached 1.0%.

Coverage of sources on the liabilities side was assured mainly by liabilities to customers - programme sponsors (57.3% of liabilities) and banks (5.9% of liabilities), equity (20.6% of liabilities), provisions (14.9% of liabilities), temporary and other liabilities.

Determination of capital ratio and other additional indicators

Indicator	Unit	2015	2016	2017	2018	2019
Tier 1 (T1) capital	CZK mil.	**4 013**	**4 516**	**4 532**	**4 542**	**4 552**
Common equity tier 1 (CET1) capital	CZK mil.	**4 013**	**4 516**	**4 532**	**4 542**	**4 552**
Instruments eligible for CET1 capital	CZK mil.	**2 132**	**2 632**	**2 632**	**2 632**	**2 632**
Paid-in CET1 instruments	CZK mil.	2 132	2 632	2 632	2 632	2 632
Acquired own CET1 instruments	CZK mil.	0	0	0	0	0
Own CET1 instruments acquired directly	CZK mil.	0	0	0	0	0
Retained earnings/accumulated losses	CZK mil.	**756**	**756**	**766**	**775**	**793**
Retained earnings/accumulated losses of previous years	CZK mil.	756	756	766	775	793
Accumulated other comprehensive income	CZK mil.	641	0	0	0	0
Other reserve funds	CZK mil.	1 150	1 150	1 150	1 150	1 150
Adjustments to CET1 capital from use of prudential filters	CZK mil.	**–1**	**–1**	**–1**	**–1**	**0**
Value adjustments pursuant to prudential revaluation requirements	CZK mil.	–1	–1	–1	–1	0
Other intangible assets	CZK mil.	**–24**	**–21**	**–15**	**–14**	**–21**
Other intangible assets – gross value	CZK mil.	–24	–21	–15	–14	–21
Other transitional adjustments to CET1 capital	CZK mil.	–641	0	0	0	0
Nadlimitní významné investice do osob z finančního sektoru	CZK mil.	0	0	0	0	–2
Tier 2 (T2) capital	CZK mil.	0	0	0	0	0
Capital	CZK mil.	**4 013**	**4 516**	**4 532**	**4 542**	**4 552**
Total risk exposure	CZK mil.	**21 735**	**22 666**	**21 071**	**20 358**	**21 516**

Indicator	Unit	2015	2016	2017	2018	2019
Total risk-weighted exposures relating to credit risk pursuant to Standardised Approach (STA)	CZK mil.	**18 830**	**20 583**	**19 378**	**18 864**	**20 193**
Exposures to central governments and banks	CZK mil.	0	0	0	219	407
Exposures to regional governments and local bodies	CZK mil.	195	168	159	150	141
Exposures to public sector entities	CZK mil.	0	0	0	15	3
Exposures to international development banks	CZK mil.	0	0	0	0	0
Exposures to international organisations	CZK mil.	0	0	0	0	0
Exposures to institutions	CZK mil.	977	777	653	375	158
Exposures to enterprises	CZK mil.	14 596	17 343	16 572	16 132	16 511
Exposures to retail	CZK mil.	1 954	72	108	477	1 514
Exposures secured by property	CZK mil.	131	90	60	35	24
Exposures in default	CZK mil.	618	828	774	698	845
High-risk exposures	CZK mil.	0	1 018	757	555	373
Exposures in covered bonds	CZK mil.	63	61	40	0	0
Exposures to institutions and enterprises with short-term credit evaluation	CZK mil.	99	39	40	27	13
Collective investment instruments	CZK mil.	0	0	0	0	0
Equities	CZK mil.	1	1	50	51	52
Other exposures	CZK mil.	196	186	165	130	152
Risk exposure relating to position, foreign exchange and commodity risk pursuant to STA	CZK mil.	**103**	**0**	**0**	**2**	**2**
Tradable debt instruments	CZK mil.	103	0	0	2	2
Currency transactions	CZK mil.	0	0	0	0	0
Total risk exposure relating to operations risk	CZK mil.	**2 679**	**1 946**	**1 636**	**1 456**	**1 301**
Operational risk - basic indicator approach	CZK mil.	2 679	1 946	1 636	1 456	1 301
Total risk exposure relating to revaluation adjustments to credit risk	CZK mil.	**123**	**137**	**57**	**36**	**20**
Standardised Approach	CZK mil.	123	137	57	36	20
Capital ratio for Tier 1 equity capital	%	18.46	19.93	21.51	22.31	21.16
Capital ratio for Tier 1 capital	%	18.46	19.93	21.51	22.31	21.16
Capital ratio for total capital	%	18.46	19.93	21.51	22.31	21.16
Return of average assets (ROAA) [1)]	%	0.24	0.04	0.10	0.11	0.15
Return on average equity (ROAE) [1)]	%	5.01	0.68	0.63	0.61	0.84
Assets per employee [1)]	CZK mil.	148.3	130.2	110.0	112.6	111.6
Administrative costs per employee [1)]	CZK mil.	1.4	1.5	1.5	1.5	1.5
Net profit per employee [1)]	CZK mil.	0.9	0.1	0.1	0.1	0.2

[1)] Calculations were made pursuant to Decree No. 163/2014 Sb., on performing the activities of banks, credit unions and investment firms.

Reconciliation of regulatory and accounting capital

The following tables summarise the composition of regulatory and accounting capital as well as individual indicators as of 31 December 2019 and 31 December 2018, thus providing complete reconciliation of individual regulatory capital lines with the institution's capital and the balance sheet.

As of 31 December 2019	Regulatory capital in CZK mil.	Shareholder's equity in CZK mil.
Paid-in share capital entered in the Commercial Register	2 632	2 632
(–) Capital investments into own instruments	0	0
Retained earnings from previous periods	793	793
Profit for the period	0	38
Accumulated other comprehensive income	0	116
Other reserve funds	1 150	1 350
(–) Value adjustments pursuant to prudential revaluation requirements (AVA)	0	0
(–) Intangible assets other than goodwill	–21	0
(–) Significant above-limit investments in persons from the financial sector	–2	0
Total capital eligible for inclusion into Tier 1	**4 552**	
Total shareholder's equity		**4 929**
Total Tier 2 capital	0	
Capital relevant for calculating large exposure limits, qualified participation limits and capital ratio	**4 552**	

As of 31 December 2018	Regulatory capital in CZK mil.	Shareholder's equity in CZK mil.
Paid-in share capital entered in the Commercial Register	2 632	2 632
(–) Capital investments into own instruments	0	0
Retained earnings from previous periods	775	775
Profit for the period	0	28
Accumulated other comprehensive income	0	77
Other reserve funds	1 150	1 350
(–) Value adjustments pursuant to prudential revaluation requirements (AVA)	–1	0
(–) Intangible assets other than goodwill	–14	0
(–) Significant above-limit investments in persons from the financial sector	0	0
Total capital eligible for inclusion into Tier 1	**4 542**	
Total shareholder's equity		**4 861**
Total Tier 2 capital	0	
Capital relevant for calculating large exposure limits, qualified participation limits and capital ratio	**4 542**	

CMZRB business activities in 2019

1. Product overview

During 2019, the Bank provided the following products:

a) **Guarantees**

- **GUARANTEE 2015–2023 Programme:**
  - A portfolio guarantee for small and medium-sized enterprises for bank loans up to CZK 4 million, with a guarantee rate of 70% of the loan principal ,
  - Individual guarantee for small and medium-sized social enterprises for bank loans with a guarantee rate of 80% of the loan principal (and the maximum guarantee amount of CZK 20 million, social enterprises can gain a financial contribution of 10% of the guaranteed loan amount drawn for eligible costs up to a maximum of CZK 500 000.
- EXPANSION-Guarantee Programme
  - A portfolio guarantee for small and medium-sized enterprises for bank loans from CZK 4 to 25 million, with a guarantee rate of 70% of the loan principal provided to loans,
  - A portfolio guarantee for small and medium-sized enterprises for bank loans from CZK 1 to 40 million, with a guarantee rate of 80 % of the loan principal; this increased guarantee rate applies only to projects related to special supported activities: efficient use of water in industry, development of high-speed internet, calamity timber logging and processing, business centres development, material and energy recovery of waste, project implementation in one of economically affected regions).
- **INTERNATIONAL DEVELOPMENT COOPERATION GUARANTEE (IDCG) Programme** – a guarantee for bank loans with a guarantee rate of 50% of the loan principal and the maximum guarantee amount of CZK 25 million; for domestic enterprises of any size investing in developing countries ,
- **INOSTART Programme** – a guarantee for bank loans for start-up small and medium-sized enterprises implementing innovative projects anywhere in the Czech Republic, for loans up to CZK 15 million and with a guarantee rate of 60% of the loan principal; increased to 70% of the loan principal from 20 June 2019,
- **VADIUM 2018–2023 Programme** – a guarantee for tender bids for small and medium-sized enterprises in the amounts from CZK 50 000 to CZK 5 million.

b) **Loans**

- **EXPANSION–LOANS Programme** – interest-free investment loans for small and medium-sized enterprises anywhere in the Czech Republic (except for the Capital City of Prague) in amounts up to CZK 45 million, with maturity up to 10 years and a commercial loan interest rate subsidy in amounts up to CZK 2 million. In case of special activities receiving this type of support (efficient use of water in industry, Next Generation Access networks, calamity timber processing, business centres development, material and energy recovery of waste), the limit for the loan is up to CZK 60 million and the interest rate subsidy amounts up to CZK 4 million.
- **ENERGY SAVINGS Programme** – preferential interest-free loans for enterprises of any size anywhere in the Czech Republic (except for the Capital City of Prague) with the objective of energy savings, namely in amounts up to CZK 60 million, with maturity up to 10 years, and a financial contribution for acquiring an energy audit in amount up to CZK 250 000 and, if savings are achieved, also an interest rate subsidy for a commercial loan in amount up to CZK 4 million.
- **ENERG Programme** – preferential interest-free loans for small and medium-sized enterprises and their projects in the Capital City of Prague, aimed at energy savings in their business activities, in amounts up to CZK 20 million, with maturity up to 10 years, and a financial contribution for acquiring an energy audit in amounts up to CZK 100 000 and a financial contribution equal to 7% of the preferential loan drawn if energy savings are achieved.
- **Programme of Preferential Regional Loans for Small Enterprises in the South Bohemian Region** – loans for small enterprises in amount up to CZK 1 million with a fixed interest rate of 4% p.a. and a maturity up to 6 years.

- **Regional Development Fund** – long-term loans for municipalities or associations of municipalities (except for the Capital City of Prague) to co-finance projects for improving local infrastructure for business and non-business purposes, namely in amount up to CZK 30 million, with a preferential fixed or variable interest rate determined individually according to current market conditions and with maturity up to 10 years.
- **MUNICIPALITY 2 Programme** – long-term loans for cities, municipalities, and associations of municipalities in the Czech Republic for financing investments to improve living conditions or environmental protection, namely up to CZK 130 million with a fixed or variable interest rate determined individually according to current market conditions and with maturity up to 15 years.
- **INFIN Programme** – preferential interest-free loans for businesses implementing innovative projects in the Capital City of Prague in amount up to CZK 15 million with maturity up to 10 years; the programme can be used by small and medium-sized enterprises with their commercial history shorter than 7 years, a part of the programme focuses specifically on enterprises with a short history.
- **S-ENTERPRISE Programme** – preferential loans up to CZK 25 million with maturity up to 12 years facilitating social enterprises to finance investment projects aiming at commencement or development of business activities anywhere in the Czech Republic, including the Capital City of Prague. The programme is financed from ESI funds in the frame of the Operational Programme Employment.

2. Support to small and medium-sized enterprises

a) Overall results

The Bank provided support to small and medium-sized enterprises ("SME") especially on the basis of agreements concluded with the Ministry of Industry and Trade.

The Bank's key guarantee program for SMEs in 2019 was again the GUARANTEE 2015-2023 Programme which was launched in February 2015.

The programme was mainly comprised of guarantees for working capital loans. The results of this programme implementation confirmed increasing interest in the use of the guarantees in 2019. In addition to using national resources, the GUARANTEE 2015-2023 Programme is co-financed also from the European Investment Fund under the COSME programme.

EXPANSION-GUARANTEE Programme launched in February 2019 was very important guarantee programme for small and medium-sized enterprises in 2019. The programme has been implemented as part of the Operational Programme Entrepreneurship and Innovations for Competitiveness (OP EIC) and is expected to be in operation until the end of the programming period in 2023.

Provision of guarantees for loans to start-up enterprises for innovative projects continued within the INOSTART Programme in 2019. Loans guaranteed by the Bank are provided by Česká spořitelna, a.s.

The Bank's main programme of loans for SMEs in 2019 was the EXPANSION-LOANS Programme which was launched in June 2017. The EXPANSION-LOANS Programme has been implemented as part of the Operational Programme Entrepreneurship and Innovations for Competitiveness and will be in operation until the end of the programming period in 2023. The programme conditions were amended several times within the programme period, and these changes had a major impact on small and medium-sized enterprises' growing interest in obtaining a loan from the programme.

ENERG Programme and ENERGY SAVINGS Programme were the other loan programmes in 2019. Their objective is to contribute to the reduction of energy consumption.

In April 2019, the INFIN programme was launched aiming at expansion of available funding for innovative business projects implemented in the Capital City of Prague. The programme has been implemented in co-operation with the Capital City of Prague in the frame of the Operational Programme Prague – Growth Pole of the Czech Republic (OP PGP).

Based on an agreement with the Regional Authority of South Bohemia, SMEs (including start-ups) were provided with preferential loans for financing projects implemented in the region.

The loans and guarantees were provided predominantly to small enterprises with up to 49 employees (see table 1).

Table 1 Supported projects divided according to the sizes of enterprises

	GUARANTEES				LOANS			
	Number		Amount in		Number		Amount in	
NUMBER OF EMPLOYEES		%	CZK mil.	%		%	CZK mil.	%
0 to 9	3 072	55	5 682.9	41	181	39	912.1	38
10 to 49	2 401	43	6 648.6	48	207	45	964.5	40
50 to 249	154	2	1 506.5	11	73	16	505.1	21
250 and more					2	0	25.4	1
TOTAL	**5 627**	**100**	**13 838.0**	**100**	**463**	**100**	**2 407.1**	**100**

b) Guarantees

Based on guarantee contracts concluded in 2019, the Bank provided 5 627 guarantees totalling to CZK 13 838 million. The guarantees supported loans of CZK 20 814 million (see table 2).

Table 2 Guarantees issued and loans guaranteed (excl. guarantees under the VADIUM Programme)

INDICATOR		2015	2016	2017	2018	2019
Guarantees issued	Number	4 307	3 972	4 368	5 721	5 627
Amount of guarantees issued	CZK mil.	10 894	8 819	8 950	11 044	13 838
Amount of loans guaranteed	CZK mil.	15 564	12 598	12 791	17 263	20 814
Average guarantee coverage	%	70	70	70	64	66

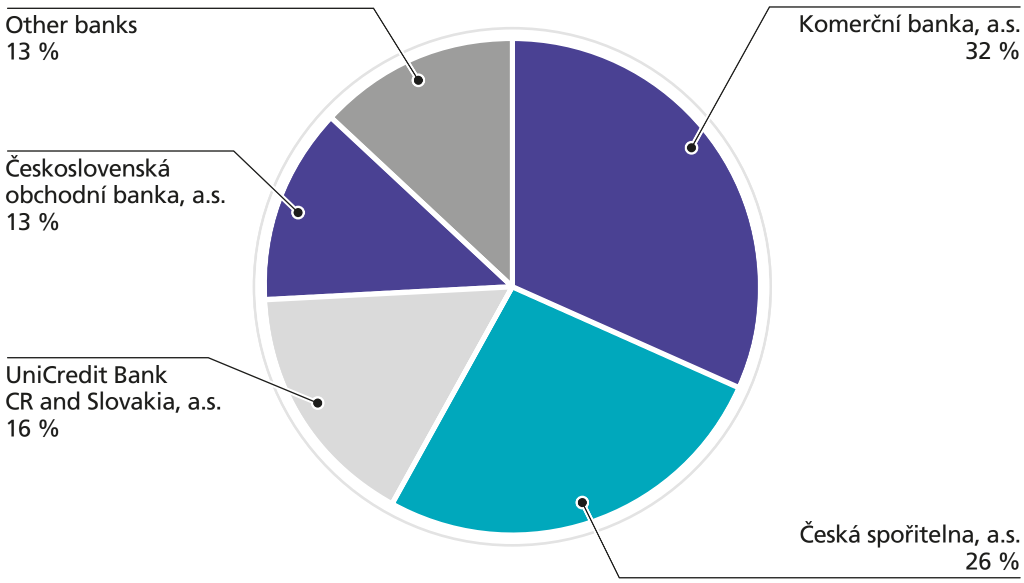
The largest proportions of the guarantees were used to support projects in the Moravian-Silesian Region and the South Moravian Region (see table 3).

Table 3 Regional structure of guarantees provided (in % of contracted value of guarantees issued)

REGION		2015	2016	2017	2018	2019
Capital City of Prague	%	14.7	30.9	26.1	13.6	13.0
Central Bohemia	%	10.2	8.0	6.8	8.8	9.0
South Bohemia	%	7.5	4.4	5.1	5.5	6.7
Pilsen	%	5.6	4.6	4.3	4.1	3.5
Karlovy Vary	%	1.4	0.9	1.6	1.1	1.2
Ústí nad Labem	%	3.3	2.5	3.3	3.2	3.6
Liberec	%	3.1	2.0	3.7	3.7	3.1
Hradec Králové	%	6.2	3.8	4.7	4.5	4.7
Pardubice	%	4.1	3.8	4.6	5.2	4.3
Bohemian-Moravian Highlands	%	3.2	3.3	3.5	2.9	2.6
South Moravia	%	12.8	13.0	11.0	15.7	13.3
Olomouc	%	7.3	5.0	6.4	7.5	8.5
Zlín	%	5.2	5.4	4.9	5.8	7.5
Moravia-Silesia	%	15.4	12.4	14.0	18.5	19.0
TOTAL	%	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

The guaranteed transactions were predominantly concluded with Komerční banka, a.s., and Česká spořitelna, a.s. in 2019.

Graph 1 Guarantee transactions structure in 2019 by lending banks



The largest number of guarantees was provided to projects in trade, followed by manufacturing (see table 4).

Table 4 Sector structure of guarantees provided (in % of contracted value of issued guarantees)

Trade	49.5 %
Manufacturing	21.9 %
Construction	15.0 %
Accommodation and food service activities	3.3 %
Transportation	3.6 %
Other manufacturing	0.7 %
Health services	0.6 %
Services	0.9 %
Other business activities	4.4 %
TOTAL	**100.0 %**

c) Loans

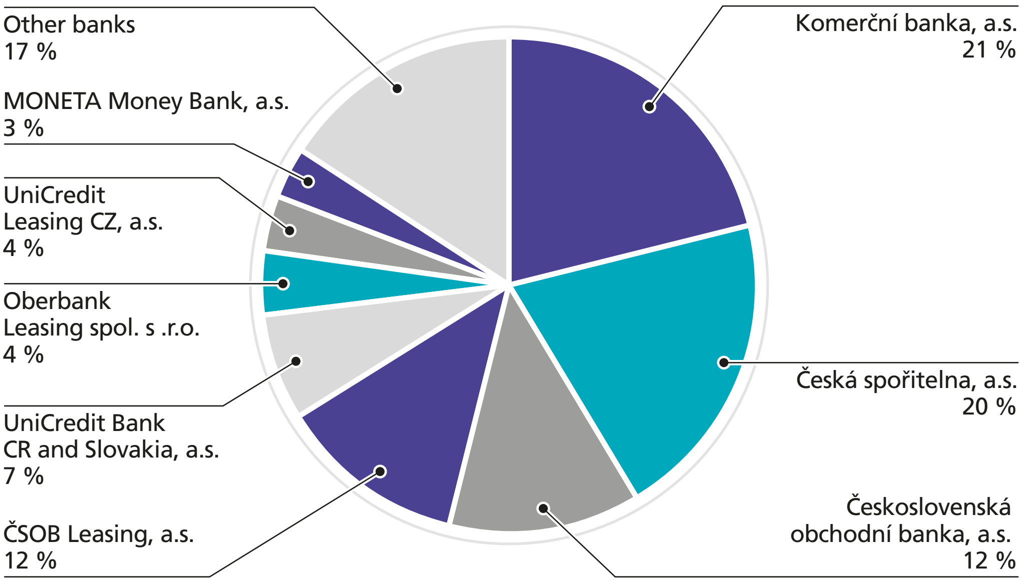
In 2019, the Bank provided the business sector with 463 loans in the total volume of CZK 2 407 million.

Table 5 Preferential loans provided

INDICATOR		2015	2016	2017	2018	2019
Loans provided	počet	27	9	56	254	463
Amount of loans guaranteed	mil. Kč	65.3	7.0	357.0	1 440.0	2407.1
Average guarantee coverage	mil. Kč	2.4	0.8	6.4	5.8	5.2

In the EXPANSION-LOANS Programme, 433 loan contracts were concluded totalling CZK 2 230.8 million. Within the programme, the Bank cooperated mostly with Komerční banka, a.s., Česká spořitelna, a.s., and Československá obchodní banka, a.s.

Graph 2 Co-financing structure in the EXPANSION-LOANS Programme by lending banks in 2019



Among the leasing companies, ČSOB Leasing, a.s. and UniCredit Leasing CZ, a.s. were the ones with the largest proportion of co-financing provided within the programme

In other loan programmes Energ, Energy Savings, Southern Bohemian, Municipality, INFIN, Regional Development Fund a total of 30 loans worth CZK 176.3 million were provided.

Table 6 Sector structure of loans provided (in % of contracted value of new loans issued)

Manufacturing	46.5 %
Trade	19.8 %
Transportation	3.0 %
Construction	9.5 %
Accommodation and food service activities	3.2 %
Other industrial production	1.7 %
Services	2.7 %
Health services	2.3 %
Other business activities	11.3 %
TOTAL	**100.0 %**

3. Support to reconstructing of apartment houses

In 2019, the Bank administered a total of 8 303 active Contracts on Providing Grants to Cover Loan Interest (from 10 122 contracts originally concluded). On the basis of these, the Bank paid out over CZK 715 million. From the start of the programme in support of apartment house reconstructions to the end of 2019, grant recipients received in total CZK 10 958 million, which comprises 80.2% of the total volume of concluded Contracts on Providing Grants to Cover Loan Interests (CZK 13 664 million).

In 2019 the Bank also administered a portfolio of bank loan guarantees enabling owners or co-owners of apartment houses to obtain loans for their repairs. As of the end of 2019, the portfolio consisted of 1 118 bank loan guarantees (of which 95 were the portfolio guarantees), the outstanding balance of the guaranteed loans principal amount reached CZK 2 162 million).

4. Financing municipal infrastructure

Loans from the Regional Development Fund and Municipality 2 Programme are designed for projects aimed at transportation and technical infrastructure, construction of real estate for business activities, as well as sport, cultural and educational facilities. These loans are provided only as an additional service complementing the overall portfolio of services. In 2019, the Bank provided 4 loans totalling CZK 78.5 million.

5. Trading on financial markets

In 2019, the Bank was active on the money, capital and foreign currency markets. The main purpose was to manage its liquidity, administer its portfolio of bonds, manage interest-rate and currency risks and refinance the lending programmes for supporting SMEs and municipalities. The Bank used money market instruments. In administering its portfolio of bonds and money market instruments, the Bank again maintained its conservative investment strategy and was oriented to purchasing government bonds, treasury bills and bonds of selected issuers with high credit risk ratings.

6. Other lending activities

As a financial manager for infrastructure programmes, the Bank secured financing for these programmes in amount of CZK 425 million during 2019. The said financing comprised resources from the State Fund for Transport Infrastructure which were designated for construction of the Lovosice - Ústí nad Labem section of the D8 motorway.

In 2019, the Bank continued administering interest payments of commercial loans provided to participants of the Project for Construction and Renovation of Water Supply and Sewerage Infrastructure, paying out almost CZK 6 million to 68 beneficiaries. Since the start of the interest rate subsidies administration programme in 2009, the total volume of disbursed interest rate subsidies reached CZK 226.4 million as of 31 December 2019.

7. Central Europe Fund of Funds

The fundraising for the Central Europe Fund of Funds (CEFoF) was ended in 2018. The total amount for investors´ commitments is EUR 97 million, including the CMZRB's investment of EUR 8.2 million. Besides the Bank and EIF, the investors include the Hungarian National Development Bank MFB, Austrian AWS, Slovenian SEF, Slovak SIH, and the International Investment Bank.

By 30 September 2019, there was 11.6% of investor's commitments paid to CEFoF. CEFoF commitments in six selected funds (three of them having Czech managerial teams) reached EUR 52.5 million (out of that EUR 22.5 million are the funds managed by the Czech teams). EIF approved contributions to other two funds amounting EUR 20 million. In total 15 companies (6 of them in the Czech Republic) enjoyed the support from CEFoF.

8. Providing information in accordance with the act no. 106/1999 Coll., on free access to information

Number of requests for information received	0
Number of decisions rejecting the application	0
Number of appeals against the decision	0
Copies of essentials parts from each judgment of the court in the matter of review of legality decision to reject a request for information	no judgment was issued
Overview of all costs relating to court proceedings on rights and obligations under the stated law, incl. the costs of Bank's own staff and the costs of legal representation (in CZK)	0
Number of exclusive licences issued	0
Number of complaints filed under s. 16a of the Act	0

Report of the Supervisory Board of Českomoravská záruční a rozvojová banka, a.s., for 2019

In 2019 the Supervisory Board carried out its duties as defined by law and the Articles of Association of Českomoravská záruční a rozvojová banka, a.s. Being the Bank's oversight body, the Supervisory Board monitored the Board of Directors in discharging its duties and conducting Bank's business activities, its financial management and executing Bank's strategy. The Supervisory Board was regularly informed by the Bank's Board of Directors about the Bank's activities, its financial situation and other essentials matters.

Having examined the financial statements as on 31 December 2019, and based upon the external auditor's report, the Supervisory Board states that Bank's accounting records and books were kept in a transparent manner and in compliance with generally binding accounting regulations for banks as well as with the Bank's Articles of Association. The accounting records and books reflect the Bank's financial situation in all important respects, and the financial statements produced on the basis of such accounting records present a true and fair view of the accounting and financial position of the Bank.

An audit of the Bank's financial statements was conducted by KPMG Česká republika Audit, s.r.o. and confirmed that the financial statements provide the true and fair view of the financial position of Českomoravská záruční a rozvojová banka, a.s. as on 31 December 2019 and of its operation in 2019 in compliance with Czech accounting regulations. The Supervisory Board acknowledged the auditor's report with consent.

The Supervisory Board has reviewed the financial statements and proposed distribution of profits for the 2019 accounting period. On the grounds of the facts stated above and pursuant to the applicable Articles of Association of Českomoravská záruční a rozvojová banka, a.s., the Supervisory Board recommends the sole shareholder exercising the powers of the General Meeting of Českomoravská záruční a rozvojová banka, a.s. to approve the regular financial statements and the proposed distribution of 2019 profits as presented by the Bank's Board of Directors.

The Supervisory Board also reviewed the Report on Relations between Related Entities for 2019 and reviewed the Bank's Annual Report for 2019. It recommends the sole shareholder exercising the powers of the General Meeting to approve these documents.

In Prague on 28 April 2020

On behalf of the Supervisory Board of Českomoravská záruční a rozvojová banka, a.s.:

Pavel Závitkovský
Chairman of the Supervisory Board

Report of the Audit Committee of Českomoravská záruční a rozvojová banka, a.s., for 2019

In the course of 2019, the Audit Committee fulfilled its responsibilities and carried out its duties defined by Act no. 93/2009 Coll., on Auditors; by Decree of the Czech National Bank no. 163/2014 Coll., on the performance the activities of banks, credit unions and investment firms; and by the Articles of Association of Českomoravská záruční a rozvojová banka, a.s. (hereinafter referred to as "the Bank").

Within the scope if its competence, the Audit Committee monitored the process of compiling the Bank's financial statements and their mandatory audit by the auditor – KPMG Česká republika Audit, s.r.o. The Committee also reviewed a plan and strategy for external audit. It assessed the independence of the audit firm KPMG Česká republika Audit, s.r.o. and the character of additional non-audit services provided by the external auditor, and came to the conclusion that on the basis of presented documents the external auditor may be regarded as independent. The Audit Committee also reviewed and acknowledged the external auditor's report MiFID 2018. Cooperation with the external auditor proceeded at a very good level the last year.

In compliance with the Act on Auditors, the Audit committee reviewed and approved the provision of non-audit services to the Bank by KPMG Česká republika, s.r.o., namely:

- general trainings organized by the statutory auditor;
- processing and submitting the Corporate Income Tax Return for 2019, providing tax consultancy related to actual tax issues.
- verification of data on liabilities for the purpose of calculating the level of contributions to the Crisis Resolution Fund by the auditor.

Audit Committee was informed about the announcement and course of the tender for Audit Services for the period 2020 to 2022. Members of the Audit Committee were actively involved in the commencement of the tender. A member of the Audit Committee participated also in the meetings of a committee assessing the bids as a permanent guest with no voting rights.

In its regular meetings, the Audit Committee assessed the effectiveness of Bank's management and control systems and the activities of the Bank's Internal Audit Unit, including its activity plans and particular audit events performed. The Audit committee has stated that the systems established in the Bank are functional and efficient, and measures adopted in respect of audit findings are followed.

In 2019, The Audit Committee reviewed a report on penetration tests carried out in the Bank, IT audit report and report on present situation and IT plans of the Bank. The Committee reviewed and acknowledged the report on verification of the remuneration system set-up as well as information on securing the integrity of accounting and financial reporting system in the Bank.

Performing its function of the Risk Committee, the Audit Committee assessed the Bank's system of risk management; report on valuation of assets, liabilities and off-balance sheet items and their reflection in the offers to customers while taking into account the business model and strategies for risk management as well as information about risks, capital, liquidity, and probability and timing of expected profit in the overall system of remuneration.

The Audit Committee produced and submitted its Report on Activities of the Audit Committee for 2018/2019 (monitored period from 24 April 2018 to 23 April 2019) to the Public Audit Oversight Board.

The Chairman of the Audit Committee regularly informed the Bank's Supervisory Board about the results of the Audit Committee meetings.

In Prague on 6 April 2020

On behalf of the Audit Committee of Českomoravská záruční a rozvojová banka, a.s.:

Milan Novák
Chairman of the Audit Committee

Affidavit

Českomoravská záruční a rozvojová banka, a.s., asserts that all information and data stated in this Annual report are true and full. The Bank also confirms that this document contains all facts which could be relevant for investors´ decision taking processes.

Českomoravská záruční a rozvojová banka, a.s., also declares that there were no negative changes in its financial situation or other changes which could influence accurate and right assessment of the Bank's financial situation by the date when this Annual report was compiled.

In Prague on 28 April 2020

On behalf of the Bank's Board of Directors signed by:

Jiří Jirásek
Chairman of the Board of Directors

Pavel Fiala
member of the Board of Directors

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Independent Auditor's Report to the Shareholders of Českomoravská záruční a rozvojová banka, a.s.

Report on the Audit of the Financial Statements

Auditor's Opinion

We have audited accompanying financial statements of Českomoravská záruční a rozvojová banka, a.s. (hereinafter "the Company") prepared in accordance with Czech accounting regulations which comprise the statement of financial position as at 31 December 2019, income statement, the statement of changes in equity for the year ended 31 December 2019, and notes to the financial statements including a description of significant accounting methods used and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the assets and the liabilities of the Company as at 31 December 2019, and expenses and income and financial results for the year ended 31 December 2019 in accordance with the Czech accounting regulations.

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

Major issues of the audit

Major issues of the audit are the issues which according to our professional assessment were the most significant ones in auditing the financial statements for the period concerned. We assessed the matters in the context of the financial statements audit as a whole and in relation to producing our opinion about the financial statements. We do not provide a separate opinion to these issues.

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

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

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

KPMG

Loss allowances for receivables from customers and provisions for guarantees provided

Major issues of the audit	How the issue was dealt with
The Company's management makes significant and comprehensive assumptions in estimating expected credit losses from receivables from customers and from provisions for provided guarantees (“expected credit losses”). We consider the above stated area to be a significant risk area that requires our increased attention, which is why we evaluated it as the main audit issue. According to Decree No. 501/2002 Coll. For the purposes of reporting, valuing and disclosing financial instruments in the notes to the financial statements, the Company follows International Accounting Standards (IFRS) as amended by directly applicable European Union regulations, including IFRS 9. Provisions for loans granted as at 31 December 2019 in the amount of CZK 263 million represent an estimate of expected loan losses from impairment of loans. Provisions for provided guarantees as at 31 December 2019 in the amount of CZK 3,544 million represent an estimate of expected credit losses from possible future receivables arising from the payments of provided guarantees. For the purposes of calculating expected credit losses, the entire loan portfolio and the guarantee portfolio are divided into three levels: • Level 1 and Level 2 are the loans and guarantees with no default. In Level 2, there are loans and guarantees for which a significant increase in credit risk has been recorded since their inception. • Level 3 includes the loans and guarantees with default. For all loans and guarantees, the Company estimates the expected credit losses based on statistical models.	In addressing this major audit issue, we performed, among other things, the following audit procedures: • In cooperation with our credit risk specialists, we have critically assessed and reviewed the Company's credit rules and accounting methods for impairment and calculation of expected credit losses based on our knowledge, experience and market standards in the banking sector. We also assessed the processes of identifying default indicators, a significant increase in credit risk and the allocation of loans into individual levels of risk. • We tested the design, implementation and operational effectiveness of selected systemic and manual controls over the identification of loan and guarantee impairment and the calculation of expected credit losses on loans and guarantees, in particular controls over (i) the calculation of overdue days, (ii) matching of instalments, (iii) their classification and (iv) controls over data transfers between IT systems. • Furthermore, in cooperation with our credit risk specialists, we assessed and evaluated statistical models used to calculate the expected credit losses. We also critically evaluated the following particular key assumptions: ◦ the definition of default and the definition of a significant increase in credit risk with respect to the requirements of accounting standards; ◦ PD, LGD and EAD parameters with respect to market practice and taking into account the specifics of the Company's products

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Major issues of the audit	How the issue was dealt with
Key assumptions and judgments used in calculation of the expected credit losses include: • the definition of default and the definition of a significant increase in credit risk, • the probability of default (PD), • loss given default (LGD), • the level exposure at default (EAD) and • an estimate of the evolution in selected macroeconomic indicators (FLI). Further details are provided in the following notes to the financial statements: 2 (Accounting procedures), 11 (Allowances, provisions and depreciation of assets), 16 (Contingent receivables and payables) and 24 (Information on risk management and financial instruments).	◦ FLI parameter with respect to publicly available information • For the sample of loans and guarantees, based on a review of the credit component, an analysis of the debtor's financial and economic situation and inquiries from the Company's responsible employees, we assessed whether the Company appropriately evaluates indicators of a significant increase in credit risk or default. • We critically assessed the overall adequacy of expected credit losses through testing of analytical procedures. We compared key indicators, incl. the share of expected credit losses to total receivables, respectively the share of provisions to total guarantees. • We have assessed the adequacy of information on loss allowances, provisions and related credit risk management as disclosed by the Company in the financial statements.

Other information

Pursuant to s. 2 letter b) of the Act on Auditors, other information means information stated in the annual report in addition to the financial statements and our auditor's report. The statutory body of the Company is responsible for the other information.

Our opinion on the financial statements does not relate to the other information. Nevertheless, our responsibilities for auditing financial statements include reviewing also the other information and assessing whether other information is materially consistent with the financial statements or with our knowledge of the entity obtained during the audit of the financial statements, or whether this information does not appear to be materially incorrect in other way. We also assess whether other information has been prepared in all material respects in compliance with applicable law. This assessment means whether the other information meets the legal requirements in respect of formal elements and processes of its preparing in the context of materiality, i.e. whether any non-compliance with these requirements would be capable of influencing the judgment made on the basis of the other information.

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Based on the procedures performed, to the extent that we can assess, we state that

- other information that describes the facts presented also in the financial statements is in all material respects in accordance with the financial statements, and
- other information was produced in compliance with legal regulations.

Furthermore, we are required to state, based on the knowledge and awareness of the Company that we obtained during the audit, whether other information does or does not contain significant (material) factual inaccuracies. Carrying out above stated procedures, we did not identify any significant (material) factual inaccuracy in the other information provided.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

When performing the audit in accordance with the above stated regulations, we are obliged to exercise professional judgment and maintain professional scepticism throughout the whole process of auditing. We also must:

- 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 sufficient and appropriate audit evidence providing a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher that for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or a override of internal control;

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- Obtain an understanding of internal control system of the Company relevant to he audit in order to design audit procedures that are appropriate in the existing circumstances, but not for the purpose of expressing our opinion on the effectiveness of the Company's internal control system;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's statutory body in the financial statements;
- Conclude on the appropriateness of the statutory body's use of the going concern basis in accounting and, based on the audit evidence obtained, whether a material uncertainty related to events and conditions that may cast significant doubt on the Company's ability to continue as the going concert exists. If we conclude that the material uncertainty exists, in our auditor's report we must draw attention to the respective disclosures in the financial statements or, if such disclosures are inadequate, we must modify our opinion accordingly. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events may cause the Company to cease to continue as the going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including Notes, and whether the financial statements reflect underlying transactions and events in a manner that leads to fair presentation.

Our obligation is to communicate, 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 to those charged with the governance of the Company.

We are also obliged to provide those charged with governance with a statement that we have met all relevant ethics requirements regarding our independence, and inform them of all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguard measures taken.

Furthermore, it is our responsibility to select out of matters we have reported to people charged with governance of the Company those ones that are the most significant in respect of the audit of the current year's financial statements and therefore they represent the main audit matters and to describe those matters in our report. This obligation does not apply when the law prohibits the disclosure of such a matter or if, in a very exceptional case, we consider that we should not disclose the matter in our report, as the potential negative effects of disclosure can realistically be expected to outweigh the public interest benefits.

Report on Other Requirements Imposed by Legal Regulations

In accordance with provisions of Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, our independent auditor's report provides the following information beyond the requirements of the International Standards on Auditing:

Appointment of the auditor and duration of the audit

We were appointed as the Company's auditor by the General Meeting of the Company held on 26 April 2016. We have been the Company's auditor continuously for 7 years.

Compliance with the additional report to the Audit Committee

We confirm that our opinion on the financial statements presented in this report is in accordance with our additional report to the Company's Audit Committee, which we prepared on 24 March 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Providing of non-audit services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No 537/2014 of the European Parliament and of the Council have been provided.

Apart from the statutory audit, we have not provided the Company and the companies it controls with any other services not listed in the Notes to the Company's financial statements or annual report.

Auditor Responsible for the Engagement

Veronika Strolená is the auditor responsible for the audit of the financial statements of Českomoravská záruční a rozvojová banka, a.s. as at 31 December 2019 based on which this independent auditor's report has been produced.

In Prague on 28 April 2020

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

illegible signature
Veronika Strolená
Partner
Registration number 2195

ČESKOMORAVSKÁ ZÁRUČNÍ A ROZVOJOVÁ BANKA, a.s.

UNCONSOLIDATED FINANCIAL STATEMENTS PRODUCED UNDER CZECH REGULATIONS AS ON 31 DECEMBER 2019

ANNUAL REPORT **2019**

Balance sheet as at 31 December 2019

	in CZK mil.	Notes	31. 12. 2019	31. 12. 2018
1	Cash and balances with central banks	3	21	71
2	Government zero – coupon bonds and other securities accepted by the central bank for refinancing issued by government institutions	4	15 499	16 886
3	Receivables from banks	5	1 133	661
	incl.: a) payable on demand		7	5
	b) other receivables		1 126	656
4	Pohledávky za klienty	6	5 441	4 112
	incl.: a) payable on demand		0	1
	b) other receivables		5 441	4 111
5	Debt securities	7	1 620	2 145
	incl.: a) payable on demand		608	626
	b) other receivables		1 012	1 519
6	Shares participation certificates and other ownership interests	8	34	33
7	Ownership interests with significant influence	8	1	1
8	Ownership interests with controlling influence	8	4	0
9	Intangible fixed assets		21	14
10	Tangible fixed assets	9	141	120
	incl.: land and structures for operational activities		141	120
11	Other assets	10	33	33
13	Deferred expenses and income	10	35	29
Total assets			23 983	24 105

Balance sheet as at 31 December 2019 (continued)

in CZK mil.			Notes	31. 12. 2019	31. 12. 2018
1	**Liabilities to banks – other term liabilities**		12	**1 410**	**2 318**
2	**Liabilities to customers**		13	**13 736**	**13 126**
	incl.:	a) payable on demand		345	1 198
		b) other liabilities		13 391	11 928
4	**Other liabilities**		14	**141**	**207**
5	**Deferred income and expenses**		14	**184**	**255**
6	**Other reserves**		11	**3 583**	**3 338**
	Total external sources			**19 054**	**19 244**
8	**Share capital**		15	**2 632**	**2 632**
	incl.:	a) paid share capital		2 632	2 632
10	**Reserve funds and other funds from profit**			**1 350**	**1 350**
	incl.:	a) mandatory reserve funds and hedge funds		1 150	1 150
		c) other funds from profit		200	200
13	**Valuation differences from assets and liabilities**		15	**116**	**77**
14	**Retained earnings from previous periods**			**793**	**774**
15	**Profit for the accounting period**		15	**38**	**28**
	Total equity			**4 929**	**4 861**
Total liabilities				**23 983**	**24 105**

Off-balance sheet items as at 31 December 2019

	in CZK mil.	Notes	31. 12. 2019	31. 12. 2018
	Off-balance sheet assets:			
1	Commitments and guarantees provided	16	25 254	21 053
4	Receivables from fixed – term operations	24c	858	1 371
6	Written-off debts		176	205
	Total off-balance sheet assets		**26 288**	**22 629**
	Off-balance sheet liabilities:			
9	Commitments and guarantees received	16	1 691	1 347
10	Pledges and collaterals received	16	4 459	4 318
12	Liabilities from fixed term operations	24c	870	1 378
14	Values taken into custody administration and storage		558	423
	Total off-balance sheet liabilities		**7 578**	**7 466**

Income Statement for 2019

	in CZK mil.	Notes	2019	2018
1	**Interest and similar income**	**17**	**669**	**568**
	incl.: interests debt securities interests		365	318
2	**Costs of interests and similar costs**	**17**	**–283**	**–194**
3	**Income from shares and Ownership interests**	**8**	**9**	**0**
4	**Income from fees and commissions**	**18**	**294**	**285**
5	**Costs of fees and commissions**		**–2**	**–2**
6	**Profit or loss on financial operations**	**19**	**–8**	**8**
7	**Other operational income**		**4**	**5**
8	**Other operational costs**	**20**	**–21**	**–22**
9	**Administrative costs**	**21**	**–326**	**–326**
	a) employee costs		–248	–239
	aa) wages and salaries		–178	–170
	ab) social and health insurance		–60	–57
	b) other administrative costs		–78	–87
11	**Depreciation of tangible and intangible fixed assets**		**–24**	**–20**
12	**Release of provisions and reserves for receivables securities and guarantees income from receivables previously written off**	**11**	**1**	**3**
13	**Depreciation creation and use of provisions and reserves for receivables securities and guarantees**	**11**	**–208**	**–229**
16	**Release of other reserves**	**11**	**6**	**13**
17	**Creation and use of other reserves**		**–6**	**–1**
19	**Profit or loss for the accounting period before tax**		**105**	**88**
23	**Income tax**	**22**	**–67**	**–60**
24	**Profit or loss for the accounting period after tax**	**15**	**38**	**28**

Statement of Changes in Equity for the year ended 31 December 2019

in CZK mil.	Share capital	Statutory and other reserves – mandatory and risk ones	Social and other funds from profit	Valuation differences	Retained earnings	Total equity
Balance at 1 January 2018	**2 632**	**1 150**	**200**	**344**	**783**	**5 109**
Profit of 2018	0	0	0	0	28	28
Changes in valuation differences	0	0	0	–267	0	–267
Allocations to the social fund	0	0	9	0	–9	0
Drawings from the social fund	0	0	–9	0	0	–9
Balance at 31 December 2018	**2 632**	**1 150**	**200**	**77**	**802**	**4 861**
Profit of 2019	0	0	0	0	38	38
Changes in valuation differences	0	0	0	39	0	39
Allocations to the social fund	0	0	9	0	–9	0
Drawings from the social fund	0	0	–9	0	0	–9
Balance at 31 December 2019	**2 632**	**1 150**	**200**	**116**	**831**	**4 929**

ČESKOMORAVSKÁ ZÁRUČNÍ A ROZVOJOVÁ BANKA, a. s.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS PRODUCED UNDER CZECH REGULATIONS AS ON 31 DECEMBER 2019

ANNUAL REPORT **2019**

1. General information

Českomoravská záruční a rozvojová banka, a.s., (hereinafter the "Bank" or "CMZRB") was established as a joint stock company pursuant to the Czech Commercial Code, and was recorded in the Commercial Registry of the District Court for Prague 1 on 28 January 1992 (section B, file 1329). The Bank's registered office is located at Jeruzalémská 964/4, Prague 1, Czech Republic. The Bank has five branches in the Czech Republic: Prague, Brno, Ostrava, Hradec Králové, and Plzeň, and one regional office in České Budějovice.

The Czech National Bank (hereinafter "CNB") has granted the Bank with a bank licence for performing the activities provided for in Act on Banks in s. 1 (1) letter a) and b) and for performing the activities provided for in Ant on Banks in s. 1 (3).

The Bank's activities are focused on supporting small and medium-sized enterprises in the Czech Republic by providing guarantee and loan products, on supporting reconstruction of residential houses, providing loans to municipalities, especially using funds of international financial institutions, and on performance of activities of financial management for infrastructure projects.

Upon Resolution of the government no. 574/2017 adopted on 21 August 2017, Českomoravská záruční a rozvojová banka, a.s. plays the role of the national development bank. That assumes the key role of the Bank in implementation if financial instruments, the greater part of which is funded from European funds, in the Czech Republic. As the European Commission adopted its Regulation no. 2018/1046 (so called „Omnibus") in August of the last year, the Managing Authorities of Operational Programmes may co-operate with national development banks acting as administrators of financial instruments directly, without necessity of tenders.

The activities of the Bank focus namely on:

- Acceptations of deposits;
- Provision of loans;
- Investments in securities for its own account;
- Money transmission and clearing;
- Provision of bank guarantees;
- Providing banking information;
- Trading in financial markets for own account;
- Activities directly related to the activities stated in the Bank's banking licence.

Use of Bank's resources for financing subsidies of SMEs ("Small and medium enterprises") in 2019

The Bank used its own resources to cover risks of guarantees for the SME sector under the national guarantee programme. This enabled maintaining continuity in support for SMEs in 2019.

The Bank has no branch abroad and does not hold its own shares. In a long-term perspective, the Bank supports activities related to financing of science, research and innovations. The Bank is involved in the CR´s Innovation Strategy for 2019-2030. However, the Bank itself does not carry out any research or similar activities. The Bank supports environment protection and is actively involved in landscape maintenance and trees planting. The Bank regularly organizes company and team development events for its employees.

2. Accounting procedures

a) Basic principles of accounting

Financial statements for the accounting period of 2019 have been produced based on the Bank's book-keeping in accordance with the Act no. 563/1991 Coll., on accounting, and relevant regulations, measures and decrees, namely Decree no. 501/2002 issued by the Ministry of Finance of the Czech Republic as amended (hereinafter „Decree") which implements provisions of Act no. 563/1991 Coll., on accounting, as amended, for accounting units which are banks or other financial institutions, as amended, and in accordance with Czech Accounting Standards for financial institutions.

The Decree determines the structure and denomination of financial statements items, and content definition of these financial statements. In its s.4a (1) the Decree requires Bank to use international accounting standards adjusted by directly applicable regulations of the European Union on implementation of the international accounting standards (hereinafter „international accounting standard" or „IFRS") for reporting financial instruments, their valuation and information contained in Notes to the financial statements.

The financial statements are compiled based on the principle of accrual costs and revenues, where transactions and other events are recognized at the time of their occurrence and accounted for in the period to which they relate. The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial instruments at fair value through profit or loss and fair value through equity.

The preparation of financial statements in conformity with Czech Accounting Standards requires from the Bank's management to use of certain estimates which influence the amounts of assets and liabilities recognized by the balance sheet date, disclosed information on conditioned assets and liabilities as well as costs and revenues reported for the period. These estimates, related to determination of financial instruments´ fair value, valuation of intangible assets, reduction of assets value and creation of provisions, are based on information available at the balance sheet date. The main areas where there may be significant differences between the actual result and the estimate include, in particular, loan loss provisions, provisions for guarantees and loan commitments and the fair value of securities. Information about key forward-looking assumptions and other key sources of estimation uncertainty at the balance sheet date, where there is a high risk that during the next financial year they will cause a significant adjustment to the carrying amounts of assets and liabilities, is disclosed in the individual items of the financial statements.

Fair values of quoted investments in active markets are based on current demand prices (financial assets) or offer prices (financial liabilities). If there is no active market for the particular financial instrument, the Bank determines fair value by using valuation method. Valuation methods reflect current market conditions on the valuation date, which may not correspond to market conditions before or after the valuation date. As at the balance sheet date, the Bank's management has assessed the methods used to ensure that they adequately reflect current market conditions, including relative liquidity of the market and credit spreads.

With the continuing economic growth, the business conditions in the segment of small and medium-sized enterprises, which are the focus of the Bank's main business activities, are also changing. Most companies that have successfully overcome the period of economic downturn are considering new investments that would increase the productivity and efficiency of their business. In assessing the potential impairment of assets, the Bank reflected this situation in its estimates of expected future cash flows to the extent that available information allows while taking into account the economic cycle.

b) Moment of business transaction recognition

When transaction is a spot purchase or sale of financial assets, the moment of realization of the accounting case is the day of settlement of spot trades. Spot operations are monitored on off-balance sheet accounts from the moment the trade is agreed to the moment the trade is settled.

The following rules are applied to derecognising of financial assets and liabilities:

- The Bank derecognizes a financial asset or its part in the balance sheet if the Bank loses control over the contractual rights to that financial asset or part of it. The Bank loses this control if it exercises the rights to the benefits defined in the contract, these rights expire or if the Bank waives these rights.
- A financial liability or its part extinguishes, i.e. the Bank's contractual obligations are discharged, cancelled or their validity is terminated and the Bank does not recognize the financial liability or its part in Bank's balance sheet. The difference between the amount of the financial liability or its part extinguished or transferred to another entity as reflected in the financial records and amount paid for the liability is recognised in the income statement.

c) Financial assets and liabilities

(i) Recognition and initial measurement

The Bank initially recognises selected financial assets and financial liabilities (e.g. receivables from customers, payables to customers, etc.) on the date on which they are originated. All other financial instruments (including spot purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the financial instrument.

A financial asset or financial liability is measured initially at fair value adjusted for transaction costs. Transaction costs are incremental costs that are directly attributable to acquisition or issue.

Classification

Financial assets

At initial recognition, a financial asset is classified as measured at:

- amortised cost (AC);
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost (AC) if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (so-called "SPPI test").

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (so-called "SPPI test").

At initial recognition of an equity investment that is not held for trading, the Bank irrevocably elected to present subsequent changes in fair value in FVOCI. For more details, see note 2g (Shares, participation certificates and other ownership interests). This election was made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

At initial recognition, the Bank designates a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as measured at FVTPL if doing so eliminates or significantly reduces a measurement or accounting mismatch that would otherwise arise – see note 2c (vii) below.

Business model assessment

The Bank's business model reflects how groups of financial assets are managed together to achieve a particular business objective. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. The Bank considers all relevant information and evidence which is available at the assessment date. The information and evidence considered includes, inter alia:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether the Bank's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the business model and financial assets held within individual business models is evaluated and reported to the Bank's key management personnel;
- the risks that affect the performance of the business models and financial assets held within the business models opted for, and how those risks are managed;
- how managers of the Bank are compensated; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and the Bank's expectations about future sales activity. Information about sales activity is not considered in isolation, but as part of an overall assessment of how the entity's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held to collect contractual cash flows or to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest (the so-called "SPPI test")

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition, "interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- early repayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at:

- amortised cost (AC); or
- fair value through profit or loss (FVTPL).

(III) Derecognition

Financial assets

The Bank derecognises a financial asset when

- the contractual rights to the cash flows from the financial asset expire, see note 2c (iv) below; or
- it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between

- the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and
- the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

Any cumulative gain/loss recognised in equity in respect of equity securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. See note 2f below.

The Bank enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. See note 2j (Sale and repurchase operations)

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, see note 2c (iii) above, and a new financial asset is recognised at fair value.

The cash flows of the modified asset at amortised cost are not substantially different, therefore, the modification does not result in derecognition of the financial asset. The Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (see note 2d(vi) below), then the gain or loss is presented in the income statement together with addition, release or utilisation of allowances. In other cases, the gain or loss is presented in the income statement together with interest income.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the income statement.

(v) Fair value measurement

"Fair value" is the price that would be received from selling an asset or paid for assuming a liability in an orderly transaction between market participants at the measurement date in the principal (or the most advantageous) market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. 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 the quoted price on an active market is unavailable, the Bank uses valuation techniques maximising utilisation of relevant observable inputs and minimising utilisation of unobservable inputs. The selected valuation technique includes all of the factors which would be included in the transaction valuation by market participants.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

If an asset or liability measured at fair value has a bid price and an ask price, the Bank measures

- assets and long positions at a bid price
- liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments (e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure) are allocated to the individual assets and liabilities on the basis of the relevant risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy which reflects the significance of the inputs used in making the measurements.

Level 1: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date.

Level 2: Level 2 inputs are inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices) for the asset or liability. 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 all significant inputs are directly or indirectly observable from market data.

Level 3: Level 3 inputs are unobservable inputs. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument’s valuation. 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.

(vi) Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- loan commitments issued;
- financial guarantees issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "Low credit risk".

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months from the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount of the financial asset and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

For additional information, see note 24a).

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring does not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in the calculation of the cash shortfalls from the existing asset.
- If the expected restructuring does not result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets measured at amortised cost and debt financial assets measured at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulties of the borrower or issuer;
- significant default in non-payment contractual conditions;
- a breach of contract such as a debtor's default or past due event;
- the restructuring of a loan made by the Bank on terms that Bank entity would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has been reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in bonds is credit-impaired, the Bank considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessments of creditworthiness;
- the issuer's ability to access the capital markets for new debt issuance;
- the probability of the issuer being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

Presentation of loss allowance for ECL in the balance sheet

Loss allowances for ECL are presented in the balance sheet as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally as a provision, except for as stated in the bullet point below;
- where a financial instrument includes both a drawn component (a financial asset) and an undrawn component (a loan commitment), and the Bank cannot separately identify the expected credit losses on the loan commitment component from those on the financial asset component, the expected credit losses on the loan commitment should be recognised together with the loss allowance for the financial asset. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be recognised as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in assets in the balance sheet because these instruments are presented at their fair value in assets. However, the loss allowance is disclosed in the notes to the financial statements and is recognised in "Revaluation gains (losses)" in equity.

Loss allowances and provisions for ECL established by debiting expenses are recognised in "Write-offs, additions and use of loss allowances and provisions for receivables and guarantees" in the income statement. This item also includes any subsequent use of loss allowances.

The release of loss allowances and provisions for ECL no longer considered necessary is recognised in "Release of loss allowances and provisions for receivables and guarantees, income from written-off receivables" in the income statement

Tax loss allowances

The tax-deductible portion of total loss allowances established in the accounting period for credit losses is calculated in accordance with Section 5 ("Banking reserves and loss allowances") and Section 8 ("Loss allowances for receivables from borrowers") of Act No. 593/1992 Coll., on Reserves, as amended. Loss allowances are recorded in sub-ledger accounts for the purpose of determining the tax liability.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

The write-off of receivables is recognised in "Write-offs, additions and use of loss allowances and provisions for receivables and guarantees" in the income statement. If a fully-provisioned receivable is written off, the loss allowance relating to the same item of the income statement is reduced by an identical amount. Income from loans previously written off is included in "Release of loss allowances and provisions for receivables and guarantees, income from written-off receivables" in the income statement.

(vii) Designation of a financial instrument at fair value through profit or loss (FVTPL)

Financial assets

At initial recognition, the Bank may designate some financial assets as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities

The Bank may, at initial recognition, designate some financial liabilities as measured at FVTPL because either:

- financial liabilities are managed, evaluated and reported internally on a fair value basis; or
- it eliminates or significantly reduces an accounting mismatch that would otherwise arise.

d) Receivables from banks

The balance sheet item Receivables from banks includes the following:

- credits and loans measured at amortised cost, see note 2c(ii) above, which are measured on initial recognition at fair value plus additional direct transaction costs, and subsequently are measured at amortised cost using the effective interest rate.

Accrued interest is part of the account groups within which the asset is accounted for, and is presented together with the asset concerned.

e) Receivables from customers

the balance sheet item Receivables from customers includes the following:

- credits and loans measured at amortised cost, see note 2c(ii) above, which are measured on initial recognition at fair value plus additional direct transaction costs, and subsequently are measured at amortised cost using the effective interest rate;
- credits and loans mandatorily measured at FVTPL or designated as at FVTPL, see note 2c(ii) and 2c(vii) above, which are measured at fair value whose change is immediately recognised in profit/loss.

Accrued interest is part of the account groups within which the asset is accounted for, and is presented together with the asset concerned.

If the Bank purchases a financial asset and, at the same time, enters into an agreement for the sale of the acquired financial asset (or an asset which is substantially similar) for a fixed price in future (reverse repo operation or loaned securities), such transaction is presented as a loan or credit, the underlying asset not being presented in the Bank's balance sheet. See note 2j below (Sale and repurchase operations).

f) Securities

Debt securities

Debt securities presented in the balance sheet under "Government zero-coupon bonds and other securities accepted by the central bank for refinancing" and "Debt securities" include the following measurement categories:

- debt securities measured at amortised cost, see note 2c(ii) above, which are measured on initial recognition at fair value plus additional direct transaction cost, and subsequently are measured at amortised cost using the effective interest rate;
- debt securities measured at FVOCI;
- debt securities mandatorily measured at FVTPL or designated as at FVTPL, see note 2c(ii) and 2c(vii) above, which are measured at fair value whose change is recognised immediately in profit or loss.

Loss or profit relating to debt securities measured at FVOCI is reported in Valuation differences in equity, except for the following items which are presented in the income statement in the same way as financial assets measured at amortised cost:

- interest income using the effective interest rate;
- addition of an ECL allowance and its release or application;
- profit and loss from exchange differences.

In case of derecognition of a debt security measured at FVOCI, the cumulative profit or loss as reported up to the derecognition in Valuation differences in equity is transferred from equity and presented in the income statement.

Profit/loss to be presented in the income statement is presented in "Profit/loss from financial operations".

Derecognition of securities

When selling securities designated as at FVTPL, the Bank uses the average cost approach to measure disposals of securities.

When selling equity securities designated as at FVOIC, the Bank uses the average cost approach to measure disposals of securities.

When selling debt securities designated as at FVOCI or measured at amortised cost, the Bank uses the pro rata approach to measure disposals of securities.

g) Shares, participation certificates and other ownership interests

Equity securities

Equity securities presented in "Shares, participation certificates and other ownership interests" in the balance sheet include the following:

- equity securities in regard of which the Bank irrevocably elected to present subsequent changes in fair value in FVOCI. Such determination is based on an instrument-by-instrument basis at initial recognition, and the relevant equity securities must not be "held for trading";
- equity securities mandatorily measured at FVTPL or designated as at FVTPL, see notes 2c(ii) and 2c(vii) above, which are measured at fair value whose change is immediately recognised in profit or loss.

Profit and loss from equity securities irrevocably designated as at FVOCI are never transferred from Valuation differences in equity to profit or loss (i.e., shown in income statement). Dividends received are presented in the income statement unless clearly representing a returned portion of the cost of investment (acquisition cost). Dividends received which clearly represent a returned portion of the cost of investment (acquisition cost) are then reported in equity. Cumulative profit and loss presented in Valuation differences are transferred to "Retained earnings/accumulated losses from previous years" at the time of sale of the relevant security.

Dividends received are presented in the income statement when the right to receiving the dividend arises. Dividends received are presented in "Income from shares and ownership interests".

h) Securities fair value

Fair value of a security is determined as a price quoted by a relevant stock exchange or another active public market. Otherwise, fair value is estimated as net present value of cash flows, whilst taking account of risks in the case of bonds.

In its models intended for determining the fair value of securities, the Bank uses solely information available on the market. The measurement models take into consideration normal market conditions as at the date of measurement which do not necessarily reflect the market situation prior or subsequent to the date of measurement. The Bank's management reviewed these models on the balance sheet date and satisfied itself that the models adequately reflect the current market conditions including the market's relative liquidity and the credit span.

i) Controlling and significant ownership interests

Controlling interests

A subsidiary (controlling interest) is an entity which is under the control of another entity.

Having control over an investee means that the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Hence, the investor controls the investee only if all the below elements apply:

- the investor has power over the investee;
- the investor is exposed, or has rights, to variable returns from involvement with the investee; and
- the investor has the ability to use power over the investee to affect the amount of their returns.

Significant interests

A company with significant influence ("associated company") is a company where the Bank exercises significant influence through its involvement in financial and operational decisions, but does not have the ability to exercise control over such company. An ownership interest where the Bank exercises joint control together with another entity, but where the Bank does not have controlling influence, is also considered a company with significant influence.

Ownership interests in companies with controlling and significant influence are measured at acquisition cost whilst taking into consideration potential amounts written off.

Addition, release and use of related adjusting entries are presented in the income statement in "Release of adjustments to controlling and significant interests" and "Losses from transfer of controlling and significant interests; addition and use of adjustments to controlling and significant interests".

j) Sale and repurchase operations

Securities purchased or borrowed under agreements to resell (reverse repos) are not reported in the balance sheet. In case of sale of securities which were so acquired the short position is reported at fair value in liabilities from debt securities. Securities sold or lent subject to repurchase agreements (repos) are retained in their original portfolio. The underlying cash flows are recorded on the date of settlement as receivables from banks, receivables from customers, liabilities due to banks and liabilities to customers.

Securities temporarily exchanged under a collateral exchange agreement are retained, in case of loaned securities, in their original portfolio. Borrowed securities are not reported in the balance sheet. In case of sale of securities which were so acquired the originating short position is reported at fair value in liabilities from debt securities.

k) Derivative financial instruments and hedging

Financial derivatives are recorded initially in the balance sheet at acquisition cost and are subsequently remeasured to their fair value.

Fair values are obtained from the discounted cash flow models which are based solely on available market information. The measurement models take into consideration normal market conditions as at the date of measurement which do not necessarily reflect the market situation prior or subsequent to the date of measurement. The Bank reviewed these models on the reporting date and satisfied itself that they reflect adequately the current market conditions including the relative market liquidity and the credit span.

All derivatives are carried as other assets when their fair value is positive and as other liabilities when their fair value is negative for the Bank.

Valuation differences of financial derivatives held for trading are part of profit/loss from financial operations.

The Bank pre-determines certain derivatives for hedging the fair value of selected assets or liabilities (fair value hedging).

Accounting for such financial derivatives as a hedging instrument is possible only if the following criteria are met:

(i) the derivative meets the Bank’s risk management strategy;

(ii) before hedge accounting is applied, the general hedging strategy is formally documented, the documentation identifies the risk that is being hedged, the edging instrument, the hedged item and the links among them;

(iii) the hedging documentation demonstrates that the hedging balances off the secured item risk effectively at the inception and throughout the entire period;

(iv) the hedging is effective on an ongoing basis;

(v) the item subject to hedging is not a security measured at fair value through expense or income accounts.

Changes in the value of financial derivatives which qualify as effective fair value hedges are recorded in the income statement along with the corresponding change in the value of the hedged asset or liability that is attributable to the ¨specific hedged risk. If the derivative used for fair value hedging ceases to meet the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item is gradually amortised to profit or loss over the period to maturity of the hedged item.

Off-balance sheet, derivatives are presented in the undiscounted contract value of the underlying instrument in “Receivables from fixed term operations” and “Liabilities from fixed term operations”.

The Bank decided to continue accounting for derivatives under IAS 39.

l) Bank guarantees and loan commitments

Issued bank guarantees are recorded off-balance sheet since the date of signature of a bank guarantee agreement. The Bank's off-balance sheet liability from a bank guarantee decreases based on the information from the lending bank on the cumulative amount of principal repaid.

Gains from guarantees are accounted for on an accrual basis (see note 2r below). A call to perform is accounted for off-balance sheet on the date of delivery of the call by the lender. In case that the terms of the bank guarantee are satisfied, performance under the bank guarantee is provided to the lender. Upon its provision, off-balance sheet liability arising from the call to perform is derecognised, and subsequently a balance sheet receivable from the customer based on the performance provided under the guarantee is accounted for.

Issued loan commitments are promises to provide a loan in accordance with agreed terms. In 2019, the Bank did not issue any loan commitments measured at FVTPL.

m) Interest income and expense

Interest income and expense from all interest-bearing instruments are reported on an accrual basis.

The effective interest rate approach is a method for calculation of the financial asset or liability amortised cost and interest income or interest expense distribution during a determined period. The effective interest rate is a rate used for discounting expected cash flows to maturity or to the nearest interest rate change date to the present value of the financial asset or liability.

In calculating the effective interest rate, the Bank takes into account all contract cash flows arising from the financial instrument (e.g., early payment option), but does not include future credit losses in the calculation. The calculation includes all fees paid or received between the parties to the contract which are part of the effective interest rate, the transaction costs, and all premiums or discounts, except for fees paid on loan provision which are reported immediately as gains from fees and commissions. The straight-line approach is used for approximation of the effective interest rate with regard to securities whose residual maturity at the time of purchase settlement is below one year, loans, and other receivables and liabilities where the intervals between instalments are shorter than one year. Interest income includes accrued coupons and accrued discount and premium on all fixed income instruments.

Interest income from loans provided to support small and medium-sized enterprises includes accrued interest income paid by customers or interest income paid under these small and medium-sized enterprise support programmes by the state in accordance with the contracts made.

Income from unpaid loans is also recognised on an accrual basis, and it is included in the relevant loan balance. These amounts are taken into account when determining adjustments to outstanding loans.

n) Penalty interest

Penalty interest is accrued to income only for level 1 liabilities. Accrual entries with regard to penalty interest income have been suspended for other liabilities. This interest is excluded from income until collected.

o) Fees and Commissions Income

Fees and commissions are reported on an accrual basis as of the date of provision of the relevant service. Fees and commissions for negotiating a transaction for a third party or for participating in the negotiation are recognised on completion of the underlying transaction.

Commissions for bank guarantees (except for guarantees under the EXPANSION programme) are accrued to income based on the expected course of repayment of the principal throughout the period from the bank guarantee agreement execution to the latest maturity date of the loan specified in the guarantee certificate.

For EXPANSION guarantees, the Bank receives a fee for each guarantee administered during a relevant month. The fee is carried to income on a monthly basis.

p) Provisions

Provisions are created in case that the Bank has an existing liability resulting from past events and will probably have to spend money for discharging the liability, and the amount of such can be estimated reasonably. All provisions are included in liabilities.

Creation of a provision is recorded within a relevant income statement item and its use is reported along with the expenses or losses for the coverage of which the provision was created, in the relevant income statement item. Release of provision on the ground of its being needless is carried to income. A provision is created in the currency of the performance expected by the Bank.

q) Tangible and intangible assets, leased assets

Tangible and intangible assets

Tangible and intangible fixed assets are measured at acquisition cost and depreciated over their useful lives by applying depreciation rates under the Income Tax Act, as amended. The accelerated depreciation approach is used for tangible assets. Intangible assets are depreciated based on accelerated approach or straight-line approach in dependence on the date of acquisition. Repairs and maintenance expenditures are charged to expenses as incurred. Technical improvement of each asset item is activated and depreciated.

Leased tangible and intangible assets

Since 1 January 2019, the Bank has applied international accounting standard IFRS 16 Leasing. A contract is considered to be a lease if it transfers the right to control the use of an identifiable asset over a period of time in exchange for consideration.

IFRS 16 means accounting and reporting changes especially for lessees. As a lessee, the Bank recognises an asset arising from the right to use the asset obtained on lease and a related liability arising from the lease in the balance sheet, except for situations where:

- the term of lease does not exceed twelve (12) months; or
- the underlying asset is of low value.

A contract concerns a lease if it transfers the right to control the use of the identifiable asset over a period of time in exchange for consideration.

Individual contracts are assessed by the Bank to ascertain whether the contract complies with the definition of lease, that is, whether:

- the identifiable asset exists, and whether the lessor has a material right to have the asset replaced by another asset;
- the Bank, as the lessee, has the right to receive all economic benefits over the term of their use;
- the Bank has the right to manage the use of the asset, i.e. the lessor may not change the conditions of use.

At the start of the lease, the Bank recognises in the statement of financial position:

- the right of use of assets in "Tangible fixed assets", and
- liability under the lease in "Other liabilities".

The right of use is measured at acquisition cost which includes the initial amount of liability arising from the lease adjusted for all lease payments made on or before the inception date, plus direct cost and an estimate of asset retirement and the removal of the underlying asset or the renewal of the underlying asset, minus lease incentives.

Subsequently, the right of use is depreciated on the straight-line basis over the shorter of estimated useful life and the lease term. The assumed useful life of the right of use is determined on the same basis as the useful life for the assets; this asset is further regularly reduced by potential losses from impairment and adjusted for certain revaluation of the lease liability.

At the inception of the lease, the lease liability is measured at the present value of the as yet outstanding lease payments by the discounted incremental interest rate. The lease payments include the following:

- fixed payments, including the so-called essentially fixed payments;
- variable lease payments dependent on the index or rate (at the inception of the lease, the index or rate are used which exist as at the start of the lease);
- the amount which the lessee must pay as part of the so-called guaranteed residual value;
- the call option if the Bank expects its use, and the lease payments, including extension option if the Bank is adequately certain that it will use the extension option; and
- penalties for lease termination.

The lease liability is subsequently measured at amortised acquisition cost using the effective interest rate approach. The liability is divided into the interest presented in interest expenses and the repayment recognised as the reduction of the lease liability.

The liability is revalued in the case of change in future lease payments following from a change in the index or rate if a change is made in the Bank's estimates of the amount due or if the Bank changes its estimates with respect to the use of the call option, and the extension or termination of the lease of the asset concerned.

If the liability is revalued, an adjustment to the carrying amount of the right of use is simultaneously carried out in the assets or directly in the income statement if the right of use is fully depreciated, and the carrying amount of the asset is thus zero.

The Bank applies an exemption from lease recognition and does not account for rights of use and lease liabilities if the lease term is 12 months and less, and/or the leased assets are of low value. Lease payments from such contracts are directly expensed on a straight- line basis over the lease term and reported under "Administrative expenses".

If the Bank acts as the lessor, it assesses at the beginning of the lease whether it is a finance lease or an operating lease. Upon transitioning to IFRS 16, the Bank made no change to lease recognition from the lessor's point of view.

r) Taxation

Income tax liability

The income tax base is calculated from profit/loss for the current period before tax, by adding up non-deductible costs, deducting non-taxable income, and subsequent adjustment for tax deductions and tax credits, if any. The income tax liability as reported in the balance sheet is less tax advances.

Value added tax

The Bank is registered for value added tax ("VAT"). Tangible and intangible fixed assets and inventories are measured at acquisition cost including VAT. The Bank does not claim input VAT as the ratio of taxable income to the total income of the Bank is such that claiming input VAT would not be economical from the perspective of the Bank. Input VAT (except for tangible and intangible fixed assets) is expensed immediately.

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and the tax base of such asset or liability using the full liability approach. A deferred tax receivable is recognised insofar as it is probable that taxable profits will be available against which the deferred tax asset can be utilised.

The approved tax rate for the period in which the Bank expects to utilise the asset to settle the liability is used for the deferred tax calculation.

Deferred tax resulting from remeasurement of available-for-sale securities to fair value which are recognised directly in equity is also reported directly in equity.

s) Staff costs, pensions and social fund

Staff costs (Bank's employees and members of the Bank's board of directors holding executive managerial positions) are included in administrative costs and include also remuneration of members of the board of directors, the supervisory board and the audit committee).

The Bank makes contributions on behalf of its employees to a supplementary pension insurance plan and life insurance plan. These contributions paid by the Bank are expensed directly.

Regular contributions are made to the state to fund the national pension plan.

The Bank creates a social fund to finance the employees' social needs and employee benefits. Pursuant to the Czech accounting regulations the allocation to the social fund is not recognised in the income statement, but as a profit distribution. Similarly, the usage of the social fund is not recognised in the income statement, but as a decrease of the fund.

t) Related parties

Related parties are defined in accordance with S. 19 (1) of the **Act on Banks**, as amended, as follows:

a) members of the Bank's statutory body;

b) members of the board of directors and the supervisory board, and members of the committee for audit, risks, remuneration and appointments;

c) persons controlling the Bank (see note 15), persons holding qualified interests in these persons, and members of the management of these persons;

d) persons close to members of the Bank's statutory body, members of the board of directors and the supervisory board of the Bank, members of the committee for audit, risks, remuneration and appointments, and persons having control over the Bank;

e) legal entities where any of the persons and entities under points a), b) and c) has a "qualified interest";

f) persons holding a qualified interest in the Bank and any persons under their control;

g) members of the Bank Board of the Czech National Bank;

h) persons under the control of the Bank.

u) Subsequent events

The effects of events which occurred between the balance sheet date and the date of preparation of the financial statement are reflected in the financial accounts in the case that these events provide further evidence of conditions existing at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to preparation of the financial statements that are indicative of conditions which arose subsequent to the balance sheet date, the effects of these events are disclosed in the Notes to the Financial Statement, but are not reflected in the financial accounts.

v) Regulatory requirements

The Bank must comply with the regulatory requirements of the Czech National Bank and the EU. These requirements include the limits and other restrictions regarding the banks' capital situation, classification of loans and off-balance sheet liabilities, creation of allowances and provisions for the credit risk related to bank clients, and for the liquidity and currency position of the Bank.

x) Support to small and medium-sized enterprises

The state provides, via the Bank, support to small and medium-sized enterprises. The support has the following forms:

Preferential guarantees for SMEs

To provide preferential guarantees, the Bank creates guarantee funds in the form of separated blocks of accounts on which it keeps the means contributed by the originators of the support programmes. One guarantee fund can be used for multiple support programmes. From these funds, enterprises receive contributions for the purpose of paying part of the guarantee price (commission) which are called "guarantee price contributions" (see note 2 o above), and, in case of some guarantees, they receive also a contribution for the loan subject to the guarantee.

In case of guarantees under the GUARANTEE 2015–2023 Programme, the client does not participate in paying the price for the provision of the bank guarantee. The guarantee is paid fully from the means of the Ministry of Industry and Trade.

In case of guarantees under the EXPANSION Programme, the Bank receives a fee for the administration of the E2018 guarantee fund. The amount and structure of the fee is in compliance with Regulation (EU) No. 1303/2013 and is specified in the agreement made with the managing authority.

The means within the guarantee funds, maintained risk coverage accounts which form part of the guarantee funds, are used to settle losses from performances provided under the guarantees. If recovery of receivables from the performances provided under the guarantees is unsuccessful, these means are used for the settlement of these receivables. Losses from performances provided under the guarantees which exceed the amount of the means on the relevant risk coverage account are settled by the Bank. Unless the means are used for the purpose of settlement of the Bank's final losses from individual programmes, they are refunded to the programme originators, either on an ongoing basis or upon the settlement of the guarantee fund. The balances on the risk coverage accounts and other guarantee fund accounts are recognised as part of Liabilities to state institutions.

Preferential guarantees co-funded from the Bank's own resources have been provided with the consent of the shareholders since 2012.

Preferential loans

The Bank provides preferential loans for rates below the market level and for their refinancing, the Bank uses differently structured combinations of public funds and funds obtained from international financial institutions or on the financial market. For loans for which structural funds are not used and for loans under the PORGRESS Programme obtained based on applications submitted by the end of 2006 and for preferential regional loans from the funds of the South Bohemian Region, public funds represent a source for partial or full settlement of the losses from the provided loans and settlement of such part of the Bank's expenses and reasonable income which are not reflected in the interest rate level. The Bank agreed with programme sponsors on the following loan programmes: in 2017 - Expansion, Energy Savings and ENERG with the Ministry of Industry and Trade; in 2018 - INFIN with the Capital City of Prague; in 2019 - S-ENTERPRISE with the Ministry of Labour and Social Affairs. These loans are provided in the form of co-financing of investment loans with a zero interest rate and, potentially, with an interest rate subsidy for the co-financed commercial loan.

The source used for loans provided since 2004 with the use of structural funds are the means from the loan funds which are held on separate account blocks to which money is contributed by individual programme sponsors and where also the Bank transfers money obtained from international financial institutions or on the financial market. Interest from the provided loans is transferred to relevant loan funds. For activities related to the administration of the loan funds and individual loans, the Bank receives remuneration (commission) in an amount and structure agreed on with the programme managing authority.

Differently to guarantees, no risk coverage fund is established for the loan transactions and, therefore, permissible loss percentages are stipulated in the agreements with originators. Losses beyond the determined limit are paid by the Bank. Permissible losses are accounted for off-balance sheet and reported in Commitments and guarantees received.

Preferential guarantees

These guarantees were provided by the Bank in its own name. Following the provision of a guarantee, the means from the State Housig Development Fund were transferred to risk coverage accounts from which losses from the performances provided under the guarantees are settled. If recovery of receivables from the performances provided under the guarantees is unsuccessful, these means are used for the settlement of these receivables. Losses from performances provided under the guarantees which exceed the amount of the means on the relevant risk coverage account are settled by the Bank. Unless the means are used for the intended purpose (the receivables are repaid in full, the guarantees expire or the guarantee receivables are repaid completely), the means are refunded to the State Housig Development Fund, either on an ongoing basis (for portfolio guarantees) or upon the settlement of the guarantee fund. In 2013, the balances on the risk coverage accounts were transferred to the Czech National Bank, the only permitted use being the original purpose. The balances are recorded by the Bank on off-balance sheet accounts. For the administration of the provided guarantees, the Bank receives a fee from the State Housig Development Fund. Provision of new guarantees was terminated upon decision of the programme originator in 2012.

Interest rate subsidies

As a mandatary, the Bank on behalf and on the account of the State Housig Development Fund entered into agreements with apartment building owners on gradual payment of interest rate subsidies, for a period of up to 15 years. These subsidies have been paid out by the Bank from the means of the State Housig Development Fund. The bank receives from the State Housig Development Fund a fee for the services of a mandatary and a fee for payment services and related bank services. Provision of new subsidies was terminated upon the decision of the programme originator in 2011.

z) Loans provided to municipalities

The Bank provides loans to municipalities from means which were obtained under special programmes from international financial institutions and contributed by the Czech Republic to the Regional Development Fund's programme and supplemented with funds obtained by the Bank on the financial market.

aa) Bank's Involvement on the Central Europe Fund of Funds

Based on Government Resolution No. 1164/2016, which approved the Czech Republic's participation in the Central Europe Fund of Funds (SFF) managed by the European Investment Fund (EIF) through the Bank, agreements with the EIF and the Ministry of Industry and Trade were signed by the Bank in December 2017. (MIT), fulfilling this fact. From the overall framework of the Czech Republic's commitment to the Fund at the level of CZK 240 million, in 2018 there was a subsidy amounting to CZK 13.4 million provided by the Ministry of Industry and Trade in the first quarter, and CZK 4.1 million in the third quarter of 2019. Investments into CEFoF reached the level of CZK 15.8 million in 2018. **In 2019, the Bank received a subsidy from the MIT amounting to CZK 8.6 million in the second quarter of the year. Investments into CEFoF amounted to CZK 24 million in 2019**. Further drawings will be performed continuously based on demand from CEFoF.

bb) Impact of changes in accounting methods

As of 1 January 2019, the Bank adopted a new accounting standard issued in January 2016 - IFRS 16 Leases. IFRS 16 replaced IAS 17 Leases, previous versions of the standard and its related interpretations, and introduced significant changes in the accounting for leases. In its initial application, the Bank used a modified retrospective approach without impact on previous periods.

The main changes in the Bank's accounting methods due to the transition to IFRS 16 are described below.

<u>Leasing from the perspective of the lessee</u>

As a lessee, the Bank no longer distinguishes between operating and finance leases based on the transfer of all significant risks and rewards of ownership of the asset to the lessee. In accordance with IFRS 16, the Bank assesses whether the contract contains a lease based on the definition of a lease, see the Accounting Methods section. If the Bank determines that the agreement meets the parameters of the lease, it reports the Right of use and the Lease Liability in its financial position.

The Bank has decided to use an exemption from the standard for leases of premises and cars for which the lease period is 1 year or less and not to report the Right of use and Lease Liability in these cases. The same principle has been applied to printers and copiers based on the low value of the asset.

<u>Leases classified as operating leases in accordance with IAS 17</u>

At the date of transition, the Bank recognized Lease payables at the present value of the remaining lease payments, which are discounted at the incremental interest rate set by the Bank as the average rate for discounting the entire portfolio of assets included in the implementation of IFRS 16. This interest rate corresponds to FTP (Fund transfer price) for the length of the period determined as a weighted average of the length of leases of all assets in the portfolio, where the monthly lease payment represents the weight.

The value of the Right of Use is determined in the value of the Lease Liability, while taking into account deferred costs which were reported in the Bank's financial position in connection with the lease as at 31 December 2018. The bank has applied this procedure for all assets.

Where the lease included an extension option, the Bank assessed its use on the basis of available information for each lease individually and, if its use was not more than sure, the Bank did not include it in the lease period. The same procedure has been applied in case of notice periods.

In 2018, the Bank did not have any leases classified according to IAS 17 as the financial lease.

<u>Leasing from the Lessor point of view</u>

Following the transition to IFRS 16, there was no change in the Bank regarding the reporting of leases from the lessor point of view. When a principal lessor subsequently leases an asset to another lessee (subleasing), IFRS 16 requires assessing whether it is a finance lease or an operating lease. In all cases, the Bank assessed that it would account for the lease as an operating lease and report income in the item "Other operating income".

<u>Impact on the Bank</u>

As at the date of the transition, the Bank recognized the Right of Use in the amount of CZK 17 million and the Lease Liability in the amount of CZK 17 million, and reduced the related Deferred Expenses by CZK 0 million.

To determine the level of lease liability, the Bank used an incremental interest rate of 1.8–2.0 %.

in CZK mil.	
Operating lease liability as at 31 December 2018	17
Discounted lease liability at incremental rate as at 1 January 2019	17
Exceptions to the standard:	0
Lease liability as at 1 January 2019	17

3. Cash and balances with central banks

Cash and balances with central banks by instrument types

in CZK mil.	31 December 2019	31 December 2018
Cash in hand	4	3
Obligatory minimum reserves	17	68
Net book value	**21**	**71**

Obligatory minimum reserves represent mandatory deposits with the Czech National Bank. They bear interest at the repo rate for the Czech koruna which was 2.00 % p.a. as at 31 December 2019 (1.75 % p.a. as at 31 December 2018).

Balances with central banks – loss allowance

in CZK mil.	31 December 2019	31 December 2018
Gross amount	17	68
Loss allowance	0	0
Total	**17**	**68**

As at 31 December 2019 and 20188, balances with central banks are neither credit-impaired nor a significant increase in credit risk has been identified with them. Loss allowances were calculated based on a 12-month expected credit loss.

4. Government zero-coupon bonds and other securities accepted by the central bank for refinancing

Government zero - coupon bonds and other securities accepted by the central bank for refinancing by instrument types

in CZK mil.	31 December 2019	31 December 2018
Government bonds	15 499	16 886
Net book value	**15 499**	**16 886**

In the monitored periods, the Bank was not holding securities with contractual maturity up to 1 year. The total value of government bonds and other securities accepted by the central bank for refinancing is comprised only of securities issued by related parties, i.e. the Czech government, as at 31 December 2019 and 2018.

Classification of Government zero-coupon bonds and other securities accepted by the central bank for refinancing by measured categories

in CZK mil.	31 December 2019	31 December 2018
At accrued value (AC)	5 592	6 132
Measured at fair value through equity (FVOCI)	9 907	10 754
Net book value	**15 499**	**16 886**

Government zero - coupon bonds and other securities accepted by the central bank for refinancing – loss allowance

in CZK mil.	31 December 2019	31 December 2018
Gross amount	15 501	16 888
Loss allowance	–2	–2
Total	**15 499**	**16 886**

As at 31 December 2019 and 2018, the government zero - coupon bonds and other securities accepted by the CNB for refinancing are neither credit-impaired nor a significant increase in credit risk has been identified with them. Loss allowances were calculated based on a 12-month expected credit loss.

Government zero-coupon bonds and other securities accepted by the central bank for refinancing in FVOCI

Government zero - coupon bonds and other securities accepted by the central bank for refinancing at FVOCI are recognised at fair value in the balance sheet. Their book value is not reduced by the loss allowance of CZK 4 million as at 31 December 2019 (CZK 5 million as at 31 December 2018), for which the Bank reduced valuation difference in its equity.

5. Receivables from banks

Receivables from banks by types

in CZK mil.	31 December 2019	31 December 2018
Current accounts with banks	7	5
Receivables from reverse REPO operations with the CNB	1 100	600
Term deposits with banks	0	3
Other receivables from banks	26	53
Net book value	**1 133**	**661**

As at 31 December 2019 and 2018, no receivables from related parties were recorded.

Classification of receivables from banks by measured categories

All receivables from banks as at 31 December 2019 and 31 December 2018 are valued in accrued value in accordance with IFRS 9.

Receivables from banks by types – loss allowance

in CZK mil.	31 December 2019	31 December 2018
Gross amount	1 133	661
Loss allowance	0	0
Total	**1 133**	**661**

As at 31 December 2019 and 2018, receivables from banks are neither credit-impaired nor a significant increase in credit risk has been identified with them. Loss allowances were calculated based on a 12-month expected credit loss.

6. Receivables from customers

Receivables from customers by types

in CZK mil.	31 December 2019	31 December 2018
Receivables from loans	5 093	4 083
Credit impaired financial assets (POCI)*	611	350
Gross value of receivables from customers	5 704	4 433
Provision for expected losses (Note 11)	–263	–321
Net value of receivables from customers	**5 441**	**4 112**

Of the total amount of receivables from customers, receivables from related parties amount to CZK 923 million as at 31 December 2019 (CZK 1 627 million as at 31 December 2018).

* performance under guarantees

Receivables from customers by measured categories

in CZK mil.	31 December 2019	31 December 2018
Receivables from customers measured at amortised cost	5 423	4 081
Receivables from customers measured at FVTPL	18	31
Net value of receivables from customers	**5 441**	**4 112**

Receivables from customers by credit risk rating levels

as at 31 December 2019 in CZK mil.	Stage 1	Stage 2	Stage 3		
	12-months expected credit losses	Expected credit losses for financial assets lifetime, not credit-impaired	Expected credit losses for financial assets lifetime, credit-impaired	Purchased or provided credit-impaired financial assets	Total
Rating level					
Loan rating 1–6 (incl. X7)	4 435	0	0	0	4 435
Loan rating 7 (incl. X8)	2	244	0	0	246
Loan rating 8–10 (incl. X9)	0	0	412	611	1 023
Gross value of receivables from customers	4 437	244	412	611	5 704
Loss allowances	–80	–88	–95	0	–263
Net value of receivables from customers	**4 357**	**156**	**317**	**611**	**5 441**

as at 31 December 2018 in CZK mil.	Stage 1	Stage 2	Stage 3		
	12-months expected credit losses	Expected credit losses for financial assets lifetime, not credit-impaired	Expected credit losses for financial assets lifetime, credit-impaired	Purchased or provided credit-impaired financial assets	Total
Rating level					
Loan rating 1–6 (incl. X7)	3 485	0	0	0	3 485
Loan rating 7 (incl. X8)	0	152	0	0	152
Loan rating 8–10 (incl. X9)	0	0	446	350	796
Gross value of receivables from customers	3 485	152	446	350	4 433
Loss allowances	–51	–65	–205	0	–321
Net value of receivables from customers	**3 434**	**87**	**241**	**350**	**4 112**

The amounts of loss allowances for receivables from customers are described in the Note 11.

Consortium loans

Consortium loans represent the value of CZK 266 million in the receivables from customers as at 31 December 2019 (CZK 306 million as at December 2018).

Analysis of receivables from customers by types of collateral

The table shows the value of collateral received, up to the value of the loan. The unsecured part of the loans is then reported under Uncollateralized.

in CZK mil.	31 December 2019	31 December 2018
Bank guarantees and collateral by reliable guarantors	981	832
Cash collateral	2	3
Real estate collateral	233	200
Other loan collateral	161	79
Uncollateralized	4 327	3 319
Gross value of receivables	**5 704**	**4 433**

Loans granted to the government institutions

Loans granted to the government institutions are mostly the loans granted to the Ministry of Finance of the Czech Republic in relation to infrastructure programmes. These programmes aim at construction of the motorway network, repairs of international roads, removal of flood damage and water management sector investments. Funding for these programmes was provided by the European Investment Bank.

Currency structure of receivables and payables from infrastructure programmes:

	31 December 2019		31 December 2018	
in CZK mil.	Assets	Liabilities[1)]	Assets	Liabilities[1)]
CZK – loan principal	107	107	526	526
CZK – accrued interest	0	0	1	1
EUR – loan principal	807	807	1 089	1 089
EUR – accrued interest	9	9	11	11
Gross value of receivables	**923**	**923**	**1 627**	**1 627**

Receivables from customers – breakdown by sectors

in CZK mil.	31 December 2019	31 December 2018
Government institutions	1 152	1 933
Non-financial entities	4 287	2 328
Households (incl. Associations of residential units owners)	265	172
Gross value of receivables from customers	**5 704**	**4 433**

[1)] Liabilities show loans received from the European Investment Bank, and thus compare currency structure of funding from infrastructure programmes.

Receivables from customers by business activities (CZ-NACE)

in CZK mil.	31 December 2019	31 December 2018
Administrative and support service activities	55	24
Activities of households as employers	1	2
Real Estate Activities	124	75
Transportation and Storage	174	53
Information and Communication	33	20
Arts, Entertainment and Recreation	51	53
Other activities	12	6
Financial and Insurance Activities	13	0
Professional, Scientific and Technical Activities	189	104
Construction	350	118
Mining and Quarrying	3	2
Accommodation and Food Service Activities	147	104
Wholesale and Retail Trade	1 054	468
Public Administration and Defence	1 151	1 942
Electricity, Gas and Heat Supply	288	340
Education	3	0
Water Supply	62	32
Human Health and Social Work Activities	39	11
Agriculture, Forestry and Fishing	112	60
Manufacturing	1 843	1 019
Gross value of receivables from customers	**5 704**	**4 433**

Receivables from customers by programmes

in CZK mil.	31 December 2019	31 December 2018
Loans provided to government institutions	923	1 627
Loans for water management and municipal infrastructure	226	344
Other loans to small and medium-sized enterprises	3 897	2 061
Loans to small businesses and star-ups	38	41
Receivables from guarantees	611	350
Other receivables	9	10
Gross value of receivables from customers	**5 704**	**4 433**

7. Securities

Debt securities by types

in CZK mil.	31 December 2019	31 December 2018
Bonds issued by government institutions	608	625
Bonds issued by credit institutions	607	1 034
Bonds issued by other financial institutions	97	177
Bonds issued by non-financial entities	308	309
Net book value	**1 620**	**2 145**

As at 31 December 2019, securities issued by related parties comprise CZK 78 million of total value of securities (CZK 78 million as at 31 December 2018). No securities were issued by the state.

Debt securities by measured categories

in CZK mil.	31 December 2019	31 December 2018
Debt securities measured at fair value through equity (FVOCI)	1 462	1 977
Debt securities determined at fair value through profit or loss (FVTPL)	158	168
Net book value	**1 620**	**2 145**

Debt securities held by the Bank are tradable on stock exchanges.

Debt securities at FVOCI

31 December 2019 in CZK mil.	Stage 1 12-months expected credit losses	Stage 2 Expected credit losses for financial assets lifetime, not credit-impaired	Stage 3 Expected credit losses for financial assets lifetime, credit-impaired	Total
Book value of debt securities	**1 620**	**0**	**0**	**1 620**

31 December 2018 in CZK mil.	Stage 1 12-months expected credit losses	Stage 2 Expected credit losses for financial assets lifetime, not credit-impaired	Stage 3 Expected credit losses for financial assets lifetime, credit-impaired	Total
Book value of debt securities	**1 977**	**0**	**0**	**1 977**

Debt securities at FVOCI are recognised at fair value in the balance sheet. Their book value is not reduced by the loss allowance of CZK 4 million as at 31 December 2019 (CZK 5 million as at 31 December 2018) determined by the Bank. This is a part of valuation difference in Bank's equity.

8. Shares, participation certificates and other ownership interests in companies with decisive and significant influence (subsidiaries and associates)

Shares, participation certificates and other ownership interests

Shares, participation certificates and other ownership interests by types

in CZK mil.	31 December 2019	31 December 2018
Shares issued by financial institutions	34	33
Net book value	**34**	**33**

Shares, participation certificates and other ownership interests by measured categories

in CZK mil.	31 December 2019	31 December 2018
Shares measured at fair value through equity (FVOCI)	34	33
Net book value	**34**	**33**

In 2017, the Bank acquired 3 shares of the European Investment Fund in the total nominal value of EUR 3 000 000 from the European Investment Bank, and thus has become a minority shareholder of EIF together with other development banks. The purchase price for the shares was EUR 1 280 858.04.

Ownership interests in companies with controlling influence

In 2019, the Bank formed its subsidiary CMZRB investiční, a.s. having its registered office at Na Florenci 1496/5, 110 00 Praha 1, where the Bank holds 100% share. The company's goal is to meet the strategic goals CMZRB as a national development bank in terms of capital investments under the programmes of the Ministry of Industry and Trade for small and medium-sized enterprises.

The value of this participation was at 31 December 2019 as follows:

Year	Net book value in CZK mil.	Purchase price in CZK mil.	Nominal value in CZK mil.	Share capital in CZK mil.	Other items of equity in CZK mil.	Direct share in share capital and voting rights in %
2019	**4**	**2**	**2**	**2**	**2**	**100**

Summary financial information about CMZRB investiční, a.s.

	Financial information of the associate			
in CZK mil.	Equity	Total assets	Revenues	Financial result
As at 31 December 2019 and for 2019	**3**	**3**	**0**	**–1**

Ownership interests with significant influence

The Bank has one associate – MUFIS a.s. (hereinafter „MUFIS“) having its registered office at Jeruzalémská 964/4, 110 00 Praha 1. The Ministry of Finance of the Czech Republic holds 49 % and the Association of Czech Municipalities holds 2 %.

The value of this participation was at 31 December 2019 as follows:

Year	Net book value in CZK mil.	Purchase price in CZK mil.	Nominal value in CZK mil.	Share capital in CZK mil.	Direct share in share capital and voting rights in %
2019	1	1	1	2	49
2018	1	1	1	2	49

Summary financial information about MUFIS a.s.

	Financial information of the associate			
in CZK mil.	Equity	Total assets	Revenues	Financial results
As at 31 December 2019 and for 2019	5	5	0	0
As at 31 December 2018 and for 2018	24	24	0	–1

In terms of share, the Bank is the controlling entity together with the Ministry of Finance of the Czech Republic. For Bank, MUFIS is an associate that does not meet the characteristics of a jointly managed enterprise, since the Bank is not involved in the management of the associated company MUFIS.

In 2019 MUFIS a.s. paid out a dividend to the Bank in the amount of CZK 9 million. This dividend is reflected in the Income Statement under Income from shares and Ownership interests. At present, the company’s business is limited.

9. Tangible fixed assets

In CZK mil.	Land and works of art	Structures	Equipment and facilities	Investments in progress and advances provided	Total
As at 1 January 2018					
Purchase price	11	313	81	3	408
Accumulated depreciation	0	–216	–74	0	–290
Amortised costs	**11**	**97**	**7**	**3**	**118**
Year ending on 31 December 2018					
Initial amortised costs	11	97	7	3	118
Acquisition	0	11	3	13	27
Disposal at amortised cost	0	0	0	–13	–13
Accumulated depreciation increase	0	–8	–4	0	–12
Final amortised costs	**11**	**100**	**6**	**3**	**120**
As at 31 December 2018					
Purchase price	11	324	78	3	416
Accumulated depreciations	0	–224	–72	0	–296
Amortised costs	**11**	**100**	**6**	**3**	**120**

In CZK mil.	Land and works of art	Structures	Equipment and facilities	Investments in progress and advances provided	Total
Year ending on 31 December					
Initial amortised costs	11	100	6	3	120
Acquisition	0	12	8	22	42
Disposal at amortised costs	0	0	0	–21	–21
Accumulated depreciation increase	0	–8	–3	0	–11
Final amortised costs	**11**	**104**	**11**	**4**	**130**
As at 31 December 2019					
Purchase price	11	336	85	4	436
Accumulated depreciations	0	–232	–74	0	–306
Amortised costs	**11**	**104**	**11**	**4**	**130**

Tangible fixed assets acquired in leasing – from 1 January 2019 in accordance with IFRS 16

in CZK mil.	Land and structures	Vehicles	Other	Total
Purchase price				
As at 1 January 2019	17	0	0	17
Additions	0	0	0	0
Other changes	0	0	0	0
Decreases	0	0	0	0
As at 31 December 2019	**17**	**0**	**0**	**17**
As at 1 January 2019	0	0	0	0
Annual depreciations	–6	0	0	–6
Decreases	0	0	0	0
Loss allowances	0	0	0	0
As at 31 December 2019				
Amortised costs				
As at 1 January 2019	**17**	**0**	**0**	**17**
As at 31 December 2019	**11**	**0**	**0**	**11**

10. Other assets, deferred expenses and income

in CZK mil.	31 December 2019	31 December 2018
Positive fair value of financial derivatives (Note 24 c)	5	14
Other receivables	39	30
Gross value of other assets	44	44
Loss allowances (Note 11)	–11	–11
Total	**33**	**33**

Deferred expenses and income

in CZK mil.	31 December 2019	31 December 2018
Deferred expenses	5	4
Deferred income	30	25
Gross value	35	29
Loss allowances (Note 11)	0	0
Total	**35**	**29**

Of the total value of deferred income, deferred income from related parties amounts to CZK 30 million as at 31 December 2019 (CZK 25 million as at 31 December 2018).

11. Allowances, provisions and depreciation of assets

The Bank reported the following allowances and provisions:

in CZK mil.	31 December 2019	31 December 2018
Provisions		
Provisions for guarantees (Note 16)	3 544	3 301
Provisions for loan commitments (Note 16)	18	16
Provisions for credit lines (Note 16)	1	1
Other provisions	20	20
Total	**3 583**	**3 338**
Allowances		
Receivables from central banks (Note 3)	0	0
Receivables from other banks (Note 5)	0	0
Receivables from customers (Note 6)	263	321
Securities in accrued value (Note 4)	2	2
Other assets and deferred expenses and income (Note 10)	11	11
Total	**276**	**334**

Changes in other provisions:

in CZK mil.	Provision for corporate income tax	Provision Crisis Resolution Fund	Provision Deposit Insurance Fund	Other provisions	Other allowances Total
As at 1 January 2018	**0**	**30**	**0**	**2**	**32**
Net creation/release	60	10	1	–2	67
Utilisation	–60	–20	–1	0	–79
As at 31 December 2018	**0**	**20**	**0**	**0**	**20**
Net creation/release	66	14	1	0	81
Utilisation	–66	–14	–1	0	–81
As at 31 December2019	**0**	**20**	**0**	**0**	**20**

Other allowances include the following items:

- provision for corporate income tax as at 31 December 2019: CZK 67 million (as at 31 December 2018: CZK 59 million), release of provision for corporate income tax as at 31 December 2019: 1 million (as at 31 December 2018: CZK 2 million) and utilisation of the provision for actual tax liability as at 31 December 2019 amounting to CZK 66 million (as at 31 December 2018: CZK 57 million). Income tax liability is reported including tax advances reported also in other liabilities at the level of CZK 15 million (as at 31 December 2018: CZK 18 million);
- creation of provision for contribution to Crisis Resolution Fund amounting to CZK 20 million (as at 31 December 2018: CZK 21 million). Simultaneously to payment to the crisis Resolution Fund, there was the provision amounting to CZK 14 million used (in 2018: CZK 20 million), remaining part of the provision amounting to CZK 6 million (as at 31 December 2018: CZK 11 million) was released as no longer considered necessary. The provision amounting to CZK 20 million will be used for contribution payment in 2020 depending on the actual contribution level determined by the CNB.

Reconciliation of opening and closing reserve balances

Guarantees provided

in CZK mil.	12-month ECL (level 1)	Lifetime ECL for financial assets which are not credit-impaired (level 2)	Lifetime ECL for financial assets which are credit-impaired (level 13)	Total
Balance as at 1 January 2018	**2 506**	**270**	**415**	**3 191**
Transfer to 12-month ECL (level 1)	–130	59	71	**0**
Transfer to lifetime ECL for financial assets not credit-impaired (level 2)	6	–18	12	**0**
Transfer to lifetime ECL for financial assets credit-impaired (level 3)	3	41	–44	**0**
New financial assets originated or purchased	691	0	0	**691**
Financial assets that have been derecognised	–428	–10	–154	**–592**
Write-offs	0	0	–1	**–1**
Revaluation and changes in models/ risk parameters	120	–129	21	**12**
Foreign exchange and other movements	0	0	0	**0**
Balance as at 31 December 2018	**2 768**	**213**	**320**	**3 301**

in CZK mil.	12-month ECL (level 1)	Lifetime ECL for financial assets which are not credit-impaired (level 2)	Lifetime ECL for financial assets which are credit-impaired (level 13)	Total
Transfer to 12-month ECL (level 1)	–81	35	46	**0**
Transfer to lifetime ECL for financial assets not credit-impaired (level 2)	2	–16	14	**0**
Transfer to lifetime ECL for financial assets credit-impaired (level 3)	0	11	–11	**0**
New financial assets originated or purchased	1 005	0	0	**1 005**
Financial assets that have been derecognised	–653	–7	–97	**–757**
Write-offs	0	0	0	**0**
Revaluation and changes in models/risk parameters	236	–148	–93	**–5**
Foreign exchange and other movements	0	0	0	**0**
Balance as at 31 December 2019	**3 277**	**88**	**179**	**3 544**

Credit commitments and credit lines

in CZK mil.	12-month ECL (level 1)	Lifetime ECL for financial assets which are not credit-impaired (level 2)	Lifetime ECL for financial assets which are credit-impaired (level 13)	Total
Balance as at 1 January 2018	**5**	**0**	**0**	**5**
New financial assets originated or purchased	14	0	0	**14**
Financial assets that have been derecognised	–4	0	0	**–4**
Revaluation and changes in models/risk parameters	2	0	0	**2**
Balance as at 31 December 2018	**17**	**0**	**0**	**17**
Transfer to lifetime ECL for financial assets not credit-impaired (level 2)	–1	1	0	**0**
New financial assets originated or purchased	15	0	0	**15**
Financial assets that have been derecognised	–15	–15	–1	**–31**
Revaluation and changes in models/risk parameters	2	15	1	**18**
Balance as at 31 December 2019	**18**	**1**	**0**	**19**

Reconciliation of opening and closing allowance and provision balances

Receivables from customers

in CZK mil.	12-month ECL (level 1)	Lifetime ECL for financial assets which are not credit-impaired (level 2)	Lifetime ECL for financial assets which are credit-impaired (level 3) + POCI	Total
Balance as at 1 January 2018	**72**	**95**	**244**	**411**
Transfer to 12-month ECL (level 1)	23	–13	–10	0
Transfer to lifetime ECL for financial assets not credit-impaired (level 2)	–1	7	–6	0
Transfer to lifetime ECL for financial assets credit-impaired (level 3)	0	–1	1	0
New financial assets originated or purchased	15	0	0	15
Financial assets that have been derecognised	–4	–4	–9	–17
Write-offs	0	0	–266	–266
Recoveries of amounts previously written off	0	0	3	3
Revaluation and changes in models/risk parameters	–55	–18	250	177
Foreign exchange and other movements	0	0	–2	–2
Balance as at 31 December 2018	**50**	**66**	**205**	**321**
Transfer to 12-month ECL (level 1)	92	–56	–36	0
Transfer to lifetime ECL for financial assets not credit-impaired (level 2)	0	4	–4	0
Transfer to lifetime ECL for financial assets credit-impaired (level 3)	0	0	0	0
New financial assets originated or purchased	39	0	0	39
Financial assets that have been derecognised	–1	0	–3	–4
Write-offs	0	0	–256	–256
Recoveries of amounts previously written off	0	0	1	1
Revaluation and changes in models/risk parameters	–100	74	189	163
Foreign exchange and other movements	0	0	–1	–1
Balance as at 31 December 2019	**80**	**88**	**95**	**263**

Undiscounted expected credit losses for the first time recognized POCI

Overview of undiscounted credit losses (ECL) in initial recognition of purchased or provided credit impaired financial assets (POCI) recognized for the first time in the reporting period:

in CZK mil.	2019	2018
Receivables from customers	58	214
Total	**58**	**214**

Securities

in CZK mil.	12-month ECL (level 1)	Lifetime ECL for financial assets which are not credit-impaired (level 2)	Lifetime ECL for financial assets which are credit-impaired (level 13)	Total
Balance as at 1 January 2018	**11**	**0**	**0**	**11**
New financial assets originated or purchased	1	0	0	1
Revaluation and changes in models/risk parameters	–10	0	0	–10
Balance as at 31 December 2018	**2**	**0**	**0**	**2**
New financial assets originated or purchased	0	0	0	0
Revaluation and changes in models/risk parameters	0	0	0	0
Balance as at 31 December 2019	**2**	**0**	**0**	**2**

Other financial assets

in CZK mil.	12-month ECL (level 1)	Lifetime ECL for financial assets which are not credit-impaired (level 2)	Lifetime ECL for financial assets which are credit-impaired (level 13)	Total
Balance as at 1 January 2018	**1**	**0**	**9**	**10**
Transfer to 12-month ECL (level 1)	–1	0	1	0
New financial assets originated or purchased	49	0	0	49
Financial assets that have been derecognised	–49	0	0	–49
Write-offs	0	0	–1	–1
Revaluation and changes in models/risk parameters	0	0	2	2
Balance as at 31 December 2018	**0**	**0**	**11**	**11**
Transfer to 12-month ECL (level 1)	0	0	0	0
New financial assets originated or purchased	22	0	0	22
Financial assets that have been derecognised	–22	0	–1	–23
Write-offs	0	0	–1	–1
Revaluation and changes in models/risk parameters	0	0	2	2
Balance as at 31 December 2019	**0**	**0**	**11**	**11**

Overview of the status of provisions

in CZK mil. Bank's rating level	31 December 2019 Degree of impairment IFRS 9	Receivables from customers	Securities	Other financial assets	Total
Credit level 1 – 6 (incl. X7)	stupeň 1	80	2	0	82
Credit level 7 (incl. X8)	stupeň 2	88	0	0	88
Credit level 8 – 10 (incl. X9) and credit-impaired financial assets	stupeň 3	95	0	11	106
Total		**263**	**2**	**11**	**276**

	31 December 2018				
Credit level 1 – 6 (incl. X7)	stupeň 1	50	2	0	52
Credit level 7 (incl. X8)		66	0	0	66
Credit level 8 – 10 (incl. X9) and credit-impaired financial assets	stupeň 3	205	0	11	216
Total		**321**	**2**	**11**	**334**

Written-off receivables, recoveries of amounts previously written-off and loss on transfer of receivables

in CZK mil.	2019	2018
Loss on transfer of receivables	0	4
Receivables from customers written-off	0	0
Recoveries of amounts previously written off	1	3

Bad debts are written-off against loss allowances or directly in expenses in cases when the Bank's management believes that their recovery is unrealistic.

Written-off amounts include unpaid loan principal including balance sheet accessories.

12. Liabilities to banks

in CZK mil.	31 December 2019	31 December 2018
Loans received from development banks*	1 410	2 318
Total	**1 410**	**2 318**

* Development banks mean: European Investment Bank (EIB), Kreditanstalt für Wiederaufbau (KfW), Nordic Investment Bank (NIB) and the Council of Europe Development Bank (CEB).

As at 31 December 2019 and 2018 no liabilities to related entities were recognized.

13. Liabilities to clients

in CZK mil.	31 December 2019	31 December 2018
Liabilities to government institutions	10 812	8 598
Liabilities to other financial institutions	2 875	4 241
Liabilities to non-financial entities	43	46
Liabilities to households (incl. Associations of residential units owners)	6	241
Total	**13 736**	**13 126**

Of the total amount of liabilities to customers, liabilities to related parties represent CZK 10 979 million as at 31 December 2019 (as at 31 December 2018: CZK 9 436 million). The Bank's management believes that such deposits were accepted in principle under the same conditions and interest rates as comparable transactions with other customers made at the same time. In the opinion of the Bank's management, no other than the usual interest rate was used in these cases and these deposits do not show a different liquidity risk or other unfavourable factors.

The item "Liabilities to government institutions" includes funds in risk coverage accounts if they are created from funds provided by programme contracting authorities. Structure of such liabilities is:

in CZK mil.	31 December 2019	31 December 2018
Funds of contracting authorities from closed programmes support*	8 890	7 061
Risk coverage accounts for guarantees provided in the programmes Regional Guarantee, Panel, New Panel, Reconstruction and GUARANTEE (incl. Operational loans) and START OPPI, MARKET 2007**	2 626	2 212

* this includes: programmes EXPANSION–Loans and Energy Savings amounting to C ZK 2 194 million (as at 31 December 2018: CZK 1 866 million), ENERG programme CZK 111 million (as at 31 December 2018: CZK 130 million) and EXPANSION–Guarantee CZK 412 million (as at 31 December 2018: CZK 1 000 million)

** Risk coverage accounts for Panel and New Panel amounting to CZK 969 million (as at 31 December 2018: CZK 969 million) are reported in off-balance sheet (Note x).

14. Other liabilities, deferred income and expenses

in CZK mil.	31 December 2019	31 December 2018
Negative fair value of credit derivatives (Note 24 c)	2	11
Negative fair value of currency derivatives (Note 24 c)	29	40
Other special-purpose deposits and liabilities – the resulting credit balance	32	98
Tax liability	15	18
Deferred tax liability	15	6
Liabilities from leasing	12	0
Others	36	34
Total	**141**	**207**

As at 31 December 2019 and 2018, no liabilities to related entities were reported.

Other special-purpose deposits and liabilities – the resulting credit balance

in CZK mil.	31 December 2019	31 December 2018
Credits Housing (Bydlení) and Floods (Povodně)	1	38
Total receivables	**1**	**38**
Sources of coverage – programmes Housing (Bydlení) and Floods (Povodně)	33	136
Total payables	**33**	**136**
Other special-purpose deposits and liabilities – final balance	**32**	**98**

Liability is recognized in net value as the credits were provided on behalf of the source provider, not by the Bank.

Deferred income and expenses

in CZK mil.	31 December 2019	31 December 2018
Deferred income	140	219
incl.: accrued charges for administration of guarantees	129	204
Deferred expenses	44	36
Total	**184**	**255**

Of the total amount of deferred expense, the liabilities to related entities represent CZK 14 million as at 31 December 2019 (as at 31 December 2018 CZK 14 million).

Liabilities from leasing

in CZK mil.	31 December 2019	31 December 2018
Shorter than 1 year	5	5
More than 1 year, but 5 years as maximum	7	12
Over 5 years	0	0
Undiscounted liabilities from „Total“ lease	12	17
Leasing liabilities after discount	**12**	**17**
Shorter than 1 year	5	5
Over 1 year	7	12

15. Share capital and profit distribution

Share capital

	Nominal value per 1 share (CZK)	31 December 2019		31 December 2018	
		Number of shares (pieces)	Value (in CZK mil.)	Number of shares (pieces)	Value (in CZK mil.)
Paid share capital	239 500	10 988	2 632	10 988	2 632
Share capital Total			**2 632**		**2 632**

The shares are issued as registered stock in book-entry form. The Central Securities Depository registers shares of the Czech Republic in the property accounts of the Ministry of Industry and Trade, the Ministry of Regional Development and the Ministry of Finance.

Shares of Bank's shareholders in its share capital:

Shareholder/share in share capital	2019 %	2018 %
Czech Republic	100.00	100.00
Total	**100.00**	**100.00**
Registration of shares of the Czech Republic in the Central Securities Depository on asses accounts of ministries	**2019 %**	**2018 %**
Ministry of Industry and Trade of the Czech Republic	33.53	33.53
Ministry of Regional Development of the Czech Republic	33.53	33.53
Ministry of Finance of the Czech Republic	32.94	32.94
Total	**100.00**	**100.00**

Share in profit

In 2019 and 2018 the Bank did not pay out the share in profit.

Profit distribution

Net profit of 2018 was distributed and the profit of 2019 is proposed to be distributed as follows:

in CZK mil.	2019	2018
Contribution to social fund	13	9
Other funds formed from profit	0	0
Transfer to retained earnings	25	19
Net profit	**38**	**28**

Valuation differences

in CZK mil.	2019	2018
Initial level	**77**	**344**
Items, which will not be reclassified in the Profit and Loss account		
Change in valuation differences (equity instruments)		
Net change in fair value	0	1
Tax effect	0	0
Subtotal	**0**	**1**
Items, which are or may be reclassified in the Profit and Loss account		
Change in valuation differences (debt instruments)		
Net change in fair value	42	–294
Net (profit) or loss transferred to the Income Statement	6	0
Tax effect (Note 22)	–9	56
Subtotal	**39**	**–238**
Change in provisions for debt securities in FVOCI	**0**	**–30**
Net change in valuation differences	**39**	**–267**
Value of valuation differences	**116**	**77**

16. Contingent receivables and payables

Provided financial guarantees, loan commitments and credit lines

Loan commitments, credit lines and guarantees for loans to third parties expose the Bank to credit risk and loss in the event of non-compliance by the customer.

in CZK mil.	31 December 2019	31 December 2018
Financial guarantees provided	24 023	19 862
Loan commitments provided	731	691
Credit lines provided	500	500
Provision for off - balance sheet liabilities (Note 11)	–3 563	–3 318
Total net value	**21 691**	**17 735**

As at 31 December 2018, credit lines provided to related entities amounted to CZK 300 million (as at 31 December 2018: CZK 300 million) as indrawn credit limits.

The Bank's management believes that there are no liabilities arising from the performance of fiduciary duties as at 31 December 2019 or 2018.

Financial guarantees by sectors

in CZK mil.	31 December 2019	31 December 2018
Other financial institutions	9	2
Non-financial entities	21 291	17 090
Households	2 723	2 770
Gross value of financial guarantees	**24 023**	**19 862**

Loan commitments and credit lines by sectors

in CZK mil.	31 December 2019	31 December 2018
Government institutions	350	329
Other financial institutions	200	200
Non-financial entities	650	633
Households	30	29
Gross value of loan commitments and credit lines	**1 230**	**1 191**

Collaterals accepted and provided in REPO trades

in CZK mil.	31 December 2019	31 December 2018
Loans provided under reverse repo transactions	1 101	600
Collaterals accepted in fair value	1 077	588

The total value of accepted pledges and collaterals amounting to CZK 4 459 million as at 31 December 2019 (CZK 4 318 million as at 31 December 2018) includes also collaterals accepted to secure credit exposures amounting to CZK 3 382 million as at 31 December 2019 (CZK 3 730 million as at 31 December 2018).

As at 31 December 2019 and 2018, the Bank reports no collaterals received from related entities, and did not provide collaterals to related entities.

In conducting repo and reverse repo transactions under agreements on collateral exchange (securities lending and borrowing), the Bank uses bonds and other interest - bearing securities. Receivables from repo transactions are included in Receivables from banks and from customers (Note5). Payables from repo transactions are included in amounts due to banks and customers (Notes 12 and 13).

In the frame of such transactions, the Bank accepted securities issued by CNB and the Ministry of Finance of the Czech Republic. As part of the repo loans received, the Bank provided securities issued by CNB and the Ministry of Finance of the Czech Republic.

Property accounts of customers with the Central Securities Depository maintained by the bank

As a part of its services, the Bank maintains property accounts with the Central Securities Depository Banka for the Czech Export Bank and the Ministry of Regional Development. The value of assets held with the Central Securities Depository for the Czech Export Bank is CZK 2 524 million (in 2018: CZK 2 639 million), for the Ministry of Regional Development CZK 2 263 million (in 2018: CZK 2 263 million).

17. Net interest income

in CZK mil.	2019	2018
Interest on interbank transactions	181	86
Interest on loans to customers	61	82
Interest on loans to government institutions	62	82
Interest on bonds	365	318
Total interest income	**669**	**568**
Interest expense from short sales of debt securities	3	0
Interest on interbank transactions	99	90
Interest on deposits and loans from customers	40	28
Interest on deposits from government institutions	141	76
Total interest expense	**283**	**194**
Net interest income	**386**	**374**

Interest income and interest expense calculated on the basis of the effective interest rate method for the following items are in the following amounts:

in CZK mil.	2019	2018
Financial assets measured at amortized cost	415	375
Financial assets in FVOCI	245	183
Financial assets other than financial assets in FTVPL	**660**	**558**
Financial liabilities measured at amortized cost	**280**	**194**

In accordance with the applicable accounting procedures, only the actually paid penalty interest is transferred from the recorded penalty interest on non-performing loans to income. Recorded unpaid penalty interest amounting to CZK 471 million (CZK 459 million in 2018) were not accrued to income.

18. Income and expenses on fees and commissions

in CZK mil.	2019	2018
Fees and commissions from guarantees	228	223
Fees and commissions from lending activities	36	31
Fees and commissions from payment system	30	31
Fees and commissions from securities transactions*	0	0
Total income from fees and commissions	**294**	**285**
Fees and commissions on securities transactions	2	2
Total expenses on fees and commissions	**2**	**2**
Net income from fees and commissions	**292**	**283**

* Fees and commissions from securities transactions amounting to CZK 13 thousand in 2019 (in 2018: CZK 25 thousand) serve as the basis for the calculation of the contribution to the Securities Dealers' Guarantee Fund (refer to Note 20)

19. Net profit / (loss) from financial operations

in CZK mil.	2019	2018
Gains / (loss) from sale of securities	7	0
Gains / (loss) from revaluation of securities	–16	–6
Gains / (loss) from foreign currency operations	6	–3
Net change in the fair value of hedging derivatives	2	7
Gains / (loss) from derivatives held for trading	–17	–8
Gains / (loss) from FA compulsorily reported to Profit/Loss	9	–12
Net provisioning for FVOCI securities	1	30
Total	**–8**	**8**

Due to the high efficiency of hedging, the net change in the fair value of hedging derivatives is almost fully offset in the income statement in the line Gains / (loss) on foreign exchange operations (currency risk hedging) and in the lines Interest income and Interest expense (interest rate hedging).

in CZK mil.	2019	2018
Gains and losses on securities	–8	24
– debt securities at amortised cost	1	0
– debt securities FVOCI	7	30
– amounts reclassified from comprehensive income	6	0
– net provisioning	1	30
– change in fair value of trading securities	5	1
– change in fair value of securities charged to expenses or income	–8	–7
– short sales of securities	–13	0
Gains / losses on financial assets mandatory recognized at fair value	9	–12
Gains / losses on derivatives held for trading	–17	–8
Net change in the fair value of hedging derivatives	2	7
Gains / losses on foreign exchange operations	6	–3
Total	**–8**	**8**

In 2019, the total accounting inefficiency of hedging was CZK 2 million (in 2018: CZK 2 million).

20. Other operational costs

The total amount of other operational costs includes contributions paid in 2019 to:

- Crisis Resolution Fund in the amount of CZK 14 million (in 2018: CZK 21 million). Simultaneously with the payment, the created reserve in the amount of CZK 14 million was used (Note 11), the excess reserve of CZK 6 million was released was released as no longer considered necessary;
- Deposit Insurance Fund CZK in the amount of CZK 1 million (in 2018: CZK 1 million). Simultaneously with the payment, the created reserve in the amount of CZK 1 million was used (Note 11);
- Securities Dealers' Guarantee Fund in the amount of CZK 0.01 million (in 2018: CZK 0.01 million).

21. Administrative expenses

in CZK mil.	2019	2018
Remuneration of management and supervisory bodies*	15	15
Wages and salaries of management*	30	31
Wages and salaries of other employees	135	127
Social and health insurance	60	57
Other staff costs	8	8
Audit, legal and tax consultancy	14	12
Rent and related costs**	1	6
Short-term leasing	0	0
Low value leasing	0	0
Other administrative expenses	63	70
Total	**326**	**326**

* part of the rewards was deferred

** With the transition to IFRS 16, rent on assets accounted for in accordance with this standard is not recognized in administrative expenses (refer to Accounting procedures – item 2 q)

Employee statistics

	2019	2018
Average number of the Supervisory Board members	5	7
Average number of the Audit Committee members	3	3
Average number of the Board of Directors members	3	3
Average number of the management members	16	17
Average number of other employees	194	194

Bank's management comprises: directors of headquarters´ sections, directors of branches and a manager of Independent Internal Audit department.

Remuneration to the statutory auditor

in CZK mil.	2019	2018
Mandatory audit of financial statements	1.8	1.8
Tax consultancy	0.7	0.5
Other non-audit services	0.4	0.6
Total	**2.9**	**2.9**

22. Income tax

in CZK mil.	2019	2018
Profit before tax	105	88
Non-taxable income	–966	–932
Non-deductible expenses	1 217	979
Other items reducing / increasing the tax base	0	167
Tax base	356	302
Corporate income tax payable (19 %)	68	57
Income tax - deferred (19 %)	–1	3
Overpayment of income tax from previous years	0	0
Total income tax	67	60

Deferred tax

Recognized deferred tax comprises:

in CZK mil.	31 December 2019	31 December 2018
Other provisions and allowances	12	11
Difference between the accounting and tax residual value of assets	–1	0
Tax effect of revaluation of securities to fair value in equity	–26	–17
Total deferred tax	**–15**	**–6**

Deferred tax as at 1 January	–6	–59
Movement through the profit and loss statement	1	–3
Movement through Equity	–10	56
Deferred tax as at 31 December	**–15**	**–6**

23. Classification of financial assets and financial liabilities

The following table provides reconciliation between balance sheet items and valuation categories of financial instruments:

31 December 2019 in CZK mil.	Item	Manda-tory in FVTPL	Deter-mined in FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortised value	Total
Cash and balances with central banks	1	0	0	0	0	21	21
Government zero-coupon bonds and other securities accepted by the central bank for refinancing	2	0	0	9 907	0	5 592	15 499
Receivables from banks	3	0	0	0	0	1 133	1 133
Receivables from customers	4	18	0	0	0	5 423	5 441
Debt securities	5	0	158	1 462	0	0	1 620
Shares, participation certificates and other ownership interests	8	0	0	0	34	0	34
Participations with significant influence	7	0	0	0	0	1	1
Participations with controlling influence	8	0	0	0	0	4	4
Other assets	10	0	28	0	0	30	58
Total financial assets		**18**	**186**	**11 369**	**34**	**12 204**	**23 811**

31 December 2018 in CZK mil.	Item	Mandatory in FVTPL	Determined in FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortised value	Total
Cash and balances with central banks	1	0	0	0	0	71	71
Government zero-coupon bonds and other securities accepted by the central bank for refinancing	2	0	0	10 754	0	6 132	16 886
Receivables from banks	3	0	0	0	0	661	661
Receivables from customers	4	31	0	0	0	4 081	4 112
Debt securities	5	0	168	1 977	0	0	2 145
Shares, participation certificates and other ownership interests	8	0	0	0	33	0	33
Participations with significant influence	7	0	0	0	0	1	1
Other assets	10	0	28	0	0	25	53
Total financial assets		**31**	**196**	**12 731**	**33**	**10 971**	**23 962**

31 December 2019 in CZK mil.	Item	Mandatory in FVTPL	Determined in FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortised value	Total
Liabilities to banks	12	0	0	0	0	1 410	1 410
Liabilities to customers	13	0	0	0	0	13 736	13 736
Other liabilities and deferred expense	14	0	31	0	0	76	107
Total financial liabilities		**0**	**31**	**0**	**0**	**15 221**	**15 252**

31 December 2018 in CZK mil.	Item	Mandatory in FVTPL	Determined in FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortised value	Total
Liabilities to banks	12	0	0	0	0	2 318	2 318
Liabilities to customers	13	0	0	0	0	13 126	13 126
Other liabilities and deferred expense	14	0	51	0	0	134	185
Total financial liabilities		**0**	**51**	**0**	**0**	**15 578**	**15 629**

24. Information on risk management and financial instruments

a) Credit risk

Credit rating of a debtor

In the case of small and medium-sized enterprises, as well as in case of municipalities, water management companies, housing cooperatives, associations of housing unit owners and non-profit organizations, the credit assessment is performed in accordance with the Bank's internal regulations and based on the customer's creditworthiness assessment, resulting from the analysis of economic and non-economic aspects. Non-economic evaluation includes analysis of external and internal factors that affect the customer's activities. The economic evaluation is based on a financial analysis performed on the basis of economic indicators and additional information. The creditworthiness assessment is performed for each credit risk transaction at the initial assessment and the credit risk assessment is performed regularly throughout the duration of the loan transaction, usually at regular quarterly intervals. In the frame of the regular credit risk assessment, the Bank focuses mainly on information about customer's payment discipline obtained from the Central Register of Credits and Loans, and also on information resulting from the review and financial analysis of financial statements regularly sent by customers documenting their economic situation.

For the credit assessment of the borrower, the Bank uses its own internally developed rating tool, which is based on the principle of synthesis of economic and non-economic information about the customer. The Bank regularly updates its rating tool with relevant risk-free rates and surcharges related to the area of customer's business and other parameters. The rating tool and its principles are described in the Bank's documents. The rating tool serves as an aid to the analyst's decision.

Credit risk is expressed by assigning the client to the relevant risk category. Credit risk of a particular case is regulated by setting of contractual terms, including trade collateral.

The Bank determines the level of risk of customers in the segment of small and medium-sized enterprises on the basis of the analysis of customer's financial situation and evaluation of non-economic aspects (e.g. management experience, management qualifications, market position). The Bank generally classifies customers into 10 basic risk categories according to the internal rating assigned to individual customers.

In case of transactions concluded on financial markets and issuers of securities, the customer's credit rating is based on the rating by internationally recognized rating agencies, as well as on the assessment of economic and non-economic aspects. The recognized rating agencies are Standard and Poor's, Moody's, and Fitch Ratings. The creditworthiness of counterparties and issuers is regularly reassessed throughout the duration of the credit relationship. The frequency of reassessment depends on the counterparty or issuer risk category.

Portfolio credit risk measuring

The Bank analyzes the loss of products by individual years and determines the rate of actual losses on portfolios contracted in individual years. The Bank monitors the loss-making nature of its guarantee and loan portfolio by individual product classes and annual tranches. The results of the analyses are regularly presented to the Bank's management as a basis for decision-making concerning credit risks.

The Bank mainly analyses the following segments of its products: infrastructure and municipal loans, loans to small and medium-sized enterprises and individual guarantees to small and medium-sized enterprises.

Expected credit losses

Inputs, assumptions and techniques used when determining impairment

Credit risk ratings are the basic input in creating a PD curve for credit exposures over time. The Bank collects information on performance and defaults in respect of its credit and guarantee exposures. The Bank uses statistical models to analyse the obtained data, and to create PD curves and their course depending on the period remaining to maturity of the exposures (time structure) and to determine their expected changes over time.

A significant increase in credit risk is objectively determined mainly on the basis of a change in the customer's internal rating.

In addition to the internal rating, other additional default indicators can be used to indicate a significant increase of credit risk:

Market information:

- actual or expected significant adverse changes in the debtor's regulatory, economic or technological environment, resulting in a significant change in the debtor's ability to meet its debt obligations,
- important negative information from the market,
- sector faces structural competitive challenges,
- sector faces serious challenges related to environment protection, public health issues etc.,
- significant changes in legal regulation of the sector,
- entry of a new strong competitor.

Economic environment / Sector

- sector faces structural competitive challenges,
- sector faces serious challenges related to environment protection, public health issues etc.,
- significant changes in legal regulation of the sector,
- entry of a new strong competitor.

Transaction behaviour

- material fines imposed by tax or other authorities, or investigations for tax evasion or evasion of similar obligations,
- disruption, interruption or cessation of business,
- new relevant court litigations.

Quality and control of collateral

- significant changes in the value of the collateral securing the obligation,
- negative change in the status and enforceability of collateral, e.g.: – a significant insured event on a key loan collateral; – a defect in the legal documentation that affects enforcement; – termination of insurance; – inability to exercise control over property (flows); – unreliable appreciation etc.

The Bank determines a significant increase in credit risk based on the consideration and assessment of reasonable and verifiable information and factors that are available without undue cost or effort to indicate future prospects.

For the purposes of calculating expected losses, the Bank divides exposures into three levels. Level 1 and level 2 comprise the loans and guarantees with no default. Level 2 includes the loans and guarantees where a significant increase in credit risk has been reported since their inception. Level 3 contains the loans and guarantees with default.

Calculation of expected credit losses

As the key inputs for the calculation of expected credit losses (ECL), the time structures of the following variables / parameters are used:

- Probability of default / PD;
- Loss given by default / LGD;
- Exposure at default / EAD.

These parameters are derived on the basis of our own internally developed statistical models and historical data, which need to be adjusted to match information about future prospects (FLI).

PD estimates are estimates at a particular point in time that are calculated on the basis of statistical models and rating tools tailored to different categories of counterparties and exposures. These statistical models are based on internally obtained data including both quantitative and qualitative factors. If available, market data can also be used to determine the PD for large corporate counterparties. If a counterparty or exposure is shifted between rating levels, this leads to a change in the estimate of the relevant PD. Probability of default (PD) is estimated taking into account the contractual maturities of the exposures and the estimated level of early repayments.

LGD represents the amount of probable loss if a default occurs. The Bank estimates LGD parameters based on the historical data of debt recovery from defaulted borrowers. LGD models take into account collateral, subordination of receivables, industry of the counterparty and debt collection costs.

The calculation is performed on a discounted cash flow basis using the effective interest rate (EIR) as a discount factor except for exposures to the SME segment where the EIR equals 0. This procedure is reasoned by the situation on the market, where the Bank provides preferential guarantees and loans for customers at a zero rate, which corresponds to the standard conditions of the development and guarantee institutions market.

EAD shows the expected credit exposure at the time of default. The Bank determines the EAD on the basis of the current exposure to the given counterparty and possible changes in the current exposure on the basis of the contract concluded with the counterparty, including regular and early repayments.

The EAD of a financial asset is its gross book value. For loan commitments and financial guarantees, the EAD includes the amount drawn as well as possible future drawings that may occur on the basis of the concluded contract. These future draw downs are estimated on the basis of historical experience and forecasts of future prospects. For certain financial assets, the EAD is determined through modelling of the range of possible resultant exposures at different future times using available scenarios and statistical methods.

Method of calculating reserves for M-guarantees

In the case of portfolio M-guarantees, the credit risk is divided between the lending banks and the CMZRB and its amount is precisely limited by the maximum possible performance of the bank guarantee within the particular support programmes. The exact amounts of total possible payments from the portfolio of issued bank guarantees, for which the bank creates reserves or funds to cover risks in full scope, have been contractually agreed with the lending banks.

Securing loan and guarantee receivables

Movable and immovable collaterals are recorded in the accounting books and are valued on the basis of an expert opinion (nominal value of the collateral). For real estates, the Bank performs revaluation to market prices centrally when market conditions change on the basis of price maps produced by an external agency. The collaterals of natural persons and legal entities, and bills of exchange, are maintained by the Bank in its book records and are valuated at the values set by the Bank’s internal regulations.

The realizable value of collateral takes into account the costs of realization of collateral, including the time value of money. If a customer has a balance sheet debt overdue for more than 360 days, the Bank does not take into account the amount of collateral. The Bank does not use the services of external agencies to assess the creditworthiness of individual receivables.

Recovery of debts from debtors

The Bank recovers due receivables from bank guarantees and loans using its own system of risky business case management implementing all legal instruments in accordance with generally applicable legal regulations. To speed up the recovery process, the Bank works with the arbitration clauses in loan and guarantee agreements, and with enforceable deeds.

Bank’s procedures for recovering receivables from housing products

If the customer does not pay the amount due within the set deadline, the Bank sends a notice to the locally competent financial office (tax office) to initiate proceedings for unauthorized use of state budget funds against the customer. On the basis of the communication on the result of the investigation received from the tax office and the issuance of the payment order, it shall settle the receivables from the customer to the debit of the state budget funds from which they were provided.

Preferential loans and guarantees in the frame of the Operational Programme Enterprise and Innovations (OPEI)

Starting from 1 July 2007, the Bank has implemented the GUARANTEE, START and PROGRES guarantee and loan programmes in the frame of which guarantees, interest-free loans and subordinated loans are provided. The products were financed from credit funds, or guarantee funds, created from state budget funds and structural funds, loans also from funds obtained by the Bank on the financial market.

In case of violation of the conditions of the programme, the customer is asked to return the unauthorized public support.

The Bank arranges for the recovery of receivables arising from the request to return the public support as well as respective receivables from a guarantee or a loan, at its own expense. After the payment of the receivable or after its settlement to the debit of the program funds in the event of its unrecoverability, the receivable is derecognised in the Bank´s accounting; the loss exceeding the agreed Bank's share in drawn loans or the amount of funds available from the risk coverage accounts in case of the guarantees is reimbursed by the Bank.

Preferential loans and guarantees in the frame of Operational Programme Entrepreneurship and Innovations for Competitiveness (OPEIC)

Since 1 June 2017, the Bank has provided the preferential loans in the EXPANSION programme and from 19 September 2017 also the preferential loans in the Energy Savings programme within the Operational Programme Enterprise and Innovation for Competitiveness. The loans are financed from a credit fund created from the European Structural and Investment Funds.

The loans are provided as interest-free ones with deferred payments. A financial contribution for the payment of interest is provided to selected loans, which serves the final beneficiaries for the partial or full payment of interests on a commercial loan drawn for the implementation of the supported project. In the case of the Energy Savings program, the customers are also provided with a financial contribution to cover the costs of the energy consumption expertise.

Preferential loans in the frame of ENERG programme

Since 1 June 2017, the Bank has provided preferential loans in the frame of the national ENERG programme. The loans are financed from the credit fund created from the state budget.

The loans are provided as interest-free ones with deferred payments. The loans are complemented by the financial contribution for achieving planned results of the project and by the financial contribution to cover the costs of the energy consumption expertise.

Preferential loans in the frame of INFIN programme

Since 2018, the Bank has provided preferential loans in the frame of the INFIN programme. The INFIN programme offers preferential loans for funding of innovative business projects to small and medium-sized enterprises in the Capital City of Prague. The Programme is financed from the ESI Funds in the frame of the Operational Programme „Prague - Growth Pole of the Czech Republic". The loans are provided as interest-free ones with a period of grace.

Preferential guarantees in the frame of national guarantee programmes

In the period from 2009 to 2019, the Bank provided preferential guarantees within programmes announced by the Ministry of Industry and Trade to support small and medium-sized enterprises. The products were financed from the guarantee funds created based on contributions from the state budget and revolving funds from other business support programmes, and since 2012 also from the Bank's own funds.

Preferential guarantees in the frame of EXPANSION programme

Since 2019, the Bank provided pretferential guarantees within the EXPANSION programme. These guarantees are financed from the European Structural and Investment Funds (ESI Funds) in the frame of the Operational Programme Enterprise and Innovation for Competitiveness.

The Bank arranges for the recovery of receivables arising from the guarantees provided as well as from sanctions applied in case of violation of the guarantee contract conditions at its own expense. After the payment of the receivable or after its settlement to the debit of the program funds in the event of its unrecoverability, the receivable is derecognised in the Bank's accounting. The loss exceeding the amount of funds available from the risk coverage accounts is reimbursed by the Bank.

Concentration of risks

The Bank considers a significant concentration of risk to be a situation in which inappropriate concentrations of exposures to persons/entities or groups of persons/entities variously interrelated or to persons/entities from the same industry, geographical area or the same business activity could cause a significant impact on the Bank's operations and stability.

The Bank's concentration of risks occurs primarily in the area of preferential guarantees for SME loans and loans for repairs of apartment buildings, preferential loans provided by the Bank to small and medium-sized enterprises and Bank loans to businesses and municipalities for water management projects. Most of these loans and guarantees are provided in co-operation with the state administration, and since the state participates in covering some of the risks in certain transactions, the risk is spread over several entities. The Bank manages concentration of risks following the rules for credit exposure and using a system of limits for credit risk management. To determine the concentration of credit risk, the Bank mainly uses methods and procedures based on the analysis of data from the Bank's internal business and accounting system. To eliminate these risks, the Bank does not use any hedging derivatives. These risks are monitored periodically.

Financial market instruments

In accordance with its internal regulations, the Bank determines financial instruments in which it can invest and using which it can manage currency and interest rate risks. These are mainly deposits, bonds (mortgage bonds, CZK bonds, foreign currency bonds and Eurobonds), bills, derivatives (forex operations – FX, cross-currency swaps – CCS and interest rates swaps – IRS). The credit rating of counterparties and issuers is based on the rating of the client's creditworthiness, which results from a rating by internationally recognized rating agencies and an assessment of economic and non-economic aspects. The creditworthiness of counterparties and issuers is regularly reassessed throughout the duration of the credit relationship.

Quality of the securities portfolio

Securities portfolio by rating levels and by particular groups of financial assets:

31 December 2019

in CZK mil.	AA– to AA+	A– to A+	Lower than A	Total
Securities valued against cost or income accounts	0	158	0	158
Equity instruments in FVOCI	0	0	34	34
Debt instruments in FVOCI	10 824	0	545	11 369
Securities at amortized value	5 592	0	0	5 592
Total	**16 416**	**158**	**579**	**17 153**

31 December 2018

in CZK mil.	AA– to AA+	A– to A+	Lower than A	Total
Securities valued against cost or income accounts	0	168	0	168
Equity instruments in FVOCI	0	0	33	33
Debt instruments in FVOCI	10 459	1 647	625	12 731
Securities at amortized value	3 849	2 283	0	6 132
Total	**14 308**	**4 098**	**658**	**19 064**

Quality of the derivatives portfolio

The derivatives portfolio is formed of trades with trusted bank counterparties (with an external rating in the range from AA + to A).

Breakdown of assets by geographical segments

31 December 2019

in CZK mil. Assets	Domestic	EU	Provisions and adjustments	Total
Cash and balances with central banks	21	0	0	21
Receivables from banks	1 133	0	0	1 133
Receivables from customers	5 704	0	–263	5 441
Securities valued against cost or income accounts	0	158	0	158
Debt instruments in FVOCI	10 536	833	0	11 369
Securities at amortized value	5 594	0	–2	5 592
Financial derivatives	5	0	0	5
Equity instruments in FVOCI	0	34	0	34
Ownership interests	5	0	0	5
Other financial assets	41	23	–11	53
Total financial assets	**23 039**	**1 048**	**–276**	**23 811**
Other non-financial assets	745	0	–573	172
Total	**23 784**	**1 048**	**–849**	**23 983**

31 December 2018

in CZK mil. Assets	Domestic	EU	Provisions and adjustments	Total
Cash and balances with central banks	71	0	0	71
Receivables from banks	658	3	0	661
Receivables from customers	5 859	0	–1 747	4 112
Securities valued against cost or income accounts	0	168	0	168
Debt instruments in FVOCI	11 472	1 259	0	12 731
Securities at amortized value	6 134	0	–2	6 132
Financial derivatives	13	0	0	13
Equity instruments in FVOCI	0	33	0	33
Ownership interests	1	0	0	1
Other financial assets	37	14	–11	40
Total financial assets	**24 245**	**1 477**	**–1 760**	**23 962**
Other non-financial assets	693	0	–550	143
Total	**24 938**	**1 477**	**–2 310**	**24 105**

Maximum credit risk exposure

31 December 2019

in CZK mil.	Balance sheet	Off-balance sheet	Total credit risk exposure	Received collateral
Cash and balances with central banks	21	0	21	0
Receivables from banks	1 133	0	1 133	1 077
Securities valued against cost or income accounts	158	0	158	0
Financial derivatives	5	0	5	0
Receivables from customers*	5 441	0	5 441	1 378
Equity instruments in FVOCI	34	0	34	0
Debt instruments in FVOCI	11 369	0	11 369	0
Securities at amortized value	5 592	0	5 592	0
Ownership interests	5	0	5	0
Other financial assets	53	0	53	0
Financial guarantees and loan commitments	0	25 254	25 254	0
Total financial assets	**23 811**	**25 254**	**49 065**	**2 455**
Non-financial assets	172			
Total assets	**23 983**			

* the value of collaterals received is reported only up to the amount of the credit exposure

31 December 2018

in CZK mil.	Balance sheet	Off-balance sheet	Total credit risk exposure	Received collateral
Cash and balances with central banks	71	0	71	0
Receivables from banks	661	0	661	558
Securities valued against cost or income accounts	168	0	168	0
Financial derivatives	13	0	13	0
Receivables from customers*	4 112	0	4 112	1 114
Equity instruments in FVOCI	33	0	33	0
Debt instruments in FVOCI	12 731	0	12 731	0
Securities at amortized value	6 132	0	6 132	0
Ownership interests	1	0	1	0
Other financial assets	40	0	40	0
Financial guarantees and loan commitments	0	21 053	21 053	0
Total financial assets	**23 962**	**21 053**	**45 015**	**1 672**
Non-financial assets	143			
Total assets	**24 105**			

* the value of collaterals received is reported only up to the amount of the credit exposure

The amount of collaterals provided is specified in the Note 6 Receivables from customers.

Quantitative information on collateral for credit impaired financial assets (level 3)

in CZK mil.	2019	2018
Less than 50 %	25	16
51–70 %	2	4
Mote than 70 %	289	360
Total	**316**	**380**

Overview of restructured receivables

Year	in CZK mil.*	Number of receivables
2019	63	38
2018	110	40

* Information is reported including default interest recorded in the off-balance sheet.

b) Market risk

Market risks characteristics

The basic strategy for risk management is specified in Bank's internal regulations and documents approved by the Board of Directors.

Characteristics of operations related to market risk

The Bank is exposed to market risks of loss when purchasing, holding and selling investment instruments as defined in the CMZRB Investment Strategy. This risk arises from open positions in interest rates and currencies. The Bank applies a conservative approach to currency risk. The Bank is not interested in having open positions in foreign currencies, and follows this strategy through the use of currency forwards and cross-currency swaps, which are entered into in order to close currency positions arising from the purchase of foreign currency bonds or the acceptance of foreign currency loans.

Market risk measuring

To measure interest rate risk, the Bank uses basic methods (interest rate GAP analysis, duration, interest rate elasticity) and methods to be used for calculating capital ratios as set by the Regulation of the European Parliament and of the Council (EU), as amended.

Furthermore, the Bank has set a set of internal limits reducing the market risk. Interest rate GAP analysis measures the interest rate risk of the trading and investment portfolio together and the risk is limited to the net interest rate position in each time zone. The interest rate risk of all bond portfolios is reduced through the limits set up for the interest rate risk of bond portfolios. The Bank performs stress testing on a quarterly basis in accordance with Decree no. 163/2014 Coll., as amended.

Market risk management

An external capital ratio limit and internal limits for interest rate change risk and for the interest rate elasticity of the bond portfolio are the market risk management tools used by the Bank. Furthermore, market risk is limited by the internal capital ratio limit. Currency risk is reduced by the limits set out in the Regulation of the European Parliament and of the Council (EU) as amended.

Limits for interest rate risk changes are reducing the size of the interest rate GAP in each time zone of the interest rate GAP analysis in relation to the Bank's capital and are expressed in percentage.

The interest rate risk limits on bond portfolios reduce the market risk of bond portfolios measured at fair value through profit or loss as well as realized bonds and portfolios of bonds held to maturity and not desired for trading together. The methods of calculating these limits are based on the principles of duration analysis (e.g. the limit on interest rate elasticity).

The Bank's internal capital ratio limit tightens the external capital ratio limit set by the banking regulator.

The Bank uses hedging to manage market risk. Hedge accounting is used for hedge components in accordance with accounting regulations. The Bank primarily hedges the currency risk of foreign currency liabilities represented by loans from development banks, and the currency risk of foreign currency assets, which are mainly represented by investments available-for-sale securities in foreign currencies. In certain cases, the Bank also hedges interest rate risk related to loans from development banks.

All derivatives are negotiated in over-the-counter market (OTC).

c) Financial derivatives

Derivatives for trading

	31 December 2019		31 December 2018	
	Nominal value		Nominal value	
in CZK mil.	Receivables	Liabilities	Receivables	Liabilities
Interest rate derivatives				
Swaps	200	200	500	500
Currency derivatives				
Swaps	599	603	785	782
Total	**799**	**803**	**1 285**	**1 282**

	31 December 2019		31 December 2019	
	Fair value		Fair value	
in CZK mil.	Positive	Negative	Positive	Negative
Interest rate derivatives				
Swaps	0	2	0	11
Currency derivatives				
Swaps	5	18	13	24
Total	**5**	**20**	**13**	**35**

Due terms of derivatives for trading as at 31 December 2019:

in CZK mil.	Shorter than 3 months	From 3 months to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps	0	0	200	0	200
Currency swaps	0	145	292	162	599
Total		**145**	**492**	**162**	**799**

Due terms of derivatives for trading as at 31 December 2018:

in CZK mil.	Shorter than 3 months	From 3 months to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps	0	300	200	0	500
Currency swaps	0	28	569	188	785
Total	**0**	**328**	**769**	**188**	**1 285**

Hedging derivatives

in CZK mil.	31 December 2019		31 December 2018	
	Nominal value		Nominal value	
	Receivables	Liabilities	Receivables	Liabilities
Currency derivatives				
Cross currency swaps	59	67	86	96
Total	**59**	**67**	**86**	**96**

in CZK mil.	31 December 2019		31 December 2019	
	Fair value		Fair value	
	Positive	Negative	Positive	Negative
Currency derivatives				
Cross currency swaps	0	11	0	16
Total	**0**	**11**	**0**	**16**

Due terms of hedging derivatives as at 31 December 2019:

in CZK mil.	Shorter than 3 months	From 3 months to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps	0	3	56	0	59
Total	**0**	**3**	**56**	**0**	**59**

Due terms of hedging derivatives as at 31 December 2018:

in CZK mil.	Shorter than 3 months	From 3 months to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps	0	0	86	0	86
Total	**0**	**0**	**86**	**0**	**86**

d) Currency risk

The Bank's financial position and cash flows are exposed to the risk of fluctuations in the exchange rates of common currencies. Currency position values are available daily. If the limits are exceeded, the Bank proceeds in accordance with its internal regulations.

31 December 2019

in CZK mil.	EUR	Foreign currencies Total	CZK	Total
Cash and balances with central banks	0	0	21	21
Receivables from banks	7	7	1 126	1 133
Receivables from customers	815	815	4 626	5 441
Securities valued against cost or income accounts	158	158	0	158
Debt instrument in FVOCI	177	177	11 192	11 369
Securities at amortised value	0	0	5 592	5 592
Financial derivatives	0	0	5	5
Equity instruments in FVOCI	34	34	0	34
Ownership interests	0	0	5	5
Other financial assets	23	23	30	53
Total financial assets	**1 214**	**1 214**	**22 597**	**23 811**
Other non-financial assets	0	0	172	172
	1 214	**1 214**	**22 769**	**23 983**
Liabilities to banks	1 329	1 329	81	1 410
Liabilities to customers	191	191	13 545	13 736
Financial derivatives	0	0	31	31
Other financial liabilities	0	0	76	76
Total financial liabilities	**1 520**	**1 520**	**13 733**	**15 253**
Other non-financial liabilities	0	0	218	218
Provisions	0	0	3 583	3 583
Equity	6	6	4 923	4 929
	1 526	**1 526**	**22 457**	**23 983**
Net Balance sheet position	–312	–312		
Net off-balance sheet position	361	361		
Net position	**49**	**49**		

31 December 2018

in CZK mil.	EUR	Foreign currencies Total	CZK	Total
Cash and balances with central banks	0	0	71	71
Receivables from banks	3	3	658	661
Receivables from customers	1 101	1 101	3 011	4 112
Securities valued against cost or income accounts	168	168	0	168
Debt instruments in FVOCI	259	259	12 472	12 731
Securities at amortised value	0	0	6 132	6 132
Financial derivatives	0	0	13	13
Equity instruments in FVOCI	33	33	0	33
Ownership interests	0	0	1	1
Other financial assets	14	14	26	40
Total financial assets	**1 578**	**1 578**	**22 384**	**23 962**
Other non-financial assets	0	0	143	143
	1 578	1 578	22 527	24 105
Liabilities to banks	1 827	1 827	491	2 318
Liabilities to customers	263	263	12 863	13 126
Financial derivatives	0	0	51	51
Other financial liabilities	0	0	134	134
Total financial liabilities	**2 090**	**2 090**	**13 539**	**15 629**
Other non-financial liabilities	0	0	277	277
Provisions	0	0	3 338	3 338
Equity	7	7	4 854	4 861
	2 097	2 097	22 008	24 105
Net balance sheet position	–519	–519		
Net off-balance sheet position	572	572		
Net position	**53**	**53**		

Currency risk sensitivity analysis

The table below provides an analysis of currency risk sensitivity. The foreign currency balance sheet items were tested with regard to the increase of the exchange rate by 10% (10% appreciation of currencies would have the same and opposite effect). The open position in EUR is hedged using derivatives. Hedging instruments almost completely offset the open position (see tables above) and therefore the impact of exchange rate fluctuation on the income statement is not significant. As the euro was the only significant currency in which the Bank had an open position at the end of the year, the table below summarizes the sensitivity of the Czech koruna compared to the CZK / EUR exchange rate applicable as at 31 December 2019 a 2018.

in CZK mil.	2019	2018
Sensitivity to EUR exchange rate changes		
Expected rate fluctuation, %	10%	10%
Open position	48	53
Effect on Income Statement	–16	–23
Effect on capital	18	26

e) Interest rate risk

The Bank's intention is to manage the interest rate risk arising from changes in interest rates through gap analysis between assets and liabilities in individual groups.

The table below provides information on the extent of the Bank's interest rate exposure. It is based either on the contractual maturity date of its financial instruments or, if the instruments change the interest rate before maturity, on the date of new interest rate set-up.

If the transaction does not have contractual maturity or a rate reprising date, the volume is grouped in the 'not specified' category. The „Not specified" column also show changes in fair value of hedged balance sheet items in respect of interest rate risk.

31 December 2019

in CZK mil.	Shorter than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Not specified	Total
Cash and balance with central banks	17	0	0	0	4	21
Receivables from banks	1 132	0	0	0	1	1 133
Receivables from customers	205	589	3 015	820	812	5 441
Securities valued against cost or income accounts	0	158	0	0	0	158
Debt instruments in FVOCI	57	255	7 171	3 886	0	11 369
Securities at amortised value	0	604	844	4 144	0	5 592
Financial derivatives	0	0	0	0	5	5
Equity instruments in FVOCI	0	0	0	0	34	34
Ownership interests	0	0	0	0	5	5
Other financial assets	0	0	0	0	53	53
Total financial assets	**1 411**	**1 606**	**11 030**	**8 850**	**914**	**23 811**
Tangible fixed assets	0	0	0	0	141	141
Intangible fixed assets	0	0	0	0	21	21
Other non-financial assets	0	0	0	0	10	10
Total assets	**1 411**	**1 606**	**11 030**	**8 850**	**1 086**	**23 983**
Liabilities to banks	287	369	723	48	–17	1 410
Liabilities to customers	9 843	0	0	0	3 893	13 736
Financial derivatives	0	0	0	0	31	31
Other financial liabilities	0	0	0	0	76	76
Total financial liabilities	**10 130**	**369**	**723**	**48**	**3 983**	**15 253**
Other non-financial liabilities	0	0	0	0	218	218
Provisions	0	0	0	0	3 583	3 583
Equity	0	0	0	0	4 929	4 929
Total liability and equity	**10 130**	**369**	**723**	**48**	**12 713**	**23 983**
Net balance sheet position	**–8 719**	**1 237**	**10 307**	**8 802**	**–11 627**	**0**

31 December 2018

in CZK mil.	Shorter than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Not specified	Total
Cash and balance with central banks	68	0	0	0	3	71
Receivables from banks	661	0	0	0	0	661
Receivables from customers	307	690	2 183	386	546	4 112
Securities valued against cost or income accounts	0	4	164	0	0	168
Debt instruments in FVOCI	0	638	8 514	3 579	0	12 731
Securities at amortised value	0	971	864	4 297	0	6 132
Financial derivatives	0	0	0	0	13	13
Equity instruments in FVOCI	0	0	0	0	33	33
Ownership interests with significant influence	0	0	0	0	1	1
Other financial assets	0	0	0	0	40	40
Total financial assets	**1 036**	**2 303**	**11 725**	**8 262**	**636**	**23 962**
Tangible fixed assets	0	0	0	0	120	120
Intangible fixed assets	0	0	0	0	14	14
Other non-financial assets	0	0	0	0	9	9
Total assets	**1 036**	**2 303**	**11 725**	**8 262**	**779**	**24 105**
Liabilities to banks	441	597	1 231	71	–22	2 318
Liabilities to customers	9 850	0	0	0	3 276	13 126
Financial derivatives	0	0	0	0	51	51
Other financial liabilities	0	0	0	0	134	134
Total financial liabilities	**10 291**	**597**	**1 231**	**71**	**3 439**	**15 629**
Other non-financial liabilities	0	0	0	0	277	277
Provisions	0	0	0	0	3 338	3 338
Equity	0	0	0	0	4 861	4 861
Total liabilities and equity	**10 291**	**597**	**1 231**	**71**	**11 915**	**24 105**
Net balance sheet position	**–9 255**	**1 706**	**10 494**	**8 191**	**–11 136**	**0**

Interest rate sensitivity analysis

Balance sheet items sensitive to interest rate movements were analyzed for the expected parallel increase in interest rates by 2%. The Bank modelled 8 possible scenarios and the most likely alternative of a 2% parallel shift was selected for reporting purposes.

Sensitivity/Impact

Balance sheet items (in CZK mil.)	31 December 2019	31 December 2018
Assets		
Receivables from customers	–229	–101
Receivables from banks	0	–1
Securities at amortised value	–635	–639
Securities in FVOCI	–373	–211
Financial derivatives	–4	–6
Liabilities		
Liabilities to banks	39	77
Liabilities to customers	3	6
Financial derivatives	15	27

The total impact of the parallel shock (+ -200 bp) on the bank's capital was 11.44 % as at 31 December 2019 (17.03 % as at 31 December 2018).

f) Liquidity risk

The Bank perceives the liquidity risk as the risk that the Bank will lose its ability to meet its financial obligations as they fall due or that it will not be able to fund its assets. The Bank measures and monitors net cash flow in particular major currencies, and daily produces liquidity gap analysis in all individual major currencies in which it has open positions. To manage liquidity risk, the Bank uses a set of limits, produces Liquidity Scenarios, and has an Emergency Plan for Events Endangering Bank's Liquidity prepared.

Contractual residual maturity

31 December 2019

in CZK mil.	Shorter than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Not specified	Total
Cash and balance with central banks	20	0	0	0	1	21
Receivables from banks	1 108	0	0	0	25	1 133
Receivables from customers	850	636	3 207	748	0	5 441
Securities valued against cost or income accounts	0	158	0	0	0	158
Debt instruments in FVOCI	57	255	7 171	3 886	0	11 369
Securities at amortised value	0	604	844	4 144	0	5 592
Financial derivatives	0	0	5	0	0	5
Equity instruments in FVOCI	0	0	0	0	34	34
Ownership interests with significant influence	0	0	0	0	5	5
Other financial assets	29	0	0	0	24	53
Total financial assets	**2 064**	**1 653**	**11 227**	**8 778**	**89**	**23 811**
Other non-financial assets	2	2	1	0	167	172
Total	**2 066**	**1 655**	**11 228**	**8 778**	**256**	**23 983**
Liabilities to banks	175	386	827	22	0	1 410
Liabilities to customers	2 992	6 905	2	3 837	0	13 736
Financial derivatives	13	1	15	2	0	31
Other financial liabilities	0	0	0	0	76	76
Total financial liabilities	**3 180**	**7 292**	**844**	**3 861**	**76**	**15 253**
Other non-financial liabilities	22	51	89	2	54	218
Provisions	287	883	1 832	561	20	3 583
Equity	0	0	3	1	4 925	4 929
Total	**3 489**	**8 226**	**2 768**	**4 425**	**5 075**	**23 983**
Net balance sheet position	**–1 423**	**–6 571**	**8 460**	**4 353**	**–4 819**	**0**

31 December 2018

in CZK mil.	Shorter than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Not specified	Total
Cash and balance with central banks	69	0	0	0	2	71
Receivables from banks	608	0	0	0	53	661
Receivables from customers	33	1 423	2 373	280	3	4 112
Securities valued against cost or income accounts	0	4	164	0	0	168
Debt instruments in FVOCI	0	638	8 514	3 579	0	12 731
Securities at amortised value	0	971	864	4 297	0	6 132
Financial derivatives	0	12	0	1	0	13
Equity instruments in FVOCI	0	0	0	0	33	33
Ownership interests with significant influence	0	0	0	0	1	1
Other financial assets	7	15	0	0	18	40
Total financial assets	**717**	**3 063**	**11 915**	**8 157**	**110**	**23 962**
Other non-financial assets	2	2	0	0	139	143
Total	**719**	**3 065**	**11 915**	**8 157**	**249**	**24 105**
Liabilities to banks	281	629	1 372	36	0	2 318
Liabilities to customers	4 668	6 299	42	2 117	0	13 126
Financial derivatives	0	5	44	2	0	51
Other financial liabilities	0	0	0	0	134	134
Total financial liabilities	**4 949**	**6 933**	**1 458**	**2 155**	**134**	**15 629**
Other non-financial liabilities	29	68	129	9	42	277
Provisions	294	1 082	1 170	772	20	3 338
Equity	0	1	3	1	4 856	4 861
Total	**5 272**	**8 084**	**2 760**	**2 937**	**5 052**	**24 105**
Net balance sheet position	**–4 553**	**–5 019**	**9 155**	**5 220**	**–4 803**	**0**

Contractual liquidity of the main non-derivative financial liabilities at amortized cost and of derivatives based on undiscounted cash flows

a) Liabilities to banks and customers

31 December 2019

in CZK mil.	Shorter than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Liabilities to banks	166	425	865	49	1 505
Liabilities to customers	2 994	6 906	3	3 837	13 740

31 December 2018

in CZK mil.	Shorter than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Liabilities to banks	269	683	1 452	0	2 404
Liabilities to customers	5 238	751	7 099	36	13 124

b) Derivatives settled on a net basis

The table below shows the Bank's derivative financial liabilities, which will be settled on a net basis and which are included in the relevant time baskets based on the remaining maturity of the contract. The amounts shown below are contractual undiscounted cash flows.

31 December 2019

in CZK mil.	Shorter than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest rate swaps	2	–3	–1	0	–2

31 December 2018

in CZK mil.	Shorter than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Interest rate swaps	0	–9	–3	0	–12

c) Derivatives settled on a gross basis

Bank derivatives that will be settled on a gross basis include foreign exchange derivatives: foreign exchange forwards, currency swaps and currency interest rate swaps.

The table below shows the Bank's derivative financial liabilities, which will be settled on a gross basis and which are included in the relevant time baskets based on the remaining maturity of the contract. The amounts shown below are contractual undiscounted cash flows.

31 December 2019

in CZK mil.	Shorter than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Currency derivatives:					
Inflows	59	266	294	49	668
Outflows	–55	–295	–317	–50	–717

31 December 2018

in CZK mil.	Shorter than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Currency derivatives:					
Inflows	60	155	604	75	894
Outflows	–55	–178	–641	–75	–949

d) Operational risk

The Bank defines operational risk as the risk of loss arising from inappropriateness or failure of internal processes, human factor errors, failures of systems or the risk of loss resulting from external events, including the risk of loss due to violation or non-compliance with a legal norm.

The Bank's system of operation risk management focuses at:

- Protection of Bank against possible negative consequences cause by the operational risk;
- better quality of information for decision-taking process;
- meeting requirements imposed by CNB and EU;
- compliance to recommended procedures as determined in respective EU regulations.

25. Transactions with related entities

Entities with a special relation to Bank, co called Related Entities, refer to item 2. letter x) of the Notes.

Receivables and liabilities to related entities

in CZK mil.	31. 12. 2019 gross	31. 12. 2018 gross
Government zero-coupon bonds and other securities accepted by the central bank for refinancing issued by government	15 501	16 888
Receivables from customers	923	1 627
Debt securities	78	78
Shares, participation certificates and other ownership interestss	5	1
Deferred expenses and income	30	25
Liabilities to banks	0	0
Liabilities to customers	10 979	9 436
Other liabilities	14	14
Commitments and guarantees granted	300	300
Promises and guarantees received	961	816
Pledges and collateral received	969	969

Transactions with related entities

in CZK mil.	2019	2018
Interest income*	313	259
Interest costs	–135	–66
Income from shares and ownership interests	9	0
Income from fees and commissions	224	185
Staff costs	–15	–15

* The line Interest income is reduced by the payment of interest on loans received from the European Investment Bank, which is used to finance state infrastructure in the amount of CZK 56 million (as at 31 December 2018: CZK 73 million). The substance of the operation with the Ministry of Finance and the European Investment Bank is described in point 6b). The value of individual transactions with related parties is quantified in the notes to individual items in the financial statements.

Receivables from persons with a special relationship with the Bank

As at 31 December 2019 and as at 31 December 2018 the Bank reports no receivables from persons with a special relationship with the Bank.

26. Fair value

The fair value of financial instruments is the amount for which the asset could be sold or liability settled between knowledgeable parties in an independent transaction. Estimates of fair value are made on the basis of quoted market prices, if available. However, there are no market price quotations available for a significant part of the bank's financial instruments. In cases where quoted market prices are not available, fair value is estimated using discounted cash flow models or other acceptable pricing models. Estimates significantly affect changes in basic assumptions - discount rates, estimated future cash flows, etc. - and therefore these estimates may differ from the sale price of the financial instrument. The following methods and assumptions were used in estimating the fair value of the Bank's financial instruments.

Cash and balance with central banks

The carrying amounts of cash and balances with central banks correspond in principle to their fair values.

Securities at amortised value

The fair values of securities are taken from the active market where these instruments are quoted.

Receivables from banks

The fair value of receivables from banks is estimated based on an analysis of discounted cash flows using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk).

Receivables from customers

The fair value of variable rate loans without a significant change in credit risk is generally close to their book amount. The fair value of loans with fixed interest rates is estimated using discounted cash flow analyses based on interest rates currently offered for loans with similar terms to borrowers with similar credit quality.

Liabilities to banks

The fair value of term deposits payable on demand is close to the accounting carrying amounts at the end of the period. The fair value of term deposits with variable interest rates is close to their carrying amounts at the end of the period. The fair value of fixed rate deposits is estimated by discounting their future cash flows using market interest rates.

Financial instruments which are not reported in the fair value in the balance sheet

The following table sets out the accounting carrying amounts and fair values of financial assets and financial liabilities that are not reported at fair value in the balance sheet.

31 December 2019

in CZK mil.		Carrying amount	Fair value
FINANCIAL ASSETS			
1	Cash and balances with central banks (level 2)	21	21
2	Government zero-coupon bonds and other securities (level 1)	5 592	5 511
3	Receivables from banks (level 2)	1 133	1 133
4	Receivables from customers level 3)	5 423	5 009
8	Ownership interests with significant influence (level 3)	1	1
8	Ownership interests with controlling influence (level 3)	4	4
11	Other financial assets (level 3)	30	30
FINANCIAL LIABILITIES			
1	Liabilities to banks (level 2)	1 410	1 417
2	Liabilities to customers (level 2)	13 736	13 264
4	Other financial liabilities (level 2)	76	76

31 December 2018

in CZK mil.		Carrying amount	Fair value
FINANCIAL ASSETS			
1	Cash and balances with central banks (level 2)	71	71
2	Government zero-coupon bonds and other securities (level 1)	6 132	5 963
3	Receivables from banks (level 2)	661	661
4	Receivables from customers (level 3)	4 081	3 916
8	Ownership interests with significant influence (level 3)	1	1
11	Other financial assets (level 3)	25	25
FINANCIAL LIABILITIES			
1	Liabilities to banks (level 2)	2 318	2 296
2	Liabilities to customers (level 2)	13 125	12 642
4	Other financial liabilities (level 2)	134	134

Hierarchy of fair values

IFRS 7 specifies a hierarchy of valuation techniques that is based on whether the inputs to those valuation techniques are either observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the bank's assumptions. These two types of inputs form the following hierarchy of fair values:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities. This level includes listed debt instruments on stock exchanges (e.g. the Prague Stock Exchange).
- Level 2 – Other inputs (other than quoted prices included in Level 1) that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes over-the-counter derivative transactions. Bloomberg and Reuters are the source of input parameters such as PRIBOR or yield curves.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (invisible inputs). This level includes financial instruments with important unobservable components.

The following table analyses financial instruments measured at fair value by levels in the fair value hierarchy. The amounts are based on the values reported in the Bank's balance sheet.

Financial instruments that are reported at fair value in the balance sheet

31 December 2019 (in CZK mil.)	Level 1	Level 2	Level 3
Financial assets in fair value			
Financial assets for trading			
Derivatives	0	5	0
Financial assets compulsorily recognized at fair value			
Loans and liabilities	0	0	18
Financial assets charged against expenses or income			
Debt securities	159	0	0
Loans and liabilities	0	0	23
Securities in FVOCI			
Equity instruments	0	0	34
Debt instruments	11 369	0	0
Total assets in fair value	**11 528**	**5**	**75**
Financial liabilities against costs and revenues			
Derivatives for trading	0	20	0
Hedging derivatives	0	11	0
Total liabilities in fair value	**0**	**31**	**0**

31 December 2018 (in CZK mil.)	Level 1	Level 2	Level 3
Financial assets in fair value			
Financial assets for trading			
Derivatives	0	13	0
Financial assets compulsorily recognized at fair value			
Loans and liabilities	0	0	31
Financial assets charged against expenses or income			
Debt securities	168	0	0
Loans and liabilities	0	0	14
Securities in FVOCI			
Equity instruments	0	0	33
Debt instruments	12 731	0	
Total assets in fair value	**12 899**	**13**	**78**
Financial liabilities against costs and revenues			
Derivatives for trading	0	35	0
Hedging derivatives	0	16	0
Total liabilities in fair value	**0**	**51**	**0**

In the reported periods, there were no reclassifications between the levels made.

Reconciliation of opening and closing balances at level 3

in CZK mil.	Equity instruments in FVOCI	Loans and liabilities compulsorily in fair value	Loans and liabilities in fair value against costs and revenues	Total
Balance as at 1 January 2019	**33**	**31**	**14**	**78**
Profit and loss of the period as reported in the Income Statement	0	9	0	9
Profit and loss of the period as reported in equity	1	0	0	1
Purchases	0	0	9	9
Payments	0	–22	0	–22
Balance as at 31 December 2019	**34**	**18**	**23**	**75**

27. Subsequent events

After the date of these financial statements, the following subsequent events affecting the operations of the Bank occurred.

On March 11, 2020, the World Health Organization declared the spread of corona virus infection a pandemic, and on March 12, 2020, the Czech government declared a state of emergency. In response to the potentially serious threat that the disease called COVID - 19 means to public health, the state administration authorities of the Czech Republic have taken measures to stop the spread of the pandemic. With effect from 16 March 2020, a nationwide quarantine was introduced, including restrictions on the cross-border movement of people, restrictions on entry for foreigners and the temporary closure of certain industries. This concerns mainly airlines and railways, which have disrupted international passenger transport; schools, universities, restaurants, cinemas, theatres, museums and sports facilities have been closed, as well as retail outlets with the exception of food-stuff and grocery stores, and pharmacies. In addition, the main manufacturers in the automotive industry have decided to suspend their operations both in the Czech Republic and in other European countries. Some companies in the Czech Republic have also ordered their employees to stay at home and have reduced or temporarily suspended their business.

The broader economic impacts of these events include, in particular, disruption of business and economic activity in the Czech Republic with a consequent impact on lower and higher stages of the supply chain, significant disruption of business activity in specific sectors both within the Czech Republic and in markets which are heavily dependent on foreign supply chains, as well as export-oriented companies dependent on foreign markets. The affected sectors include in particular trade and transport, travel and tourism, entertainment industry, manufacturing, construction, retail, insurance, education and financial sectors.

Subsequently, the Government of the Czech Republic adopted measures to support self-employed persons and small and medium-sized enterprises, whose economic activities are limited due to the spread of corona virus infection. The Bank has become an important supporting financial institution in respect of these measures.

In line with its operational risk management procedures and business continuity plans, the Bank has implemented a number of measures to ensure day-to-day operations so that it can fully and adequately fulfil its role in the relevant support programmes announced by the government. Measures include hygiene rules, rules of home-office work, rules for social contact, including contact with customers, organisation of backup workplaces and other measures.

Between 16 and 20 March 2020, the Bank collected applications for preferential working capital loans in the COVID I programme. The program aims at providing working capital financing to self-employed persons as well as small and medium-sized enterprises, whose economic activities are limited due to the corona virus infection and related preventive measures of the Government of the Czech Republic. Loans are provided as interest-free with a grace period. The programme is financed by the Czech Ministry of Industry and Trade, and from the Structural Funds within the OP EIC.

In 2 April 2020 and 3 April 2020, the Bank collected applications for preferential guarantees with interest rate subsidy in the COVID II program, which is a modification of the existing Expansion-Guarantee program. The programme aims at facilitation of the access of self-employed persons, small and medium-sized enterprises to financing their business projects to overcome the economic crisis situation caused by the spread of corona virus infection. The programme is financed from the EU structural funds under the OP EIC.

The Bank is currently preparing, in cooperation with the Ministry of Industry and Trade, the COVID III guarantee program which aims at supporting the provision of another operational working capital financing to customers affected by the coronavirus pandemic. The program will be funded by the Czech Republic.

In 2020, the Bank will continuously monitor and evaluate the impact of the COVID-19 pandemic on its risk profile. The Bank will regularly update its models for creation of provisions and reserves in accordance with IFRS 9 taking into account current assumptions and outlooks, with an emphasis on the precautionary principle.

As regards previously concluded loan agreements, the bank is prepared to reassess and adjust repayment schedules according to the current situation of individual customers.

Due to the long-term high ratio between highly liquid assets and expected liquidity outflows, the Bank does not expect a significant impact of the current situation on its liquidity position. Liquid assets exceed potential outflows in the hundreds of percent. Highly liquid assets held by the Bank for a long time (mainly government bonds of the Czech Republic) are resistant to the current unstable situation on the markets. The Bank also does not find any increased risks on the liabilities side and possible outflows. Deposits are formed mainly of long-term program funds of the state. The bank does not accept deposits or maintain current accounts for the public, so no increase in liquidity outflows are expected.

At this moment, the Bank fully meets the capital requirements set by the regulator and will regularly update its capital ratio calculation models taking into accounts current assumptions and outlook. If the need for capital strengthening due to the increase in business activity is indicated in the frame of capital ratio modelling, the Bank's management is ready to initiate negotiations regarding possible capital strengthening by the shareholder, i.e. the Czech state.

The Bank's management considered the potential impacts of COVID-19 on its activities and business and concluded that they did not have a significant effect on the continuous existence of the Bank. With respect to this, the financial statements as at 31 December 2019 were prepared with the assumption that the Bank is able to continue its activities.

The Bank's management cannot rule out the possibility that the extension or tightening of restrictive measures will have an adverse effect on the Bank, its financial condition and operating results, both in the medium and long term horizon. The Bank's management will continue to closely monitor developments and subsequently respond to them in order to mitigate the consequences of any events and circumstances.

As a part of its approved strategy, the Bank continues to take steps to establish the National Development Fund. The Bank deposited funds to the share capital of the National Development Fund in the amount of CZK 2 million. The fund will be an investment fund with variable share capital under the Czech Act on Investment Companies and Investment Funds. Subsequently, an application for a license to operate the fund was submitted to the Czech National Bank.

On 31 March 2020, the term of office of the Bank's Board of Directors member Ivan Duda terminated. Pavel Fiala joined the Board of Directors on 1 April 2020.

On 14 April 2020, the Board member Ivo Škrabal announced his resignation as of 30 April 2020.

Apart from the above stated facts, the Bank's management is not aware of any other events that would have a significant impact on these financial statements.

28 April 2020

Statutory Body of the Accounting Unit

Jiří Jirásek
Chairman of the Board of Directors

Pavel Fiala
member of the Board of Directors

ČESKOMORAVSKÁ ZÁRUČNÍ A ROZVOJOVÁ BANKA, a. s.

BOARD OF DIRECTORS REPORT ON RELATIONS WITH RELATED ENTITIES IN THE ACCOUNTING PERIOD OF 2019

ANNUAL REPORT **2019**

Report of the Board of Directors of Českomoravská záruční a rozvojová banka, a.s., on relations with related entities in the accounting period of 2019

I. RELATED ENTITIES

Controlled entity:
Českomoravská záruční a rozvojová banka, a.s.,
having its registered office at Jeruzalémská 964/4, Praha 1, 110 00, Company ID no.: 44848943, recorded in the Commercial Register maintained by the Metropolitan Court in Prague under section B file 1329 (hereinafter also „CMZRB“).

Controlling entity:
The Czech Republic represented by:

- the Ministry of Industry and Trade, having its registered office at Na Františku 32, Praha 1, 110 15, Company ID no.: 47609109,
- the Ministry of Regional Development, having its registered office at Staroměstské nám. 6, Praha 1, 110 15, Company ID no.: 66002222,
- Ministry of Finance, having its registered office at Letenská 15, Praha 1, 118 10, Company ID no.: 00006947.

Registered capital of the Českomoravská záruční a rozvojová banka, a.s., amounting to CZK 2 631 626 000 is dividend into 10 988 pieces of registered shares, each having the nominal value of CZK 239 500, which are owned by the Czech Republic.

This report has been produced in accordance with the provisions of Section 82 of Act No. 90/2012 Coll., On Commercial Companies and Cooperatives, as amended, and provides, inter alia, an overview of all contractual relations between the controlling entity and the controlled entity and also between the controlled entity and the entities controlled by the same controlling entity effective in the accounting period for which the relationship report is compiles, i.e. for 2019.

The controlled entity is a special state-owned banking institution performing its activities in the public interest, designed to implement the measures of the economic policy of the Czech Republic, and carried out through various types of financial instruments, in particular through preferential bank guarantees and loans. Its role is to perform activities in the public interest as a specialized banking institution, especially to implement of programmes supporting small and medium-sized enterprises and other selected areas of the economy requiring public support. The controlled entity performs this role managing financial instruments using ESI funds, funds from the European Fund for Strategic Investments as well as funds of the Czech Republic.

The relationship between the controlling entity and the controlled entity is balanced, the advantages and disadvantages are balanced and there are no major risks arising from the mutual relations. The relationship between the controlled entity and the entities controlled by the same controlling entity is also in balance.

In 2019 , the CMZRB established its subsidiary CMZRB investiční, a.s. (hereinafter also „entity controlled by the CMZRB“).

II. RELATIONSHIPS BETWEEN THE CONTROLLING ENTITY AND THE CONTROLLED ENTITY

In the period CONCERNED, no damage occurred in connection with the performance of the following contracts and their amendments, which were concluded by the CMZRB in 2019 or previous years in the following areas of its activity.

1. Programmes to support small and medium-sized enterprises

Agreement on implementation of the Program of loans for business of workers released from the metallurgical industry „START"in 2000.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 21. 9. 2000
- Subject-matter of the agreement: Determination of conditions for providing support for business of workers dismissed from the metallurgical industry.

Agreement on implementation of regional programmes to support small and medium-sized enterprises in the Czech Republic approved for the period 2001 - 2004, as amended by Supplement No. 1 of 4 April 2001, Supplement No. 2 of 2 October 2001, Supplement No. 3 of on 14 January 2002 and Supplement No. 4 of 19 February 2002.

- Contracting parties: CMZRB and the Ministry of Regional Development
- Date of signing: 28. 2. 2001
- Subject-matter of the agreement: Agreement on conditions for the implementation of programmes PREFERENCES, OPERATION, REGION, VILLAGE, REGENERATION, BORDERS and REGIO-GUARANTEE (in Czech: PREFERENCE, PROVOZ, REGION, VESNICE, REGENERACE, HRANICE a REGIOZÁRUKA) to support small and medium-sized enterprises, and on conditions for the use and accounting of funds intended for financing the programmes.

Agreement on implementation of the programme of support for entrepreneurs in areas affected by floods in 2002 „RECONSTRUCTION" as amended by Supplement No. 1 of 20 December 2002, Supplement No. 2 of 29 April 2003 and Supplement No. 3 of 26 January 2010.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 18. 9. 2002
- Subject-matter of the agreement: Agreement on conditions and procedures for the implementation of the programme of support for entrepreneurs in areas affected by floods in 2002 „RECONSTRUCTION" and the use and settlement of funds intended to finance the programme.

Agreement No. 02/3220/051 on the use of funds from the Phare Revolving Fund managed by the Business Development Agency to finance the Programme of Preferential Loans for Start-ups „START", as amended by Supplement No. 1 of 20 December 2002, Supplement No. 2 of 12 September 2003 and Supplement No. 3 of 26 April 2010.

- Contracting parties: CMZRB, the Ministry of Industry and Trade, the Business and Innovation Agency (API)
- Date of signing: 27. 9. 2002
- Subject-matter of the agreement: Agreement on conditions and procedures under which funds from the Phare Revolving Fund will be provided and accounted following the Memorandum of Understanding of 12 August 1997 on the use of returned Phare funds concluded between the European Commission and the Ministry of Industry and Trade to finance the START programme starting from 2002.

Agreement on implementation of selected programmes of the Operational Programme Industry and Entrepreneurship in the years 2004 to 2006, as amended by Supplement No. 1 of 5 November 2004, Supplement No. 2 of 10 August 2005, Supplement No. 3 of 4 November 2005, Supplement No. 4 of 17 March 2006, Supplement No. 5 of 4 April 2006, Supplement No. 6 of 18 April 2009, Supplement No. 7 of 5 June 2012, Supplement No. 8 of 15 February 2013 and Supplement No. 9 of 23 February 2015.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 20. 5. 2004
- Subject-matter of the agreement: Agreement on conditions and procedures for the implementation of the CREDIT, START and INNOVATION programmes approved by the Resolution of the Government of the Czech Republic No. 414/2004 of 28 April 2004, and the conditions and procedures for the use and settlement of funds intended for financing of these programmes under the Operational Program Industry and Enterprise (OPEI) in 2004-2006.

Agreement on implementation of support programmes for small and medium-sized enterprises in the Czech Republic approved for the period 2005 - 2006 as amended by Supplement No. 1 of 16 March 2005, Supplement No. 2 of 11 July 2005, Supplement No. 3 of 25 August 2005, Supplement No. 4 of 14 September 2005, Supplement No. 5 of 29 November 2005, Supplement No. 6 of 30 December 2005, Supplement No. 7 of 4 April 2006, Supplement No. 8 of 3 May 2006, Supplement No. 9 of 30 August 2006, Supplement No. 10 of 4 January 2007, Supplement No. 11 of 23 August 2007, Supplement No. 12 of 30 November 2007, Supplement No. 13 of 26 January 2010, Supplement No. 14 of 22 June 2010 and Supplement No. 15 of 21 May 2018.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 12. 1. 2005
- Subject-matter of the agreement: Definition of conditions and procedures for implementation of the programmes GUARANTEE, MARKET and PROGRESS (in Czech: ZÁRUKA, TRH a PROGRES) and financing of these programmes.

Agreement on creation, use and administration of the Loan Fund R 2006 from the resources of the Phare Revolving Fund, as amended by Supplement No. 1 of 16 February 2009.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 21. 11. 2006
- Subject-matter of the agreement: Agreement on conditions and procedures for implementation of CREDIT programme in cases when the Loan Fund R 2006, created from the Phare Revolving Fund, is used for the financing.

Agreement on implementation of the Market programme and on the establishment and management of a credit fund and a guarantee fund as amended by Supplement No. 1 of 23 August 2007, Supplement No. 2 of 30 November 2007, Supplement No. 3 of 25 April 2007 2012 and Amendment No. 4 of 21 September 2015.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 14. 5. 2007
- Subject-matter of the agreement: Agreement on conditions and procedures for creation of the credit and guarantee funds. In the part concerning the supplementation and administration of the Guarantee Fund P 2007, the Agreement was replaced by the Agreement on Implementation of the Market and GUARANTEE Programmes (guarantees for working capital loans) and on the Establishment and Administration of the Guarantee Fund P 2007 as amended.

Agreement on completion of the implementation of the GUARANTEE and START programmes (preferential guarantees) and on the management of the E 2007 Guarantee Fund within the Operational Programme Enterprise and Innovations for the years 2007-2013.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 4. 5. 2015
- Subject-matter of the agreement: Agreement on conditions and procedures for completion of the implementation of the programmes in cases when the funds of the E 2007 Guarantee Fund are used for programme financing.

This agreement replaced the Agreement on implementation of the GUARANTEE, START (preferential guarantees) and PROGRES (annex) programmes and on the creation and management of the E 2007 Guarantee Fund in the Operational Program Enterprise and Innovations for 2007–2013.

Agreement on implementation of the MARKET and GUARANTEE programs (guarantees for operating loans) and on the creation and management of the Guarantee Fund P 2007 as amended by Supplement No. 1 of 22 April 2009, Supplement No. 2 of 6 November 2009, Supplement No. 3 of 3 March 2010, Supplement No. 4 of 17 August 2010, Supplement No. 5 of 25 October 2010, Supplement No. 6 of 7 June 2011, Supplement No. 7 of on 25 April 2012, Supplement No. 8 of 5 June 2012, Supplement No. 9 of 15 February 2013, Supplement No. 10 of 21 June 2013, Supplement No. 11 of 25 June 2014, Supplement No. 12 of 23 February 2015 and Supplement No. 13 of 9 December 2016.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 16. 2. 2009
- Subject-matter of the agreement: Agreement on conditions of the Guarantee Fund P 2007 administration.

Agreement on implementation of the PROGRES and START programmes and on the creation and management of the E 2007 Loan Fund within the Operational Programme Enterprise and Innovations for 2007-2013, as amended by Supplement No. 1 of 12 July 2012, Supplement No. 2 of 21 June 2013, Supplement No. 3 of 11 December 2013, Supplement No. 4 of 4 May 2015 and Supplement No. 5 of 21 May 2018.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 13. 3. 2009
- Subject-matter of the agreement: Arrangement of mutual relations for the creation, supplementation and administration of the E 2007 Credit Fund, and determination of procedures and conditions for the implementation of the programmes.

Agreement on creation and management of the SV 2012 Guarantee Fund (INOSTART) as amended by Supplement No. 1 of 30 April 2014, Supplement No.2 of 25 June 2014, Supplement No.3 of 15 February 2016 and Supplement No.4 of 20 June 2019

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 6. 9. 2012
- Subject-matter of the agreement: Creation, supplementation and administration of a guarantee fund to support innovative projects, including the definition of procedures and conditions for the provision of guarantees.

Agreement on creation and administration of the Credit Fund N 2013 as amended by Supplement No. 1 of 25 June 2014 and Supplement No. 2 of 21 September 2015.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 11. 12. 2013
- Subject-matter of the agreement: Arrangement of relations for the creation, financing and administration of the Credit Fund N 2013, and agreement on conditions and procedures for the implementation of the REVIT programme.

Agreement on implementation of the GUARANTEE 2015 - 2023 programme and on creation and administration of the Guarantee Fund N 2015 as amended by Supplement No. 1 of 21 September 2015, Supplement No. 2 of 8 February 2016, Supplement No. 3 of 23 August 2016, Supplement No. 4 of 9 December 2016, Supplement No. 5 of 26 October 2017, Supplement No. 6 of 21 May 2018 and Supplement No. 7 of 9 December 2019.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 23. 2. 2015
- Subject-matter of the agreement: Definition of conditions and procedures of the GUARANTEE 2015–2023 programme and agreement on conditions of the Guarantee Fund N 2015 administration.

Agreement on creation and administration of the NX 2017 Credit Fund as amended by Supplement No. 1 of 1 June 2017, Supplement No. 2 of 22 December 2017 and Supplement No. 3 of 5 September 2018.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 9. 5. 2017
- Subject-matter of the agreement: Arrangement of relations for the creation, financing and administration of the Credit Fund NX 2017, and agreement on conditions and procedures for the implementation of ENERG programme.

Agreement on creation and administration of the E 2017 Credit Fund as amended by Supplement No. 1 of 21 May 2018, Supplement No. 2 of 19 November 2018 and Supplement No. 3 of 11 November 2019.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 24. 3. 2017
- Subject-matter of the agreement: Arrangement of relations for creation, financing and administration of the E 2017 Credit Fund, and agreement on conditions and procedures for the implementation of the EXPANSION programme.

Agreement on creation and administration of the EX 2017 Credit Fund as amended by Supplement No. 1 of 26 June 2018 and Supplement No. 2 of 16 April 2019.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 21. 6. 2017
- Subject-matter of the agreement: Arrangement of relations for creation, financing and administration of the EX 2017 Credit Fund, and agreement on conditions and procedures for implementation of the ENERGY SAVINGS programme.

Agreement on creation and administration of the VC 2017 Fund

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 20. 12. 2017
- Subject-matter of the agreement: Arrangement of relations for the creation, financing and administration of the VC 2017 Fund, and agreement on conditions and procedures for investments into the Central Europe Fund of Funds.

Agreement on implementation of the VADIUM programme and on creation and administration of the V 2018 Guarantee Fund

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 26. 6. 2018
- Subject-matter of the agreement: Arrangement of relations for the creation, financing and administration of the V 2018 Guarantee Fund, and agreement on conditions and procedures for the VADIUM programme implementation.

Agreement on creation and administration of E 2018 Guarantee Fund

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 19. 11. 2018
- Subject-matter of the agreement: Arrangement of relations for the creation, financing and administration of the E 2018 Guarantee Fund, and agreement on conditions and procedures for the EXPANSION programme implementation.

2. Programs to support housing for citizens affected by floods

Agreement on the implementation of the Government Decree No. 190/1997 Coll., as amended by Supplement No. 1 of 30 October 2002, Supplement No. 2 of 31 October 2008 and Supplement No. 3 of 15 September 2014.

- Contracting parties: CMZRB and the Ministry of Regional Development
- Date of signing: 23. 9. 1997
- Subject-matter of the agreement: Agreement on mutual relations between the contracting parties aiming at the implementation of Government Decree No. 190/1997 Coll., on provision of financial support for housing of citizens affected by floods in 1997.

Agreement on the implementation of the Government Decree No. 148/1997 Coll. and the Government Decree No. 149/1997 Coll., as amended by Supplement No. 1 of 23 June 1998, Supplement No. 2 of 30 March 1999, Supplement No. 3 of 29 April 1999, Supplement No. 4 of 26 April 2000, Supplement No. 5 of 30 October 2002, Supplement No. 6 of 31 October 2008 and Supplement No. 7 of 15 September 2014.

- Contracting parties: CMZRB and the Ministry of Regional Development
- Date of signing: 7. 11. 1997
- Subject-matter of the agreement: Agreement on mutual relations between the contracting parties aiming at the implementation of the Government Decree No. 148/1997 Coll., on provision of interest-free loans for housing construction, and the Government Decree No. 149/1997 Coll., regulating conditions for further financial assistance to mortgage lending for housing construction.

3. Programme cooperation with other ministries

Agreement on the implementation of the Guarantee of Foreign Development Cooperation (ODA) program and on the creation and administration of the ODA 2019Guarantee Fund

- Contracting parties: CMZRB and the Ministry of Foreign Affairs
- Date of signing: 19. 12. 2018
- Subject-matter of the agreement: Creation, supplementation and administration of the Guarantee Fund ZRS 2019 and agreement on conditions and procedures for the implementation of the ZRS Guarantee Program, when the ODA 2019 Guarantee Fund is used for their financing.

Agreement on creation and administration of the SP 2019 Credit Fund

- Contracting parties: CMZRB and the Ministry of Labour and Social Affairs
- Date of signing: 30. 7. 2019
- Subject-matter of the agreement: Arrangement of relations for creation, financing and administration of the SP 2019 Credit Fund, and agreement on conditions and procedures for the S-ENTERPRISE (in Czech: S-podnik) programme implementation.

4. Loans to municipalities

Financial agreement on the creation and management of the Regional Development Fund in the Czech Republic CZ 96.03.01 as amended by Supplement No. 1 of 23 May 2000, Supplement No. 2 of 30 June 2003, Supplement No. 3 of 18 December 2003, Supplement No. 4 of 16 June 2006, Supplement No. 5 of 28 April 2008, Supplement No. 6 of 11 February 2009, Supplement No. 7 of 18 October 2010, Supplement No. 8 of 20 October 2014 and Supplement No. 9 of 21 September 2015.

- Contracting parties: CMZRB and the Ministry of Regional Development
- Date of signing: 30. 6. 1999
- Subject-matter of the agreement: Establishment of the Regional Development Fund with the original goal of supporting the construction and development of industrial zones, which was subsequently expanded to support the development of transport, water and other municipal infrastructure, as well as setting principles for the organization, management and lending from the Regional Development Fund.

5. Provision of banking services

5.1 Contracts with organizational units of the state to ensure the implementation and administration of payments under infrastructure programmes

Agreement on performing the activities of a financial manager in connection with loans received from the European Investment Bank, reg.no. 2001-9003.

- Contracting parties: CMZRB, the Ministry of Finance and the State Fund of Transport Infrastructure
- Date of signing: 3. 9. 2001
- Subject-matter of the agreement: Agreement on mutual relationship between the contracting parties in performance of activities related to loans received by CMZRB from the European Investment Bank for financing the programmes of reconstruction and construction of the transport and water management infrastructures in the Czech Republic.

Agreement on ensuring cooperation between the Ministry of Finance, the Ministry of Agriculture and CMZRB in the implementation of actions included in the Program for the Support of Water Management Investments in the Czech Republic (EIB), reg. no. 2002 – 9009 as amended by Supplement No. 1 of 16 August 2005.

- Contracting parties: CMZRB, the Ministry of Finance and the Ministry of Agriculture
- Date of signing: 24. 2. 2002
- Subject-matter of the agreement: Agreement on mutual relationship between the contracting parties in performance of activities related to loans received by CMZRB from the European Investment Bank and the Council of Europe Bank (CEB) for financing the programmes of water supply and sewerage infrastructure reconstruction and construction in the Czech Republic.

Agreement on the management of funds for the Czech Motorways Project B as amended by Supplement No. 1 of 22 December 2004 and Supplement No. 2 of 22 March 2013.

- Contracting parties: CMZRB, the Ministry of Finance and the State Fund for Transport Infrastructure
- Date of signing: 4. 7. 2002
- Subject-matter of the agreement: Agreement on mutual relationship between the contracting parties in performance of activities related to use of loans received by CMZRB from the European Investment Bank for the Czech Motorways Project B.

Agreement on mutual cooperation in the implementation of the Czech Motorways Project B as amended by Supplement No. 1 of 16 March 2005.

- Contracting parties: CMZRB and the Ministry of Transport
- Date of signing: 20. 9. 2002
- Subject-matter of the agreement: Agreement on mutual relationship between the contracting parties for financing the Czech Motorways Project B.

Agreement on mutual cooperation in the administration of payments of part of interest on commercial loans within the program 229 310 - Construction and renovation of water supply and sewerage infrastructure and program 129 180 - Construction and renovation of water supply and sewerage infrastructure II,, as amended by Supplement No. 1 of 15 October 2009 and Supplement No. 2 of 29 July 2010.

- Contracting parties: CMZRB and the Ministry of Agriculture
- Date of signing: 7. 8. 2008
- Subject-matter of the agreement: Agreement on mutual relationship between the contracting parties in the administration of payments of part of interest on commercial loans within the programmes for construction and renovation of water supply and sewerage infrastructure.

Agreement on the management of the owner's account with the Central Securities Depository

- Contracting parties: CMZRB and the Ministry of Regional Development
- Date of signing: 29. 8. 2014
- Subject-matter of the agreement: Arrangement of mutual rights and duties of the contracting parties in the management of the owner's account with the Central Securities Depository.

5.2 Agreements on opening and maintenance of accounts

Agreement on the opening and maintenance of a special current account number 21/2006/U.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 21. 11. 2006
- Subject-matter of the agreement: Agreement on the opening and maintenance of a special current account in CZK.

Agreement on the opening and maintenance of special current accounts number 09/2009/U, as amended by Supplement No. 1 of 17 March 2011 and Supplement No. 2 of 10 May 2013.

- Contracting parties: CMZRB and the Ministry of Agriculture
- Date of signing: 15. 10. 2009
- Subject-matter of the agreement: Agreement on the opening and maintenance of a special current account in CZK.

Agreement on the opening and maintenance of a special current account number 02/2017/U, terminated by the Agreement on Termination of the Agreement on the opening and maintenance of the special current account number 2/2017/U of 26 July 2019.

- Contracting parties: CMZRB and the Ministry of Industry and Trade
- Date of signing: 10. 05. 2017
- Date of termination: 26. 07. 2019
- Subject-matter of the agreement: Agreement on the opening and maintenance of a special current account in CZK, the account is used to deposit the share capital of the NIF.

6. Agreement on cooperation in the area of AML

Agreement on cooperation in the frame of the Money Web Lite project

- Contracting parties: CMZRB and the Ministry of Finance – Financial-and-analytical department
- Date of signing: 21. 05. 2014
- Subject-matter of the agreement: Transmission of information for the purpose of meeting the legal notification obligation.

7. Financial markets

During 2019, CMZRB accepted short-term deposits from the Ministry of Finance in the form of deposits and reverse repo operations with the maturity of up to 14 days. The operations took place under standard conditions for transactions on the financial markets.

III. RELATIONS BETWEEN THE CONTROLLED ENTITY, OTHER ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY AND ENTITIES CONTROLLED BY CMZRB

In the accounting period, the contractual relations between CMZRB and other entities controlled by the Czech Republic were concentrated in activities to the extent specified in points 1 to 4 of this chapter.

No damage occurred during the accounting period in connection with the performance of the following contracts and amendments. The individual banking services were performed under standard business conditions and CMZRB did not incur additional costs, risks or any harm due to them.

1. Implementation of a program to support repairs of apartment buildings

Agreement on the implementation of the Programme to support repairs of apartment buildings built with panel technology in the part related to subsidies as amended by Supplement No. 1 of 29 February 2012, Supplement No. 2 of 8 April 2013, Supplement No. 3 of 3 September 2013, Supplement No. 4 of 1 September 2014 and Supplement No. 5 of 11 August 2016.

- Contracting parties: CMZRB and the State Housing Development Fund (hereinafter „SFRB“)
- Date of signing: 21. 12. 2011
- Subject-matter of the agreement: Arrangement for mutual relationship between SFRB and CMZRB in implementation of the Regulation, the Programme to support repairs of apartment buildings built with panel technology PANEL and the Programme to support repairs and modernisation of apartment buildings NEW PANEL.

Agreement on the implementation of the Programme to support repairs of apartment buildings in the part related to bank guarantees (Consolidated Agreement 2) as amended by Supplement No. 1 of 3 September 2013, Supplement No. 2 of 23 February 2017.

- Contracting parties: CMZRB and the State Housing Development Fund
- Date of signing: 17. 6. 2013
- Subject-matter of the agreement: Arrangement for mutual relationship between SFRB and CMZRB in administration of guarantees provided based on the Programme to support repairs of apartment buildings built with panel technology PANEL and the Programme to support repairs and modernisation of apartment buildings NEW PANEL for the period when new guarantees will not be provided anymore.

2. Relations with the company CMZRB investiční, a.s.

Agreement on the provision of a voluntary shareholder surcharge off the company's share capital.

- Contracting parties: CMZRB and CMZRB investiční, a.s.
- Date of signing: 18. 12. 2019
- Subject-matter of the agreement: Arrangement of mutual relations between CMZRB and CMZRB investiční, a.s. in relation to the provision of a voluntary surcharge made by the sole shareholder (CMZRB) to the equity of CMZRB investiční, a.s. off its share capital.

3. Relations with the company MUFIS a.s. (original name Municipální finanční společnost a.s., shortened as MUFIS a.s.)

Contract of Mandate as amended by Supplement No. 1 of 20 December 2017 and Supplement No. 2 of 28 August 2018

- Contracting parties: CMZRB and MUFIS a.s.
- Date of signing: 7. 11. 2012
- Subject-matter of the agreement: CMZRB on behalf of MUFIS a.s. and for its account, for a fee, performs and procures activities aimed at the realization of receivables and liabilities of MUFIS, as well as the company's obligations arising from generally binding regulations.

4. Relations to Czech Export Bank (Česká exportní banka, a.s.)

Agreement on conditions for provision of portfolio guarantees in the frame of programme GUARANTEE 2015-2023.

- Contracting parties: CMZRB and Czech Export Bank
- Date of signing: 4. 5. 2015
- Subject-matter of the agreement: Definition of principles for the coordination of procedures within the provision of bank guarantees for loans of Czech Export Bank, principles for the inclusion of loans in the portfolio of guaranteed loans and information obligations of Czech Export Bank against CMZRB.

Agreement on cooperation in providing individual guarantees within the program GUARANTEE (ZÁRUKA) 2015-2023

- Contracting parties: CMZRB and Czech Export Bank
- Date of signing: 11. 5. 2015
- Subject-matter of the agreement: Definition of principles for the coordination of procedures within the provision of bank guarantees for loans of Czech Export Bank, and information obligations of Czech Export Bank against CMZRB.

Memorandum of Partnership and Cooperation

- Contracting parties: CMZRB and Czech Export Bank
- Date of signing: 30. 6. 2017
- Subject-matter of the agreement: Support and financing of SMEs, development and joint implementation of financial instruments and preparation of their legislative environment.

5. Relations to Česká rozvojová agentura and EGAP

Memorandum of Partnership and Cooperation

- Contracting parties: CMZRB, Czech Development agency (Česká rozvojová agentura – ČRA) and Export Guarantee and Insurance company EGAP (Exportní garanční a pojišťovací společnost, a.s.)
- Date of signing: 11. 10. 2017
- Subject-matter of the agreement: Exchange of information and coordination of activities, especially in the implementation of national programmes and European Union initiatives; informing target groups about products and projects provided by CMZRB, ČRA and EGAP.

6. Relations to the Business and Investment Development Agency CzechInvest

Memorandum of Partnership and Cooperation

- Contracting parties: CMZRB and CzechInvest
- Date of signing: 10. 10. 2017
- Subject-matter of the agreement: Exchange of information and coordination of activities, especially in providing products in regions, informing target groups about products of CMZRB and CzechInvest, support to start-ups, support to development of brownfields, innovations and technology transfer.

7. Relations to Technology Agency of the Czech Republic

Memorandum of Partnership and Cooperation

- Contracting parties: CMZRB and Technology Agency of the Czech Republic
- Date of signing: 19. 3. 2018
- Subject-matter of the agreement: Cooperation in the area of support research and development, experimental developments and innovations with the focus on supports to innovative small and medium-sized enterprises and their involvement in research and development projects in cooperation with larger research organisations.

8. Relations in the frame of the project "Czech Republic – The Country For The Future" implemented by the Ministry of Trade and Industry

Memorandum on shared business support

- Contracting parties: MPO, CMZRB, Czech Invest, CzechTrade, CzechTourism, ČEB, a.s., EGAP, a.s. and TAČR
- Date of signing: 2. 10. 2018
- Subject-matter of the agreement: Cooperation between partners through the exchange of information, sharing contacts, coordination of activities, strengthening horizontal links and other activities.

9. Provision of banking services

Internet banking contract no. 09/2009/IB.

- Contracting parties: CMZRB and the State Housing Development Fund
- Date of signing: 5. 5. 2009
- Subject-matter of the agreement: Mutual agreement of the contracting parties allowing customer's remote access into Bank's internet banking.

Agreement on the establishment opening and maintenance of a special current account no. 01/2016/U.

- Contracting parties: CMZRB and Exportní garanční a pojišťovací společnost, a.s.
- Date of signing: 23. 12. 2016
- Subject-matter of the agreement: Agreement on the establishment opening and maintenance of a special current account in CZK.

Framework agreement on term deposits no. 01/2016/T.

- Contracting parties: CMZRB and Exportní garanční a pojišťovací společnost, a.s.
- Date of signing: 23. 12. 2016
- Subject-matter of the agreement: Agreement on conditions for opening and maintenance of term deposits in CZK.

Agreement on current account administration no. 1/1999 of 16 April 1999, Supplement No. 1 of 30 June 2011, Supplement No. 2 of 17 December 2013 and Supplement No. 3 of 24 March 2015.

- Contracting parties: CMZRB and MUFIS a.s.
- Date of signing: 16. 4. 1999
- Subject-matter of the agreement: Agreement on maintenance of current accounts in CZK.

Agreement on the opening and maintenance of a special current account no. 23/2004/UE as amended by Supplement No. 1 of 15 November 2005, Supplement No. 2 of 14. 5. 2009 and Supplement No. 3 of 6 December 2012.

- Contracting parties: CMZRB and MUFIS a.s.
- Date of signing: 14. 12. 2004
- Subject-matter of the agreement: Agreement on the opening and maintenance of a special current account in CZK and mutual agreement of the contracting parties allowing customer's remote access into Bank's internet banking.

Framework agreement on term deposits no. 23/2004/T.

- Contracting parties: CMZRB and MUFIS a.s.
- Date of signing: 14. 12. 2004
- Subject-matter of the agreement: Agreement on conditions for opening and maintenance of term deposits in CZK.

Internet banking contract no. 06/2009/IB.

- Contracting parties: CMZRB and MUFIS a.s.
- Date of signing: 14. 5. 2009
- Subject-matter of the agreement: Mutual agreement of the contracting parties allowing customer's remote access into Bank's internet banking.

Agreement on the settlement of over-the-counter trades and transactions no. 1/2015/MOT.

- Contracting parties: CMZRB and Česká exportní banka, a.s.
- Date of signing: 14. 10. 2015
- Subject-matter of the agreement: Settlement of agreed securities trades on the basis of instructions received from the Czech Export Bank, and conclusion and settlement of block trades between the contracting parties.

Agreement on cooperation within the system of payments carried out by postal money orders of A type.

- Contracting parties: CMZRB and Česká pošta, s.p.
- Date of signing: 30. 1. 2006
- Subject-matter of the agreement: Agreement on mutual relations between the contracting parties when making payment transactions by postal orders of A type.

Agreement on cooperation

- Contracting parties: CMZRB and State Fund of Transport Infrastructure
- Date of signing: 26. 5. 2017
- Subject-matter of the agreement: Creating a framework for cooperation between the contracting parties to provide payments for the selected transport sector projects financed from the budget of the State Fund.

Agreement on the establishment opening and maintenance of a special current account no. 04/2017/UK.

- Contracting parties: CMZRB and Podpůrný a garanční rolnický a lesnický fond, a.s. (Support and guarantee farm and forestry fund)
- Date of signing: 13. 3. 2018
- Subject-matter of the agreement: Agreement on the opening and maintenance of a special current account in CZK with an overdraft facility.

Framework agreement on term deposits no. 01/2017/TC.

- Contracting parties: CMZRB and Podpůrný a garanční rolnický a lesnický fond, a.s. (Support and guarantee farm and forestry fund)
- Date of signing: 13. 3. 2018
- Subject-matter of the agreement: Agreement on conditions for establishment and maintenance of term deposits in CZK.

Internet banking contract no. 02/2017/IB.

- Contracting parties: CMZRB and Podpůrný a garanční rolnický a lesnický fond, a.s. (Support and guarantee farm and forestry fund)
- Date of signing: 13. 3. 2018
- Subject-matter of the agreement: Mutual agreement of the contracting parties allowing customer's remote access into Bank's internet banking.

Agreement on the establishment opening and maintenance of a special current account no. 03/2019/U.

- Contracting parties: CMZRB and CMZRB investiční, a.s.
- Date of signing: 03. 09. 2019
- Subject-matter of the agreement: Agreement on the opening and maintenance of a special current account in CZK, account for Bank's subsidiary.

Internet banking contract no. 02/2019/IB.

- Contracting parties: CMZRB and CMZRB investiční, a.s.
- Date of signing: 03. 09. 2019
- Subject-matter of the agreement: Mutual agreement of the contracting parties allowing customer's remote access into Bank's internet banking.

Framework agreement on term deposits no. 03/2019/T.

- Contracting parties: CMZRB and CMZRB investiční, a.s.
- Date of signing: 03. 09. 2019
- Subject-matter of the agreement: Agreement on conditions for establishment and maintenance of term deposits in CZK.

10. Other

Agreement on the use of a payment machine to pay for postal services no. 2017/26469

- Contracting parties: CMZRB and Česká pošta, s.p.
- Date of signing: 12. 12. 2017
- Subject-matter of the agreement: Agreement on the conditions and use of the NEOPOST franking machine.

Agreement on Hybrid Post Office service no. 2018/18523

- Contracting parties: CMZRB and Česká pošta, s.p.
- Date of signing: 20. 12. 2018
- Subject-matter of the agreement: Agreement on conditions and use of the service Hybrid Post Office.

11. Financial markets

During 2019, CMZRB accepted short-term deposits from Česká exportní banka, a.s., Exportní garanční a pojišťovací pojišťovna, a.s (EGAP) and MUFIS, a.s. with the maturity of up to 30 days. The operations took place under standard conditions for transactions on the financial markets.

In Prague on 21 January 2020

Ing. Jiří Jirásek
Chairman of the Board of Directors

Ing. Ivo Škrabal
member of the Board of Directors

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