

# **ANNUAL REPORT**

# 2018

**25**let



**Raiffeisen**  
**STAVEBNÍ SPOŘITELNA**

# ANNUAL REPORT 2018

## RAIFFEISEN STAVEBNÍ SPOŘITELNA A.S.

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## INTRODUCTION FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Ladies and Gentlemen,

It has become a tradition to address you with a review of the past year. Writing my review today is a joyous task, since 2018 was a very successful year for our Company, and in fact an extremely successful year in many respects. I am certain that reading this annual report will lead you to the same conclusion.

The recently ended year, 2018, deserves a positive rating in terms of the building savings sector as well as the entire Czech economy, which went through a moderate boom. Gross domestic product continued to grow and was driven once again primarily by household consumption, although the growth rate has now dropped below three percent. The extremely low unemployment rate showed an increasing impact on the economy. On the one hand dynamic growth boosted household consumption growth, but on the other hand potential development in corporations was hindered by the lack of a qualified labour force.

The most significant feature of 2018 was a gradual increase in interest rates, which substantially influenced the price and availability of loans. Although consumer housing loans did not reach the record high of the previous year, 2018 will still be remembered as a champion year. Moreover loan accessibility moved beyond the realm of economics and became a topic of public debate. The Czech National Bank tries to mitigate the future risks of the impact of growing interest rates on less creditworthy clients through a legislative amendment. To date, the CNB has failed to generate sufficient political support for this initiative and therefore implemented the regulation through a recommendation applicable since October 2018. The recommendation gave banks guidelines for assessing creditworthiness, which complement the previously issued recommendation regulating the admissible loan amount in proportion to the mortgaged property.

Clients were prompted to make more expedient decisions by rising real property prices, growing interest rates, and last but not least by efforts to arrange loans before the CNB regulation was applied.

For Raiffeisen stavební spořitelna, 2018 was a year full of innovations. The biggest change was the deployment of a new system for processing and assessing loans to natural persons. The project, financially and technologically the most demanding of any project we have ever implemented, took almost two years to complete and propelled us to the top of all consumer housing loan providers. The new system makes our sales staff's work much easier and clients' loan processing much faster. We take pride in the fact that two thirds of our clients have their loans approved within two business days from the signing of the loan application.

I am proud of the business results we achieved in 2018. New loans in particular exceeded my expectations. Loans to natural persons worth CZK 12.6 bn and loans to housing cooperatives and associations of unit owners worth CZK 3.2 bn represent an all-time high for our Company. These excellent figures are the product of many people's efforts to prepare the groundwork for our sales staff. Yet the key driving force were our sales staff themselves. They acted like a fine-tuned orchestra last year and it is my belief that we have much to look forward to this year again. We also achieved significant success in sales of savings contracts and in topping-up the target amounts. We concluded a total of 86,000 contracts, surpassing the previous year by 34%. Thanks to our excellent commercial results the volume of loans grew to CZK 49 bn and the overall loan-to-deposit ratio reached 77%.

Reviewing last year's financial results can continue on a very positive note, too. 2018 was the first year following implementation of the new IFRS 9 accounting standards. We succeeded in significantly surpassing the plan approved for the year. The total net profit of CZK 516 bn exceeded the 2017 results by 16%. The net interest margin increased particularly owing to loan volume growth. The incremental growth of interest rates on new and refinanced loans is likely to be reflected in the interest profit only this year. The good overall standing of the Czech economy also contributed to very low non-performing loan costs. We also saw very positive development of administrative expenses, which grew by a mere 7% year-on-year.

We are well aware that our society includes people who need our help. We give back to our community regularly where help is needed most. Our employees also actively engage in charity projects.

The generally positive results achieved last year reflect the outstanding commitment of all our employees and financial advisors. I truly value their efforts and am confident that we will continue to build a successful, self-assured Raiffeisen stavební spořitelna in the years to come.

In conclusion, I would like to thank all of our clients for placing their long-term trust in us. We view it as a commitment to continue enhancing the level of our services. Building savings remains the safest, most advantageous financial product. As a body, we believe and will continue to believe in the building savings concept.



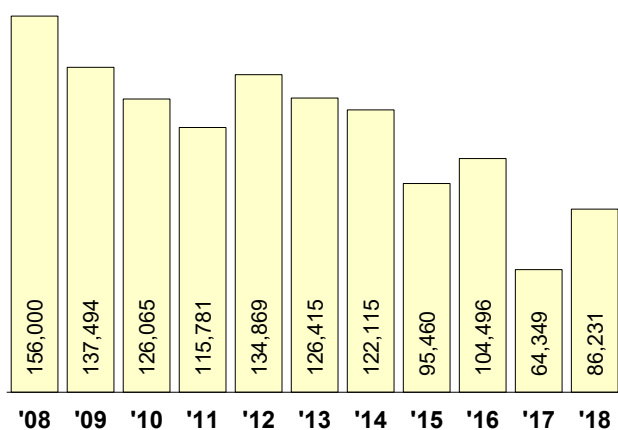
Ing. Jan Jeníček  
Chairman of the Board of Directors



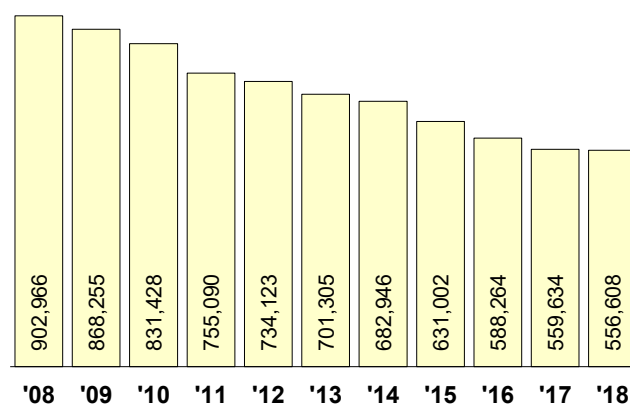
## SURVEY OF KEY ECONOMIC INDICATORS

	Units	2018	2017
Number of new building savings contracts by natural persons	pcs	74,225	59,468
Number of topped-up building savings contracts by natural persons	pcs	12,006	4,881
Number of valid building savings contracts by natural persons	pcs	556,608	559,634
Number of valid loan contracts by natural persons	pcs	100,030	98,542
Volume of new loans by natural persons and legal entities	MCZK	15,816	10,928
Balance sheet total	MCZK	69,056	67,230
Client deposits	MCZK	63,636	61,870
Client loans	MCZK	49,264	41,614
Registered capital	MCZK	650	650
Equity	MCZK	4,776	4,779
Total income	MCZK	2,682	2,791
Total expenses	MCZK	-2,166	-2,347
Profit/loss for the accounting period after taxation	MCZK	516	444
Total capital ratio	%	14.51	16.02
ROAA – Return on average assets	%	0.77	0.67
ROAE – Return on average equity Tier 1	%	12.69	10.56
Assets per employee	MCZK	261	249
Administrative expenses per employee	MCZK	-1.792	-1.636
Net earnings per employee	MCZK	1.947	1.644
Number of employees	Number of individuals	265	270

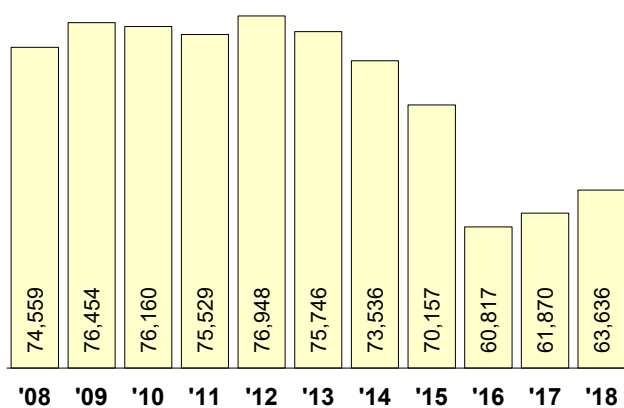
**New and topped-up building savings contracts by natural persons (quantity)**



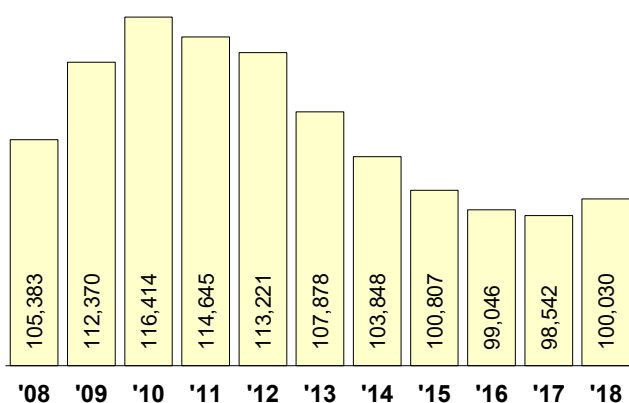
**Valid building savings contracts by natural persons as at EOY (quantity)**



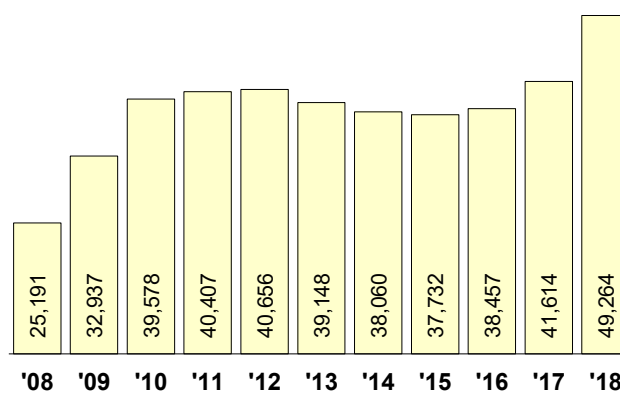
**Deposits by building savings clients as at EOY (MCZK)**



**Valid loan contracts by natural persons as at EOY (quantity)**



**Client loans as at EOY (MCZK)**



## SHAREHOLDERS

### Raiffeisen Bausparkassen Holding GmbH

Vienna-based Raiffeisen Bausparkasse Gesellschaft m.b.H. holds a 90% share in Raiffeisen stavební spořitelna through its subsidiary Raiffeisen Bausparkassen Holding.

In Austria, building societies have co-financed the construction, purchase and upgrade of numerous housing units in last decades. Raiffeisen Bausparkasse with its approx. 1.54 million clients has played an important role in the sector. Over the 57-year history of Raiffeisen Bausparkasse financing has been provided for more than 490,000 family homes for over 1.3 million people.

In the persistent low interest rate environment in 2018 building savings continued to demonstrate its strength in Austria. That was reflected in very strong business development at Raiffeisen Bausparkasse. A total of 238,631 new building savings contracts were concluded. Loan business also developed very positively; loans in a total amount of EUR 926 million were provided in 2018. This makes Raiffeisen Bausparkasse the market leader among Austrian building societies.

The Austrian building savings model also helps people in Central and Eastern Europe fulfil their housing dreams. Raiffeisen Bausparkasse's foreign engagement has been a firm part of its corporate strategy for the past 26 years. The company's subsidiaries in the Czech Republic, Slovakia and Romania manage a total of 1.5 million clients and building savings deposits in a total volume of approximately EUR 5 billion.

### Raiffeisenbank a.s.

Raiffeisenbank a.s. owns 650 shares of Raiffeisen stavební spořitelna a.s. and its share in the registered capital and voting rights is 10%. Since 1993 Raiffeisenbank has provided a wide spectrum of banking services to both private and corporate clients in the Czech Republic.

The bank serves clients through a network of more than 130 branches and client centres and provides services through specialized mortgage loan centres and personal, corporate and business advisors. Raiffeisenbank is the fifth largest bank on the Czech market in terms of total assets.

Raiffeisenbank primarily targets more affluent clients who are looking for high quality services, active management of finances and professional advisory services.

The high quality of the bank's services has been recognized through many domestic and international awards. One that deserves special mention is the bank's repeated success in the Hospodářské noviny competition, where Raiffeisenbank was the first and is still the only bank to have won in two categories in a single year. In 2018 the bank was recognized as the "Most client-friendly bank of the year" in this prestigious award program for the fourth year in a row, which no other bank can boast. In addition to its business activities and in line with its 140-year tradition the bank engages in many non-profit efforts through cultural, educational and charity projects.

The bank's majority shareholder is the Austrian financial institution Raiffeisen Bank International AG (RBI). RBI provides services to corporate and investment clients in Austria and also serves clients in many Central and Eastern European countries. Since 2005 the group's shares have been listed on the Vienna stock market.

## COMPANY BODIES AND ORGANIZATIONAL STRUCTURE

### General Meeting

The General Meeting is the Company's supreme body. One meeting of the General Meeting was held in 2018 on 25 April, 2018 at the Company seat in Prague.

### Supervisory Board

<b>Mag. Hans Christian Vallant – Chairman</b>	
In office	Since 23 November, 2015 (member of the Supervisory Board since 30 June, 2014)
Company	Raiffeisen Bausparkassen Holding GmbH, Vienna
<b>Mag. Manfred Url – Deputy Chairman</b>	
In office	Since 23 November, 2015 (member of the Supervisory Board since 30 June, 2014)
Company	Raiffeisen Bausparkassen Holding GmbH, Vienna
<b>Mag. Christian Weidinger</b>	
In office	Since 30 September, 2015
Company	Raiffeisen Bausparkasse Gesellschaft m.b.H., Vienna
<b>Ing. Igor Vida</b>	
In office	Since 15 December, 2016
Company	Raiffeisenbank a.s., Prague

**Audit committee**

<b>Ing. Josef Malíř – Chairman</b>	
In office	Since 14 June, 2018 (member of the Audit Committee since 1 May, 2018)
<b>Mag. Christian Weidinger – Deputy Chairman</b>	
In office	Since 14 June, 2018 (member of the Audit Committee since 1 May, 2018)
<b>Ing. Jana Musilová</b>	
In office	Since 1 May, 2018
<b>Mag. Hans Christian Vallant – Chairman</b>	
In office	From 1 July, 2014 (member of the Audit Committee since 29 April, 2014) until 1 May, 2018
<b>Mag. Manfred Url</b>	
In office	From 29 April, 2014 until 1 May, 2018
<b>Ing. Igor Vida</b>	
In office	From 15 December, 2016 until 1 May, 2018

**Board of Directors**

**Dr. Ing. Pavel Chmelík**  
Deputy Chairman of the Board  
In office since 1 July, 2014

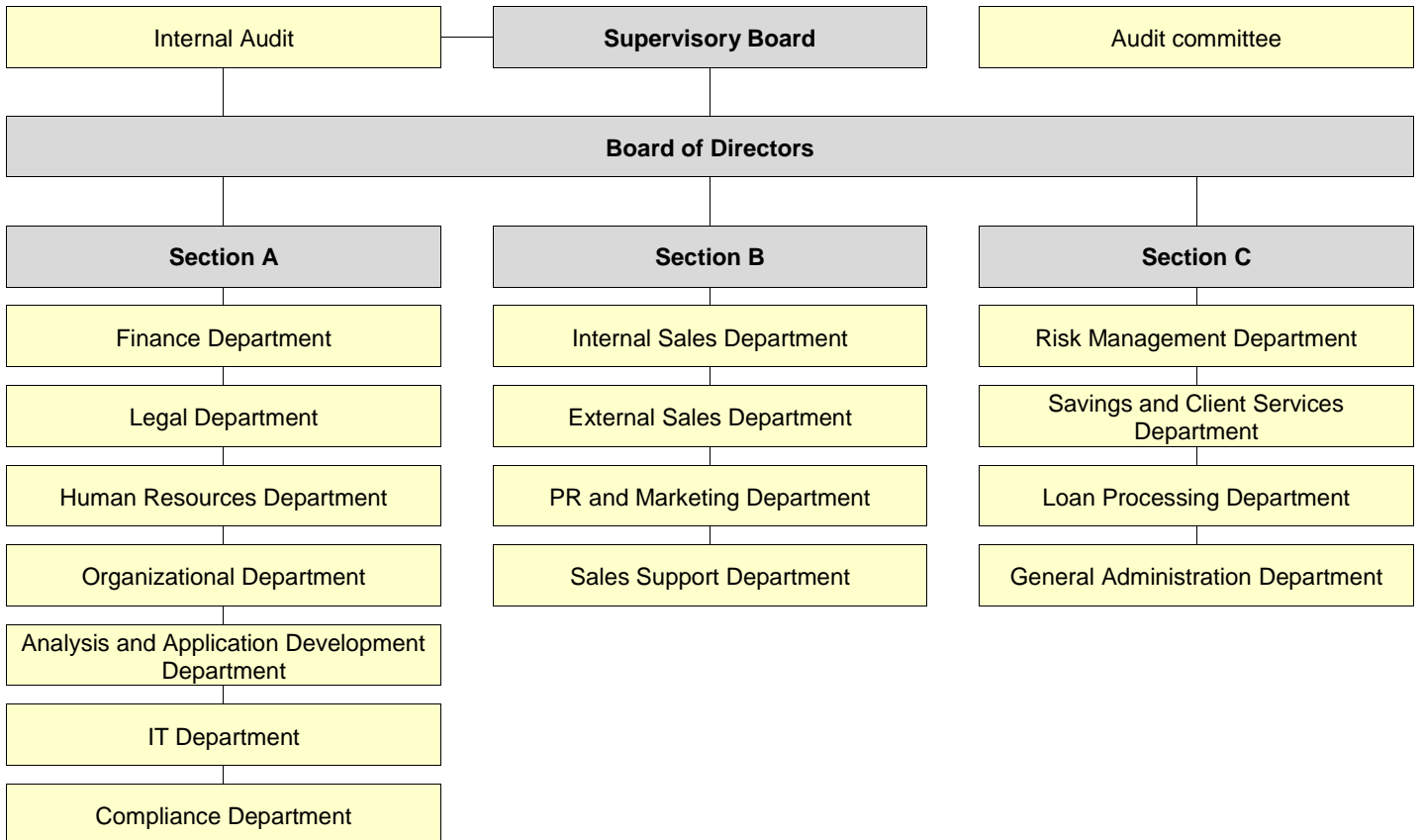


**Ing. Jan Jeníček**  
Chairman of the Board  
In office since 21 December, 2007  
member of the Board of Directors since  
23 November, 2000



**Mgr. Roman Hurych**  
Deputy Chairman of the Board  
In office since 17 December, 2010

## Organizational structure of the Company as at 31 December, 2018

**Advisory Bodies to the Board of Directors**

Credit Risk Management Committee

ALCO Assets and Liabilities Committee

ORCO Operational Risk Management Committee

Change Management Committee

Security Committee



## BOARD OF DIRECTORS' REPORT ON THE COMPANY'S BUSINESS ACTIVITY AND STATUS OF ASSETS

### Sales

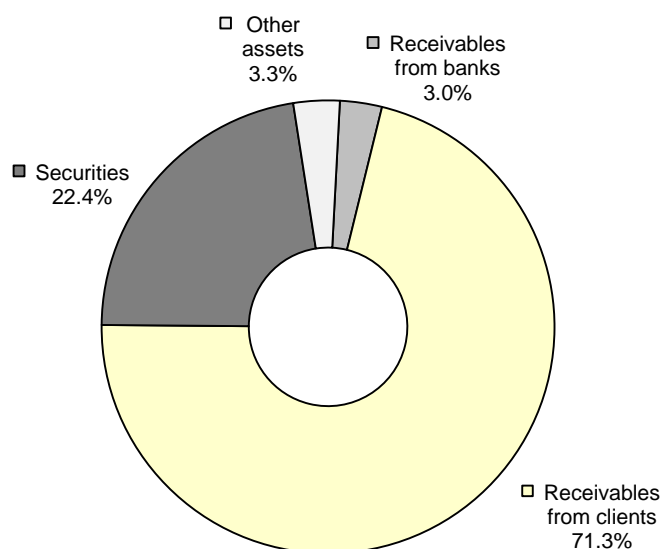
2018 was an exceptionally successful year for Raiffeisen stavební spořitelna in terms of building savings contract sales. The Company reported record high loan sales. The volume of new loan sales was almost CZK 15.8 billion, which equals year-on-year growth of over 48% and the highest annual loan sales volume the Company has ever had. It is also pleasing to note that sales grew in consumer loans, mortgage loans as well as loans to legal entities.

Raiffeisen stavební spořitelna concluded more than 86,000 new savings contracts (growth of 34%). Given that our partnership with Česká pošta came to an end, this is an excellent result. Raiffeisen stavební spořitelna has more than 550,000 valid building savings contracts by natural and legal persons in its portfolio.

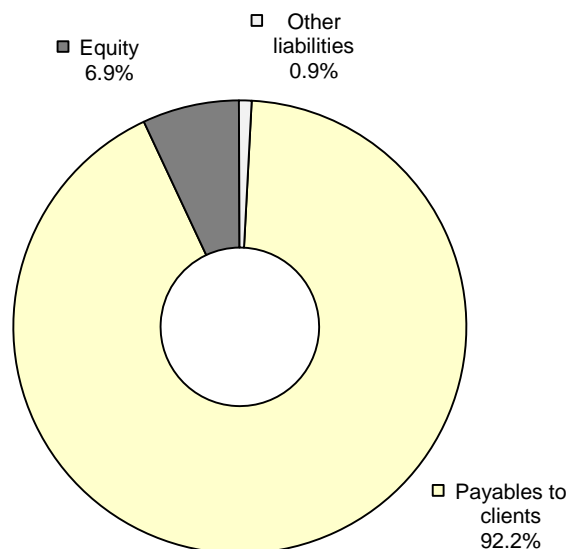
Other financial products, primarily insurance products which largely cover risks associated with provision of loans to our clients, constitute another important component of Raiffeisen stavební spořitelna's sales. We helped clients conclude almost 9,000 of these contracts in full alignment with our Company's expectations.

Raiffeisen stavební spořitelna's professional team of in-house financial advisors, who provide high quality advisory services at 180 advisory centres throughout the Czech Republic, continues to be our most important distribution channel for all types of products in our portfolio. Other companies also play an important part in our distribution channel mix. In this area our Company managed to significantly enhance its market share among competing building societies.

### Structure of assets in 2018



### Structure of liabilities in 2018



### Commentary on financial results

Raiffeisen stavební spořitelna's net profit in 2018 was CZK 516 million. Net profit grew by 16.2% year-on-year. The total volume of the Company's assets equalled CZK 69.1 billion, having grown nearly CZK 1.8 billion year-on-year, or 2.7% in relative terms. The total amount of client deposits grew by more than CZK 1.8 billion, i.e. by 2.9% in relative terms.

Compared to previous years, the loan balance showed dramatic growth. It grew by CZK 7.7 billion, i.e. by 18.4% in relative terms (2017 growth equalled 8.2%). The total volume of loans provided by Raiffeisen stavební spořitelna in 2018 was CZK 15.8 billion. The total volume of receivables from clients was CZK 49.3 billion. The volume of securities held continued to drop, with a decrease of more than CZK 1 billion.

Interest profit equalled CZK 993 million. It grew year-on-year by CZK 186 million (+23.0%). There were two main factors in interest profit growth. The first was the impact of cost cutting measures from previous years on client deposits. These costs decreased year-on-year by CZK 41 million, or 4.6% in relative terms. Secondly, there was a substantial increase in the new loan balance which resulted in year-on-year growth in loan interest income by CZK 82.3 million, or 5.8% in relative terms. Income from securities dropped by CZK 62 million year-on-year due to lower volumes held. Income from bank deposits on the contrary grew year-on-year by almost CZK 30 million particularly owing to the five-fold increase in the CNB two-week repo rate over the year, namely from 0.50% up to 1.75%.

Net profit from fees and commissions equalled CZK 248 million, which is a year-on-year increase of CZK 57 million (29.8%). With the introduction of IFRS 9, fee and commission income newly enters into the calculation of the effective interest rate for the respective

contract. Fee and commission income grew year-on-year by CZK 8 million, or 2.5% in relative terms, while fee and commission expenses decreased by CZK 49 million, or 37.7% in relative terms.

Other significant factors that contributed to the overall financial result in the year-on-year comparison was a reduction of CZK 33 million (-7.5%) in administrative costs, owing in particular to savings in other administrative costs by CZK 24 million. Tangible and intangible asset depreciation was higher by CZK 7 million (+16.3%).

Despite significant growth in the loan volume, thanks to thorough management of credit risks the volume of non-performing loans decreased year-on-year by CZK 90 million, to CZK 1.2 billion. The ratio of non-performing loans to total loans dropped from 2.95% to 2.32%. Total loss allowance costs (the difference between creation and release) were CZK 38 million, down CZK 33 million year-on-year.

With the introduction of IFRS 9, the perspective for creation of loss allowances for assets has utterly changed. The change consists in recording expected losses rather than incurred losses in the accounts. This appeared in the initial recognition as at 01/01/2018 which was associated with the change in the accounting policies; additional loss allowances had to be created for receivables from clients, debt securities, and other receivables. Raiffeisen stavební spořitelna created additional loss allowances in the amount of CZK 170 million projected against the income statement of previous years.

In early 2018 in association with IFRS 9 implementation Raiffeisen stavební spořitelna reclassified its portfolio of available-for-sale (AFS) securities worth CZK 1.3 billion and transferred them to the held-to-maturity portfolio. At the same time a loss allowance was newly created as at 01/01/2018 in the amount of CZK 253,000. Stagnation, or rather the reduction in the securities volume year-on-year was due to allocation of all available liquidity to new loans.

The Company's overall liquidity is very good.

Participation interests with controlling influence did not change year-on-year; they are comprised of a 100% interest in KONEVOVA s.r.o.

### Information about acquisition of own shares or stock

Raiffeisen stavební spořitelna did not acquire any of its own shares or stock in the 2018 accounting period.

### Awards, achievements, points of interest

In 2018 Raiffeisen stavební spořitelna received two major awards. It ranked third in the Effie Awards, one of the most prominent competitions on effectiveness in marketing communications in the Czech Republic. The national Festival of Better Housing road show was the award-winning product. For the fifth time the Company placed first in the WebTop 100 competition for the best banking website. The jury appraised the improved design of the website.

Raiffeisen stavební spořitelna also made it to the finals of the Golden Crown competition in 2018. Another success was marked by the internal newsletter "Speciál" in the Golden Semicolon contest of in-house publications. The newsletter was awarded the "Rated" title for its high quality.

In September Raiffeisen stavební spořitelna celebrated 25 years of operation on the Czech market. This major anniversary was accompanied by numerous marketing activities including a big competition for gold bars. For the third time in a row the Festival of Better Housing road show visited different regions. For the first time the Company took part in the Open House Prague event during which it opened its doors to the public for a weekend.

Jan Jeníček, Chairman of the Board of Directors of Raiffeisen stavební spořitelna, achieved a distinctive milestone, having been named Chairman of the Association of Czech Building Savings Banks as of 1 January, 2018.

## Services and products in 2018

### Services

A major improvement was achieved in 2018 in the field of services and processes. We completed the development of the core banking system and in June 2018 we implemented a support system for financial advisors, covering the processing of building savings and loan applications, and a support system for loan application assessment by the Reporting Party. Moreover we introduced voice transcript. All these projects crucially contributed to electronic processing of client and business requirements.

The new system of processing and assessing loan applications has simplified the work of both financial advisors and the Reporting Party. The system exploits to the maximum extent independent information from external databases and registers, carrying out automated screening and evaluation of creditworthiness, developing statistical models for credit risk management, and rating the client. The client rating is then reflected in the generated customized business offer. High-level system support speeds up the processing and assessment of loan applications.

We continue to work on further development and improvement of the system and scaling it up to further steps in the loan process.

We focus on improving our services for existing loan clients. We monitor the development of market interest rates and update the retention process to ensure the stability of our loans and prevent loan client attrition.

The technology of voice transcript has enabled us to address clients' queries and requests raised through the contact centre more quickly, and to have a better understanding of the requirements without the need to wait for the replay of the dialogue recording. A dialogue transcript remains available in written form in our electronic archive.

For several years we have engaged in improving the quality of our services. We are interested in the opinions of our clients and financial advisors and we are open to new ideas and tips for speeding up and improving client processes. Throughout the year we regularly follow suggestions and feedback from mystery calling and introduce procedural modifications and measures expected by our clients and financial advisors.

## Products

2018 was characterized by changes. The product portfolio was affected by internal and external regulation, in spite of which the year saw record high results.

In savings, we introduced an attractive product for clients under 25 years of age with yields up to 4% p. a. which proved very popular. There is a continued offer for other clients of savings products with yields of more than 3.5% p. a. without other restrictions. "Saving with Felix" is also popular with clients. These products made it possible to exceed the original new loan plan.

Despite the stricter conditions, we saw a record year in loans too. A simple and comprehensible offer is what works with clients. An ever larger pool of external financial advisors appear to like the loan products, which is proof of the products' competitiveness on the market.

Similarly, a record year was reported in loans to housing cooperatives and associations of unit owners. We assist them in addressing upgrades as well as in privatization of entire blocks of flats.

## General information about risk management

Raiffeisen stavební spořitelna manages all risks associated with its business activities in compliance with valid legal standards and regulations stipulated by relevant regulatory institutions, particularly the Czech National Bank. It monitors and manages risks inherent to its area of business, particularly credit, interest rate, liquidity and operational risks. The Risk Management Department plays the leading role in risk management at Raiffeisen stavební spořitelna.

The key risk management task is identification of assumed risks and subsequent development and implementation of risk management strategies for specific assumed risks. The specific strategies define measurement and management methods for given risk areas, determine procedures including control mechanisms, and set limits leading to minimization of assumed risks.

Aside from the Risk Management Department, the Board of Directors, Credit Risk Management Committee and Assets and Liabilities Committee are involved in the risk management system. They get an overview of risk exposure through regular monthly reports on risk status and development and have the opportunity to conduct appropriate controls and give feedback. Other parts of the system include the Operational Risk Management Committee, Change Management Committee and Security Committee. The risk management system continues to develop in alignment with product and process changes, new activities and all requirements to refine risk management.

Last but not least, all department and unit heads are involved in the risk management system, particularly in regard to operational risk management.

Raiffeisen stavební spořitelna used the standardized approach to calculate capital adequacy for credit risks in 2018 and the basic indicator method to calculate capital needs for operational risks. Raiffeisen stavební spořitelna regularly conducts an Internal Capital Adequacy Assessment Process (ICAAP) including reporting within the group and for the Czech National Bank. Raiffeisen stavební spořitelna publishes information about fulfilment of prudential rules (Pillar 3) on an individual basis in abbreviated form.

## Staff policy

Our staff policy is fully aligned with the goals and objectives outlined in the Raiffeisen stavební spořitelna business strategy. The key points include a pleasant and dynamic environment, relationships based on friendship, trust and cooperation, respect for others and an acceptable dress code. Through these ties, knowledge and innovation are spread throughout the Company. The Company atmosphere is very open and there are various formal and informal tools to facilitate feedback and dialogue: regular updates about Company matters; involvement of staff in these matters; meetings between the Board members and the staff; e-mail boxes for comments, opinions and observations; regular employee assessments; the employee magazine; intranet, etc.

Recruitment of new employees remained one of the most important staff processes in 2018. In regard to the labour market situation, we have reassessed our approach to recruitment; rather than merely selecting new employees, our priority is to attract them. To this end, we were helped last year by more imaginative HR advertising and expedite addressing of suitable candidates. We continue to support internal hiring processes for open positions in order to develop and expand the professional scope of our employees.

In 2018 we made active use of the new performance management system. A feedback system is crucial both for employees' motivation and their personal development. The comprehensive outcomes from the employee performance evaluation process are also used for annual wage adjustment.

Raiffeisen stavební spořitelna's compensation system corresponds to and supports healthy, effective risk management and does not underestimate the overstepping of tolerated risk limits. The approach used throughout the Raiffeisen group is applied to determination of categories of employees with a significant impact on the risk profile.

Employee care includes systematic employee development and education, benefits and programs. We support team spirit and unit team building activities. "Sports year-round, or Sports for all" is a firmly established motto in our corporate terminology. Employees act as guarantors of sports events, organize interesting sports competitions for fellow staff members and sign up employee teams for external events.

We value our employees and try to support them in situations they encounter in their lives. We offer them a number of supporting programs and contributions. Employees actively engaged in the "Raiffeisen stavební spořitelna Gives Blood" program for the eighth year in a row.

### **Corporate social responsibility**

Raiffeisen stavební spořitelna contributed on an ongoing basis to a diverse range of charity projects. In 2018, the Bank worked most closely with the AKORD Day Care Centre. Employee volunteering continued its successful record. Employee volunteers supported "Centrum Paraple" for the disabled, the EDA non-profit organization, and the Community Centre in Žižkov. Raiffeisen stavební spořitelna also helped the following organizations: PROTEBE civic association, SK Impuls Prague, TJ Dukla Prague Sports Club, the Homolka Hospital Endowment Fund and the OKKO Theatre.

### **Research and development costs**

Raiffeisen stavební spořitelna did not have any research and development costs in the 2018 accounting period.

### **Environmental protection**

Raiffeisen stavební spořitelna tries to minimize negative environmental impacts to the extent possible. In 2018 Raiffeisen stavební spořitelna began working with Retela, s.r.o. on the Remobil project, which focuses on collection of used mobile devices including accessories and subsequent harvesting of valuable material components by disabled workers. There is also a collection box available to the Company staff.

## RAIFFEISEN STAVEBNÍ SPOŘITELNA SUPERVISORY BOARD 2018 BUSINESS ACTIVITY REPORT FOR THE GENERAL MEETING

The Supervisory Board of Raiffeisen stavební spořitelna a.s. (hereinafter the "Company") consists of four members. In the course of 2018, it managed tasks which it is authorized to perform in accordance with valid legal regulations and the Company's Articles of Association. There were three Supervisory Board meetings in 2018, on 19 March, 14 June and 19 November, 2018. Aside from these meetings, the Supervisory Board commented on issues where legal or internal regulations require a statement by the Supervisory Board, most often per rollam. The meetings were attended by the members of the Company Board of Directors and other invited Company employees, as the case may be.

The Company Board of Directors presented to the Supervisory Board information about the business and economic results of the reviewed year, risk management, meeting compliance and anti-money laundering requirements, the internal audit, as well as long-term plans, important projects and other significant happenings in the Company. The Supervisory Board did not find any inadequacies in any of these areas.

The Supervisory Board reviewed the functionality and efficiency of the Company system of management and control and stated that the management and control system was functional.

The Supervisory Board also monitored application of and adherence to principles for compensation of Company employees. The Supervisory Board praised individual Directors as well as the Board of Directors as a team for expertise and experience in performing their tasks in 2018.

At its meeting on 18 March, 2019 the Supervisory Board discussed the Board of Directors' 2018 Annual Report and the report on related parties, reviewed the financial statement as at 31 December, 2018, including the statement by KPMG Česká republika Audit, s.r.o. pertaining to the financial statement, and discussed the profit distribution proposal.

The Supervisory Board had no objections to the submitted Board of Directors' 2018 Annual Report, report on related parties, financial statement or profit distribution proposal and recommended that the General Meeting approve these documents.

Prague, 18 March, 2019



Mag. Hans Christian Vallant  
Chairman of the Supervisory Board

## AUDITOR'S REPORT

**KPMG Česká republika Audit, s.r.o.**  
Pobřežní 1a  
186 00 Prague 8  
Czech Republic  
+420 222 123 111  
www.kpmg.cz

This document is an unsigned English translation of the Czech auditor's report.  
Only the Czech version of the report is legally binding.

### **Independent Auditor's Report to the Shareholders of Raiffeisen stavební spořitelna a.s.**

#### **Report on the Audit of the Financial Statements**

##### ***Opinion***

We have audited the accompanying financial statements of Raiffeisen stavební spořitelna a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2018, and the income statement and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1.4.1. to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance for the year then ended in accordance with Czech accounting legislation.

##### ***Basis for Opinion***

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Loss allowances to receivables from customers

Key audit matter	How the audit matter was addressed
<p>We determined the above area to be the key audit matter as the Company's management makes material and complex assumptions when determining the adequacy and sufficiency of loss allowances to expected credit losses from receivables from customers ("the Expected Credit Losses") in accordance with accounting standard IFRS 9 – Financial Instruments.</p> <p>In accordance with the amendment of Decree No. 501/2002, since 1 January 2018 the Company has applied International Financial Reporting Standards (IFRS) adjusted by directly applicable regulations by the European Union (including IFRS 9) for the purposes of reporting financial instruments, their valuation and disclosure in the notes to the financial statements. Different principles and assumptions for determining the amount of allowances to financial assets are the most significant changes introduced by accounting standard IFRS 9.</p> <p>Loss allowances to receivables from customers of CZK 1 108 million as at 31 December 2018 represent the management's estimate of the Expected Credit Losses from the impairment of receivables from customers ("Loans") at the balance sheet date.</p> <p>Loans are divided into commercial and retail exposures. To calculate the Expected Credit Losses, the entire loan portfolio is divided into three stages.</p> <p>Stage 1 and stage 2 are Loans without default. Stage 2 includes Loans where a</p>	<p>We performed, among others, the procedures outlined below to address this key audit matter:</p> <p>Relying on our knowledge, experience and market standards in the banking sector and in cooperation with our specialist in the field of credit risks, we critically assessed and challenged the Company's credit policies and accounting policies for impairment and calculation of the Expected Credit Losses. We also assessed the procedures for identifying default indicators, identifying a significant increase in credit risk, and classifying Loans into individual stages using these policies.</p> <p>We tested the design, implementation and operating effectiveness of system-based and manual controls over the identification and timely recognition of impaired loans and calculation of losses, in particular controls over the calculation of days past due of individual loans, controls over loan payment matching, classification of Loans into an appropriate stage, controls over the amount of eligible security, controls over transfers of data between IT systems. Our procedures consisted of inquiries in combination with observation, inspection and re-calculation.</p> <p>We tested the design, implementation and operating effectiveness of controls over the creation of statistical models for calculation of the Expected Credit Losses, including data inputs to calculate risk parameters (probability of default, loss given default, etc.) and data</p>

Key audit matter	How the audit matter was addressed
<p>significant increase in credit risk has been registered since their arrangement. Stage 3 includes Loans with default. The Company estimates the Expected Credit Losses for all retail and corporate loans in Stage 1 and 2 using statistical models. The Company estimates the Expected Credit Losses for all corporate loans in Stage 3 based on an individual approach.</p> <p>Key assumptions and judgements for the calculation of the Expected Credit Losses include the following:</p> <ul style="list-style-type: none"> <li>• a definition of default,</li> <li>• a definition of a significant increase in credit risk,</li> <li>• an estimate of the probability of default (PD),</li> <li>• an estimate of the loss given default (LGD),</li> <li>• an estimate of exposure at default (EDA),</li> <li>• an estimate of the forward looking indicators (FLI).</li> </ul> <p>Further details are disclosed in the following notes to the financial statements: 1.4.2 (Significant accounting policies), 1.4.7. (Receivables from clients) and 1.43.2. (Credit risk).</p>	<p>transfers. Our procedures consisted of inquiries in combination with observation, inspection and re-calculation.</p> <p>Furthermore, we asked our credit risk specialist to assess and review the statistical models used to calculate allowances. In collaboration with the specialist, we critically assessed individual key assumptions and judgements used in statistical models (e.g. calculation of the estimate of the probability of default and loss given default). We performed this assessment based on our knowledge of the Company's procedures, types of loan and development of loan portfolios.</p> <p>Within our procedures, we carried out tests of accuracy, substantive analytical procedures for the Expected Credit Losses. We carried out the comparison of key indicators including the share of the Expected Credit Losses to total receivables.</p> <p>We assessed the adequacy of the Company's disclosures on loss allowances to the Expected Credit Losses and related credit risk management in the notes to the financial statements.</p>

#### IT systems and controls over financial reporting

Key audit matter	How the audit matter was addressed
<p>We identified the IT systems and controls over financial reporting as an area of focus, as the Company's financial accounting and reporting systems are dependent on complex systems. Hence, there is a risk that automated accounting procedures and related IT dependent manual controls may not have been designed or may not be operating effectively.</p>	<p>In collaboration with our IT specialist we assessed and tested the design, implementation and operating effectiveness of the controls over the information systems critical to financial reporting.</p> <p>Among other things, we tested the controls over the access to programmes and data and change management procedures including compensating controls where required. Our procedures consisted of inquiry in combination with observation and inspection of</p>



Key audit matter	How the audit matter was addressed
	documentation. We also assessed certain aspects of IT systems security including access management and segregation of duties.

#### **Other Information**

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

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- the other information describing matters that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

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

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

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

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

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in

our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on Other Legal and Regulatory Requirements**

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

##### *Appointment of Auditor and Period of Engagement*

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 6 December 2017 and our uninterrupted engagement has lasted for 17 years.

##### *Consistency with Additional Report to Audit Committee*

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 18 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

##### *Provision of Non-audit Services*

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

Except for the statutory audit, we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the financial statements.

#### **Statutory Auditor Responsible for the Engagement**

Jindřich Vašina is the statutory auditor responsible for the audit of the financial statements of Raiffeisen stavební spořitelna a.s. as at 31 December 2018, based on which this independent auditor's report has been prepared.

Prague  
18 March 2019

*Signed by*

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

*Signed by*

Jindřich Vašina  
Partner  
Registration number 2059

# FINANCIAL SECTION

Date of financial statement: 18 March, 2019

## 1 FINANCIAL STATEMENT

### 1.1 BALANCE SHEET AS AT 31 DECEMBER, 2018

Assets as at 31 December, 2018

MCZK	Note	31/ 12/ 2018	31/ 12/ 2017
<b>1. Cash and balances with central banks</b>	1.4.4	<b>909</b>	<b>171</b>
<b>2. State zero coupon bonds and other securities eligible for refinancing with the central bank</b>	1.4.5	<b>13,223</b>	<b>11,242</b>
a) issued by government institutions		13,223	11,242
b) other		0	0
<b>3. Receivables from banks and cooperative savings associations</b>	1.4.6	<b>2,104</b>	<b>7,658</b>
a) repayable on demand		2,104	7,658
b) other receivables		0	0
<b>4. Receivables from clients – cooperative savings associations' members</b>	1.4.7	<b>49,264</b>	<b>41,614</b>
a) repayable on demand		0	0
b) other receivables		49,264	41,614
<b>5. Debt securities</b>	1.4.8	<b>2,220</b>	<b>5,254</b>
a) issued by government institutions		0	0
b) issued by other entities		2,220	5,254
<b>6. Shares, units and other participation interests</b>	1.4.9	<b>0</b>	<b>0</b>
<b>7. Participation interests with substantial influence</b>	1.4.10	<b>0</b>	<b>0</b>
a) in banks		0	0
b) in other entities		0	0
<b>8. Participation interests with controlling influence</b>	1.4.10	<b>257</b>	<b>257</b>
a) in banks		0	0
b) in other entities		257	257
<b>9. Intangible fixed assets</b>	1.4.11	<b>189</b>	<b>161</b>
a) goodwill		0	0
b) other		189	161
<b>10. Tangible fixed assets</b>	1.4.12	<b>45</b>	<b>56</b>
a) land and buildings for operating activities		24	25
b) other		21	31
<b>11. Other assets</b>	1.4.13	<b>667</b>	<b>628</b>
<b>12. Receivables from subscribed registered capital</b>		<b>0</b>	<b>0</b>
<b>13. Pre-paid expenses and accrued revenues</b>		<b>178</b>	<b>189</b>
<b>Total assets</b>		<b>69,056</b>	<b>67,230</b>

## Liabilities as at 31 December, 2018

MCZK		Note	31/ 12/ 2018	31/ 12/ 2017
1.	<b>Payables to banks and cooperative savings associations</b>	1.4.14	0	0
	a) repayable on demand		0	0
	b) other payables		0	0
2.	<b>Payables to clients – cooperative savings associations' members</b>	1.4.15	63,636	61,870
	a) repayable on demand		8,221	7,782
	b) other payables		55,415	54,088
3.	<b>Payables from debt securities</b>	1.4.16	0	0
	a) debt securities issued		0	0
	b) other payables from debt securities		0	0
4.	<b>Other liabilities</b>	1.4.17	571	518
5.	<b>Accrued expenses and deferred income</b>		53	50
6.	<b>Provisions</b>	1.4.18	20	13
	a) provisions for pensions and similar payables		0	0
	b) provisions for taxes		0	0
	c) other		20	13
7.	<b>Subordinated liabilities</b>	1.4.19	0	0
<b>Total liabilities</b>			<b>64,280</b>	<b>62,451</b>
8.	<b>Registered capital</b>	1.4.20	650	650
	a) paid-up registered capital		650	650
9.	<b>Share premium</b>		0	0
10.	<b>Reserve funds and other funds from profit</b>	1.4.20	3,770	3,626
	a) statutory reserve funds and risk funds		130	130
	b) other reserve funds		3,632	3,488
	c) other funds from profit		8	8
11.	<b>Revaluation reserve fund</b>		0	0
12.	<b>Capital funds</b>		0	0
13.	<b>Gains (losses) from revaluation</b>	1.4.21	0	59
	a) from assets and liabilities		0	59
	b) from hedging derivatives		0	0
	c) from recalculation of foreign currency hedging financial instruments		0	0
14.	<b>Retained earnings or accumulated losses from previous years</b>		-160	0
15.	<b>Profit or loss for the accounting period</b>	1.4.23	516	444
<b>Total equity</b>			<b>4,776</b>	<b>4,779</b>
<b>Total liabilities</b>			<b>69,056</b>	<b>67,230</b>

## Off-balance sheet items as at 31 December, 2018

MCZK		Note	31/ 12/ 2018	31/ 12/ 2017
1.	Commitments and guarantees issued	1.4.24	5,614	3,390
2.	Pledges granted		0	0
3.	Receivables from spot transactions		0	0
4.	Receivables from fixed-term transactions	1.4.25	0	0
5.	Receivables from options		0	0
6.	Receivables written-off	1.4.24	81	74
7.	Values placed into custody, administration and deposit	1.4.26	0	0
8.	Values placed under management	1.4.27	0	0
<b>Total off-balance sheet assets</b>			<b>5,695</b>	<b>3,464</b>
9.	Commitments and guarantees received	1.4.28	804	966
10.	Collaterals and pledges received	1.4.29	31,465	31,807
11.	Payables from spot transactions		0	0
12.	Payables from fixed-term transactions		0	0
13.	Payables from options		0	0
14.	Values taken into custody, administration and deposit	1.4.30	0	0
15.	Values taken under management	1.4.31	0	0
<b>Total off-balance sheet liabilities</b>			<b>32,269</b>	<b>32,773</b>
Off-balance sheet counter accounts			26,574	29,309
<b>Total off-balance sheet items</b>			<b>0</b>	<b>0</b>

## 1.2 INCOME STATEMENT FOR YEAR ENDING 31 DECEMBER, 2018

MCZK	Note	31/ 12/ 2018	31/ 12/ 2017
<b>1. Interest income and similar income</b>	1.4.32	<b>1,834</b>	<b>1,689</b>
a) interest on debt securities		311	373
b) other		1,523	1,316
<b>2. Interest expense and similar expense</b>	1.4.32	<b>-841</b>	<b>-882</b>
a) interest on debt securities		0	0
b) other		-841	-882
<b>3. Income from shares and participation interests</b>		<b>5</b>	<b>5</b>
a) income from participation interests with substantial influence		0	0
b) income from participation interests with controlling influence		5	5
c) income from other shares and participation interests		0	0
<b>4. Fee and commission income</b>	1.4.33	<b>329</b>	<b>321</b>
<b>5. Fee and commission expense</b>	1.4.33	<b>-81</b>	<b>-130</b>
<b>6. Gain or loss from financial operations</b>	1.4.34	<b>-1</b>	<b>117</b>
<b>7. Other operating income</b>	1.4.35	<b>5</b>	<b>5</b>
<b>8. Other operating expenses</b>	1.4.35	<b>-49</b>	<b>-37</b>
<b>9. Administrative expenses</b>	1.4.36	<b>-475</b>	<b>-442</b>
a) employee expenses		-253	-244
aa) wages and salaries		-183	-176
ab) social security and health insurance		-58	-55
ac) other		-12	-13
b) other administrative expenses		-222	-198
<b>10. Release of provisions and loss allowances for tangible and intangible fixed assets</b>		<b>0</b>	<b>0</b>
<b>11. Write-offs, creation and use of provisions and loss allowances for tangible and intangible fixed assets</b>		<b>-50</b>	<b>-43</b>
<b>12. Release of loss allowances and provisions for receivables, securities and guarantees, income from written-off receivables</b>	1.4.18, 1.4.37	<b>259</b>	<b>182</b>
<b>13. Write-offs, creation and use of provisions and loss allowances for receivables, securities and guarantees</b>	1.4.38	<b>-294</b>	<b>-249</b>
<b>14. Release of loss allowances for participation interests with controlling and substantial influence</b>		<b>0</b>	<b>0</b>
<b>15. Losses from transfer of participation interests with controlling and substantial influence, creation and use of loss allowances for participation interests with controlling and substantial influence</b>		<b>0</b>	<b>0</b>
<b>16. Release of other provisions</b>	1.4.18	<b>5</b>	<b>3</b>
<b>17. Creation and use of other provisions</b>	1.4.18	<b>-3</b>	<b>-3</b>
<b>18. Share in profits or losses from participation interests with controlling and substantial influence</b>		<b>0</b>	<b>0</b>
<b>19. Current year profit or loss from ordinary activities before tax</b>		<b>643</b>	<b>536</b>
<b>23. Income tax</b>	1.4.39	<b>-127</b>	<b>-92</b>
<b>24. Profit/loss for the accounting period after taxation</b>		<b>516</b>	<b>444</b>

## 1.3 STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDING 31 DECEMBER, 2018

MCZK	Registered capital	Own shares	Share premium	Reserve funds	Other funds	Capital funds	Gains (losses) from revaluation	Profit (loss)	Total
Balance as at 01/ 01/ 2017	650	0	0	3,388	8	0	209	530	4,785
Changes in accounting policies	0	0	0	0	0	0	0	0	0
Corrections of fundamental errors	0	0	0	0	0	0	0	0	0
Exchange rate differences and gains (losses) from revaluation not included in P/L	0	0	0	0	0	0	-150	0	-150
Net profit/loss for the accounting period	0	0	0	0	0	0	0	444	444
Paid share in profit	0	0	0	0	0	0	0	-300	-300
Transfers to funds	0	0	0	230	0	0	0	-230	0
Use of funds	0	0	0	0	0	0	0	0	0
Issue of shares	0	0	0	0	0	0	0	0	0
Reduction in registered capital	0	0	0	0	0	0	0	0	0
Own shares purchased	0	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0	0	0
<b>Balance as at 31/ 12/ 2017</b>	<b>650</b>	<b>0</b>	<b>0</b>	<b>3,618</b>	<b>8</b>	<b>0</b>	<b>59</b>	<b>444</b>	<b>4,779</b>
Balance as at 01/01/2018	650	0	0	3,618	8	0	59	444	4,779
Changes in accounting policies as at 01/ 01/ 2018	0	0	0	0	0	0	0	-160	-160
Corrections of fundamental errors	0	0	0	0	0	0	0	0	0
Exchange rate differences and gains (losses) from revaluation not included in P/L	0	0	0	0	0	0	-59	0	-59
Net profit/loss for the accounting period	0	0	0	0	0	0	0	516	516
Paid share in profit	0	0	0	0	0	0	0	-300	-300
Transfers to funds	0	0	0	144	0	0	0	-144	0
Use of funds	0	0	0	0	0	0	0	0	0
Issue of shares	0	0	0	0	0	0	0	0	0
Reduction in registered capital	0	0	0	0	0	0	0	0	0
Own shares purchased	0	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0	0	0
<b>Balance as at 31/ 12/ 2018</b>	<b>650</b>	<b>0</b>	<b>0</b>	<b>3,762</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>356</b>	<b>4,776</b>

## 1.4 NOTES TO THE FINANCIAL STATEMENT

### 1.4.1 GENERAL INFORMATION

#### 1.4.1.1 About the Bank

Corporate name	<b>Raiffeisen stavební spořitelna a.s.</b> (hereinafter "Raiffeisen stavební spořitelna" or the "Company" or "Bank")
Business objects	Operation of buildings savings as defined in S. 1 of Act No. 96/1993 Coll., on building savings and state support for building savings, and execution of activities listed in S. 9(1) of Act No. 96/1993 Coll.
Initiation of business activity	7 September, 1993
Business ID	49241257
Tax ID	CZ49241257
Registered office	Koněvova 2747/99 130 45 Prague 3
E-mail	<a href="mailto:rsts@rsts.cz">rsts@rsts.cz</a>
Internet	<a href="http://www.rsts.cz">www.rsts.cz</a>
Phone	271 031 111
Info hotline	800 11 22 11
Fax	222 581 156
Data box	f6qr5pb
Amendments recorded in the Commercial Registry in 2018	None
Legal form	Joint stock company
Shareholders	Raiffeisen Bausparkassen Holding GmbH, Vienna, Austria (90% of registered capital) Raiffeisenbank a.s., Prague, Czech Republic (10% of registered capital)
Registered capital	CZK 650,000,000
Consolidated unit that compiles the consolidated financial statement for the entire group of accounting units to which the Bank belongs	Raiffeisen Bank International AG with its registered office at Am Stadtpark 9, Vienna, Austria
Members of the Board of Directors as at 31 December, 2018	Ing. Jan Jeníček – Chairman Dr. Ing. Pavel Chmelík – Deputy Chairman Mgr. Roman Hurych – Deputy Chairman
Members of the Supervisory Board as at 31 December, 2018	Mag. Hans Christian Vallant – Chairman Mag. Manfred Url – Deputy Chairman Mag. Christian Weidinger – Member Ing. Igor Vida – Member

#### 1.4.1.2 Basis for financial statement

The financial statement of Raiffeisen stavební spořitelna a.s. was compiled on the basis of accounting maintained in compliance with Act No. 563/1991 Coll., on accounting (hereinafter the "Accounting Act"), as amended, and Decree No. 501/2002 Coll. of the Ministry of Finance of the Czech Republic as applicable from 1 January, 2018, and the Czech accounting standards for financial institutions of the Ministry of Finance.

This financial statement was compiled in compliance with Decree No. 501/2002 Coll. of the Ministry of Finance of the Czech Republic, as applicable from 1 January, 2018, which stipulates the structure, coding and content of the items in the financial statement. S. 4a(1) of the Decree also stipulates that the accounting unit shall for the purpose of reporting, evaluating and informing about financial instruments in the notes to the financial statement proceed in line with the international accounting standards governed by directly applicable legislation of the European Union on the application of international accounting standards (hereinafter the "international accounting standards" or "IFRS").

It needs to be noted in this respect that balances and annexed tables pertaining to financial instruments as at 31/12/2017 and for 2017 have not been adjusted and are therefore not fully comparable.



The financial statement was compiled based on the accrual principle and historical prices. The financial statement is based on the assumption that Raiffeisen stavební spořitelna a.s. will uninterruptedly continue its operation and that there is no matter that would restrict or prevent its operation in the foreseeable future.

The balance sheet date is 31 December, 2018. The current accounting period is from 1 January, 2018 until 31 December, 2018. The previous accounting period was from 1 January, 2017 until 31 December, 2017.

All data are listed in Czech crowns (CZK). The unit of measurement is million CZK, unless stated otherwise. This financial statement is unconsolidated.

The business activity of Raiffeisen stavební spořitelna is comprised of operating buildings savings as defined by S.1 of Act No. 96/1993 Coll., on building savings and state support for building savings, as amended (hereinafter the "Building Savings Act"), and execution of activities listed in S. 9(1) of the Building Savings Act. The Bank's license was issued by the Ministry of Finance of the Czech Republic on 15 April, 1993 and by the Czech National Bank on 7 September, 1993.

Equivalent disclosure of information, which the Company conducted pursuant to accounting requirements, stock listing requirements or other requirements, is provided in the financial statement and on the company's website.

## 1.4.2 SIGNIFICANT ACCOUNTING POLICIES

The Raiffeisen stavební spořitelna financial statement was compiled in compliance with the following significant accounting policies. Following the transition to the IFRS 9 model of asset and liabilities valuation, all financial assets and liabilities are measured at amortized cost.

### 1.4.2.1 Accounting policies applicable since 01/01/2018

#### 1.4.2.1.1 Receivables from banks and cooperative savings associations

The balance sheet item "Receivables from banks and cooperative savings associations" includes the following: Receivables from banks arising from term deposits and current account deposits. Raiffeisen stavební spořitelna creates loss allowances for these receivables due to impairment. Loss allowances are created on a monthly basis. Loans from repurchase and reverse repurchase agreements with the Czech National Bank. Income arising under reverse repurchase agreements as a difference between the sale and purchase prices is accrued evenly over the term of the agreement and reported in the Income statement as "Interest income and similar income". Securities received under reverse repo agreements are only kept at their nominal value in off-balance sheet accounts under "Collaterals and pledges received".

Policies and procedures for receivable classification are explained in Note 1.4.43.

#### 1.4.2.1.2 Receivables from clients – cooperative savings associations' members

The item includes loans measured at their amortized cost that were measured at fair price including direct transaction costs upon their initial recognition; subsequently they are measured at amortized cost applying the effective interest rate. Accrued interest is recognized in the respective accounting groups for individual assets and it is reported together with the respective asset. Interest income is accounted for the period to which it is factually and temporally related. Raiffeisen stavební spořitelna creates loss allowances for these receivables due to impairment. Loss allowances are created on a monthly basis.

Policies and procedures for receivable classification are explained in Note 1.4.43.

#### 1.4.2.1.3 Securities

In accordance with the Building Savings Act, Raiffeisen stavební spořitelna is only allowed to purchase mortgage bonds and similar products issued by the Member States of the Organization for Economic Cooperation and Development, bonds issued by the Czech Republic, bonds for which the Czech Republic assumed guarantees, bonds issued by the Czech National Bank, bonds issued by the Member States of the Organization for Economic Cooperation and Development, central banks and financial institutions of such states and banks domiciled in such states, bonds for which these states assumed guarantees, and bonds issued by the European Investment Bank, the Nordic Investment Bank and the European Central Bank. Following the business model whose objective is to hold assets to collect their contractual cash flows, Raiffeisen stavební spořitelna ranks securities in the portfolio of securities measured at amortized cost (AC). These securities may be sold, but the sales are expected to be incidental. Upon initial recognition, the securities are measured at acquisition cost. It includes direct transaction costs related to the purchase known at the time of purchase.

Accrued interest income is accounted for on a monthly basis. Coupon accruals and premium or discount accruals are obtained using the effective interest rate method.

In relation to the IFRS 9 coming to effect, the existing portfolio of held-to-maturity securities and portfolio of available-for-sale securities were reclassified as at 01/01/2018 as the portfolio of securities measured at amortized cost. Gains (losses) from revaluation arising from valuation of the available-for-sale portfolio at fair price were derecognized as at 01/01/2018 from the gains (losses) from revaluation account of available-for-sale securities in correspondence with the valuation account of available-for-sale securities.

Raiffeisen stavební spořitelna creates loss allowances for securities classified in the portfolio of securities measured at amortized cost due to impairment. Loss allowances are created on a monthly basis.

For the purpose of financial assets impairment and creation of loss allowances, securities are categorized as Stages 1 through 3.

Securities are reported under “Debt securities” or “State zero coupon bonds and other securities eligible for refinancing with the central bank”. Interest income and expenses are reported in the Income statement as “Interest income and similar income”. Upon sale the gains and losses are reported in the Income statement as “Gain or loss from financial operations”.

Policies and procedures for receivable classification are explained in Note 1.4.43.

#### **1.4.2.1.4 Participation interests with controlling and substantial influence**

A participation interest with controlling influence means interest in an entity where Raiffeisen stavební spořitelna is a majority shareholder. In such case Raiffeisen stavební spořitelna has a controlling influence on the entity’s management and full control of its activities.

Participation interests with controlling and substantial influence are recognized at acquisition cost, including transaction costs, net of any loss allowances made due to temporary impairment of their value or net of any write-offs due to permanent impairment of their value.

#### **1.4.2.1.5 Financial leasing from the lessee’s perspective**

N/A to Raiffeisen stavební spořitelna.

#### **1.4.2.1.6 Interest**

Interest income and expense are reported in the Income statement as “Interest income and similar income” and “Interest expense and similar expense” using the effective interest rate method.

The effective interest rate (EIR) is a rate discounting the anticipated future incoming or outgoing cash flows over the financial instrument’s expected life. When applying the amortized cost valuation, the accounting unit uses the EIR method to calculate the interest income or expense. When applying the EIR method, the accounting unit identifies fees which comprise an inseparable part of the financial instrument’s EIR. Raiffeisen stavební spořitelna considers the following expenses and income inseparable parts of the financial instrument’s EIR that need to be accrued:

- Initial fees for the conclusion of building savings contracts and loans;
- Commissions associated with the conclusion of building savings contracts and loans;
- Contributions to client campaigns;
- Any other transaction costs/income associated with acquisition.

When applying the EIR method, the accounting unit shall usually amortize all fees, paid and received interest, transaction costs (fees and commissions to financial advisors) and other premiums or discounts included in EIR calculation over the financial instrument’s expected life. Raiffeisen stavební spořitelna will consider the mandatory saving period for savings, and the first fixed-interest-rate-period, roll-over period or termination period for loans, whichever is the earliest.

#### **1.4.2.1.7 Guarantees and loan commitments issued**

Loan commitments issued are commitments to provide loans under agreed terms.

Raiffeisen stavební spořitelna did not issue any loan commitments to be measured at fair value through profit or loss (FVTPL).

The loan commitments issued are reported in the off-balance sheet items “Commitments and guarantees issued”.

#### **1.4.2.1.8 Recognition and initial valuation**

Selected financial assets and financial liabilities (e.g. receivables from clients, payables to clients, etc.) shall be initially recognized as of the time of their establishment. All other financial instruments (including spot purchases and sales of financial assets) shall be recognized as of the transaction settlement date, i.e. the date on which the accounting unit becomes the party to the contractual provisions of the given financial instrument.

A financial asset or liability shall be initially recognized at fair value adjusted for transactions costs. Transaction costs are costs directly assignable to acquisition or issue.

#### **1.4.2.1.9 Classification**

##### **Financial assets**

Upon first recognition the financial asset is classified as measured:

- At amortised cost (AC).

The financial asset is measured at amortized cost (AC) if both of the following conditions are met cumulatively and at the same time the asset is not measured at fair value through profit or loss (FVTPL):

- The asset is held under the business model whose objective is to hold financial assets to collect their contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interests on the outstanding principal amount (the SPPI test).

### Assessing the business model

The business model of the accounting unit is determined at a level that reflects how groups of financial assets are managed to achieve a certain business objective. This condition therefore does not reflect classification of individual instruments but is determined rather at a higher level of aggregation. The accounting unit considers all relevant information and evidence available as at the date of assessment. This relevant information and evidence include but are not limited to:

- Set methods and objectives for the portfolio and a practical approach to such methods. Namely, whether the accounting unit's strategy is focused on income from contractual interest, maintaining the interest rate profile, correspondence between the duration of financial assets and duration of their underlying liabilities which serve as a source of financing for these assets, or generation of cash flow by selling the assets;
- How the performance of the business model and the financial assets held within that model are evaluated and reported to the accounting unit's key management personnel;
- Risks that affect the performance of the business model and the financial assets held within the model, and in particular the way those risks are managed;
- How the accounting unit's managers are compensated, e.g. whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- Frequency, volume and timing of sales in prior periods, the reasons for these sales and their expectations about future sales activity. However, information about sales activity is not considered in isolation, but as a part of a holistic assessment of how the accounting unit's stated objective for managing the financial assets is achieved and how the cash flows are realised.

### Assessing whether cash flows are solely payments of principal and interests on the principal amount outstanding (the SPPI test)

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

When assessing whether the cash flows meet the "solely payments of principal and interest" criterion, the accounting unit assesses the contractual terms of the given instrument. This includes consideration of whether the financial asset's contractual terms allow for changing the timing and amount of the contractual cash flows. As a part of the assessment, the accounting unit considers:

- Contingent features that may change the timing and amount of the contractual cash flows;
- The leverage effect;
- Early termination and term extension;
- Terms limiting the accounting unit's collection options from specific asset cash flows;
- Terms modifying the time value of money (e.g. ways of periodically resetting the interest rate).

### Reclassification

Once initially recognized, financial assets are not reclassified except for situations where the business model of the accounting unit has changed in the course of a current accounting period; in such case reclassification of the respective financial assets takes place in the following accounting period.

### Financial liabilities

The accounting unit classifies its financial liabilities, other than financial guarantees and commitments issued, as measured:

- At amortized cost.

#### 1.4.2.1.10 Derecognition

A financial asset shall be derecognized if the contractual rights to collect cash flows from the asset expire:

- Rights to collect cash flows from the financial asset are transferred to a third person; the overall objective of the receivable assignment is to generate immediate financial return higher than the estimated net present value of the future recovered performance under other instruments. Beside cash generation from the assigned receivables, another objective is one-off streamlining of the liabilities portfolio;
- Following a recommendation of the Credit Risk Management Committee and in line with the NPL reduction strategy, Raiffeisen stavební spořitelna, through a Board of Directors decision, writes off debts that continue to be recovered and recognized in off-balance sheet records;
- If a debt is assessed as unrecoverable or its further recovery is uneconomical, it shall be written off.

Write-offs of receivables from clients are tax-optimized. Costs associated with write-offs are compensated by means of loss allowances. Written-off receivables that continue to be recovered are kept on off-balance sheet accounts until the process of recovering the due amounts is over.

#### 1.4.2.1.11 Modification of financial assets and financial liabilities

Following modification of the terms of a financial asset or liability, Raiffeisen stavební spořitelna shall assess whether the cash flows from such modified financial asset or liability are substantially different.

The only modification relevant in the Raiffeisen stavební spořitelna environment would be restructuring of financial assets or loans, as the case may be. However, cash flows following restructuring are not substantially different (the modification consists merely in different timing of instalments). Therefore such modified financial asset is not derecognized. Such financial asset is however considered default (see the definition of default in Note 1.4.43.2.5.2).

#### 1.4.2.1.12 Off-set and reporting in net value

Financial assets and financial liabilities may be offset and their net value reported in the balance sheet only if Raiffeisen stavební spořitelna holds an enforceable right to offset the given balances. Raiffeisen stavební spořitelna plans either settlement in net value or simultaneous realization of the asset and settlement of the liability.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the accounting unit's trading activity.

#### 1.4.2.1.13 Fair value measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal (or most advantageous) market that the accounting unit can access at the given date. The fair value of a liability reflects the risk of default. The risk of default includes, but is not limited to, the accounting unit's own credit risk.

The accounting unit measures the fair value of an instrument using the quoted price in an active market for the instrument, if available. An active market means a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If no quoted price from an active market is available, the accounting unit shall apply valuation techniques that use in maximum extent relevant observable inputs and minimize the use of unobservable inputs. The selected valuation technique shall consider all factors that market participants would consider for valuation of such transaction.

The best evidence for the fair value of a financial instrument upon initial recognition is usually the transaction price (i.e. the fair value of the provided or received consideration).

Should the accounting unit determine that the fair value at initial recognition differs from the transaction price and the fair value is supported neither by a price quoted in the active market for an identical asset or liability nor based on a valuation technique where unobservable inputs are disregarded as insignificant for the valuation, the financial asset shall be initially measured at fair value and subsequently the difference between the initial fair value and the transaction price shall be accrued in the Income statement over the remaining life of the instrument. The accrual may apply no longer than over a period for which such valuation remains supported by observable market data or until the transaction is closed.

Where there is a bid and ask price for an asset or liability measured at fair value, the accounting unit shall measure:

- Assets and long positions at the bid price;
- And liabilities and short positions at the ask price.

Portfolios of financial assets and financial liabilities exposed to market and credit risks, managed by the accounting unit based on their net exposure to market, or credit risks, shall be measured based on the price that could be obtained from sale of net long position (or paid for transfer of net short position) of the given risk exposure. Modifications at the portfolio level (e.g. modification of bid and ask prices or modification of credit risks that reflect the valuation on the basis of net position) shall be allocated to individual assets and liabilities correspondingly to the respective risk modification of 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 that the amount could be required to be paid.

#### Fair value hierarchy

The accounting unit measures fair value by applying the following fair value hierarchy reflecting the significance of inputs used in valuation techniques.

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

Level 2 inputs: Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (as derived from prices). Level 2 inputs include instruments measured using:

- Quoted prices for similar instruments in active markets;
- Quoted prices for identical or similar instruments in markets that are not considered active; or
- Other methods where all significant inputs are observable directly or indirectly from market data.

Level 3 inputs: Level 3 inputs are unobservable inputs. Level 3 inputs include all instruments where valuation methods involve unobservable inputs while the unobservable inputs have a significant impact on the instrument measurement. This level includes

instruments measured based on quoted prices for similar instruments for which unobservable modifications or assumptions are required to reflect the differences between the instruments.

The accounting unit considers transfers between the different fair value hierarchy levels as at the end of the accounting period in which the transfer occurred. For more details see Note 1.4.44.

#### 1.4.2.1.14 Impairment

The accounting unit reports allowances for expected credit loss (ECL) from the following financial instruments that are not measured at FVTPL:

- Loans and loan commitments;
- Debt securities and term deposits;
- Receivables from the Czech National Bank;
- Trade receivables;
- Other receivables not measured at FVTPL.

For financial instruments on which no significant increase in credit risk has appeared since initial recognition, Raiffeisen stavební spořitelna uses the 12-month ECL allowance.

For financial instruments on which significant increase in credit risk, or indeed credit impairment (default) has appeared, Raiffeisen stavební spořitelna uses the lifetime ECL allowance.

12-month ECL represents the portion of lifetime expected credit losses that result from default events on the financial instrument that are possible within the 12 months after the balance sheet date.

#### Measuring expected credit loss (ECL)

ECL represents the probability-weighted estimate of credit loss and is determined as follows:

- Financial assets that are not impaired: as the present value of all cash shortfalls (i.e. difference between the cash flows credited to the accounting unit and cash flows that the accounting unit expects to receive);
- Financial assets that are impaired: as the difference between the gross book value of the given financial asset and the present value of estimated future cash flows;
- As-yet unused loan commitments: as the present value of difference between contractual cash flows credited to the accounting unit, if the loan commitment has been already used, and cash flows that the accounting unit expects to receive.

For further information see Note 1.4.43.

#### Restructured financial assets

- When the financial asset's contractual terms are modified, or it is restructured, such asset is usually not derecognized at Raiffeisen stavební spořitelna. A restructured financial asset is considered impaired, i.e. default, and a lifetime ECL allowance is measured.

#### Impaired financial assets

The accounting unit shall assess as at each balance sheet date whether its financial assets measured at amortized cost are impaired. A financial asset is impaired if one or more events occurred that have a negative impact on the estimated future cash flows from such financial asset. Measuring impairment is consistent with measuring default, which is explained in more detail in Note 1.4.43.

#### Presentation of allowances for ECL in the balance sheet:

- Financial assets measured at amortized cost: the loss allowance is deducted from the gross book value of the assets;
- Loan commitments: as provisions;
- Allowances and provisions for ECL created by debiting expenses are reported in the Income statement as "Write-offs, creation and use of loss allowances and provisions for receivables and guarantees". This item also includes possible subsequent use of loss allowances;
- Release of allowances and provisions for ECL when no longer needed is reported in the Income statement under "Release of loss allowances and provisions for receivables and guarantees, income from written-off receivables";
- Tax-deductible loss allowances – tax-deductible portion of the total allowances created for losses from loans for the accounting period is calculated according to S. 5 ("Banking provisions and loss allowances"). Loss allowances are recorded in the analytical accounts for the purpose of calculating the tax liability;
- Write-offs of receivables are included under "Write-offs, creation and use of loss allowances and provisions for receivables and guarantees" in the Income statement. When writing off a receivable for which a loss allowance has been created in full amount, loss allowances under the same item of the Income statement are decreased by the same amount. Income from written-off loans is reported in the Income statement under "Release of loss allowances and provisions for receivables and guarantees, income from written-off receivables".

#### 1.4.2.1.15 Classification of a financial instrument into a category measured at fair value through profit or loss (FVTPL)

N/A to Raiffeisen stavební spořitelna.

**1.4.2.1.16 Payables to clients**

Deposits on building savings accounts are recognized as clients' savings deposits, which are monitored and classified into three basic types of deposits with a fixed maturity. The first type are deposits with the saving period of up to 5 or 6 years inclusive, which are classified as savings term deposits with a fixed maturity of 5 or 6 years matching the minimum saving period needed for the payout of government support stipulated by the Act on building savings and state support for building savings (hereinafter referred to as "the mandatory saving period"). The second type are deposits made during the extended period of the building savings contract after the expiry of the mandatory saving period, which are classified as savings term deposits with a notice period, the maturity period of which matches the notice period of the contract (3 months). The third type are deposits on building savings accounts after the granting of a building savings loan, or after the conclusion of a loan agreement with a condition of deposit payout prior to the use of the loan, which are classified as savings non-term deposits repayable on demand. This classification of deposits complies with the measure of the Czech National Bank establishing the methodology for the compilation of statements submitted to the Czech National Bank.

The item includes deposits measured at amortized cost that are initially recognized at fair value with the inclusion of additional direct transaction costs and subsequently measured at amortized cost using the effective interest rate method. Accrued interest is recognized in the respective accounting groups for individual liabilities and it is reported together with the respective liability. Interest expenses are accounted for the period to which they are factually and temporally related.

**1.4.2.1.17 Tangible and intangible fixed assets**

Tangible fixed assets include assets with an acquisition cost higher than CZK 40,000 and a useful life longer than 1 year. Intangible fixed assets include assets with no physical substance with an acquisition cost higher than CZK 60,000 or CZK 40,000, respectively, and a useful life longer than 1 year.

Small tangible and intangible fixed assets include assets with an acquisition cost lower than CZK 40,000 or CZK 60,000, respectively, with a useful life longer than 1 year. Starting with the 2014 taxation period, small intangible fixed assets include assets with an acquisition cost of up to CZK 40,000 inclusive and a useful life longer than 1 year.

Small tangible and intangible fixed assets are recognized as administrative costs and are at the same time kept in operational records until disposed of. The accrual method is used for costs related to mass purchases of a larger quantity of small tangible assets (over CZK 500,000).

Tangible and intangible assets are measured at acquisition cost. The acquisition cost includes the cost at which the asset was acquired and the costs associated with its acquisition.

The value of a given intangible fixed asset will be increased by technical appreciation if its expenses exceed CZK 40,000 per each completed partial performance and if, at the same time, the technically appreciated asset is put in use.

Accounting and tax depreciation is governed by the applicable depreciation schedule.

Depreciation periods for individual categories of tangible and intangible fixed assets are the following:

Type of asset	Depreciation period
Software	Book depreciation: 4–14 years / tax depreciation: 3–12 years
Audiovisual works	Book depreciation: 18–24 months / tax depreciation: 18 months
Buildings	Book depreciation: 25 years / tax depreciation: 30 years
Machinery and equipment	Book depreciation: 4–12 years / tax depreciation: 3–10 years
Computer equipment	Book depreciation: 3–4 years / tax depreciation: 3–4 years
Furniture and fixtures	Book depreciation: 6–12 years / tax depreciation: 5–10 years
Vehicles	Book depreciation: 3–5 years / tax depreciation: 5 years

**1.4.2.1.18 Derivatives**

Raiffeisen stavební spořitelna has no derivatives.

**1.4.2.1.19 Derivatives held for risk management and hedge accounting purposes**

N/A to Raiffeisen stavební spořitelna.

**1.4.2.1.20 Embedded derivatives**

N/A to Raiffeisen stavební spořitelna.

**1.4.2.1.21 Repurchase and reverse repurchase agreements and short sales**

Raiffeisen stavební spořitelna carries out operations where the securities are sold under the commitment to repurchase them (repo) at a predetermined price or purchased under the commitment to resell them (reverse repo), which are treated as collateralized borrowing and lending transactions. The legal title to the securities is transferred to the lender. Securities legally transferred under a repurchase agreement are accounted for in an unchanged manner for the duration of the repo agreement, i.e. they continue to be

included under the relevant securities items in the bank's balance sheet and continue to be measured in the same way. These securities are kept on separate analytical accounts and the amount obtained from the transfer of securities under repurchase agreements is reported under "Payables to banks and cooperative savings associations". Securities received under reverse repo agreements are only kept in off-balance sheet accounts under "Collateral and pledges received". A loan provided under reverse repurchase agreements is included in "Receivables from banks and cooperative savings associations". Interest on debt securities transferred under repurchase agreements is accrued while interest on debt securities received under reverse repurchase agreements is not. Income and expenses arising under repurchase and/or reverse repurchase agreements as a difference between the sale and purchase prices are accrued evenly over the term of the agreement and reported in the Income statement as "Interest income and similar income" or "Interest expense and similar expense".

#### 1.4.2.1.22 Received deposits, issued debt securities and subordinated liabilities

N/A to Raiffeisen stavební spořitelna.

#### 1.4.2.1.23 Transactions with securities for clients

Raiffeisen stavební spořitelna undertakes no securities transactions on behalf of its clients.

#### 1.4.2.1.24 Creation of provisions

Provisions represent a probable performance of an obligation with uncertain time occurrence and amount. Provisions are created to the debit of expenses at an amount equal to the best estimate of the expenses necessary to settle the existing debt. Provisions are recognized in the balance sheet for cases meeting the following criteria:

- There is a (legal or material) duty to perform resulting from past events;
- It is probable that performance will occur and that it will require cash outflow representing economic benefit; "probable" means a probability exceeding 50%;
- The value of such performance can be reasonably and reliably estimated.

Provisions are broken down according to the purpose of their use. In addition, they are classified as statutory provisions, provisions for commitments, and other provisions:

- Statutory provisions – their creation is set out by the Provisions Act and taken into account by the Income Tax Act (tax-deductible provisions);
- Provisions for commitments made in accordance with IFRS 9;
- Other provisions – their creation is not stipulated by law (tax non-deductible provisions).

#### 1.4.2.1.25 Date of transaction

Depending on the type of transaction, the date of the transaction is the day on which cash is paid or collected, the day of purchase or sale of foreign currency or securities, day of execution of a payment, or collection from a client's account, day of settlement of bank payment orders with the Czech National Bank clearing centre, day of conclusion and day of settlement of transactions with securities, foreign currency, options, or other derivatives, day of issuance or acceptance of guarantees and commitments, day of acceptance of values for custody, and day of confirmation of building savings contracts.

Transactions pertaining to purchase and sale of financial assets with ordinary delivery dates (spot operations) as well as fixed-term and option contracts are managed on off-balance sheet accounts from the moment of conclusion of the transaction until settlement of the transaction.

Financial assets or parts of financial assets are derecognized from the balance sheet in cases where there was a loss of control over contractual rights to these financial assets or parts of financial assets. Raiffeisen stavební spořitelna loses such control in the event that it exercises its rights to the benefits defined by the contract, the rights expire, or the Bank waives such rights.

#### 1.4.2.1.26 Dividends received

Dividends received are recognized in the Income statement once the right to receive dividends arises. Dividends received are recognized under "Income from other shares and participation interests".

#### 1.4.2.1.27 Fee and commission income

Fees and commissions not included in the calculation of the effective interest rate are recognized on an accrual basis as at the date when the service is rendered. Income from and expenses on commissions from cross-selling transactions are recorded as prepaid expenses and accrued income for the given year. Commissions that have not been settled yet are recognized as estimated payables. Since 2017, expenses, or future cancellation of income from cross-selling transactions, have no longer been recognized as provisions.

#### 1.4.2.1.28 Foreign currency translation

Accounting transactions denominated in foreign currencies are recorded in Czech crowns. The exchange rate used for conversion is the rate announced by the Czech National Bank for the date of transaction. For specific cases relating to the date of taxable supply according to the applicable VAT Act, the date of transaction is deemed to be the mandatory tax return date.

When preparing the financial statement, Raiffeisen stavební spořitelna measures all assets and liabilities denominated in foreign currencies by their conversion into Czech crowns using the exchange rate of the Czech National Bank prevailing on the balance sheet date.

Any exchange rate gains and losses are reported in the Income statement as "Gain or loss from financial operations".

#### 1.4.2.1.29 Taxation

The corporate income tax base is calculated in accordance with Act No. 586/1992 Coll., on income tax, as amended, based on Profit or loss of current year before taxation by adding tax non-deductible expenses and other items increasing the tax base and subtracting revenues not subject to income tax and other tax-deductible items, as well as tax discounts and relevant credits.

Deferred tax is determined from any temporary differences between the book and tax values of assets and liabilities using the expected tax rate applicable to the following period. Raiffeisen stavební spořitelna only accounts for a deferred tax receivable if there is no doubt about its further use in subsequent accounting periods.

#### 1.4.2.1.30 Value added tax

Raiffeisen stavební spořitelna is a registered value added tax payer. Due to the high proportion of financial activity, Raiffeisen stavební spořitelna is not entitled to tax deductions on a majority of received taxable supplies.

#### 1.4.2.1.31 Off-balance sheet transactions

Loan commitments are recognized at the nominal value of the loan upon approval of the loan contract. Loan commitments are reduced by the respective amount when drawn. The value of loan commitments reflects any potential increase or decrease in the nominal amount of the loan.

Collaterals, pledges and guarantees received are recognized at the net disposable value of the collateral at the moment of conclusion of the loan contract, up to the amount of the receivable. They are derecognized upon termination of the loan contract.

### 1.4.2.2 Accounting policies applicable until 31/12/2017

#### 1.4.2.2.1 Receivables from banks and cooperative savings associations and clients – cooperative savings associations' members

The item includes loans measured at amortized cost that are initially recognized at fair value and subsequently measured at amortized cost. Accrued interest is recognized in the respective accounting groups for individual assets and it is reported together with the respective asset. Interest income is accounted for the period to which it is factually and temporally related.

Policies and procedures for classification of receivables are presented in Note 1.4.43.

Receivables are carried at the nominal value net of any loss allowances for special-mentioned and classified loans. Accrued interest income is part of the book value of such receivables.

Receivables are written off when assessed as unrecoverable, or when further recovery is uneconomical. Write-offs of receivables from clients are tax-optimized. Costs associated with write-offs are compensated by means of loss allowances. Written-off receivables are kept on off-balance sheet accounts until the recovery process is over. Write-offs of receivables and use of loss allowances are included under "Write-offs, creation and use of loss allowances and provisions for receivables and guarantees" in the Income statement. Income from written-off receivables is reported in the Income statement under "Release of loss allowances and provisions for receivables and guarantees, income from written-off receivables".

Raiffeisen stavební spořitelna reviews receivables for recoverability and creates loss allowances in accordance with Decree No. 163/2014 Coll. on activities by banks, building societies and loan associations and securities traders (hereinafter referred to as "Decree No. 163/2014"). When reviewing individual receivables, the crucial factor is the past-due period of prescribed instalments. Loss allowances are created and recorded separately for each receivable. For the purpose of creation of loss allowances, the value of receivables is reduced by the recoverable value of high-quality collateral of such receivables (in case of Raiffeisen stavební spořitelna, this includes pledged building savings deposits and liens on real property meeting the defined conditions). In case that no impairment was identified in separately reviewed receivables, yet events were objectively identified based on which reduction of future cash flows from the given portfolio of homogeneous receivables can be expected, a portfolio loss allowance at the amount of expected loss is created for this portfolio of receivables.

Creation and use of loss allowances are reported in the Income statement as "Write-offs, creation and use of loss allowances and provisions for receivables and guarantees". Release of loss allowances is reported in the Income statement as "Release of loss allowances and provisions for receivables and guarantees, income from previously written-off receivables". The amount of created loss allowances reduces the value of assets under "Receivables from clients – cooperative savings associations' members".



Receivables are carried at the nominal value net of any loss allowances for special-mentioned and classified loans. Accrued interest income is part of the book value of such receivables.

Receivables are written off when assessed as unrecoverable, or when further recovery is uneconomical. Write-offs of receivables from clients are tax-optimized. Costs associated with write-offs are compensated by means of loss allowances. Written-off receivables are kept on off-balance sheet accounts until the recovery process is over. Write-offs of receivables and use of loss allowances are included under "Write-offs, creation and use of loss allowances and provisions for receivables and guarantees" in the Income statement. Income from written-off receivables is reported in the Income statement under "Release of loss allowances and provisions for receivables and guarantees, income from written-off receivables".

Raiffeisen stavební spořitelna reviews receivables for recoverability and creates loss allowances in accordance with Decree No. 163/2014 Coll. on activities by banks, building societies and loan associations and securities traders (hereinafter referred to as "Decree No. 163/2014"). When reviewing individual receivables, the crucial factor is the past-due period of prescribed instalments. Loss allowances are created and recorded separately for each receivable. For the purpose of creation of loss allowances, the value of receivables is reduced by the recoverable value of high-quality collateral of such receivables (in case of Raiffeisen stavební spořitelna, this includes pledged building savings deposits and liens on real property meeting the defined conditions). In case that no impairment was identified in separately reviewed receivables, yet events were objectively identified based on which reduction of future cash flows from the given portfolio of homogeneous receivables can be expected, a portfolio loss allowance at the amount of expected loss is created for this portfolio of receivables.

Creation and use of loss allowances are reported in the Income statement as "Write-offs, creation and use of loss allowances and provisions for receivables and guarantees". Release of loss allowances is reported in the Income statement as "Release of loss allowances and provisions for receivables and guarantees, income from previously written-off receivables". The amount of created loss allowances reduces the value of assets under "Receivables from clients – cooperative savings associations' members".

#### 1.4.2.2.2 Securities

In accordance with the Building Savings Act, Raiffeisen stavební spořitelna is only allowed to purchase mortgage bonds and similar products issued by the Member States of the Organization for Economic Cooperation and Development, bonds issued by the Czech Republic, bonds for which the Czech Republic assumed guarantees, bonds issued by the Czech National Bank, bonds issued by the Member States of the Organization for Economic Cooperation and Development, central banks and financial institutions of such states and banks domiciled in such states, bonds for which these states assumed guarantees, and bonds issued by the European Investment Bank, the Nordic Investment Bank and the European Central Bank. In accordance with its intention, Raiffeisen stavební spořitelna allocates debt securities into either the portfolio of securities held to maturity or the portfolio of securities available for sale.

Upon initial recognition, the securities are measured at acquisition cost. It includes direct transaction costs related to the purchase known at the time of purchase.

Accrued interest income is accounted for on a monthly basis. Coupon accruals and premium or discount accruals are obtained using the linear method or the effective interest rate method. The linear method is only used for premium or discount in variable-coupon bonds.

Securities in the portfolios of available-for-sale securities are measured at fair value on a monthly basis. Gains and losses arising from this revaluation are recognized in the equity under "Gains (losses) from revaluation". Upon sale the gains or losses are recognized in the Income statement under "Gain or loss from financial operations".

The fair value of debt securities is determined as the market price on the date of the determination of the fair value including accrued interest income, if the Bank proves that the securities can be sold at the market price. The market prices of publicly traded securities are equal to the prices achievable at the public market, provided that the market liquidity requirements are satisfied at the same time. If the fair value of the debt securities cannot be set as a market price, the fair value is set as an adjusted value of the securities. The adjusted value of the debt securities is equal to the present value of future cash flows arising from the securities.

No loss allowances are created for securities available for sale. These are assets measured at fair value. Loss allowances for securities held to maturity are created based on individual securities in an amount equal to the impairment of the value of the security due to increased issuer's credit risk. Raiffeisen stavební spořitelna does not create loss allowances for bonds issued by the government of the Czech Republic or the Czech National Bank and for bonds guaranteed by the government.

Securities are reported under "Debt securities" or "State zero coupon bonds and other securities eligible for refinancing with the central bank". Interest income and expenses are reported in the Income statement as "Interest income and similar income". Upon sale the gains and losses are reported in the Income statement as "Gain or loss from financial operations".

#### 1.4.2.2.3 Participation interests with controlling and substantial influence

A participation interest with controlling influence means interest in an entity where Raiffeisen stavební spořitelna is a majority shareholder. Raiffeisen stavební spořitelna has a controlling influence on the entity's management and full control of its activities.

Participation interests with controlling and substantial influence are recognized at acquisition cost, including transaction costs, net of any loss allowances made due to temporary impairment of their value or net of any write-offs due to permanent impairment of their value.

#### 1.4.2.2.4 Financial leasing from the lessee's perspective

Raiffeisen stavební spořitelna undertakes no financial leasing operations.

#### 1.4.2.3 Income and expenses – policies applicable until 31/12/2017

Raiffeisen stavební spořitelna records income and expense interests associated with any interest-yielding instruments in the Income statement for the period to which they are factually and temporally related. Premium or discount accruals in securities are obtained using the linear method or the effective interest rate method. The linear method is only used for zero-coupon bonds with a maturity of up to one year and for variable-coupon bonds.

The expenses associated with preferential interest rate terms for building savings clients are accounted for by means of estimated payables.

Accrued interest is recognized in the respective accounting groups for individual assets and liabilities.

Raiffeisen stavební spořitelna does not use the accrual principle for interest on late payments in special-mentioned and classified receivables. Accrued interest on late payments is recorded on off-balance sheet accounts. In terms of income, only paid interest on late payments is accounted for. On the other hand, common interest on classified loans is accrued in an unchanged way and is taken into account in the calculation of loss allowances.

### 1.4.3 IMPACT OF CHANGES IN ACCOUNTING POLICIES AND CORRECTIONS OF FUNDAMENTAL ERRORS

#### 1.4.3.1 Impact of changes in accounting policies

Raiffeisen stavební spořitelna made modifications to the following accounting policies in 2018.

Since 1 January, 2018, based on Decree No. 501/2002 Coll. effective from 1 January, 2018, as amended by Decree No. 442/2017 Coll., of 7 December, 2017, the Bank shall for the purpose of reporting, measuring and informing on financial instruments in the notes to the financial statement proceed in line with the international accounting standards governed by directly applicable legislation of the European Union on the application of international accounting standards (hereinafter the "international accounting standards" or "IFRS").

The most significant impact of this change on the Bank starting from 1 January, 2018 will be the application of IFRS 9 Financial Instruments in classification of receivables from clients and quantification of credit losses (i.e. loss allowances). In view of IFRS 9 application, the concept of incurred losses has been replaced by the concept of expected losses.

For the purpose of classification, the Bank newly considers the following aspects of all receivables from clients:

- The business model for managing the financial assets (i.e., how the accounting unit manages its financial assets with the objective of creating cash flow);
- The characteristics of contractual cash flows from the financial assets (i.e., whether the contractual terms of a particular financial asset stipulate specific dates of cash flows, namely repayments of the principal and interests).

For the purpose of quantifying credit losses (i.e. loss allowances), the Bank has categorized receivables from clients according to quantitative and qualitative criteria into the following categories:

- No default ("Stage 1");
- Increased credit risk ("Stage 2"),
- In default ("Stage 3").

New accounting policies for financial instruments are described in particular under 1.4.2.1.2 and 1.4.2.1.3. The effect of a given change on capital as at 01/01/2018 is listed in the table below.

#### 1.4.3.1.1 Initial application of IFRS 9

##### 1.4.3.1.1.1 Measurement categories

The following tables show the original measurement categories of financial assets and financial liabilities as per Decree No. 501/2002 applicable until 31/12/2017 and the new measurement categories as per IFRS 9 as at 01/01/2018.

**Financial assets as at 01/01/2018**

MCZK	Original classification as per Decree No. 501/2002 applicable until 31/12/2017	New classification as per IFRS 9	Original book value as per Decree No. 501/2002 applicable until 31/12/2017	New book value as per IFRS 9 as at 01/01/2018
Cash and balances with central banks	Amortized cost	Amortized cost	171	171
State zero coupon bonds and other securities eligible for refinancing with the central bank			11,242	11,183
Of that: Available-for-sale securities	AFS		1,347	0
Held-to-maturity securities	Amortized cost	Amortized cost	9,895	11,183
Receivables from banks and cooperative savings associations	Amortized cost	Amortized cost	7,658	7,658
Receivables from clients – cooperative savings associations' members	Amortized cost	Amortized cost	41,614	41,444
Debt securities	Amortized cost	Amortized cost	5,254	5,254
Participation interests with controlling influence	Historical cost	Historical cost (measured in accordance with IAS 27 Separate Financial Statements)	257	257
Other assets	Amortized cost	Amortized cost	817	834
<b>Total financial assets</b>			<b>67,013</b>	<b>66,801</b>

**Financial liabilities as at 01/01/2018**

MCZK	Original classification as per Decree No. 501/2002 applicable until 31/12/2017	New classification as per IFRS 9	Original book value as per Decree No. 501/2002 applicable until 31/12/2017	New book value as per IFRS 9 as at 01/01/2018
Payables to banks and cooperative savings associations	Amortized cost	Amortized cost	0	0
Payables to clients – cooperative savings associations' members	Amortized cost	Amortized cost	61,870	61,870
Payables from debt securities	x	x	0	0
Other liabilities	x	x	589	596
<b>Total financial liabilities</b>			<b>62,459</b>	<b>62,466</b>

**Available-for-sale securities**

MCZK	Original book value as per Decree No. 501/2002 applicable until 31/12/2017	Reclassification to amortized cost	Revaluation	New book value as per IFRS 9 as at 01/01/2018
Debt securities	1,347	-59	0	1,288

**1.4.3.1.1.2 Effect of reclassification of financial assets and financial liabilities**

The following table shows the effect of reclassification of financial assets and financial liabilities as per Decree No. 501/2002 applicable until 31/12/2017 into amortized cost as per IFRS 9.

**Financial assets from AFS as per Decree 501/2002 applicable until 31/12/2017**

MCZK	
Fair value as at 31/12/2018	994
Fair value revaluation gains (losses) that would have been recognized as equity revaluation gains (losses) in 2018, had the financial assets not been reclassified	42

**1.4.3.1.1.3 Net impact of the transition to IFRS 9 on equity**

The following tables show the net impact of the transition to IFRS 9 on gains (losses) from revaluation and retained earnings or accumulated losses from previous years.

**Gains (losses) from revaluation**

MCZK	Impact of IFRS 9 implementation as at 01/01/2018
Closing balance as at 31/12/2017 (as per Decree No. 501/2002 applicable until 31/12/2017)	59
Reclassification of debt securities from AFS to amortized cost	-73
Deferred tax impact	14
<b>Opening balance as at 01/01/2018 (as per IFRS 9)</b>	<b>0</b>

**Retained earnings or accumulated losses from previous years**

MCZK	Impact of IFRS 9 implementation as at 01/01/2018
Closing balance as at 31/12/2017 (as per Decree No. 501/2002 applicable until 31/12/2017)	0
Reclassification as per IFRS 9	0
Recognition of expected credit losses (ECL) as per IFRS 9 (including ECLs for loan commitments and financial guarantees)	-177
Deferred tax impact	17
<b>Opening balance as at 01/01/2018 (as per IFRS 9)</b>	<b>-160</b>

**1.4.3.1.1.4 Reconciliation of loss allowances and provisions**

The following table reconciles the closing balance of loss allowances for financial assets as per Decree No. 501/2002 applicable until 31/12/2017 and the closing balance of provisions for loan commitments and financial guarantees as at 31/12/2017 with the opening balance of expected credit losses (ECL) as per IFRS 9 as at 01/01/2018.

**Loss allowances and provisions**

MCZK	31/12/2017 as per Decree No. 501/2002 applicable until 31/12/2017	Reclassification	Revaluation	01/01/2018 as per IFRS 9
State zero coupon bonds and other securities eligible for refinancing with the central bank from amortized cost to amortized cost	0	0	0	0
Receivables from banks and cooperative savings associations from amortized cost to amortized cost	0	0	0	0
Receivables from clients – cooperative savings associations' members from amortized cost to amortized cost	-979	0	-170	-1,149
Debt securities from amortized cost to amortized cost	0	0	0	0
Debt securities from AFS to amortized cost	0	0	0	0
Other assets	-3	0	0	-3
<b>Financial assets at amortized cost</b>	<b>-981</b>	<b>0</b>	<b>-170</b>	<b>-1,152</b>
Loan commitments and financial guarantees	0	0	-7	-7
<b>Total</b>	<b>-981</b>	<b>0</b>	<b>-177</b>	<b>-1,159</b>

**1.4.3.2 Reclassification of acquisition expenses and income**

In 2018, Raiffeisen stavební spořitelna reclassified the acquisition expenses and income from “Fee and commission income and expense” to “Net interest income”. This resulted in CZK -96 million under the “Net interest income” item in the 2017 report.

**1.4.3.3 Impact of corrections of fundamental errors**

No corrections were made in 2018 in respect of any fundamental errors of the past accounting periods.

Items from accounting periods other than those to which they belong in terms of taxation and accounting and changes in accounting policies are recognised as income or expenses in the Income statement for the current accounting period with the exception of corrections of fundamental errors in the accounting of income and expenses of past accounting periods that are recorded under “Retained earnings or accumulated losses from previous years” in Bank’s balance sheet.

**1.4.4 CASH AND BALANCES WITH CENTRAL BANKS****1.4.4.1 Cash and balances with central banks by type of instrument**

MCZK	31/ 12/ 2018	31/ 12/ 2017
Cash	3	4
Mandatory minimum reserves	906	167
Balances with the CNB repayable on demand, except for mandatory minimum reserves	0	0
<b>Total cash and balances with central banks</b>	<b>909</b>	<b>171</b>

#### 1.4.4.2 Balances with central banks – loss allowances

MCZK	31/ 12/ 2018	31/ 12/ 2017
Gross amount	906	167
Loss allowances	0	0
<b>Total balances with central banks</b>	<b>906</b>	<b>167</b>

As at 31 December, 2018, balances with central banks were not credit-impaired or exposed to a significant increase in credit risk. As at 31 December, 2018, loss allowances were calculated based on a 12-month expected credit loss.

#### 1.4.5 STATE ZERO COUPON BONDS AND OTHER SECURITIES ELIGIBLE FOR REFINANCING WITH THE CENTRAL BANK

##### 1.4.5.1 State zero coupon bonds and other securities eligible for refinancing with the central bank by type of instrument

MCZK	31/ 12/ 2018	31/ 12/ 2017
State treasury notes	0	0
Government bonds	13,223	11,242
CNB bills	0	0
Other	0	0
<b>Total state zero coupon bonds and other securities eligible for refinancing with the central bank</b>	<b>13,223</b>	<b>11,242</b>

##### 1.4.5.2 Classification of state zero coupon bonds and other securities eligible for refinancing with the central bank by measurement categories

MCZK	31/ 12/ 2018
At amortized cost	13,223
<b>Total state zero coupon bonds and other securities eligible for refinancing with the central bank</b>	<b>13,223</b>

MCZK	31/ 12/ 2017
Held-to-maturity	9,895
Available-for-sale	1,347
Measured at fair value through profit or loss	0
<b>Total state zero coupon bonds and other securities eligible for refinancing with the central bank</b>	<b>11,242</b>

##### 1.4.5.3 State zero coupon bonds and other securities eligible for refinancing with the central bank – loss allowances

MCZK	31/ 12/ 2018	31/ 12/ 2017
Gross amount	13,223	11,242
Loss allowances	0	0
<b>Total state zero coupon bonds and other securities eligible for refinancing with the central bank</b>	<b>13,223</b>	<b>11,242</b>

As at 31 December, 2018, state zero coupon bonds and other securities eligible for refinancing with the central bank were not credit-impaired or exposed to a significant increase in credit risk. As at 31 December, 2018, loss allowances were calculated based on a 12-month expected credit loss.

##### 1.4.5.4 Repurchase and reverse repurchase agreements

As at 31 December, 2018, Raiffeisen stavební spořitelna acquired state zero coupon bonds and other securities worth CZK 2,085 million (as at 31 December, 2017: CZK 6,708 million) as part of reverse repurchase agreements, which are recognized as "Collaterals and pledges received".

## 1.4.6 RECEIVABLES FROM BANKS

### 1.4.6.1 Receivables from banks by type

MCZK	31/ 12/ 2018	31/ 12/ 2017
Current accounts	4	457
Term deposits	0	400
Debt securities	0	0
Reverse repurchase agreements with the CNB	2,100	6,801
Reverse repurchase agreements with other banks	0	0
Other	0	0
<b>Receivables from banks – gross</b>	<b>2,104</b>	<b>7,658</b>
Allowances for potential losses from receivables	0	0
<b>Receivables from banks – net</b>	<b>2,104</b>	<b>7,658</b>

### 1.4.6.2 Classification of receivables from banks by measurement categories

MCZK	31/ 12/ 2018
Receivables from banks at amortized cost	2,104
<b>Receivables from banks – net</b>	<b>2,104</b>

### 1.4.6.3 Receivables from banks – loss allowances

MCZK	31/ 12/ 2018	31/ 12/ 2017
Gross amount	2,104	7,658
Loss allowances	0	0
<b>Receivables from banks – net</b>	<b>2,104</b>	<b>7,658</b>

As at 31 December, 2018, receivables from banks were not credit-impaired or exposed to a significant increase in credit risk. As at 31 December, 2018, loss allowances were calculated based on a 12-month expected credit loss.

### 1.4.6.4 Receivables from banks – classification and loss allowances – 31/12/2017

MCZK	31/ 12/ 2017
Standard	7,658
Special-mentioned	0
Substandard	0
Doubtful	0
Loss	0
<b>Receivables from banks – gross</b>	<b>7,658</b>
Allowances for potential losses from receivables	0
<b>Receivables from banks – net</b>	<b>7,658</b>

### 1.4.6.5 Analysis of receivables from banks by type of collateral received

MCZK	31/ 12/ 2018	31/ 12/ 2017
Securities	2,100	6,801
Bank guarantees	0	0
Other collateral	0	0
Unsecured	4	857
<b>Receivables from banks – gross</b>	<b>2,104</b>	<b>7,658</b>

### 1.4.6.6 Loans of a special nature (subordinated)

As at the end of the reported accounting periods, Raiffeisen stavební spořitelna recorded no (subordinated) loans of a special nature.

## 1.4.7 RECEIVABLES FROM CLIENTS

### 1.4.7.1 Receivables from clients by type

MCZK	31/ 12/ 2018	31/ 12/ 2017
Receivables from loans	50,270	42,500
Other receivables	102	93
<b>Receivables from clients – gross</b>	<b>50,372</b>	<b>42,593</b>
Allowances for expected losses	-1,108	-979
<b>Receivables from clients – net</b>	<b>49,264</b>	<b>41,614</b>

As at 31 December, 2018, Raiffeisen stavební spořitelna recorded a total of 464 restructured receivables from natural persons and legal entities worth CZK 232 million (in 2017: 466 restructured receivables worth CZK 241 million).

### 1.4.7.2 Receivables from clients by measurement categories

MCZK	31/ 12/ 2018
Receivables from clients at amortized cost	49,264
<b>Receivables from clients – net</b>	<b>49,264</b>

### 1.4.7.3 Receivables from clients by degree of impairment as at 31/12/2018

MCZK	31/ 12/ 2018 Receivables from clients – gross	31/ 12/ 2018 Loss allowances	31/ 12/ 2018 Receivables from clients – net
Stage 1	45,363	-136	45,227
Stage 2	3,837	-69	3,768
Stage 3	1,172	-903	269
<b>Total</b>	<b>50,372</b>	<b>-1,108</b>	<b>49,264</b>

The amount of loss allowances for receivables from clients is described in more detail in Note 1.4.43.

### 1.4.7.4 Receivables from clients at amortized cost – 31/12/2017

MCZK	31/ 12/ 2017 Receivables from clients – gross	31/ 12/ 2017 Loss allowances	31/ 12/ 2017 Receivables from clients – net
Standard	41,047	0	41,047
Special-mentioned	196	-11	185
Substandard	212	-32	180
Doubtful	61	-23	38
Loss	984	-913	71
Other	93	0	93
<b>Total</b>	<b>42,593</b>	<b>-979</b>	<b>41,614</b>

### 1.4.7.5 Provided subordinated receivables from clients

As at the end of the reporting periods, Raiffeisen stavební spořitelna recorded no provided subordinated receivables from clients.

### 1.4.7.6 Consortium loans

As at the end of the reporting periods, Raiffeisen stavební spořitelna recorded no consortium loans.

## 1.4.8 DEBT SECURITIES

### 1.4.8.1 Debt securities by type

MCZK	31/ 12/ 2018	31/ 12/ 2017
Bonds issued by financial institutions	2,220	5,254
Bonds issued by non-financial institutions	0	0
Bonds issued by the government sector	0	0
Other	0	0
<b>Debt securities – net</b>	<b>2,220</b>	<b>5,254</b>

**1.4.8.2 Debt securities by measurement categories**

MCZK	31/ 12/ 2018
At amortized cost	2,220
<b>Debt securities – net</b>	<b>2,220</b>

MCZK	31/ 12/ 2017
Held-to-maturity securities	5,254
Available-for-sale securities	0
<b>Debt securities – net</b>	<b>5,254</b>

**1.4.8.3 Debt securities at amortized cost as at 31/12/2018**

MCZK	Stage 1	Stage 2	Stage 3	Other	Total
Gross amount	2,220	0	0	0	2,220
Loss allowances	0	0	0	0	0
<b>Debt securities – net</b>	<b>2,220</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,220</b>

**1.4.8.4 Analysis of debt securities measured at amortized cost – 31/12/2018**

MCZK	31/ 12/ 2018
Listed on a Czech stock exchange	436
Listed on another securities market	1,784
Unlisted	0
<b>Issued by financial institutions</b>	<b>2,220</b>
Listed on a Czech stock exchange	0
Listed on another securities market	0
Unlisted	0
<b>Issued by the government sector</b>	<b>0</b>
<b>Debt securities – net</b>	<b>2,220</b>

**1.4.8.5 Analysis of held-to-maturity debt securities – 31/12/2018**

MCZK	31/ 12/ 2017
Listed on a Czech stock exchange	1,216
Listed on another securities market	4,038
Unlisted	0
<b>Issued by financial institutions</b>	<b>5,254</b>
Listed on a Czech stock exchange	0
Listed on another securities market	0
Unlisted	0
<b>Issued by the government sector</b>	<b>0</b>
<b>Debt securities – net</b>	<b>5,254</b>

**1.4.8.6 Analysis of available-for-sale debt securities – 31/12/2018**

Raiffeisen stavební spořitelna recorded no available-for-sale debt securities at 31/12/2017.

**1.4.8.7 Debt securities as collateral provided under repurchase agreements**

As at the end of the accounting periods, Raiffeisen stavební spořitelna recorded no debt securities as collateral provided under repurchase agreements.

**1.4.9 SHARES, UNITS AND OTHER PARTICIPATION INTERESTS**

As at the end of the reporting periods, Raiffeisen stavební spořitelna did not record any shares, units or other participation interests.



## 1.4.10 PARTICIPATION INTERESTS WITH CONTROLLING AND SUBSTANTIAL INFLUENCE

### 1.4.10.1 Participation interests with controlling influence

#### Participation interests with controlling influence as at 31 December, 2018

MCZK	Registered office	Business objects	Registered capital	Other equity components	Share in registered capital	Share in voting rights	Book value
KONEVOVA s.r.o.	Koněvova 2747/99, Prague 3	Production, trade and services not specified in Annexes 1 to 3 of the Trade Licensing Act	50	92	100%	100%	257

#### Participation interests with controlling influence as at 31 December, 2017

MCZK	Registered office	Business objects	Registered capital	Other equity components	Share in registered capital	Share in voting rights	Book value
KONEVOVA s.r.o.	Koněvova 2747/99, Prague 3	Production, trade and services not specified in Annexes 1 to 3 of the Trade Licensing Act	50	89	100%	100%	257

### 1.4.10.2 Participation interests with substantial influence

As at the end of the reporting periods, Raiffeisen stavební spořitelna recorded no participation interests with substantial influence.

### 1.4.10.3 Information on controlled entities by individual Member States and non-Member States

MCZK	31/ 12/ 2018	31/ 12/ 2017
Turnover	44	44
Number of workers (full-time equivalent)	3	3
Pre-tax profit or loss	10	13
Corporate income tax	2	3
State aid received	0	0

Raiffeisen stavební spořitelna has one controlled entity, which is based in the Czech Republic. The activities performed by the controlled entity include management of own real property.

## 1.4.11 INTANGIBLE FIXED ASSETS

### 1.4.11.1 Changes in intangible fixed assets

#### Changes in intangible fixed assets in 2018

MCZK	Status as at 31/12/2017	Additions	Disposals	Status as at 31/12/2018	Accumulated amortization	Net book value in 2018	Depreciation in 2018
Software	656	79	0	735	-570	165	-37
Other intangible assets	21	1	0	22	-17	5	-2
Acquisitions	32	67	80	19	0	19	0
<b>Intangible fixed assets</b>	<b>709</b>	<b>147</b>	<b>80</b>	<b>776</b>	<b>-587</b>	<b>189</b>	<b>-39</b>

#### Net book value of intangible fixed assets

MCZK	31/ 12/ 2018	31/ 12/ 2017
Software	165	123
Other intangible assets	5	6
Intangible assets not in use	19	32
<b>Intangible fixed assets</b>	<b>189</b>	<b>161</b>

## 1.4.12 TANGIBLE FIXED ASSETS

### 1.4.12.1 Changes in tangible fixed assets

#### Changes in tangible fixed assets in 2018

MCZK	Status as at 31/12/2017	Additions	Disposals	Status as at 31/12/2018	Accumulated amortization	Net book value in 2018	Depreciation in 2018
Land and buildings for operating activities	37	0	0	37	-13	24	-1
Operating tangible assets	126	3	2	127	-111	16	-10
Non-operating tangible assets	5	0	0	5	0	5	0
Acquisitions	1	2	3	0	0	0	0
<b>Tangible fixed assets</b>	<b>169</b>	<b>5</b>	<b>5</b>	<b>169</b>	<b>-124</b>	<b>45</b>	<b>-11</b>

#### Net book value of tangible fixed assets

MCZK	31/ 12/ 2018	31/ 12/ 2017
Land and buildings for operating activities	24	25
Operating tangible assets	16	25
Non-operating tangible assets	5	5
Tangible assets not in use	0	1
<b>Tangible fixed assets – net</b>	<b>45</b>	<b>56</b>

### 1.4.12.2 Tangible fixed assets acquired under financial leasing contracts

Raiffeisen stavební spořitelna uses no assets acquired through financial leasing.

## 1.4.13 OTHER ASSETS

MCZK	31/ 12/ 2018	31/ 12/ 2017
Estimated receivables – government premiums	656	615
Estimated receivables	3	3
Clearing accounts for employees	0	0
Settlement of income tax, road tax and VAT	0	2
Operating advances paid	7	7
Sundry debtors	5	4
Loss allowances for receivables	-4	-3
Other	0	0
<b>Total other assets</b>	<b>667</b>	<b>628</b>

“Estimated receivables – government premiums” include an estimate of government contributions to building savings to be received by Raiffeisen stavební spořitelna in the following year. At the same time, this estimate is entered under “Payables to clients – cooperative savings associations’ members”.

## 1.4.14 PAYABLES TO BANKS AND COOPERATIVE SAVINGS ASSOCIATIONS

As at the end of the reported accounting periods, Raiffeisen stavební spořitelna recorded no payables to banks.

## 1.4.15 PAYABLES TO CLIENTS

### 1.4.15.1 Payables to clients by type

MCZK	31/ 12/ 2018	31/ 12/ 2017
<b>Building savings deposits by natural persons</b>	<b>62,282</b>	<b>60,472</b>
Of that: savings accounts on demand	8,164	7,725
building savings deposits with fixed maturity	32,635	30,563
building savings notice deposits	21,483	22,184
<b>Building savings deposits by legal entities</b>	<b>531</b>	<b>662</b>
Of that: savings accounts on demand	57	57
building savings deposits with fixed maturity	50	216
building savings notice deposits	424	389
<b>Other</b>	<b>823</b>	<b>736</b>
<b>Total payables to clients</b>	<b>63,636</b>	<b>61,870</b>

As at 31 December, 2018, "Other" includes in particular uncredited state support for building savings clients worth CZK 656 million (as at 31 December, 2017: CZK 615 million).

#### 1.4.15.2 Payables to clients by sector – residents

MCZK	31/ 12/ 2018	31/ 12/ 2017
Non-financial institutions	402	423
Government institutions	129	239
Households	62,282	60,472
Other	823	736
<b>Total payables to clients</b>	<b>63,636</b>	<b>61,870</b>

According to the methodology of the Czech National Bank, building savings deposits with a running saving period are recognized as deposits with fixed maturity until the expiry of the mandatory saving period stipulated by the Building Savings Act. Deposits with a notice period are deposits made during the extension of the building savings contract after the expiry of the mandatory saving period, and deposits payable on demand are non-term deposits and deposits made after the granting of a building savings loan.

#### 1.4.16 PAYABLES FROM DEBT SECURITIES

As at the end of the reported accounting periods, Raiffeisen stavební spořitelna recorded no payables from debt securities.

#### 1.4.17 OTHER LIABILITIES

MCZK	31/ 12/ 2018	31/ 12/ 2017
Estimated payables	87	94
Clearing accounts for the Czech National Bank	279	235
Clearing accounts for employees	11	11
Clearing accounts for the social security authorities	6	6
Clearing accounts for the state budget	114	108
Sundry creditors	61	41
Operating advances received	0	0
Deferred tax liability	13	23
<b>Total other liabilities</b>	<b>571</b>	<b>518</b>

"Estimated payables" include in particular CZK 63 million worth of estimated payables in the form of interest bonuses for building savings clients (in 2017: CZK 77 million).

Any liabilities under "Clearing accounts for the social security authorities" and "Clearing accounts for the state budget" were paid on or before the dates due. Raiffeisen stavební spořitelna records no past due liabilities under these items.

"Clearing accounts for the state budget" include mainly settlement of the withholding income tax on interests.

"Sundry creditors" include mainly liabilities arising from commissions to financial advisors and other liabilities to suppliers to be paid in the following accounting period.

#### 1.4.18 PROVISIONS

##### 1.4.18.1 Provisions for taxes

As at the end of the reported accounting periods, Raiffeisen stavební spořitelna recorded no provisions for taxes.

##### 1.4.18.2 Other provisions

###### Creation and use of provisions in 2018

MCZK	Status as at 01/01/2018	IFRS 9 effect as at 01/01/2018	Created	Used	Released	Status as at 31/12/2018
Provisions for litigations	8	0	14	-15	-1	6
Provisions for loan commitments	0	7	7	0	-6	8
Other provisions	5	0	35	-30	-4	6
<b>Total</b>	<b>13</b>	<b>7</b>	<b>56</b>	<b>-45</b>	<b>-11</b>	<b>20</b>

**Creation and use of provisions in 2017**

MCZK	Status as at 31/12/2016	Created	Used	Released	Status as at 31/12/2017
Provisions for litigations	9	0	0	-1	8
Provisions for loan commitments	0	0	0	0	0
Other provisions	4	41	-38	-2	5
<b>Total</b>	<b>13</b>	<b>41</b>	<b>-38</b>	<b>-3</b>	<b>13</b>

Since 2016 "Other provisions" have included provisions for contributions to the Financial Market Guarantee System. Out of a provision of CZK 32 million created in 2018, CZK 29 million were used in the same year. Out of a provision of CZK 38 million created in 2017, CZK 37 million were used in the same year.

**1.4.19 SUBORDINATED LIABILITIES**

As at the end of the reporting periods, Raiffeisen stavební spořitelna recorded no subordinated liabilities.

**1.4.20 REGISTERED CAPITAL AND EQUITY**

MCZK	31/ 12/ 2018	31/ 12/ 2017
<b>Registered capital</b>	<b>650</b>	<b>650</b>
Of that: Raiffeisenbank a.s.	65	65
Raiffeisen Bausparkassen Holding GmbH	585	585
<b>Reserve funds and other funds from profit</b>	<b>3,770</b>	<b>3,626</b>
Of that: reserve fund	130	130
voluntary reserve fund	3,632	3,488
other funds from profit	8	8
<b>Gains (losses) from revaluation</b>	<b>0</b>	<b>59</b>
<b>P/L from previous years – difference between policies</b>	<b>-160</b>	<b>0</b>
<b>Retained earnings</b>	<b>0</b>	<b>0</b>
<b>Profit for the current period</b>	<b>516</b>	<b>444</b>
<b>Equity</b>	<b>4,776</b>	<b>4,779</b>

As at the end of the reporting periods, Raiffeisen stavební spořitelna recorded no bonuses tied to equity.

Raiffeisen stavební spořitelna issued no shares in the reported periods.

**1.4.21 GAINS (LOSSES) FROM REVALUATION**

As at 31 December, 2018, Raiffeisen stavební spořitelna reported no gains (losses) from revaluation of assets and liabilities.

Under "Gains (losses) from revaluation of assets and liabilities", Raiffeisen stavební spořitelna reported CZK 73 million worth of gains from revaluation of securities included in the portfolio of available-for-sale securities at fair value and CZK 14 million worth of deferred tax liability in respect of the revaluation as at 31 December, 2017.

**1.4.22 USE OF PROFIT OR SETTLEMENT OF LOSS FROM PREVIOUS ACCOUNTING PERIODS**

MCZK	Retained earnings	Accumulated losses from previous years	Reserve fund	Voluntary reserve fund	Other funds from profit
Balance as at 31 December, 2017	0	0	130	3,488	8
Profit/loss in 2017	444	0	0	0	0
Profit/loss based on the difference between the policies	0	-160	0	0	0
Allocations to funds from profit	-144	0	0	144	0
Other use of funds from profit	0	0	0	0	0
Other use of earnings	0	0	0	0	0
Share in profit	-300	0	0	0	0
Royalties	0	0	0	0	0
<b>Balance as at 31 December, 2018</b>	<b>0</b>	<b>-160</b>	<b>130</b>	<b>3,632</b>	<b>8</b>

### 1.4.23 PROPOSAL FOR USE OF PROFIT OR SETTLEMENT OF LOSS FROM THE CURRENT ACCOUNTING PERIOD

MCZK	Retained earnings	Accumulated losses from previous years	Reserve fund	Voluntary reserve fund	Other funds from profit
Balance as at 31 December, 2018	0	-160	130	3,632	8
Profit/loss in 2018	516	0	0	0	0
Allocations to funds from profit	-216	0	0	216	0
Other use of funds from profit	0	0	0	0	0
Other use of earnings	0	0	0	0	0
Share in profit	-300	0	0	0	0
Royalties	0	0	0	0	0
	<b>0</b>	<b>-160</b>	<b>130</b>	<b>3,848</b>	<b>8</b>

### 1.4.24 COMMITMENTS AND GUARANTEES ISSUED, RECEIVABLES WRITTEN-OFF

“Commitments and guarantees issued” include as-yet unused credit lines for bridge loans and building savings loans.

“Receivables written-off” record written-off financial receivables and receivables from customer-supplier relationships which are still being legally enforced.

### 1.4.25 RECEIVABLES AND PAYABLES FROM FIXED-TERM TRANSACTIONS AND OPTION TRANSACTIONS

As at the end of the reporting periods, Raiffeisen stavební spořitelna recorded no receivables and payables from fixed-term transactions and option transactions.

### 1.4.26 VALUES PLACED INTO CUSTODY, ADMINISTRATION AND DEPOSIT

As at the end of the reporting periods, Raiffeisen stavební spořitelna recorded no values placed into custody, administration and deposit.

### 1.4.27 VALUES PLACED UNDER MANAGEMENT

As at the end of the reporting periods, Raiffeisen stavební spořitelna recorded no values placed under management.

### 1.4.28 COMMITMENTS AND GUARANTEES RECEIVED

“Commitments and guarantees received” include guarantees received in respect of bridge loans, building savings loans and commercial loans.

### 1.4.29 COLLATERALS AND PLEDGES RECEIVED

MCZK	2018	2017
Real property pledges	24,497	20,609
Cash collaterals	4,883	4,490
Collaterals – securities	2,085	6,708
<b>Collaterals and pledges received</b>	<b>31,465</b>	<b>31,807</b>

“Collaterals and pledges received” include immovable and financial collaterals received in respect of bridge loans, building savings loans and commercial loans and state zero coupon bonds and other securities acquired through reverse repurchase agreements.

### 1.4.30 VALUES TAKEN INTO CUSTODY, ADMINISTRATION AND DEPOSIT

Raiffeisen stavební spořitelna accepts into custody only blank bills of exchange in connection with loans granted to legal entities.

### 1.4.31 VALUES TAKEN UNDER MANAGEMENT

As at the end of the reporting periods, Raiffeisen stavební spořitelna recorded no values taken under management.

**1.4.32 NET INTEREST INCOME**

MCZK	2018	2017
Interest income from loans granted	1,485	1,307
Interest income from interbank transactions	38	9
Interest income from securities	311	373
<b>Interest income and similar income</b>	<b>1,834</b>	<b>1,689</b>
Interest expense on client deposits	-841	-882
<b>Interest expense and similar expense</b>	<b>-841</b>	<b>-882</b>
<b>Net interest income</b>	<b>993</b>	<b>807</b>

Raiffeisen stavební spořitelna does not claim interest on late payments in defaulted loans prior to repayment. As at 31 December 2018, the value of unclaimed interest was CZK 366 million (in 2017: CZK 398 million). All interest income is calculated at the effective interest rate and only relates to financial assets and liabilities at amortized cost.

**1.4.33 FEE AND COMMISSION INCOME AND EXPENSE**

MCZK	2018	2017
Fee income from building savings	195	192
Fee income from loans	75	74
Other income	59	55
<b>Fee and commission income</b>	<b>329</b>	<b>321</b>
Fee expense	-4	-29
Commission expense	-75	-98
Other expense	-2	-3
<b>Fee and commission expense</b>	<b>-81</b>	<b>-130</b>
<b>Gain or loss from fees and commissions</b>	<b>248</b>	<b>191</b>

**1.4.34 GAIN OR LOSS FROM FINANCIAL OPERATIONS**

MCZK	2018	2017
Exchange rate gain or loss	-1	-1
Gain or loss from the sale of securities	0	118
<b>Gain or loss from financial operations</b>	<b>-1</b>	<b>117</b>

**1.4.35 OTHER OPERATING INCOME AND EXPENSES**

MCZK	2018	2017
Gains from the transfer of assets	1	0
Other (e.g. lease)	4	5
<b>Other operating income</b>	<b>5</b>	<b>5</b>
Contributions to the Financial Market Guarantee System	-32	-37
Expenses on the transfer of assets	-1	0
Other	-16	0
<b>Other operating expenses</b>	<b>-49</b>	<b>-37</b>
<b>Gain or loss from other operating income or expenses</b>	<b>-44</b>	<b>-32</b>

**1.4.36 ADMINISTRATIVE EXPENSES****1.4.36.1 Employee expenses**

MCZK	2018	2017
Salaries and remuneration paid to Members of the Board of Directors	-17	-17
Remuneration paid to Members of the Supervisory Board	-1	-1
Salaries and remuneration paid to other executives	-28	-26
Salaries and remuneration paid to other employees	-137	-132
Social security and health insurance	-58	-55
Other employee expenses	-12	-13
<b>Employee expenses</b>	<b>-253</b>	<b>-244</b>

As at 31 December, 2018 or as at 31 December, 2017, the Bank reported no pension liabilities incurred or contracted by former members of the management and supervisory bodies.

**Average number of employees and members of the Board of Directors and the Supervisory Board**

	2018	2017
Overall average headcount per year	262	268
Number of members of the Board of Directors	3	3
Number of members of the Supervisory Board	4	4
Number of other executives	16	16

**1.4.36.2 Other administrative expenses**

MCZK	2018	2017
Information technology	-35	-35
Rent and associated expenses	-38	-38
Advertising and marketing	-62	-56
Audit, legal and tax advisory	-3	-2
Other	-84	-67
<b>Other administrative expenses</b>	<b>-222</b>	<b>-198</b>

**Administrative expenses paid by Raiffeisen stavební spořitelna a.s. to KPMG companies**

MCZK excl. VAT	2018	2017
Audit	1.2	1.2
Other assurance services	0.4	0.4
Tax advisory	0.2	0.2
Consultancy services and seminars by KPMG companies	0.9	0.2
<b>Total</b>	<b>2.7</b>	<b>2.0</b>

**Administrative expenses paid by KONEVOVA s.r.o. to KPMG companies**

MCZK excl. VAT	2018	2017
Audit	0.1	0.1
Tax advisory	0.1	0.2
<b>Total</b>	<b>0.2</b>	<b>0.3</b>

**1.4.37 RELEASE OF LOSS ALLOWANCES AND PROVISIONS FOR RECEIVABLES AND GUARANTEES, INCOME FROM WRITTEN-OFF RECEIVABLES**

MCZK	2018	2017
Release of unneeded loss allowances for receivables from clients	247	176
Release of unneeded loss allowances for other receivables	1	0
Release of unneeded provisions for losses from loans and guarantees	6	0
Income from receivables written off	5	6
<b>Total</b>	<b>259</b>	<b>182</b>

**1.4.38 WRITE-OFFS, CREATION AND USE OF LOSS ALLOWANCES AND PROVISIONS FOR RECEIVABLES AND GUARANTEES**

MCZK	2018	2017
Write-off of receivables	-41	-21
Creation of loss allowances for receivables from clients	-285	-247
Creation of loss allowances for other receivables	-1	-2
Creation of provisions for losses from loans and guarantees	-7	0
Use of loss allowances for receivables from clients	79	28
Use of loss allowances for other receivables	1	7
Use of provisions for losses from loans and guarantees	0	0
Loss from transfer of receivables	-40	-14
<b>Total</b>	<b>-294</b>	<b>-249</b>

### 1.4.39 INCOME TAX AND DEFERRED TAX LIABILITY/ASSET

#### 1.4.39.1 Income tax

MCZK	2018	2017
Tax payable for the current accounting period	-106	-89
Deferred tax	-21	-3
<b>Total</b>	<b>-127</b>	<b>-92</b>

#### 1.4.39.2 Tax payable for the current accounting period

MCZK	2018	2017
Pre-tax profit or loss for current year	643	536
Non-taxable income	-193	-134
Tax non-deductible expenses	110	69
<b>Total</b>	<b>560</b>	<b>471</b>
<b>Tax calculated using a 19% rate (2017: 19%)</b>	<b>-106</b>	<b>89</b>

#### 1.4.39.3 Deferred tax liability/asset

MCZK	2018	2017
Other	2	3
<b>Deferred tax assets</b>	<b>2</b>	<b>3</b>
Asset book and tax value difference	-15	-12
Valuation of available-for-sale securities	0	-14
<b>Deferred tax liabilities</b>	<b>-15</b>	<b>-26</b>
<b>Deferred tax liability or asset</b>	<b>-13</b>	<b>-23</b>
Tax rate	19%	19%
Deferred tax recognized through profit and loss	-13	-11
Deferred tax recognized through equity	0	-14

### 1.4.40 INCOME AND EXPENSES BY GEOGRAPHICAL MARKETS

With the exception of CZK 26 million worth of interest income from securities (2017: CZK 47 million), all income and expenses listed above are realized in the Czech Republic.

### 1.4.41 TRANSACTIONS WITH, RECEIVABLES FROM AND PAYABLES TO RELATED PARTIES

#### 1.4.41.1 Transactions with related parties – income and expenses

MCZK	2018	2017
Income from shares and participation interests	5	5
Fee and commission expense	-2	-3
Administrative expenses	-44	-49
Other operating income	1	1

#### 1.4.41.2 Transactions with related parties – receivables and payables

MCZK	31/ 12/ 2018	31/ 12/ 2017
Receivables from banks	4	457
Debt securities	1,008	1,008
Other assets	0	0
Pre-paid expenses and accrued revenues	144	155
Other liabilities	1	1

#### 1.4.41.3 Receivables from companies in which the Bank has controlling or substantial influence and income and expenses from transactions with participation interests with controlling influence

Raiffeisen stavební spořitelna is a tenant in an administrative building owned by KONEVOVA s.r.o.; the majority of items in the following tables arise from this contractual relationship. Receivables include prepaid rentals for the KONEVOVA administrative building.



**Receivables from companies in which the Bank has controlling influence**

MCZK	KONEVOVA s.r.o. (controlling influence)
As at 01/01/2017	165
Additions	0
Disposals	-10
<b>As at 31/12/2017</b>	<b>155</b>
As at 01/01/2018	155
Additions	0
Disposals	-11
<b>As at 31/12/2018</b>	<b>144</b>

**Income and expenses from transactions with participation interests with controlling influence**

MCZK	2018	2017
Income from dividends	5	5
Other operating income	1	1
Other administrative expenses	-39	-38

**1.4.41.4 Receivables from individuals with a special relationship to the Bank**

The building savings products listed below concluded with individuals with a special relationship to the Bank were granted under normal commercial conditions applicable to regular clients of Raiffeisen stavební spořitelna.

MCZK	Administration bodies	Management bodies	Supervisory bodies	Other	Total
As at 31/ 12/ 2018	0	0	0	0	0
As at 31/ 12/ 2017	0	0	0	0	0

Raiffeisen stavební spořitelna did not provide the members of the management and supervisory bodies with any advance payment, earnest money or loan in the reported periods.

MCZK	Amount	Interest rate	Form of collateral	Amount repaid	Amount waived	Amount written off
As at 31/ 12/ 2018	0	3.5%	Lien on insured real property	3	0	0
As at 31/ 12/ 2017	3	3.5%	Lien on insured real property	3	0	0

The above loans were granted under standard market conditions.

**1.4.41.5 Payables to companies in which the Bank has controlling or substantial influence**

As at the end of the reporting periods, Raiffeisen stavební spořitelna recorded no payables to companies in which it had controlling or substantial influence.

**1.4.41.6 Payables to individuals with a special relationship to the Bank**

MCZK	Administration bodies	Management bodies	Supervisory bodies	Other	Total
As at 31/ 12/ 2018	0	4	0	7	11
As at 31/ 12/ 2017	0	4	0	5	9

All payables to persons with a special relationship to the Bank arise from building savings products concluded by such persons with Raiffeisen stavební spořitelna.

**1.4.41.7 Guarantees issued to persons with a special relationship to the Bank**

Raiffeisen stavební spořitelna issued no guarantees to individuals with a special relationship to the Bank.

**1.4.41.8 Guarantees issued to companies in which the Bank has controlling or substantial influence**

Raiffeisen stavební spořitelna issued no guarantees to companies in which it had controlling or substantial influence in the reported periods.

#### 1.4.41.9 Guarantees received from companies in which the Bank has controlling or substantial influence

Raiffeisen stavební spořitelna received no guarantees from companies in which it had controlling or substantial influence in the reporting periods.

#### 1.4.42 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As at 31 December, 2018, Raiffeisen stavební spořitelna classified all financial assets and financial liabilities at amortized cost.

#### 1.4.43 RISK MANAGEMENT

##### 1.4.43.1 Introduction

The risk management strategy is in line with other strategies of Raiffeisen stavební spořitelna. The risk management strategy responds to these strategies in a timely manner to identify risks arising from new business activities, operations and processes to keep these risks at an acceptable level. The strategic risk management documents cover the credit risk management strategy, the market risk management strategy, the liquidity management strategy and the operational risk management strategy.

The risk that Raiffeisen stavební spořitelna is willing to undertake in pursuing its business and enforcing its goals and plans is quantified through risk appetite. The risk appetite of Raiffeisen stavební spořitelna is reflected in a system of limits. The acceptable level of credit risk is reflected in the setting of criteria and conditions for the provision of credit products and the execution of transactions, as well as in the credit processes, the credit risk system and limits, while taking into account other risks.

##### 1.4.43.1.1 Risk management system

The Board of Directors of Raiffeisen stavební spořitelna has overall responsibility for establishing and supervising a risk management system. The Board of Directors has set up the following advisory bodies to define and supervise risk management principles and methods:

- Assets and Liabilities Committee (ALCO)
- Operational Risk Management Committee (ORCO)
- Credit Risk Management Committee (CRCO)

Risk management principles and methods are used to:

- Identify and analyze the risks that Raiffeisen stavební spořitelna is exposed to;
- Set appropriate limits and controls;
- Monitor risks and comply with the appropriate limits.

Risk management principles and methods are regularly reviewed to reflect changes in market conditions and activities pursued by Raiffeisen stavební spořitelna. The goal of Raiffeisen stavební spořitelna is to create a control environment in which all employees understand their roles and responsibilities, with the help of training and management and setting of standards and methodologies.

The Audit Committee of Raiffeisen stavební spořitelna supervises how the company's management monitors compliance with the risk management principles, methods and rules and controls the adequacy of the risk management system in relation to the risks that Raiffeisen stavební spořitelna is exposed to. In this role, the Audit Committee uses the assistance of Raiffeisen stavební spořitelna's internal audit department. The internal audit department performs both regular and ad hoc audits of risk management controls and procedures, and the results are then presented to the Audit Committee and the Board of Directors.

##### 1.4.43.2 Credit risk

Credit risk is a risk of loss arising from the failure (default) of the counterparty (debtor) to meet its obligations under the terms of the contract based on which the bank became the creditor, causing loss to the holder of the receivable (creditor). These liabilities arise from lending activities, trading and investment activities, payment transactions and settlement of securities in trading on own account or somebody else's behalf (i.e. when acting as an agent on behalf of clients).

##### 1.4.43.2.1 Settlement risk in trading on financial markets

The following transactions are subject to settlement risk:

- Deposit operations on the interbank market in CZK;
- Bond trading on Raiffeisen stavební spořitelna's own account:
  - Trading in bonds issued by the Czech Republic, guaranteed by the Czech Republic or issued by the Czech National Bank on Raiffeisen stavební spořitelna's own account;
  - Trading in mortgage bonds and similar products issued by the member states of the Organisation for Economic Cooperation and Development;
  - Trading in other bonds pursuant to S. 9(1)(f) of the Building Savings Act.

Raiffeisen stavební spořitelna reduces this risk for certain types of transactions by the use of settlement/clearing agents. This ensures that the transaction is settled only when both parties fulfil their contractual obligations. Settlement limits form part of the credit approval process and subsequent credit risk monitoring and evaluation.

#### 1.4.43.2.2 Credit risk management

The Board of Directors of Raiffeisen stavební spořitelna has established a Credit Risk Management Committee as an advisory body for credit risk management and supervision.

Credit risk management is governed by the following rules and principles:

- Credit risk management is fully in line with legislation requirements, parent company regulations, BCBS standards and EBA guidelines;
- Credit risk management is fully in line with the risk appetite of Raiffeisen stavební spořitelna, so it is carried out in compliance with the regulatory, RBI and internal credit risk limits.

In managing credit risk, Raiffeisen stavební spořitelna uses in particular the following methods:

- Analysis of the contracting party's creditworthiness and credibility, and/or investment plan;
- Scoring (natural persons), rating (legal entities);
- Use of collateral;
- Mathematical and statistical models;
- Setting of limits;
- Quality analysis of the credit portfolio including time series;
- Monitoring of:
  - Credit risk exposure;
  - The contracting party's financial and economic standing;
  - The contracting party's credit history;
  - Compliance with the terms of the contract;
  - Collateral value;
  - The contracting party's current situation/problems;
  - Adequacy of loss allowances and provisions;
- Forecasts of future development of important risk management indicators and individual limits;
- Periodic review of product input parameters;
- Regular review of processes and procedures based on the results of analyses.

**Raiffeisen stavební spořitelna makes also effort to limit concentration of credit risk** resulting from a significant concentration of exposures to a person or a group of persons where the likelihood of default is affected by a common risk factor (e.g. the same type of economic activity, common market, country, region).

**Credit risk measurement** – credit risk at Raiffeisen stavební spořitelna is measured through:

- Assessment of loan portfolio quality;
- Evaluation of the success rate of the loan process;
- Evaluation of the effectiveness of the recovery processes;
- Verification of adequacy of loss allowance creation;
- Stress testing.

#### 1.4.43.2.3 Collateral

Generally, Raiffeisen stavební spořitelna requires that certain creditors provide collateral when taking a loan. Raiffeisen stavební spořitelna considers the following types of collateral as eligible:

**Funded credit protection** (reduction of credit risk associated with exposure results from Raiffeisen stavební spořitelna's right to satisfy its claim in the event of the debtor's default from the proceeds from collateral realization or by collateral appropriation):

- Financial collateral:
  - Pledged receivable – credit balance on own building savings contract;
  - Pledged receivable – credit balance on a third party's building savings contract;
- Real property;
- Other funded credit protection – cash collateral with another bank, i.e. a lien on a receivable held by another bank.

**Unfunded credit protection** (a reduction in credit risk associated with exposure arises from a third party's obligation to pay Raiffeisen stavební spořitelna a certain amount in case of the debtor's default):

- Guarantees/surety.

Determination of the net realizable value of a collateral is based on expert opinions and/or internal evaluations prepared by the Credit Risk Management Department. The net realizable value of the collateral is then determined from such value by applying a correction coefficient which reflects the ability of Raiffeisen stavební spořitelna to realize the collateral if needed. Raiffeisen stavební spořitelna conducts regular revaluation of collaterals and correction coefficients.

#### 1.4.43.2.3.1 Types of collateral and conditions of eligibility for calculation of capital adequacy

**Financial collateral** – financial collateral in Raiffeisen stavební spořitelna includes in particular cash or cash instruments (hereinafter referred to as “cash collateral”) representing the liability of Raiffeisen stavební spořitelna, namely:

- Pledged receivable where the pledged asset is the credit balance on own building savings contract with Raiffeisen stavební spořitelna;
- Pledged receivable where the pledged asset is the credit balance on a third person’s building savings contract with Raiffeisen stavební spořitelna.

Cash collateral can be considered eligible if the following conditions are met:

- There is no material positive correlation between the creditworthiness of the creditor and the value of the cash collateral;
- All contractual and regulatory requirements regarding the recoverability of liabilities arising from cash collateral contracts in the respective jurisdiction are met;
- Contracts relating to the cash collateral are duly documented and contain a clear and thorough procedure for the timely settlement of the claim;
- The cash collateral or part thereof is not transferred to a third party or encumbered with third party rights; this shall be without prejudice to the right to deposit the cash collateral or part thereof into the custody or management with a third party, provided that such third party records it separately from its own assets;
- The remaining maturity of the cash collateral is at least as long as the remaining maturity of the exposure.

**Real property** – eligible real property collateral includes residential real property that is or will be occupied or rented for housing purposes by its owner.

Real property can be considered eligible if the following conditions are met:

- The value of the real property is not significantly dependent on the debtor’s creditworthiness (this is without prejudice to a situation where mere macroeconomic factors affect both the value of the real property and the debtor’s performance);
- The debtor’s risk is not significantly dependent on the operation of the real property or project, but rather on the debtor’s ability to repay debt from other sources;
- The collateral is legally effective and enforceable in all jurisdictions relevant at the time of conclusion of the loan agreement; in particular, the agreement on the establishment of a lien on the real property qualifies for a fully enforceable lien. This lien is duly and timely registered and all legal requirements for the creation of lien are met;
- Regular monitoring of the value/revaluation of real property:
  - At least every 12 months in the case of residential real property;
  - More frequent monitoring/revaluation is conducted upon significant changes in market conditions;
  - Raiffeisen stavební spořitelna uses statistical methods to monitor/revise real property values and to identify real property needing revaluation;
  - If there is a reason to believe that the real property value may have been significantly reduced compared to general market values, the real property value is reviewed by an independent appraiser. An independent appraiser can be considered a person who possesses the necessary qualifications, ability and experience in real property appraisal, is not involved in the loan-granting process and is independent of it;
- Raiffeisen stavební spořitelna has well documented definitions of the types of real property it accepts as collateral, as well as policies and procedures for provision of loans secured by such collateral;
- The real property accepted as collateral is duly insured against damage.

**Other funded credit protection** – cash collateral with another bank may be eligible if the following conditions are met:

- The collateral provider is sufficiently reliable to provide reasonable assurance that the level of credit risk reduction achieved corresponds to the extent to which that reduction is recognized and taken into account in the calculation of the capital ratio;
- The debtor’s claim for the third party’s cash payment is pledged in favour of Raiffeisen stavební spořitelna and this pledge is legally effective and enforceable in all applicable jurisdictions;
- The cash collateral is the property of the debtor or co-debtor (including the debtor’s spouse in case of estate in entirety);
- The third person is notified of the pledge;
- As a result of the notification, the third party provides performance exclusively for the benefit of Raiffeisen stavební spořitelna or other persons with the consent of Raiffeisen stavební spořitelna;
- The lien is unconditional and irrevocable.

#### 1.4.43.2.4 Debt recovery

Raiffeisen stavební spořitelna has a Recovery Unit that manages receivables the recoverability of which is at risk. This department takes legal steps, carries out restructuring of receivables, etc. in order to achieve maximum recoverability, including realization of collateral and representation of Raiffeisen stavební spořitelna in creditors’ committees in the event of bankruptcy proceedings involving debtors.

#### 1.4.43.2.5 Expected credit losses – effective from 01/01/2018

Raiffeisen stavební spořitelna classifies financial instruments into three groups:

- Non-defaulted financial instruments without a significant increase in credit risk (“Stage 1”);
- Non-defaulted financial instruments with a significant increase in credit risk (“Stage 2”);
- Defaulted financial instruments (“Stage 3”).

For Stage 1 financial instruments, loss allowances are calculated at 12-month expected credit losses, and for Stage 2 and Stage 3 financial instruments, loss allowances are calculated at lifetime expected credit losses.

#### 1.4.43.2.5.1 Significant increase in credit risk

In determining whether the risk of default arising from a financial instrument has increased significantly since initial recognition, Raiffeisen stavební spořitelna assesses reasonable and verifiable information that is available without incurring unreasonable cost or effort. This includes quantitative and qualitative information and analyses based on the historical experience of Raiffeisen stavební spořitelna and expert credit assessment, including forward-looking information.

The objective of this assessment is to identify whether there has been a significant increase in credit risk for a given credit exposure. The quantitative assessment component is based on the comparison of the probability of default (PD) for the remaining maturity determined as at the balance-sheet date, with the probability of default (PD) for the remaining maturity determined for the balance-sheet date as at the date of initial recognition.

The qualitative assessment component takes into account the following information:

- Number of past-due days exceeded 30 (including delinquency in relation to compulsory regular savings deposits for bridge loans);
- Significant increase in credit risk of the same client's other exposures;
- Less serious credit fraud (serious frauds are classified as default – see the definition of default);
- Pending execution procedure worth CZK 20,000+ in total;
- Other comprehensive information that can be obtained without unreasonable cost or effort (credit use for a different purpose than contractually agreed, etc.).

The calculation of expected credit losses for non-retail financial instruments at Stages 1 and 2 is carried out by the parent company, Raiffeisen Bank International. Expected credit losses for retail financial instruments at Stages 1, 2, and 3, and for non-retail financial instruments at Stage 3 are calculated by Raiffeisen stavební spořitelna.

Due to the absence of a local rating system, the quantitative component is applied to non-retail financial instruments (the rating is obtained using the parent company's rating systems), with the PD change threshold set at 250%.

The qualitative component is applied to assess a significant increase in credit risk for retail financial assets.

#### Creation of the probability of default (PD) curve

Credit risk rating grades are an essential input in developing the PD curve for credit exposure in relation to time. Raiffeisen stavební spořitelna collects information about performance and defaults relating to its credit exposures and analyzes this information from different perspectives.

Raiffeisen stavební spořitelna uses statistical models to analyze the acquired data and to create PD curves and their course for the remaining maturity of the given exposures (time structures) and to determine their expected changes over time.

This analysis involves identification and calibration of correlation between changes in default rates and changes in key macroeconomic factors on the one hand and the risk of default on the other hand. Key macroeconomic indicators include in particular gross domestic product, unemployment rate, inflation rate and increase in real property prices (the last-mentioned primarily for LGD).

For non-retail credit exposures, the PD curves are estimated by individual rating grades. For retail credit exposures, for the reasons given in the previous Note, the PD curves are estimated for each grade and the segmentation is based on the nature of Raiffeisen stavební spořitelna's product (bridge loans secured by real property, bridge loans not secured by real property, construction loans).

Raiffeisen stavební spořitelna uses the scenarios of macroeconomic variables generated by the parent company (for details refer to the Forward-looking information). These scenarios are then used in conjunction with developed macroeconomic models to modify the probability of default estimates.

#### Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly include quantitative changes in the probability of default and qualitative factors including defined delinquency limits and other risk attributes of the exposures.

It is assumed that a significant increase in credit risk since the initial recognition for that exposure occurred when the probability of default (PD) for the remaining period to maturity increased by more than 250%.

On the basis of an expert opinion and relevant historical experience (where available), Raiffeisen stavební spořitelna is able to state that credit risk for the exposure increased significantly, as indicated by selected qualitative indicators. The factors listed at the beginning of Note 1.4.43.2.5.1 were taken into account in this process.

Raiffeisen stavební spořitelna therefore set the following limit: regardless of other facts, a significant increase in credit risk occurs when the asset is more than 30 days past due. The number of days past due is defined as the number of days from the earliest due date upon which the full payment was not received.

Raiffeisen stavební spořitelna monitors the efficacy of criteria used to identify a significant increase in credit risk through regular analyses and control measures, to confirm that:

- The criteria are capable of identifying a significant increase in credit risk sooner than the exposure defaults;
- The criteria are not tied to the particular moment in time when the asset becomes 30 days past due;

- There is no unjustified volatility of the loss allowances from the transfer between the 12-month probability of default (Stage 1) and lifetime probability of default (Stage 2).

#### 1.4.43.2.5.2 Definition of default

In the environment of Raiffeisen stavební spořitelna, default is defined and monitored both at the level of specific exposures and at the level of debtors, whereas debtor default takes priority.

Raiffeisen stavební spořitelna considers a debtor to be in default if at least one of the following occurs:

- It is assumed that the debtor will probably not repay his/her credit liabilities in full;
- One of the debtor's important credit liabilities is more than 90 days past due (in the case of a bridge loan, related compulsory savings deposits are also considered).

The material limit (materiality) of a credit liability is set conservatively at CZK 0 (absolute limit) and 0% (relative limit).

In relation to a), Raiffeisen stavební spořitelna considers default to constitute in particular situations when

- A receivable is restructured (forced or unforced);
- A receivable full repayment notice is served;
- An insolvency court declares the client insolvent;
- There is proof of credit fraud (external or internal) or a criminal offence;
- The client passes away and there is no other entity validly assuming the role in the credit relationship.

The definition of default is consistent with the definition of default for the purposes of capital adequacy.

#### 1.4.43.2.5.3 Forward-looking information (FLI)

FLI is taken into account during assessment of whether the credit risk of a financial instrument has significantly increased since the initial recognition (for non-retail exposures) as well as during calculation of expected credit losses.

Macroeconomic development scenarios generated by the parent company are used in this process. A total of 3 macroeconomic development scenarios are generated – basic, positive and negative – weighted at 50%, 25% and 25% respectively. The time horizon for macroeconomic forecasting is 3 years.

These scenarios are then used in combination with internally developed macroeconomic models to adjust estimates of the probability of default for the calculation of expected credit losses for retail exposures, or are used in combination with group models to calculate expected credit losses for non-retail exposures.

The basic outlook scenario shows the most likely result and is in line with information that Raiffeisen stavební spořitelna uses for other purposes such as strategic and short-term planning. The other two scenarios include one more optimistic scenario and one more pessimistic outcome.

Raiffeisen stavební spořitelna identified and documented key credit risk and credit loss indicators for each financial instrument credit portfolio and using analyses of historical data it determined the relationship between macroeconomic variables, credit risk and credit losses. The economic scenarios applied as at 31 December, 2018 include the following range of key indicators for the Czech Republic for the years ending on 31 December 2019 and 31 December 2020.

	2019	2020
Unemployment rate	Baseline: 2.63% Range: 2.63–4.75%	Baseline: 2.98% Range: 2.98–5.29%
Inflation (year-on-year growth in CPI)	Baseline: 2.75% Range: 1.48–3.44%	Baseline: 2.66% Range: 1.06–3.19%
Growth in GDP (year-on-year)	Baseline: 2.58% Range: 0.99–4.00%	Baseline: 0.44% Range: 0.30–3.59%
Growth in real property prices (year-on-year)	Baseline: 7.5% Range: 4.38–9.27%	Baseline: 5.7% Range: 2.30–8.13%

The expected relationships between key indicators and the default and loss rates of various financial asset portfolios are determined based on historical data, in a manner that enables coverage of the economic cycle, including economic recession.

#### 1.4.43.2.5.4 Calculation of expected credit losses (ECL)

The key input for calculation of expected credit losses (ECL) consists of the time structure of the following variables/parameters:

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

These parameters are derived from proprietary statistical models (for retail exposures) or from parent company statistical models (for non-retail exposures) and from historical data, which must be adjusted to correspond to forward-looking information (FLI), as stated above.

PD estimates are estimates as at a particular moment in time, which are calculated on the basis of statistical models and rating instruments adapted for various counterparty and exposure categories. These statistical models are based on acquired data that

includes both quantitative and qualitative factors. If the rating of a counterparty or exposure changes, the relevant PD estimate is changed. Exposure maturity is taken into account during estimation of probabilities of default (PD).

The LGD is the volume of the probable loss should default occur. LGD parameters are estimated on the basis of historical rates of recovery from debtors in default. LGD models take into account collateral and the direct costs of receivable recovery.

LGD estimates are specified for various economic scenarios so that they also reflect possible changes in real property prices for the purposes of loans secured by real property.

Calculations are made on the basis of discounted cash flows.

The EAD is the expected credit exposure at the time of default. The EAD is calculated on the basis of current exposure in regard to a given counterparty and possible changes to the current exposure on the basis of contracts concluded with the counterparty.

The EAD of a financial asset equals the asset's gross book value. For loan commitments, the EAD includes the drawn amount and also possible future drawing which may occur based on the concluded contract.

As described above and aside from use of a max. 12-month PD for financial assets whose credit risk did not increase significantly, expected credit losses (ECL) are calculated with regard to the default risk during the expected lifespan of the subject financial assets (i.e. for the period during which Raiffeisen stavební spořitelna is exposed to the credit risk).

Raiffeisen stavební spořitelna does not have any revolving products in its portfolio.

For credit risk parameter estimates the portfolio is segmented directly by the character of the product, as follows: bridge loans secured by real property, bridge loans not secured by real property, and construction loans.

#### **Calculation of expected credit losses (ECL) for credit-impaired loans**

For credit-impaired loans, loss allowances are calculated based on the best estimate of expected loss (BEEL). For retail exposures, BEEL parameters are estimated for the segments listed above; they are based on the LGD and increase as the exposure period in default increases up to 100% at the end of the effective recovery period. For non-retail exposures, BEEL parameters are calculated individually in regard to the very small number of historical defaults and only after the Credit Risk Management Committee reaches a consensus.

#### **1.4.43.2.6 Allowances for potential losses from receivables – applicable until 31/ 12/ 2017**

##### **1.4.43.2.6.1 Classification of receivables**

Raiffeisen stavební spořitelna classifies receivables into specific categories and sub-categories in compliance with Decree No. 163/2014 Coll., on performance of and prudential rules for the activities of banks, building societies and credit unions and securities traders, applicable until 31/ 12/ 2017/

The main criteria for receivable categorization are:

- Number of days past due;
- Receivable restructuring;
- Receivable repayment and initiation of the recovery process;
- Insolvency proceedings – insolvency declaration;
- Proven fraud;
- Death of the client, when there is no other entity to assume the role in the credit relationship;
- Distraint is imposed;
- Evaluation of any additional information under a holistic approach.

The basic categories are:

- Receivables where the debtor is not in default;
- Receivables where the debtor is in default.

Raiffeisen stavební spořitelna classifies Receivables where the debtor is not in default into the following sub-categories:

- Standard receivables – a receivable is considered standard if payments of the principal and accrued interest and fees are duly paid with no past due payments over 30 days;
- Special-mentioned receivables – a receivable is considered monitored if the debtor's financial standing has deteriorated since the receivable was established or there are minor problems with payments of the principal and accrued interest and fees, but none of the payments was past due by more than 90 days.

Receivables where the debtor is in default are considered classified receivables. Raiffeisen stavební spořitelna classifies them into these sub-categories:

- Substandard receivables – a receivable is considered substandard if full repayment is uncertain, particularly with respect to the financial and economic situation of the debtor. Partial repayment of the receivable is highly likely, without Raiffeisen stavební spořitelna exercising its right to satisfy the claim realizing the collateral. A receivable is also considered substandard if there are problems with payments of the principal and accrued interest and fees, but none of the payments were past due by more than 180 days;
- Doubtful receivables – a receivable is considered doubtful if full repayment is highly unlikely, particularly with respect to the financial and economic situation of the debtor. Partial repayment of the receivable is possible and likely, without Raiffeisen stavební spořitelna exercising its right to satisfy the claim using the collateral. A receivable is also considered

doubtful if there are problems with payments of the principal and accrued interest and fees, but none of the payments were past due by more than 360 days;

- Loss receivables – a receivable is considered a loss if full repayment is impossible, particularly with respect to the financial and economic situation of the debtor. It is assumed that such receivable will not be repaid or will be repaid only partially with a very minor amount without Raiffeisen stavební spořitelna exercising its right to satisfy the claim using the collateral. A receivable is also considered a loss if the payments of the principal and accrued interest and fees are past due for over 360 days.

#### 1.4.43.2.6.2 Evaluation of collaterals

Raiffeisen stavební spořitelna generally requires collateralization of loan receivables for some debtors prior to loan provision. Raiffeisen stavební spořitelna considers the following types of collateral acceptable for reduction of gross credit exposure for the purpose of loss allowance calculation:

- **Funded credit protection** (reduction of credit risk associated with exposure results from Raiffeisen stavební spořitelna's right to satisfy its claim in the event of the debtor's default by the proceeds from collateral realization or by collateral appropriation):
  - Financial collateral:
    - Pledged receivable – credit balance on own building savings contract;
    - Pledged receivable – credit balance on a third party's building savings contract;
  - Real property;
  - Other funded credit protection – cash collateral with another bank, i.e. a lien on a receivable held by another bank.
- **Unfunded credit protection** (a reduction in credit risk associated with exposure arises from a third party's obligation to pay Raiffeisen stavební spořitelna a certain amount in case of the debtor's default):
  - Guarantees/surety.

In determining the recoverable value of collateral for the purpose of calculating the loss allowances, Raiffeisen stavební spořitelna uses expert opinions and/or internal evaluations prepared by a special department. The net realizable value of the collateral is then determined from such value by applying a correction coefficient which reflects the ability of Raiffeisen stavební spořitelna to realize the collateral if needed. Raiffeisen stavební spořitelna conducts regular revaluation of collateral and correction coefficients. Raiffeisen stavební spořitelna uses statistical methods to monitor/revise real property values and to identify real property needing revaluation.

The CIBIS system provides automatized revaluation of real property using the following principles and procedures:

- Real property is identified for automatized revaluation in relation to the date of the most recent revaluation. Real property will be revaluated if the most recent revaluation took place more than 12 months ago (set by parameters in the system);
- The recalculation is based on the price index.

#### 1.4.43.2.6.3 Impairment losses and valuation adjustments

Raiffeisen stavební spořitelna assesses whether there was a decrease in the book value (i.e. impairment) of individual receivables or of a portfolio of receivables with homogenous credit risk characteristics (hereinafter the "portfolio of homogenous receivables").

##### Portfolio approach

Raiffeisen stavební spořitelna applies a portfolio approach to receivables that were not assessed individually as impaired. In such cases, the Bank assesses whether the portfolio of homogenous individually unimpaired receivables was impaired.

Objective proof of impairment of a portfolio of homogenous receivables, which occurred as a consequence of events that took place after the establishment of the receivable, is the existence of observable data that indicate a decrease in expected future cash flow from the portfolio, even though such decrease is not yet apparent in individual receivables classified in the portfolio.

Possible indicators of a decrease in expected future cash flow from a portfolio of similar types of receivables include:

- An increase in the unemployment rate in relevant areas;
- A decrease in real property prices in relevant areas;
- Adverse conditions in sectors in which the debtor operates;
- An increase in the number of debtors who draw the maximum amount on their credit lines and repay their liabilities in the minimum amount possible.

##### Individual approach

If individual receivables are impaired, Raiffeisen stavební spořitelna will make valuation adjustments. If Raiffeisen stavební spořitelna does not directly write-off a given receivable or that part of the receivable that corresponds to the impairment loss, the Bank will create a loss allowance for the relevant part of the receivable.

At least once per quarter Raiffeisen stavební spořitelna assesses the sufficiency and justification for existing receivable loss allowances and adjusts the amounts of the loss allowances.

Raiffeisen stavební spořitelna calculates the impairment loss of each receivable using coefficients.

Raiffeisen stavební spořitelna's loss allowance calculations are based on the gross book value of the given receivable minus the net realizable value of the collateral. Loss allowances pursuant to Decree No. 163/2014 Coll. are calculated for net receivables in this manner in the following amounts:

- Standard 0%
- Special-mentioned 10%



- Substandard 20%
- Doubtful 50%
- Loss 100%

For classified receivables (i.e. substandard, doubtful and loss receivables), loss allowances for accrued interest and fees are created at 100% pursuant to Decree No. 163/2014 Coll.

#### 1.4.43.2.7 Reconciliation of opening and closing loss allowance balances

##### Total loss allowances – 31/12/2018

MCZK	12-month ECL (Stage 1)	Lifetime ECL for financial assets that are not credit impaired (Stage 2)	Lifetime ECL for financial assets that are credit impaired (Stage 3)	Purchased or originated credit impaired financial assets (POCI)	Total
Balance as at 1 December, 2018	119	71	962	0	1,152
Transfer to 12-month ECL (Stage 1)	48	-23	-25	0	0
Transfer to lifetime ECL for financial assets that are not credit impaired (Stage 2)	-1	5	-4	0	0
Transfer to lifetime ECL for financial assets that are credit impaired (Stage 3)	-1	-20	21	0	0
Newly purchased or originated financial assets	33	5	4	0	42
Derecognition of financial assets	-8	-9	-122	0	-139
Revaluation and changes in models/risk parameters	-53	40	70	0	57
<b>Balance as at 31 December, 2018</b>	<b>137</b>	<b>69</b>	<b>906</b>	<b>0</b>	<b>1,112</b>

Transfers are designed such that when the stage changes, the transfer of the loss allowance occurs first and the change of amount second. "Newly purchased or originated financial assets" include loss allowances that were created for newly originated financial assets during 2018. There are parameter changes in "Revaluation and changes in models/risk parameters". All newly originated assets are classified as Stage 1 (POCI = 0). The Stage 2 and 3 values under "Newly purchased or originated financial assets" are loss allowances for assets originated in 2018 and transferred to Stage 2 or 3 before 31 December, 2018.

##### Total loss allowances – 31/12/2017

MCZK	31/12/2017
<b>Loss allowance balance as at 1 January, 2017</b>	-944
Creation of loss allowances over the course of the year	-249
Release of unneeded loss allowances	176
Use of loss allowances over the course of the year	35
<b>Loss allowance balance as at 31 December, 2017</b>	<b>-982</b>

#### 1.4.43.2.8 Maximum credit risk exposure

##### Maximum credit risk exposure – 31/12/2018

MCZK	Balance sheet	Off-balance sheet	Total credit risk exposure	Provided collateral	Main type of collateral
Loans and receivables from banks and bank bonds	4,325	0	4,325	2,085	CNB treasury bills
Loans and receivables from clients	50,231	5,614	55,845	30,727	Real property
State zero coupon bonds	13,223	0	13,223	0	
Cash and balances with central banks	909	0	909	0	
Other exposure	1,292	0	1,292	0	

The difference against the relevant item in the financial statements is due to accrued entry fees which are part of the effective interest rate. These fees have already been paid, so they pose no credit risk for the bank and are therefore excluded from Loans and receivables from clients in this and the following subsections.

#### 1.4.43.2.9 Credit risk concentration

Credit risk concentration develops when there are credit receivables with similar economic characteristics which affect a debtor's ability to meet his or her obligations. Raiffeisen stavební spořitelna considers a receivable from a debtor or economically associated group of debtors that exceeds 25% of the capital as significantly exposed. Where the debtor is an institution, the limit is defined as the higher of the following two values: 25% of the capital or EUR 150 million.

## 1.4.43.2.9.1 Concentration by sectors

## Concentration by sectors – 31/12/2018

MCZK	Financial institutions	Non-financial institutions	Government sector and central banks	Households	Total
Balances with central banks	0	0	906	0	906
State zero coupon bonds and other securities eligible for refinancing with the central bank	0	0	13,223	0	13,223
Receivables from banks	4	0	2,100	0	2,104
Receivables from clients	0	5,044	20	45,167	50,231
Debt securities	2,220	0	0	0	2,220
Other receivables	1	9	657	4	671
Commitments and guarantees issued	0	996	0	4,618	5,614
<b>Total</b>	<b>2,225</b>	<b>6,049</b>	<b>16,906</b>	<b>49,789</b>	<b>74,969</b>

## Concentration by sectors – 31/12/2017

MCZK	Financial institutions	Non-financial institutions	Government sector and central banks	Households	Total
Balances with central banks	0	0	567	0	567
State zero coupon bonds and other securities eligible for refinancing with the central bank	0	0	11,242	0	11,242
Receivables from banks	457	0	6,801	0	7,258
Receivables from clients	0	4,571	23	38,000	42,594
Debt securities	5,254	0	0	0	5,254
Other receivables	0	9	617	5	631
Commitments and guarantees issued	0	346	0	3,044	3,390
<b>Total</b>	<b>5,711</b>	<b>4,926</b>	<b>19,250</b>	<b>41,049</b>	<b>70,936</b>

## 1.4.43.2.9.2 Concentration by geographical criteria

## Concentration by geographical criteria – 31/12/2018

MCZK	Czech Republic	European Union excluding the Czech Republic	Other	Total
Balances with central banks	906	0	0	906
State zero coupon bonds and other securities eligible for refinancing with the central bank	13,223	0	0	13,223
Receivables from banks	2,104	0	0	2,104
Receivables from clients	50,231	0	0	50,231
Debt securities	435	1,785	0	2,220
Other receivables	671	0	0	671
Commitments and guarantees issued	5,614	0	0	5,614
<b>Total</b>	<b>73,184</b>	<b>1,785</b>	<b>0</b>	<b>74,969</b>

## Concentration by geographical criteria – 31/12/2017

MCZK	Czech Republic	European Union excluding the Czech Republic	Other	Total
Balances with central banks	567	0	0	567
State zero coupon bonds and other securities eligible for refinancing with the central bank	11,242	0	0	11,242
Receivables from banks	7,258	0	0	7,258
Receivables from clients	42,594	0	0	42,594
Debt securities	1,717	3,037	500	5,254
Other receivables	631	0	0	631
Commitments and guarantees issued	3,390	0	0	3,390
<b>Total</b>	<b>67,399</b>	<b>3,037</b>	<b>500</b>	<b>70,936</b>

## 1.4.43.3 Liquidity

## 1.4.43.3.1 Liquidity risk exposure

One of the key liquidity risk exposure criteria is the liquidity coverage ratio (LCR). The LCR focuses on the Bank's short-term liquidity. Its objective is to ensure that banks maintain an adequate proportion of highly liquid assets to be able to cover their 30-day liquidity

needs in the event of crisis scenarios. According to the LCR, the Bank must have a sufficient volume of highly liquid assets that is greater than the Bank's expected future net outflows over the ensuing 30 days. Highly liquid assets in the Raiffeisen stavební spořitelna environment include cash, state bonds, treasury bills securing reverse repo operations with the CNB and reserves with central banks that may be drawn.

**The LCR at the end of the accounting period and during the period was as follows:**

	2018
As at 31 December, 2018	2,060.5%
Average 2018	3,347.4%
Maximum 2018	6,436.2%
Minimum 2018	1,490.2%

#### 1.4.43.3.2 Liquidity risk management

Liquidity risk is defined as the risk of the Bank's loss of ability to meet its financial obligations at maturity (short-term liquidity risk), or inability to fund its assets (funding liquidity risk).

Risk materiality is calculated based on an assessment of the impact on the company's capital or profit, or by an expert estimate.

Liquidity risk in the Raiffeisen stavební spořitelna environment is considered material. It is measured and managed only in CZK, because Raiffeisen stavební spořitelna has only a negligible amount of assets in foreign currency. Raiffeisen stavební spořitelna holds foreign currencies only for internal purposes. Given the absence of a trading portfolio, the only relevant liquidity risk for Raiffeisen stavební spořitelna is that of the investment portfolio.

Raiffeisen stavební spořitelna mainly holds two types of assets in its portfolio. The first type consists of loans provided to clients. These include building savings loans, bridge loans and commercial loans. The second most important type of asset is debt instruments, primarily bonds issued by the Ministry of Finance of the Czech Republic or by financial institutions. Raiffeisen stavební spořitelna also conducts deposit transactions on the interbank market, repo operations, reverse repo operations and securities operations with a repurchase or sale obligation. The general rule is that all purchased instruments must fulfil the conditions of S. 9 of the Building Savings Act. The choice of financial instruments available to building savings banks is more limited than that available to universal banks.

The majority of the Bank's liabilities are client deposits, which yield interest at a fixed interest rate for a minimum duration of the six-year fixation period. The interest rate is defined by the rate at which the buildings savings contract was concluded or the rate to which the contract was changed.

Liquidity risk is a natural part of Raiffeisen stavební spořitelna's banking activities, for there is a maturity mismatch in the structure of assets and liabilities.

Raiffeisen stavební spořitelna manages its liquidity risk particularly through its investment policy with use of financial instruments defined by the Building Savings Act.

The investment policy determines the basic principles and opportunities for investment of available funding. Through deposit operations on the interbank market, the CNB deposit facility, reverse repo operations with the CNB and investments into bonds, Raiffeisen stavební spořitelna appreciates its available funding. Use of these instruments is an integral part of asset and liability management. The main goal is to ensure Raiffeisen stavební spořitelna's ability to meet its payment obligations at maturity under both ordinary and adverse circumstances, while respecting the specific nature of building savings, Raiffeisen stavební spořitelna's investment horizon and acceptable risk levels.

In general, Raiffeisen stavební spořitelna uses financial instruments that ensure Raiffeisen stavební spořitelna sufficient liquidity while maintaining acceptable risk levels from its investments. Raiffeisen stavební spořitelna holds part of its assets in highly liquid forms, which primarily include deposits on the interbank market with selected credit institutions with a 3-month maturity, the CNB deposit facility, reverse repo operations with the CNB, securities with a repo guarantee and other securities from issuing institutions with high credit quality.

Monitoring and management of liquidity risk is carried out using regulatory limits, limits set by the RBI group or internally set limits. These limits are assessed by the Assets and Liabilities Committee and approved by the Board of Directors.

## 1.4.43.3.3 Estimated remaining maturity

## Estimated remaining maturity of the Bank's assets and liabilities as at 31 December, 2018

MCZK	Up to 3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Cash and balances with central banks	324	0	0	0	585	909
Securities eligible for refinancing with the central bank	2	3,897	8,722	602	0	13,223
Receivables from banks	2,104	0	0	0	0	2,104
Receivables from clients	1,341	3,856	19,296	24,550	221	49,264
Debt securities	13	577	1,432	198	0	2,220
Property	0	0	0	0	234	234
Participation interests with controlling influence	0	0	0	0	257	257
Other assets	14	656	0	0	-3	667
Pre-paid expenses and accrued revenues	3	8	42	92	33	178
<b>Total assets</b>	<b>3,801</b>	<b>8,994</b>	<b>29,492</b>	<b>25,442</b>	<b>1,327</b>	<b>69,056</b>
Payables to clients	3,446	6,975	27,839	25,238	138	63,636
Other liabilities	192	0	0	0	379	571
Accrued expenses and deferred income	0	0	0	0	53	53
Provisions	0	0	0	0	20	20
Registered capital	0	0	0	0	650	650
Reserve funds	0	0	0	0	3,770	3,770
Gains (losses) from revaluation	0	0	0	0	0	0
Retained earnings or accumulated losses from previous years	0	0	0	0	-160	-160
Profit or loss for the accounting period	0	0	0	0	516	516
<b>Total liabilities</b>	<b>3,638</b>	<b>6,975</b>	<b>27,839</b>	<b>25,238</b>	<b>5,366</b>	<b>69,056</b>
<b>Commitments</b>	<b>-5,579</b>	<b>83</b>	<b>519</b>	<b>4,977</b>	<b>0</b>	<b>0</b>
GAP including commitments	-5,416	2,102	2,172	5,181	-4,039	0
Cumulative GAP including commitments	-5,416	-3,314	-1,142	4,039	0	0
CBC	12,802	9,040	464	0	0	-
Cumulative GAP including commitments and CBC	7,386	5,726	-678	4,039	0	0

CBC includes all unencumbered assets that can be accepted as collateral for currency transactions conducted by the central bank on the local money market. In terms of Raiffeisen stavební spořitelna, these assets comprise government securities.

**Estimated remaining maturity of the Bank's assets and liabilities as at 31 December, 2017**

MCZK	Up to 3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Cash and balances with central banks	4	0	0	0	167	171
Securities eligible for refinancing with the central bank	0	941	8,249	2,052	0	11,242
Receivables from banks	7,658	0	0	0	0	7,658
Receivables from clients	631	1,762	9,583	29,637	1	41,614
Debt securities	864	2,188	2,004	198	0	5,254
Property	0	0	0	0	217	217
Participation interests with controlling influence	0	0	0	0	257	257
Other assets	14	616	0	0	-2	628
Pre-paid expenses and accrued revenues	3	8	42	102	34	189
<b>Total assets</b>	<b>9,174</b>	<b>5,515</b>	<b>19,878</b>	<b>31,989</b>	<b>674</b>	<b>67,230</b>
Payables to clients	3,402	6,598	28,304	23,566	0	61,870
Other liabilities	406	2	0	0	110	518
Accrued expenses and deferred income	0	50	0	0	0	50
Provisions	0	0	0	0	13	13
Registered capital	0	0	0	0	650	650
Reserve funds	0	0	0	0	3,626	3,626
Gains (losses) from revaluation	0	0	0	0	59	59
Profit or loss for the accounting period	0	0	0	0	444	444
<b>Total liabilities</b>	<b>3,808</b>	<b>6,650</b>	<b>28,304</b>	<b>23,566</b>	<b>4,902</b>	<b>67,230</b>
GAP including commitments	5,366	-1,135	-8,426	8,423	-4,228	0
Cumulative GAP	5,366	4,231	-4,195	4,228	0	0
CBC	10,997	10,154	1,919	0	0	-
Cumulative GAP including commitments and CBC	16,363	14,385	2,276	4,228	0	0

CBC includes all unencumbered assets that can be accepted as collateral for currency transactions conducted by the central bank on the local money market. In terms of Raiffeisen stavební spořitelna, these assets include government securities.

**1.4.43.3.4 Liquidity reserve**

As part of management of liquidity risk resulting from the Bank's financial obligations, Raiffeisen stavební spořitelna holds part of its assets in highly liquid instruments, such as cash, state bonds, treasury bills and reserves with central banks that may be drawn. Therefore, the following table only lists the volume of deposits on the minimum mandatory reserves account exceeding the prescribed amount, which was CZK 585 million as at 31 December 2018.

Raiffeisen stavební spořitelna includes in its liquidity reserve only those financial assets that are not being provided as collateral in e.g. reverse repo operations at the given time.

**Liquidity reserve components – 31/12/2018**

MCZK	Book value	Fair value
Cash and balances with central banks	324	324
State zero coupon bonds and other securities eligible for refinancing with the central bank not provided as collateral as at the balance sheet date	13,223	13,182
Securities used as collateral for reverse repo agreements	2,085	2,057
<b>Total liquidity reserve</b>	<b>15,632</b>	<b>15,563</b>

**1.4.43.4 Market risks**

Market risk is the risk of the Bank incurring losses from changes in prices, exchange rates and other rates on the financial markets. It is a general term for interest-rate, currency, equity and other risks associated with the fluctuation of market prices.

In regard to the scope of building savings banks' activities, which is limited by the Buildings Savings Act, the main market risk that affects Raiffeisen stavební spořitelna is interest-rate risk. Raiffeisen stavební spořitelna does not have a trading portfolio and does not create capital requirements for market risk.

**1.4.43.4.1 Interest-rate risk****1.4.43.4.1.1 Interest-rate risk management**

Interest-rate risk is the risk of a potential loss as a result of open interest-rate positions where net interest income or the market value of assets and liabilities may decrease due to adverse changes in market interest rates. Given the structure of interest-bearing assets

and liabilities which show a time discrepancy and have different maturity dates or intervals for interest rate changes, Raiffeisen stavební spořitelna is exposed to interest-rate risk. Due to the absence of a trading portfolio, only the interest-rate risk related to the investment portfolio is relevant and material to Raiffeisen stavební spořitelna.

Due to the nature of the building savings product and in view of its size, scale and nature and the complexity of the transactions and activities, Raiffeisen stavební spořitelna uses gap analysis, Basis Point Value (BPV) sensitivity analysis, Net Interest Income (NII) calculation and the Value at Risk (VaR) method to manage interest-rate risk.

The impact of regulatory interest-rate shock on capital by means of parallel shifts in the yield curve is measured in full accordance with Decree No. 163/2014 Coll. and the EBA's Guidelines on the management of investment portfolio interest-rate risks. In accordance with these regulations, stress testing of interest-rate risk is also carried out on a regular basis. Monitoring and management of interest-rate risk is carried out using regulatory limits, limits set by the RBI group or internally set limits. These limits are assessed by the Assets and Liabilities Committee and approved by the Board of Directors.

#### 1.4.43.4.1.2 Interest-rate risk sensitivity analysis

Part of Raiffeisen stavební spořitelna's revenue is generated by a deliberate discrepancy between interest-rate sensitive assets and liabilities. The table below summarizes the discrepancy between Raiffeisen stavební spořitelna's interest-rate sensitive assets and liabilities. The book value of these assets and liabilities is included in the period in which they mature or during which there is a change in interest rate, whichever comes first. Due to expected early repayment or undefined maturity, some assets or liabilities are allocated to specific periods based on an expert estimate.

Changes from the previous period are partially due to the consideration given to the degree of early repayment and inclusion of commitments in the gap analysis.

#### Interest-rate sensitivity of the Bank's assets and liabilities as at 31 December, 2018

MCZK	Up to 3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Non-rate sensitive	Total
Cash and balances with central banks	321	0	0	0	585	3	909
Securities eligible for refinancing with central banks	2	5,963	6,655	603	0	0	13,223
Receivables from banks	2,104	0	0	0	0	0	2,104
Receivables from clients	5,643	5,453	33,338	4,338	140	352	49,264
Debt securities	583	7	1,432	198	0	0	2,220
Property	0	0	0	0	0	234	234
Participation interests with controlling influence	0	0	0	0	0	257	257
Other assets	0	0	0	0	0	667	667
Pre-paid expenses and accrued revenues	0	0	0	0	0	178	178
<b>Total assets</b>	<b>8,653</b>	<b>11,423</b>	<b>41,425</b>	<b>5,139</b>	<b>725</b>	<b>1,691</b>	<b>69,056</b>
Payables to clients	5,701	8,835	36,033	12,194	78	795	63,636
Other liabilities	0	0	0	0	0	571	571
Accrued expenses and deferred income	0	0	0	0	0	53	53
Provisions	0	0	0	0	0	20	20
Registered capital	0	0	0	0	0	650	650
Reserve funds	0	0	0	0	0	3,770	3,770
Gains (losses) from revaluation	0	0	0	0	0	0	0
Retained earnings or accumulated losses from previous years	0	0	0	0	0	-160	-160
Profit or loss for the accounting period	0	0	0	0	0	516	516
<b>Total liabilities</b>	<b>5,701</b>	<b>8,835</b>	<b>36,033</b>	<b>12,194</b>	<b>78</b>	<b>6,215</b>	<b>69,056</b>
<b>Commitments</b>	<b>-5,575</b>	<b>83</b>	<b>4,763</b>	<b>729</b>	<b>0</b>	<b>0</b>	<b>0</b>
GAP including commitments	-2,623	2,671	10,155	-6,326	647	-4,524	0
Cumulative GAP including commitments	-2,623	48	10,203	3,877	4,524	0	0

## Interest-rate sensitivity of the Bank's assets and liabilities as at 31 December, 2017

MCZK	Up to 3 months	3–12 months	1–5 years	More than 5 years	Non-rate sensitive	Total
Cash and balances with central banks	0	0	0	0	171	171
Securities eligible for refinancing with central banks	0	3,078	7,701	463	0	11,242
Receivables from banks	7,658	0	0	0	0	7,658
Receivables from clients	4,907	4,013	25,775	6,353	566	41,614
Debt securities	1,735	1,888	1,433	198	0	5,254
Property	0	0	0	0	217	217
Participation interests with controlling influence	0	0	0	0	257	257
Other assets	0	0	0	0	628	628
Pre-paid expenses and accrued revenues	0	0	0	0	189	189
<b>Total assets</b>	<b>14,300</b>	<b>8,979</b>	<b>34,909</b>	<b>7,014</b>	<b>2,028</b>	<b>67,230</b>
Payables to clients	3,387	13,534	30,968	13,245	736	61,870
Other liabilities	0	0	0	0	518	518
Accrued expenses and deferred income	0	0	0	0	50	50
Provisions	0	0	0	0	13	13
Registered capital	0	0	0	0	650	650
Reserve funds	0	0	0	0	3,626	3,626
Gains (losses) from revaluation	0	0	0	0	59	59
Profit or loss for the accounting period	0	0	0	0	444	444
<b>Total liabilities</b>	<b>3,387</b>	<b>13,534</b>	<b>30,968</b>	<b>13,245</b>	<b>6,096</b>	<b>67,230</b>
GAP including commitments	10,913	-4,555	3,941	-6,231	-4,068	0
Cumulative GAP	10,913	6,358	10,299	4,068	0	0

The table below shows the results of the standardized interest-rate shock in the Income statement and Raiffeisen stavební spořitelna's equity as at the balance sheet date. The calculation is based on the interest-rate gap, i.e. the difference between interest-rate sensitive assets and liabilities in each defined time period. It is assumed that the yield curve will move 200 basis points up and down, whereas a minimum of 0% is applied for interest rate movements in the downward direction.

MCZK	2018 Interest rate increase 200 basis points	2018 Interest rate decrease 200 basis points
Impact on the Income statement	-18	26
Impact on the Bank's equity	-0.43%	0.63%

## 1.4.43.4.1.3 Simulation of net interest rate yield

Simulation and forecasting of the net interest rate yield is an additional component of interest-rate risk monitoring in the accounting unit. Raiffeisen stavební spořitelna regularly measures the sensitivity of the net interest rate yield on various changes to the interest rate (parallel shifts in both directions from 1 to 300 basis points). An appropriate limit is set on the net interest rate yield.

## 1.4.43.4.2 Currency risk

Currency risk results from exchange rate movements and the existence of open currency positions. Raiffeisen stavební spořitelna's currency risk is immaterial as open foreign currency positions (cash in hand or foreign currency receivables and payables from customer-supplier relationships) are insignificant in terms of volume.

## 1.4.43.4.3 Market risk sensitivity analysis using Value at Risk (VaR)

Market risks related to Raiffeisen stavební spořitelna's trading activities (trading portfolio) are managed using the Value at Risk method. Value at Risk shows the potential loss from market volatility measured over a specific time frame at a particular confidence level. Raiffeisen stavební spořitelna sets Value at Risk using two approaches: the variance-covariance (parametric) method and Monte Carlo simulation, i.e. stochastic simulation of a large quantity of financial market potential development scenarios. Value at Risk is measured for one-day holding periods and at a 99% confidence level.

## Value at Risk results for interest-rate risk (calculated using Monte Carlo simulation)

MCZK	As at 31 December, 2018	Average 2018	As at 31 December, 2017	Average 2017
VaR of interest-rate instruments	24	24	74	60

As at 31 December, 2018 the total VaR for all market risks equalled CZK 24 million (in 2017 it was CZK 74 million). The VaR decreased primarily because the degree of early repayment has been taken into account since January 2018.

### Market risk management limits

All market risk management limits are proposed through a collaborative effort between the Risk Management Department and Financial Department, discussed by the ALCO and approved by the Board of Directors of Raiffeisen stavební spořitelna.

#### 1.4.43.4.4 Stress testing

Raiffeisen stavební spořitelna conducts stress testing of interest-rate risks on a monthly basis by applying historical financial market volatility scenarios and internally defined improbable scenarios, and models their impacts on Raiffeisen stavební spořitelna's profits. Raiffeisen stavební spořitelna has set limits for these stress scenarios which are part of the risk management process.

#### 1.4.43.4.5 Equity risk

As at the end of the reporting periods, Raiffeisen stavební spořitelna did not record any shares, units or other participation interests.

Raiffeisen stavební spořitelna has no derivatives.

#### 1.4.43.4.6 Operational risk

Operational risk is defined as the risk of a loss incurred due to inadequacy or failure of internal processes, the human factor or systems, or due to external events, including a risk of loss due to the breach of or non-compliance with a legal regulation.

In 2018, events affecting operational risks were collected. In 2018, risk assessment procedures were updated for all departments and aligned with the advanced operational risk management method, and various possible adverse development scenarios and their impacts on the core activities of Raiffeisen stavební spořitelna were elaborated. Risk indicators continued to be collected and evaluated.

The Risk Management Department presented the outcomes to the Operational Risk Management Committee. Operational risk management, including risk prevention, is devolved to the department level. Raiffeisen stavební spořitelna has a system of contingency plans in place for emergency situations; it also has a contingency plan to address situations jeopardizing operation of the Bank's IT system.

In operational risk management, the fraud prevention methodology was streamlined, implementation of fraud prevention tools was completed and training of employees took place.

Compliance with relevant standards is supported by regular verification through an internal audit. The internal audit outcomes are discussed with the Operational Risk Management Committee and the Board of Directors of Raiffeisen stavební spořitelna.

## 1.4.44 FAIR VALUE

### 1.4.44.1 Financial instruments not carried at fair value in the balance sheet

The following table lists the book values and fair values of financial assets and financial liabilities that are not carried at fair value in Raiffeisen stavební spořitelna's balance sheet.

#### Financial assets and financial liabilities at book and fair values

MCZK	Book value 31/12/2018	Fair value 31/12/2018
Cash and balances with central banks	909	909
State zero coupon bonds and other securities eligible for refinancing with the central bank	13,223	13,458
Receivables from banks and cooperative savings associations	2,104	2,104
Receivables from clients – cooperative savings associations' members	49,264	50,769
Debt securities	2,220	2,260
Participation interests with controlling influence	257	379
Other assets	845	845
<b>Total financial assets</b>	<b>68,822</b>	<b>70,724</b>
Payables to banks and cooperative savings associations	0	0
Payables to clients – cooperative savings associations' members	63,636	62,429
Payables from debt securities	0	0
Other liabilities	652	651
<b>Total financial liabilities</b>	<b>64,288</b>	<b>63,080</b>

The accounting unit uses the following inputs and techniques to estimate fair values:

Cash and balances with central banks – the book value is equal to the fair value. These financial assets are classified as Level 2 in the fair value hierarchy.

State zero coupon bonds and other securities eligible for refinancing with the central bank – the difference between the fair value and the book value is mainly due to the different market and effective interest rates on the government bonds included in this portfolio.



These financial assets are classified as Level 1 in the fair value hierarchy because their fair value is based on quoted prices in an active market.

Receivables from banks and cooperative savings associations – due to the short maturity of these receivables, the book value approximates their fair value. These financial assets are classified as Level 2 in the fair value hierarchy.

Receivables from clients – cooperative savings associations' members – estimates of the loan fair value are based on discounted expected future cash flows, using the interest rate applicable to loans associated with similar credit and interest risks and similar maturity. For credit-impaired loans, the basis is the present value of expected future cash flows including the expected proceeds from collateral realization, if applicable.

Estimating the cash flows used for discounting is based on assumptions and consideration of the expected course of repayment of the particular product or group of products. The applied discount rates are based on main competitors' rates or other comparable rates on similar types of assets.

These financial assets are classified as Level 3 in the fair value hierarchy.

Debt securities – the difference between the fair value and the book value is mainly due to the different market and effective interest rates on the government bonds included in this portfolio. These financial assets are classified as Level 1 in the fair value hierarchy because their fair value is based on quoted prices in an active market.

Participation interests with controlling and substantial influence – the fair value is taken over from an expert opinion. These financial assets are classified as Level 3 in the fair value hierarchy.

Payables to banks and cooperative savings associations – due to the short maturity of these payables, the book value approximates their fair value. These financial liabilities are classified as Level 2 in the fair value hierarchy.

Payables to clients – cooperative savings associations' members – the fair value of demand deposits and floating rate term deposits equals the book value of the deposits as at the balance sheet date.

The fair value of fixed rate term deposits is estimated on the basis of discounted cash flows applying the respective interest rates. The applied discount rates are based on main competitors' rates or other comparable rates on similar types of liabilities.

These financial liabilities are classified as Level 3 in the fair value hierarchy.

#### 1.4.45 TRANSACTIONS NOT INCLUDED IN THE BALANCE SHEET

As at the date of the financial statement, the management of Raiffeisen stavební spořitelna is not aware of any major events that would require amendments to the financial statement as at 31 December, 2018.

#### 1.4.46 MAJOR EVENTS SUBSEQUENT TO THE FINANCIAL STATEMENT DATE

No major events occurred between the financial statement date and the date of financial statement approval that would require any amendments thereto.

Raiffeisen stavební spořitelna a.s. Board of Directors:



**Ing. Jan Jeníček**  
Chairman of the Board of Directors



**Dr. Ing. Pavel Chmelík**  
Deputy Chairman of the Board of Directors



**Mgr. Roman Hurych**  
Deputy Chairman of the Board of Directors

Officer in charge of accounting and the financial statement:



**Ing. Petr Zarembo**  
Head of the Financial Department

## 2 REPORT ON RELATED PARTIES

Raiffeisen stavební spořitelna a.s., with its registered seat at Koněvova 2747/99, 130 45 Prague 3, Business ID: 49241257, incorporated in the Commercial Register administered by the Municipal Court in Prague, Section B, Insert 2102 (hereinafter the "Reporting Party") is part of a business grouping (holding) with the following relations between the Reporting Party and the controlling party, and among the Reporting Party and other parties controlled by the same controlling party (hereinafter "Related Parties").

This report on relations among the parties identified below was prepared for the accounting period of 2018 in line with the provisions of S. 82 of Act No. 90/2012 Coll., on business corporations (hereinafter the "Act"), as amended and applicable in the given accounting period.

Within the accounting period in question, the contracts and agreements identified below were concluded between the Reporting Party and the identified parties, the following legal acts were adopted or implemented, and other material measures stated in the Report were taken.

### 2.1 STRUCTURE OF RELATIONS AMONG THE PARTIES PURSUANT TO S. 82(2)(a) THROUGH (c) OF THE ACT

#### 2.1.1 CONTROLLING PARTIES AND STRUCTURE OF THE CONSOLIDATION UNIT

##### 2.1.1.1 Controlling parties

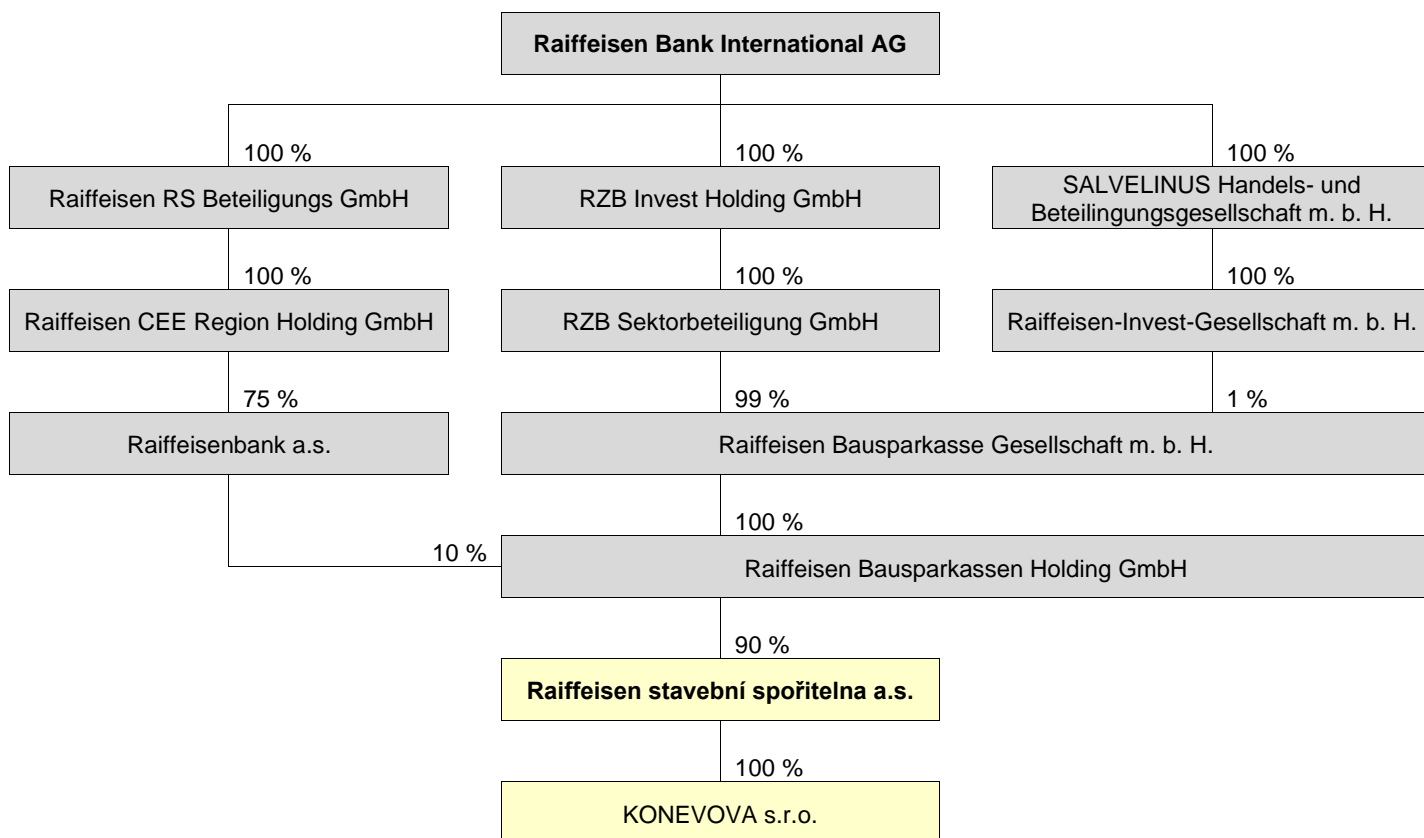
Raiffeisen Bausparkassen Holding GmbH  
With its seat at Mooslackengasse 12, Vienna, Austria  
90% share in Raiffeisen stavební spořitelna

Raiffeisenbank a.s.  
With its seat at Hvězdova 1716/2b, Prague, Czech Republic  
10% share in Raiffeisen stavební spořitelna

Raiffeisen Bank International AG  
With its seat at Am Stadtpark 9, Vienna, Austria  
Ultimate beneficial owner of the group

The parties listed above take concerted action to the effect of S. 78 of the Act.

### 2.1.1.2 Ownership structure of the consolidation unit



### 2.1.2 ROLE OF THE CONTROLLED PARTY, METHODS AND MEANS OF CONTROL

The role of the Reporting Party is representation of the Raiffeisen financial group on the Czech market in the field of building savings. The method of control is through share or participation interest in the controlled party. The controlling parties control the Reporting Party through voting at the General Meeting in compliance with the Reporting Party's Articles of Association. Representatives of the controlling party are members of the Supervisory Board of Raiffeisen stavební spořitelna.

### 2.1.3 OTHER RELATED PARTIES

#### 2.1.3.1 Companies controlled by the Reporting Party

KONEVOVA s.r.o.

With its seat at Koněvova 2747/99, Prague, Czech Republic

Raiffeisen stavební spořitelna holds a 100% share interest in the company.

#### 2.1.3.2 Companies controlled by the same controlling party as the Reporting Party, with which the Reporting Party holds contractual relations

Raiffeisen – Leasing, s.r.o., Prague, Czech Republic

**2.2 LIST OF CONTRACTS PURSUANT TO S. 82(2)(e) OF THE ACT**

<b>Contract</b>	<b>Closing date</b>	<b>Counterparty</b>
Application to Open an Account	15/12/1993	Raiffeisenbank a.s., Prague
Contract for Lease of Real Property – Land	01/12/1995	KONEVOVA s.r.o., Prague
Amendment No. 1	01/12/1995	
Amendment No. 2	19/09/1997	
Amendment No. 3	01/10/1999	
Amendment No. 4	19/11/2015	
Amendment No. 5	29/02/2016	
Contract for Lease of a Movable Asset	29/05/1998	KONEVOVA s.r.o., Prague
Amendment No. 1	01/12/1998	
Amendment No. 2	01/07/2002	
Current Account Agreement	13/06/2000	Raiffeisenbank a.s., Prague
Current Investment Account Agreement	02/10/2001	Raiffeisenbank a.s., Prague
Cooperation Contract – Conclusion of Building Savings Contracts	31/05/2002	Raiffeisenbank a.s., Prague
Amendment No. 1	30/04/2003	
Amendment No. 2	01/04/2004	
Amendment No. 3	31/12/2004	
Amendment No. 4	08/11/2005	
Amendment No. 5	27/03/2009	
Amendment No. 6	23/12/2009	
Amendment No. 7	24/07/2013	
Contract terminated	31/10/2018	
Contract for the Use of a Call Centre	21/05/2004	Raiffeisenbank a.s., Prague
Contract terminated	12/11/2018	
Contract for the Provision of Call Centre Services	23/06/2005	Raiffeisenbank a.s., Prague
Contract terminated	12/11/2018	
Contract for Lease of Non-residential Premises – Prague, Hájkova street	01/09/2005	KONEVOVA s.r.o., Prague
Amendment No. 1	01/02/2006	
Amendment No. 2	27/03/2007	
Amendment No. 3	03/05/2010	
Amendment No. 4	01/07/2011	
Amendment No. 5	29/09/2011	
Agreement to Buy or Sell Securities, to Settle Trades with Securities, and to Administer Securities	10/04/2007	Raiffeisenbank a.s., Prague
Including Annexes No. 1–5		
Amendment No. 1	25/09/2013	
Annex No. 4	12/01/2016	
Agreement on the Provision of Commercial, Administrative, and Technical Consultancy Services	15/01/2008	Raiffeisen Bausparkassen Holding GmbH, Vienna
Framework Contract – Preferential Financing for Employees	13/06/2011	Raiffeisen – Leasing, s.r.o.
Amendment No. 1	08/08/2011	
Agreement on the Lease of Non-Residential Premises, Parking Stalls, and Flats	01/01/2012	KONEVOVA s.r.o., Prague
Treasury Master Agreement	29/02/2012	Raiffeisenbank a.s., Prague
Confidentiality and Personal Data Processing Agreement and Some Additional Arrangements	05/04/2012	Raiffeisenbank a.s., Prague
Agreement on Further Terms of Cooperation	16/04/2012	Raiffeisenbank a.s., Prague
FTP Access Agreement	15/02/2013	Raiffeisenbank a.s., Prague
Direct Banking Service Agreement	15/11/2013	Raiffeisenbank a.s., Prague
Agreement to Provide X-business Internet Banking Services	03/02/2015	Raiffeisenbank a.s., Prague
Framework Agreement	26/01/2016	Raiffeisen Bank International AG, Vienna
Service Level Agreement	26/01/2016	Raiffeisen Bank International AG, Vienna
Personal Data Processing Verification Agreement pursuant to Article 28 of the GDPR	21/05/2018	Raiffeisen Bank International AG, Vienna
Debit Card Agreement	31/05/2018	Raiffeisenbank a.s., Prague
Termination of Debit Card Agreement	03/08/2018	
Service Level Agreement	07/09/2018	Raiffeisen Bank International AG, Vienna
Sales Representation Agreement	24/09/2018	Raiffeisenbank a.s., Prague
Annex No. 1	24/09/2018	
Service Level Agreement	02/10/2018	Raiffeisen Bank International AG, Vienna
Tip Brokerage Agreement	10/10/2018	Raiffeisenbank a.s., Prague
Insurance Participation Agreement	08/11/2018	Raiffeisenbank a.s., Prague
Contract for the Provision of Call Centre Services	12/11/2018	Raiffeisenbank a.s., Prague
Debit Card Agreement	26/11/2018	Raiffeisenbank a.s., Prague

## 2.3 OVERVIEW OF ACTIONS IMPLEMENTED IN THE LATEST ACCOUNTING PERIOD TO THE BENEFIT OF THE CONTROLLING PARTY TO THE EFFECT OF S. 82(2)(d) OF THE ACT

Paid shares in profit and shares in equity: In the given accounting period the Reporting Party paid out shares in profit amounting to CZK 300 million (CZK 270 million to Raiffeisen Bausparkassen Holding GmbH and CZK 30 million to Raiffeisenbank a.s.).

## 2.4 BENEFITS AND DRAWBACKS ARISING FROM RELATIONS AMONG THE CONTROLLING AND CONTROLLED PARTIES STATED UNDER 2.1

The key benefit of relations among the entities within the Raiffeisen group is awareness of the Raiffeisen brand across Europe, and perception of Raiffeisen as a strong international banking group. Other benefits include strong methodological guidance on European banking regulation and international accounting standards, as well as experience in selling a wide range of financial products.

Minor drawbacks of working within a large group include the need to reserve capacity for consolidated reporting and the complex risk management system. The language barrier also places higher demands on employees in their efforts to facilitate flawless understanding in communication.

## 2.5 CLOSING STATEMENT OF THE BOARD OF DIRECTORS

Having reviewed the legal relations between the Reporting Party and the related parties, we are certain that no harm was incurred by the Reporting Party in consequence of the contracts, other legal acts and/or other measures concluded, executed or adopted by the Reporting Party in the accounting period of 2018 in the interest or upon the impetus of any of the individual related parties.

Statement: Raiffeisen stavební spořitelna a.s. hereby declares that it has produced this report with due diligence on the basis of information available as at the date of the report's compilation.

Prague, 18 March, 2019

Raiffeisen stavební spořitelna a.s. Board of Directors:



**Ing. Jan Jeníček**  
Chairman of the Board of Directors



**Dr. Ing. Pavel Chmelík**  
Deputy Chairman of the Board of Directors



**Mgr. Roman Hurych**  
Deputy Chairman of the Board of Directors

### 3 INFORMATION ON CAPITAL

#### 3.1 RECONCILIATION OF REGULATORY AND BOOK CAPITAL

The tables below summarize the composition of regulatory and book capital and of specific indicators as at 31 December, 2018 and 31 December, 2017, allowing thus full reconciliation of regulatory capital items with the institution's capital and balance sheet.

##### 3.1.1 Regulatory capital

MCZK	31/ 12/ 2018	31/ 12/ 2017
Paid-up registered capital entered in the Commercial Register	650	650
Gains (losses) from revaluation of assets and liabilities	0	59
Retained earnings or accumulated losses from previous years	-160	0
Reserve funds	3,762	3,618
(-) Additional value adjustment according to prudent valuation principles (AVA)	0	-1
(-) Intangible assets other than goodwill	-189	-161
(-) Deferred tax liabilities associated with other intangible assets	13	10
<b>Total capital meeting the criteria for Tier 1</b>	<b>4,076</b>	<b>4,175</b>
Total amount of Tier 2 capital	0	0
<b>Capital relevant for calculation of limits for major exposures, for qualified interests, and the capital ratio</b>	<b>4,076</b>	<b>4,175</b>

##### 3.1.2 Equity

MCZK	31/ 12/ 2018	31/ 12/ 2017
Paid-up registered capital entered in the Commercial Register	650	650
Retained earnings from previous periods	-160	0
Current year profit	516	444
Gains (losses) from revaluation of assets and liabilities	0	59
Reserve funds	3,770	3,626
<b>Total equity</b>	<b>4,776</b>	<b>4,779</b>

#### 3.2 CAPITAL REQUIREMENTS

MCZK	31/ 12/ 2018	31/ 12/ 2017
Exposure to central governments and central banks	0	0
Exposure to regional governments and local authorities	0	1
Exposures to institutions	97	161
Exposures to enterprises	69	69
Retail exposures	1,288	1,108
Exposures secured with real property	541	428
Defaulting exposures	37	48
Exposures in covered bonds	7	33
Exposures to shares	21	51
Exposures to other items	36	28
<b>Total capital requirements for credit risk</b>	<b>2,096</b>	<b>1,927</b>
Capital requirement pursuant to Title III, Chapter 2 of Regulation No. 2013/575/EU	151	157
<b>Total capital requirements for operational risk</b>	<b>151</b>	<b>157</b>
<b>Total capital requirements</b>	<b>2,247</b>	<b>2,084</b>

**Raiffeisen stavební spořitelna a.s.**

Koněvova 2747/99

130 45 Prague 3

Corporation registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert 2102

Year of founding: 1993

Legal Status: Joint-stock company

Business ID: 49241257

Tax ID: CZ49241257

Bank details: IBAN CZ82 5500 0000 0010 0100 5369

Phone: 271 031 111

Data box ID: f6qr5pb

Internet: [www.rsts.cz](http://www.rsts.cz)  
[www.rsts.cz/25let](http://www.rsts.cz/25let)  
[online.rsts.cz](http://online.rsts.cz)  
[www.svet-bydleni.cz](http://www.svet-bydleni.cz)  
[www.vicedomova.cz](http://www.vicedomova.cz)

E-mail: [rsts@rsts.cz](mailto:rsts@rsts.cz)

Info line: 800 11 22 11

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**Raiffeisen**  
**STAVEBNÍ SPOŘITELNA**