1H 2018 ČSOB Activity Report

Semi-Annual Report

Business name	**Československá obchodní banka, a. s.**
Registered office	Radlická 333/150, Praha 5, Postal Code 150 57, Czech Republic
Legal status	Joint-stock company
Registration	Registered in the Commercial Registry of the City Court in Prague, Section B XXXVI, Entry 46
Date of registration	21 December 1964
ID No.	00001350
Tax registr. No	CZ699000761 (for VAT) CZ00001350 (for other taxes)
Bank code	0300
SWIFT	CEKOCZPP
Telephone	+420 224 111 111
E-mail	info@csob.cz
Internet address	http://www.csob.cz
Data box	8qvdk3s2
Supervisory body	Czech National Bank (CNB), Na Příkopě 28, Praha 1, Postal Code 115 03, Czech Republic

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The 1H 2018 ČSOB Activity Report (hereinafter referred to as Semi-Annual **Report) was published** on ČSOB's Internet website www.csob.cz **on 29 August 2018**. The 1H 2018 results of the ČSOB group were published on 9 August 2018 in the form of a press release and a presentation which also contains definitions of terms and indicators used. In addition to the summary of information already published, the Semi-Annual Report contains the following: the interim consolidated financial statements of ČSOB as at 30 June 2018, the company profile, current information on ČSOB's managing and supervisory bodies, ČSOB's securities and other information.

All data and information contained in the Semi-Annual Report are as at 30 June 2018, unless stated otherwise.

This report has not been audited.

1. ČSOB GROUP RESULTS IN 1H 2018[1]

Measures of Sustainable Performance

ČSOB group key indicators		2015	2016	2017	1H 2017	1H 2018
Profitability	Net profit (CZK bn) Return on equity	14.0 16.4%	15.1 17.3%	17.5 19.3%	9.4 21.1%	7.5 16.4%
Liquidity	Loan to deposit ratio Net stable funding ratio	79.3% 134.9%	79.4% 150.9%	77.7% 146.0%	76.7% 145.9%	73.3% 150.7%
Capital	(Core) Tier 1 ratio	19.1%	18.2%	17.2%	16.8%	**17.5%**
Impairments	Credit cost ratio	0.18%	0.11%	0.02%	0.06%	-0.03%
Cost efficiency	Cost / income ratio	48.2%	46.0%	43.7%	42.0%	48.9%

Note:
As of 1Q 2017, the calculation of Loan to deposit ratio has been changed. In order to provide fully comparable figures, Loan to deposit ratio for 2015 and 2016 has been restated retrospectively.
New definition of Loan to deposit ratio: Financial assets at amortised cost to other than credit institutions minus bonds (net)/ Deposits received from other then credit institutions at amortised cost minus repo operations with non-banking financial institutions.

1H 2018 at a Glance

Excellent loan quality and solid growth in business volumes
Lower net profit mainly due to higher base in the previous year

Business indicators	The **loan portfolio** (incl. ČMSS) increased to **CZK 679bn** (+4% Y/Y) driven mainly by mortgages and consumer finance. **Group deposits** (incl. ČMSS) grew to **CZK 969bn** (+14% Y/Y). Total **assets under management** reached **CZK 207bn** (+6% Y/Y). The number of **clients** rose +5 thousand Y/Y.
Operating income	**Operating income** reached **CZK 17.9bn** in 1H 2018 (-7% Y/Y) reflecting lower other operating income due to higher base in the previous year (one-off gain from legal case, positive valuation adjustments, sale of bonds and revenues related to the end of ČNB's currency commitment in 1H 2017). The net interest income increased +7% Y/Y in 1H 2018.
Operating expenses	**Operating expenses** increased to **CZK 8.8bn** in 1H 2018 (+9% Y/Y) due to higher staff expenses driven by wage adjustments, consolidation of "Ušetřeno.cz" and higher distribution expenses (methodological change linked to new partnership agreement with Czech Post). Adjusted for the last two items, 1H 2018 operating expenses would increase +5% Y/Y.
Impairments	**Credit cost ratio** for 1H 2018 stood at **-3 bps** (Ytd. annualized, -9 bps Y/Y) thanks to the ongoing excellent loan quality. Other impairments increased Y/Y to CZK 487m in 1H 2018 due to revaluation of leased cars (operating leasing).
Net profit	As a result of the above mentioned factors, ČSOB's **net profit** came in at **CZK 7.5bn** (-20% Y/Y) in 1H 2018.
Liquidity & Capital	**Loan to deposit ratio** decreased Y/Y to **73.3%**. **Tier 1 ratio** stood at **17.5%** and **net stable funding ratio (NSFR)** reached **150.7%**.
Achievements	For the year 2018, ČSOB was awarded as **the Best Bank in the Czech Republic** by international magazines Euromoney, Global Finance and EMEA Finance and won the second place in Sodexo award **Employer of the Year** (above 5,000 employees category regardless of industry). Active users of ČSOB's mobile banking increased by 28% Y/Y in 1H 2018. In April, ČSOB acquired the largest services comparator website "**Ušetřeno.cz**" (consolidated as of 1H 2018).

[1] *All numbers in this part of the 1H 2018 ČSOB Activity Report are consolidated, unaudited, according to EU IFRS.*

Ratios and Other Indicators

Ratio / Indicator	31.12.2015	31.12.2016	31.12.2017	30.6.2017	30.6.2018
Net interest margin (Ytd., annualized, %)[1]	n/a (3.01)	3.00 (2.93)	2.90 (2.98)	2.91 (3.02)	2.98 n/a
Cost / income ratio (%)	48.2	46.0	43.7	42.0	48.9
RoE (Ytd., %)	16.4	17.3	19.3	21.1	16.4
RoA (Ytd., %)	1.49	1.42	1.26	1.45	1.05
RoAC, BU Czech Republic (Ytd., %)[2]	34.9	37.0	43.0	46.7	34.0
Credit cost ratio (Ytd., annualized, %)[3]	0.18	0.11	0.02	0.06	-0.03
NPL ratio (%)[3]	3.64	2.99	2.33	2.58	2.16
NPL coverage ratio (%)[3]	53.2	54.4	58.5	55.6	53.4
(Core) Tier 1 ratio (%)	19.1	18.2	17.2	16.8	17.5
Total capital ratio (%)	19.4	18.5	17.2	16.8	17.5
Leverage ratio (Basel III, %)	5.25	5.18	4.48	4.33	4.14
Net stable funding ratio (Basel III, %)	134.9	150.9	146.0	145.9	150.7
Liquidity coverage ratio (Basel III, %)	163.4	155.7	146.4	145.4	134.9
Loan to deposit ratio (%)	79.3	79.4	77.7	76.7	73.3

[1] As of 1Q 2018, calculation of Net interest margin has been changed. Years 2016 and 2017 have been restated. Previous values are in brackets.
[2] Fully-loaded
[3] As of 30 June 2018, the definition of Credit risk: loan portfolio used for calculation has been changed. The ratios taking into account the new definition as of 31.12.2017: Credit cost ratio 0.02%, NPL ratio 2.44%, NPL coverage ratio 55.2% and as of 30.6.2017: Credit cost ratio 0.05%, NPL ratio 2.63%, NPL coverage ratio 52.9%.

Consolidated Unaudited Financial Statements as at 30 June 2018

Consolidated Profit and Loss Statement

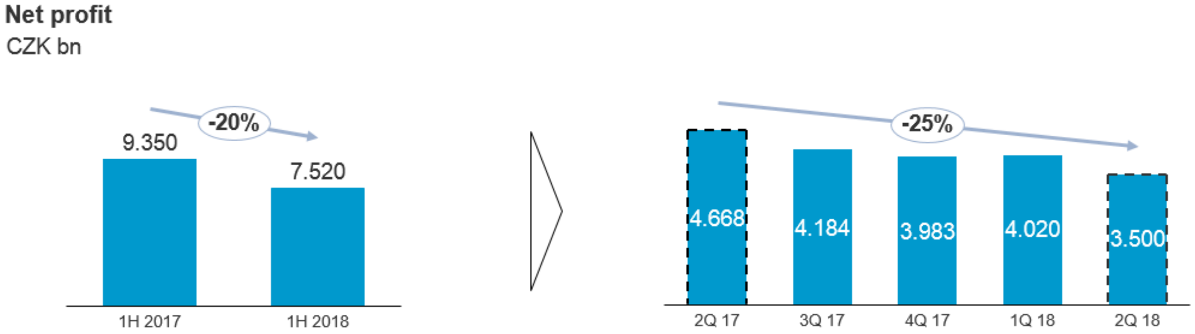
(CZK m)	2Q 2017 *IAS 39*	1Q 2018 *IFRS 9*	2Q 2018 *IFRS 9*	Y/Y	Q/Q	1H 2017 *IAS 39*	1H 2018 *IFRS 9*	Y/Y
Net interest income	5,690	6,105	6,021	+6%	-1%	11,352	12,126	+7%
Interest income	*6,420*	*7,421*	*7,509*	*+17%*	*+1%*	*12,733*	*14,930*	*+17%*
Interest expense	*-730*	*-1,316*	*-1,488*	*>+100%*	*+13%*	*-1,381*	*-2,804*	*>+100%*
Net fee and commission income	1,606	2,018	2,009	+25%	0%	3,174	4,027	+27%
Net gains from financial instruments at FVPL[1]	1,740	1,012	210	-88%	-79%	3,081	1,222	-60%
Other operating income[2]	462	277	282	-39%	+2%	1,600	559	-65%
Operating income	**9,498**	**9,412**	**8,522**	**-10%**	**-9%**	**19,207**	**17,934**	**-7%**
Staff expenses	-1,942	-2,054	-2,097	+8%	+2%	-3,869	-4,151	+7%
General administrative expenses	-1,553	-2,167	-1,752	+13%	-19%	-3,548	-3,919	+10%
General administrative expenses (excl. banking taxes)	*-1,542*	*-1,434*	*-1,728*	*+12%*	*+21%*	*-2,836*	*-3,162*	*+11%*
Banking taxes	*-11*	*-733*	*-24*	*>+100%*	*-97%*	*-712*	*-757*	*+6%*
Depreciation and amortisation	-332	-346	-353	+6%	+2%	-659	-699	+6%
Operating expenses	**-3,827**	**-4,567**	**-4,202**	**+10%**	**-8%**	**-8,076**	**-8,769**	**+9%**
Impairment losses	-266	-168	-237	-11%	+41%	-238	-405	+70%
Impairment on financial assets at amortised cost	*-198*	*-13*	*95*	*>-100%*	*>-100%*	*-173*	*82*	*>-100%*
Impairment on financial assets at fair value through OCI	*-1*	*0*	*1*	*>-100%*	*n/a*	*-1*	*1*	*>-100%*
Impairment on other assets	*-67*	*-155*	*-333*	*>+100%*	*>+100%*	*-64*	*-488*	*>+100%*
Share of profit of associates	175	172	180	+3%	+5%	310	352	+14%
Profit before tax	**5,580**	**4,849**	**4,263**	**-24%**	**-12%**	**11,203**	**9,112**	**-19%**
Income tax expense	-913	-829	-763	-16%	-8%	-1,854	-1,592	-14%
Profit for the period	**4,667**	**4,020**	**3,500**	**-25%**	**-13%**	**9,349**	**7,520**	**-20%**
Attributable to:								
Owners of the parent	**4,668**	**4,020**	**3,500**	**-25%**	**-13%**	**9,350**	**7,520**	**-20%**
Non-controlling interests	-1	0	0	-100%	n/a	-1	0	-100%

[1] FVPL = fair value through profit and loss.

[2] Other operating income = Net realised gains from financial instruments at fair value through other comprehensive inocme (OCI), dividend income, income and expense from operating lease, other net income.

Consolidated Profit and Loss Statement Review

Net profit for 1H 2018 reached **CZK 7.5bn** (-20% Y/Y). The results reflect lower other operating income due to higher base in the previous year (one-off gain from legal case, positive valuation adjustments, sale of bonds and revenues related to the end of ČNB's currency commitment in 1H 2017), higher operating expenses and total impairments, while net interest income and net fee and commission income increased Y/Y.



<u>Notes (gross impact):</u>
1Q 2017 one-off item: gain from historical legal case (CZK +0.4bn)
4Q 2017 one-off item: impairment on software (CZK -0.2bn)

Operating income reached **CZK 17.9bn** (-7% Y/Y).

Net interest income increased by **7% Y/Y** as a result of positive impact from NII from deposits (mainly in retail) and from other NII (thanks to ALM income) and of negative impact from NII from loans (driven by mortgages). 1H 2018 **net interest margin** reached **2.98%** (+0.07pp Y/Y) thanks to higher reinvestment yields and active management of funding costs, partly offset by ongoing pressure on lending margins.

Net fee and commission income increased by **27% Y/Y**. **Adjusted** for the shift of network income*, lower distribution fees** and consolidation of "Ušetřeno.cz", NFCI would increase **+1% Y/Y** in 1H 2018 mainly thanks to higher domestic payments and asset management fees.

* *Accounting reclassification of network income from net gains from financial instruments at fair value through profit and loss to net fee and commission income, in line with the KBC group methodology. Note that network income refers to income received from margins earned on FX transactions carried out by the network for clients.*

*** Accounting reclassification of remuneration paid to Czech Post, whereby its main part shifted from operating income (namely distribution fees under net fee and commission income) to operating expenses (namely general administrative expenses) due to the new partnership agreement with Czech Post from 1 January 2018.*

The **-62% Y/Y** decrease of item "**Other***" was influenced by higher base in 1H 2017 due to: shift of network income to NFCI as of 2018, one-off gain from historical legal case in 1Q 2017, positive valuation adjustments, sale of bonds, revenues related to the end of ČNB's currency commitment.

** Other = Net gains from financial instruments at fair value through profit and loss + net realized gains from financial instruments at fair value through other comprehensive income (OCI) + dividend income + income and expense from operating lease + other net income*

Operating expenses increased to **CZK 8.8bn** (+9% Y/Y), influenced by higher staff expenses driven by wage adjustments, consolidation of "Ušetřeno.cz" and higher distribution expenses (methodological change linked to new partnership agreement with Czech Post).

Staff expenses increased by **7% Y/Y** due to wage adjustments and higher average number of FTEs. Adjusted for consolidation of "Ušetřeno.cz", staff expenses would increase by 7% Y/Y.

General administrative expenses increased by **10% Y/Y** Adjusted for higher distribution expenses* (methodological change linked to new partnership agreement with Czech Post) and consolidation of "Ušetřeno.cz", general administrative expenses would increase +3% Y/Y mainly due to higher marketing expenses.

As a result, the **Cost/income ratio** increased to **48.9%** (+6.9pp Y/Y).

In 1H 2018, ČSOB released **loan loss provisions** in the amount of **CZK 82m**, compared to a net creation of CZK 173m in the same period last year, driven mainly by corporate and SME segment.

Other impairments increased Y/Y to **CZK 487m (net creation)**, compared to a net creation of CZK 65m in the same period last year, due to revaluation of leased cars (operating leasing).

Credit cost ratio* for 1H 2018 reached -**3 bps** (Ytd., annualized; -9 bps Y/Y).

** As of 1H 2018, the definition of Credit risk: loan portfolio used for calculation has been changed , it includes on-balance sheet and off-balance sheet items. The scope additionally includes the following elements: bank exposure (money market placements, documentary credit, accounts), unauthorized overdrafts and reverse repo (excl. central bank exposure). Taking into account the updated definition, the CCR of 1H 2017 is 0.05%.*

The return on equity (ROE) reached **16.4%** in 1H 2018, down from 21.1% and driven by lower net profit.

Consolidated Balance Sheet – Assets

(CZK m)	1/1 2018 IFRS 9	30/6 2018 IFRS 9	Ytd.
Cash and balances with central banks and other demand deposits	54,499	25,673	-53%
Financial assets held for trading	16,245	31,964	+97%
Financial assets held for trading pledged as collateral	2,097	1,598	-24%
Financial assets designated at fair value through P/L	0	0	n/a
Financial assets at fair value through other comprehensive income (OCI)	17,167	16,391	-5%
Financial assets at fair value through OCI pledged as collateral	1,681	1,731	+3%
Financial assets at amortised cost - net	1,159,996	1,279,430	+10%
Financial assets at amortised cost to credit institutions - gross	*485,269*	*604,714*	*+25%*
Financial assets at amortised cost to other than credit institutions - gross	*684,565*	*683,987*	*0%*
Financial assets at amortised cost - provisions	*-9,838*	*-9,271*	*-6%*
Financial assets at amortised cost pledged as collateral	33,182	57,840	+74%
Fair value adjustments of the hedged items in portfolio hedge	-4,298	-4,979	+16%
Derivatives used for hedging	9,113	8,993	-1%
Current tax assets	149	305	>+100%
Deferred tax assets	400	265	-34%
Investments in associates and joint ventures	4,531	4,251	-6%
Property and equipment	11,024	10,596	-4%
Goodwill and other intangible assets	5,816	6,186	+6%
Non-current assets held-for-sale	42	44	+5%
Other assets	2,755	3,091	+12%
Total assets	**1,314,399**	**1,443,379**	**+10%**

Decrease due to overnight loan with ČNB.

Increase due to reverse repo operations with banks and sovereign bonds.

Increase due to reverse repo operations with ČNB.

Note:

In the context of IFRS 9 implementation, methodology for classification and measurement of financial instruments has been changed. The year 2017 has not been restated retrospectively. Figures after implementation of IFRS 9 as of 1 January 2018 are presented for the purpose of YtD comparison.

Consolidated Balance Sheet – Liabilities and Equity

(CZK m)	1/1 2018 IFRS 9	30/6 2018 IFRS 9	Ytd.
Financial liabilities held for trading	34,606	27,167	-21%
Financial liabilities at fair value through P/L	9,498	12,646	+33%
Financial liabilities at amortised cost	1,163,086	1,306,741	+12%
of which Deposits received from central banks	*0*	*0*	*n/a*
of which Deposits received from credit institutions	*68,502*	*101,379*	*+48%*
of which Deposits received from other than credit institut.	*744,448*	*892,818*	*+20%*
of which Debt securities in issue	*350,136*	*312,544*	*-11%*
of which Subordinated liabilities	*0*	*0*	*n/a*
Fair value adjustments of the hedged items in portfolio hedge	-3,803	-5,369	+41%
Derivatives used for hedging	10,485	11,135	+6%
Current tax liabilities	387	33	-91%
Deferred tax liabilities	1,549	1,447	-7%
Provisions	983	900	-8%
Other liabilities	5,152	4,796	-7%
Total liabilities	**1,221,943**	**1,359,496**	**+11%**
Share capital	5,855	5,855	0%
Share premium	20,929	20,929	0%
Statutory reserve	18,687	18,687	0%
Retained earnings	45,792	37,956	-17%
Financial assets at fair value through OCI - revaluation reserve	697	427	-35%
Cash flow hedge reserve	496	29	-94%
Parent shareholders' equity	**92,456**	**83,883**	**-9%**
Minority interest	0	0	n/a
Total equity	**92,456**	**83 883**	**-9%**
Total liabilities and equity	**1,314,399**	**1,443,379**	**+10%**

Increase due to money market transactions and repo operations with banks.

Increase mainly due to repo operations.

Decrease due to deposit bills of exchange.

Capital

Solid capital position

Consolidated, CZK m	30.6.2017	31.12.2017	30.6.2018
Total regulatory capital	**69,559**	**69,098**	**69,461**
- (Core) Tier 1 Capital	69,559	69,098	69,461
- Tier 2 Capital	0	0	0
Total capital requirement	**33,050**	**32,182**	**31,802**
- Credit risk	25,925	25,043	24,966
- Market risk	2,575	2,589	1,990
- Operational risk	4,550	4,550	4,846
Total RWA	**413,122**	**402,278**	**397,527**
(Core) Tier 1 ratio	**16.8%**	**17.2%**	**17.5%**
Total capital ratio	**16.8%**	**17.2%**	**17.5%**

The Y/Y decrease of **(Core) Tier 1 capital** due to lower interim profit retention and decrease in OCI which was partly compensated by decrease in prudential filters (deductible items). Implementation IFRS9 had only minimum impact.

Total RWA decreased Y/Y due to lower credit risk requirements as a result of corporate segment, measurement risk adjustments (MRA) and lower market risk requirements.

RWA (risk weighted assets) = total capital requirement / 0.08
Tier 1 capital = share capital + share premium + legal reserve funds + retained earnings + other comprehensive income – goodwill – intangible assets
Tier 2 capital = subordinated debt weighted by regulatory coefficient + surplus in expected credit losses
Total regulatory capital = (Core) Tier 1 + Tier 2
*Tier 1 ratio = (Tier 1 capital – 0.5*regulatory adjustments) / (total capital requirement / 0.08)*

Business Results

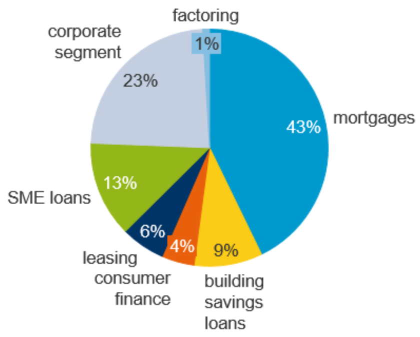
Loan portfolio

The Y/Y growth driven by mortgages and consumer finance

Gross outstanding volumes, CZK bn	30.6.2017	30.6.2018	Y/Y
Loan portfolio (incl. ČMSS/building savings loans)	**652.8**	**679.2**	**+4%**
Retail Segment			
Mortgages[1]	270.2	290.6	+8%
Consumer finance	26.1	30.3	+16%
Building savings loans[2]	64.3	63.3	-2%
SME/Corporate Segment			
Corporate loans[3]	162.3	159.4	-2%
SME loans	85.7	88.6	+3%
Leasing	38.7	40.7	+5%
Factoring	5.6	6.2	+12%
Other[4]	n/a	41.0	n/a
Credit risk: loan portfolio (excl. ČMSS/building savings loans)	**n/a**	**656.9**	**n/a**

30.6.2018
(incl. ČMSS/building savings loans)

Almost 60% of the total loan portfolio is in retail, out of which majority in financing housing needs.



[1] *The ČSOB group mortgages are booked in the balance sheet of ČSOB's subsidiary Hypoteční banka.*
[2] *The ČSOB group building savings loans are in the balance sheet of ČMSS building savings company, 55%-owned by ČSOB. Volumes are reported in 55% but not included in the ČSOB's consolidated balance sheet.*
[3] *Including credit-replacing bonds.*
[4] *Including off-balance sheet items and ALM/financial markets exposures.*

The **outstanding volume of mortgages** increased **+8% Y/Y**. The demand was influenced by rising interest rates and real estate prices. In 1H 2018, ČSOB provided over **12 thousand new mortgages** (-27% Y/Y) in the total amount of **CZK 26bn** (-26% Y/Y). The market decreased -15% Y/Y in the number and -11% Y/Y in the total amount of new mortgages.

Consumer finance grew **+16% Y/Y** breaking through CZK 30bn driven by cash loans (+19% Y/Y) thanks to improved attractiveness of ČSOB's product offer (pricing, conditions, processing) for both existing and new clients. The growth was also supported by online initiated loans, which are gradually increasing and exceeded 10% share in the number of pieces.

The outstanding **building savings loan portfolio** declined **-2% Y/Y**, while the market increased +5% Y/Y. In 1H 2018, new sales increased **+12% Y/Y** thanks to improved attractiveness of ČMSS's product offer in financing housing needs.

Outstanding volumes of **corporate loans** decreased **-2% Y/Y** due to extraordinary repayments mainly in financial and oil, gas & other fuels sectors.

SME loans increased **+3% Y/Y** driven by expansion in core SME lending (micro, small and mid-sized companies, +9% Y/Y). The loan volume provided to housing cooperatives and municipalities decreased Y/Y, however ČSOB remains market leader in housing cooperatives segment.

Outstanding volumes in **ČSOB Leasing** increased **+5% Y/Y**. The primary drivers were machinery & equipment financing mainly in the corporate and SME segments and car loans.

Factoring outstanding volumes increased **+12% Y/Y** thanks to a gradually growing client base.

Group Deposits and Total Assets under Management

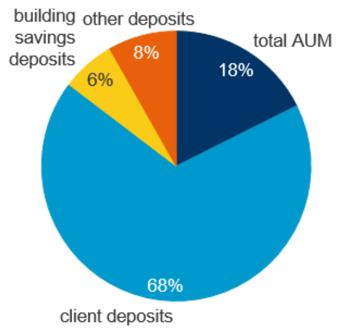
Strong growth of group deposits as well as AUM

Outstanding volumes, CZK bn	30.6.2017	30.6.2018	Y/Y
Group deposits (incl. ČMSS/building savings deposits)	**849.2**	**968.6**	**+14%**
Client deposits	733.7	796.2	+9%
Current accounts	*503.0*	*539.9*	*+7%*
Savings deposits	*216.8*	*215.6*	*-1%*
Term deposits	*13.9*	*40.7*	*>+100%*
Other deposits	38.3	96.6	>+100%
Building savings deposits[1]	77.2	75.8	-2%
Total AUM	**196.0**	**207.3**	**+6%**
Pension funds[2]	47.5	51.5	+8%
Mutual funds and other AM[3]	148.5	155.8	+5%

30.6.2018

(incl. ČMSS/building savings deposits)

The other deposits predominantly consist of repo operations with institutional clients.



[1] ČSOB group building savings deposits are in the balance sheet of ČMSS building savings company, 55%-owned by ČSOB. Volumes are reported in 55% but not included in the ČSOB's consolidated balance sheet.
[2] Liabilities to pension fund policy holders.
[3] Item "Mutual funds and other AM" includes AUM in structured/capital protected funds, AUM in other mutual funds, other asset management and AUM of Slovak AM.

The 9% Y/Y growth of **client deposits** was largely driven by **current accounts** (+7% Y/Y) and **term deposits** (>+100%). **Saving deposits** slightly decreased **-1% Y/Y**.

The **building savings deposits** decreased **-2% Y/Y**.

The volume of deposits in **pension funds** increased **+8% Y/Y** driven mainly by new sales and higher clients' monthly contribution.

Mutual funds and other AM increased **+5% Y/Y** to **CZK 155.8bn** thanks to growth in all categories but structured/capital protected funds.

Selected ČSOB Group's Market Shares in the Czech Republic

Gaining market share in consumer lending and insurance

1st	Building savings loans[1]	42.9%	↓
1st	Building savings deposits[1]	39.8%	↑
1st	Mortgages[1]	28.3%	↓
1st	Leasing[1]	18.2%	↓
2nd	**Total Loans[1]**	**19.5%**	↓
2nd	**Total Deposits[1]**	**20.4%**	↑
2nd	Mutual funds[1]	22.4%	↓
2nd	Factoring[2]	23.2%	↓
3rd	Pension funds[3]	14.3%	↑
3rd	SME/corporate loans[1]	14.8%	↓
3rd	Consumer lending[1,4]	11.8%	↑
4th	Insurance[5] - combined	7.6%	↑
4th	Non-life insurance[5]	7.5%	↑
4th	Life insurance[5]	7.9%	↑

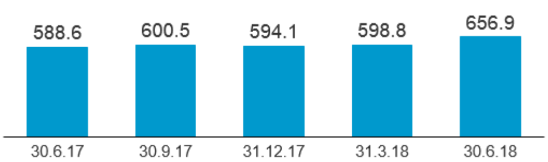
Arrows show Y/Y change. Market shares as of 30 June 2018, except for mutual and pension funds, factoring which are as of 31 March 2018. The ranking is ČSOB's estimate. Market position in the insurance reflects combined position of the insurers belonging to the same business group.

[1] Outstanding at the given date (including ČMSS);
[2] New business in the year to the given date;
[3] Number of total clients at the given date;
[4] Retail loans excluding mortgages and building savings loans.
[5] New business in the year according to gross written premium.

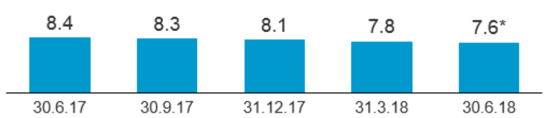
Credit Risk under Control

Record-low NPL ratio of 2.2% reflecting excellent loan quality

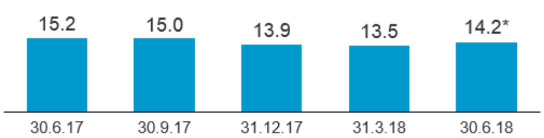
Credit risk: loan portfolio (excl. ČMSS) (CZK bn)



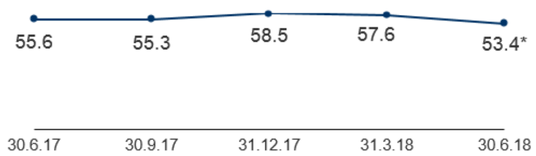
Allowances for loans and leases** (CZK bn)



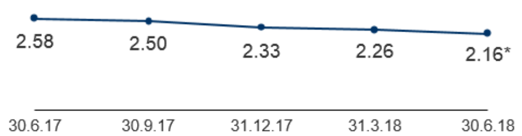
Non-performing loans (CZK bn)



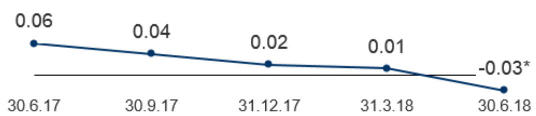
NPL coverage ratio (%)



NPL ratio (%)



Credit cost ratio (%)



** As of 30 June 2018, definition of Credit risk: loan portfolio has been changed, it includes on-balance sheet and off-balance sheet items. The scope additionally includes the following elements: bank exposure (money market placements, documentary credit, accounts), unauthorized overdrafts and reverse repo (excl. central bank exposure). The ratios taking into account the new definition as of 31.12.2017: Credit cost ratio 0.02%, NPL ratio 2.44%, NPL coverage ratio 55.2% and as of 30.6.2017: Credit cost ratio 0.05%, NPL ratio 2.63%, NPL coverage ratio 52.9%*

*** Stage 3 only.*

ČSOB's Credit Rating (as at 29 August 2018)

Rating agency	**Moody's**	**Standard & Poor's**
Long-term rating	A2	A+
Outlook	Positive	Stable
Short-term rating	P-1	A-1
Long-term rating valid since	20 June 2012	30 July 2018
Last confirmation	26 April 2018	30 July 2018

Selected Awards for the ČSOB Group Announced in 2018

Euromoney: the Best Bank	The magazine **Euromoney** awarded ČSOB as **the Best Bank** in Czech Republic for 2018. ČSOB received this award for the 9th time.
Global Finance: the Best Bank	The US-based magazine **Global Finance** awarded ČSOB as **the Best Bank** of 2018 in the Czech Republic. ČSOB received this award for the 16th time.
EMEA Finance: the Best Bank	ČSOB was named the **Best Bank** of 2018 in the Czech Republic by **EMEA Finance** magazine.
Euromoney: Private Banking Survey	The magazine **Euromoney** awarded ČSOB Private Banking for the year 2018 as the **Best Private Bank** in the Czech Republic for the fifth time in a row.
European Structured Products & Derivatives Awards	**ČSOB Asset Management** won the European competition Structured Products & Derivatives Awards 2018 in the category of **Best Distributor** and **Best Performance** in the Czech Republic.
Randstad Award: the Most Attractive Employer	ČSOB won the **Randstad Award** for the **Most Attractive Employer** in Banking and Financial Services in the Czech Republic.
Sodexo: Employer of the Year	ČSOB was selected **the second best employer above 5,000 employees** in Czech Republic (overall ranking regardless of industry).

Note:
Full list of received awards is available on ČSOB's website: www.csob.cz/en

2. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Interim Consolidated Financial Statements of ČSOB as at 30 June 2018 prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union (Unaudited) please refer to **Annex No. 1** of this Report.

3. COMPANY PROFILE

From ČSOB's History

1964 ČSOB established by the state as a bank to provide foreign trade financing and convertible currency operations in the then Czechoslovak market.
1993 Continuation of ČSOB's activities in both the Czech and Slovak market after the split of Czechoslovakia.
1999 ČSOB privatized – Belgium-based KBC Bank becoming the majority shareholder of ČSOB.
2000 Acquisition of Investiční a Poštovní banka (IPB).
2007 KBC Bank becoming ČSOB's sole shareholder after buying out all minority shareholders.
New environmentally friendly building of ČSOB's headquarters in Prague – Radlice (Building of the Year 2007).
2008 As at 1 January, ČSOB's Slovak branch separated into a separate entity, fully controlled by KBC Bank via 100% of voting rights.
2009 In December, ČSOB sold its remaining interest in the Slovak activities to KBC Bank.
2013 The establishment of the separate Business Unit Czech Republic within the KBC Group
2017 New 10-year (for period 2018-2027) exclusivity partnership agreement for both banking and insurance services signed with Česká pošta (Czech Post).

ČSOB and ČSOB Group Profile

Československá obchodní banka, a. s. (hereinafter referred to as "ČSOB" or the "Bank") is operating in the Czech Republic as a **universal bank**. ČSOB is a wholly-owned subsidiary of the Belgian KBC Bank (since 1999, since 2007 fully). KBC Bank is a part of the integrated bank-insurance group KBC Group. As of 1 January 2013, KBC Group has organized its core markets activities into three business units – Belgium, Czech Republic (includes all KBC's business in the Czech Republic) and International Markets.

ČSOB provides its **services to all groups of clients**, i.e. retail as well as SME, corporate and institutional clients. **In retail banking in the Czech Republic**, ČSOB is operating under main recognized brands – ČSOB, ČSOB Premium, and Poštovní spořitelna (Postal Savings Bank – PSB; mainly outlets of the Czech Post network). ČSOB offers to its clients a **wide range of banking products and services**, including the products and services of the entire ČSOB group.

The ČSOB group consists of the Bank and entities related with the Bank. ČSOB's financial group includes strategic companies in the Czech Republic controlled directly or indirectly by ČSOB, or KBC, which offer financial services, namely Hypoteční banka, ČSOB Pojišťovna, ČMSS, ČSOB Penzijní společnost, ČSOB Leasing, ČSOB Asset Management, ČSOB Factoring, Patria, and Ušetřeno.cz.

The ČSOB group's (Business Unit Czech Republic) **product portfolio includes next to standard banking services:** financing housing needs (mortgages and building savings loans), insurance products, pension funds, collective investment products and asset management, specialized services (leasing and factoring) and services related to trading equities on financial markets.

Distribution Platform of the ČSOB group	**31. 12. 2017**	**30. 6. 2018**
Clients of ČSOB group (in millions)	**3.686**	**3.673**
ČSOB branches (bank only)	**270**	**266**
ČSOB retail / SME branches (incl. dual branded ČSOB + PSB/Era)	217	215
PSB / Era Financial centers	31	29
ČSOB Private Banking branches	11	11
ČSOB corporate branches	11	11
ČSOB Pojišťovna branches	**97**	**98**
Hypoteční banka centers	**30**	**30**
ČMSS advisory centers	**302**	**302**
Leasing branches	**7**	**7**
PSB outlets of the Czech Post network	**ca. 2,800**	**ca. 2,700**
- of which specialized banking counters	152	172
Czech post franchise outlets	**ca. 400**	**ca. 500**
ATMs (the Bank)[1]	**1,070**	**1,072**
- of which contactless	302	352

[1] *Including ATMs of cooperating banks.*

Employees (FTEs)	**31. 12. 2017**	**30. 6. 2018**
Employees of the ČSOB group (FTEs)	**8,299**	**8,370**
of which the Bank	7,150	7,234

Annual reports and other information about ČSOB and the ČSOB group are available at www.csob.cz.

KBC Group Profile

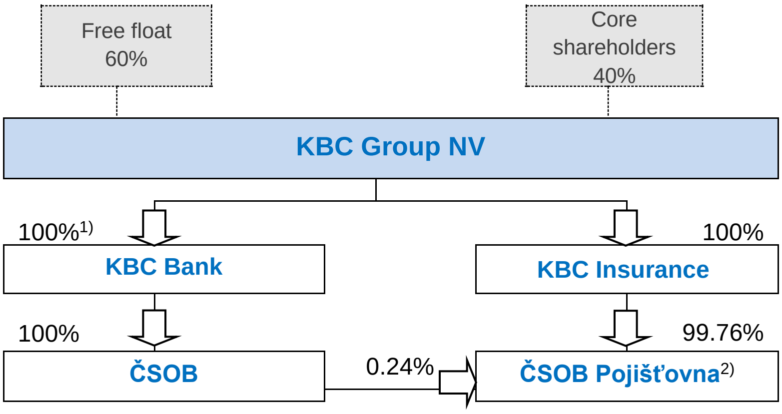
ČSOB is a wholly-owned subsidiary of KBC Bank NV, whose shares are held (directly or indirectly) by KBC Group NV. KBC Bank and KBC Group are both based in Brussels, Belgium.

KBC is an integrated bank-insurance group, catering mainly for retail, private banking, SME and mid-cap clients. Geographically, KBC focuses on its home markets of Belgium, the Czech Republic, Slovakia, Hungary, Bulgaria and Ireland. Elsewhere in the world, KBC is present in several other countries to support corporate clients from its core markets. As of mid 2018, the KBC Group served approximately 11 million clients in its home markets, and employed approximately 42 000 employees, over half of which in Central and Eastern Europe.

The majority of KBC Group's shares is traded publicly on the Euronext Exchange in Brussels. Around 40% of KBC Group's shares is held by KBC Group's core shareholders (KBC Ancora, Cera, MRBB and the Other core shareholders).

The Simplified Scheme of the KBC Group

(as at 30 June 2018)



Percentages in the chart denote the ownership interest.

1) One share is held by KBC Insurance.
2) Voting rights in ČSOB Pojišťovna: 40% ČSOB, 60% KBC Insurance.

For an overview of companies of the KBC group please refer to KBC's corporate website www.kbc.com (section About us – Our structure).

KBC Group in Figures		**31. 12. 2017**	**30. 6. 2018**
Total assets	EURbn	292.3	301.9
Loans and advances to customers	EURbn	141.0	145.3
Deposits from customers and debt securities	EURbn	193.7	193.0
Net profit, group share	EURm	2 575 (12 months)	1 248 (6 months)
Common equity ratio, group level (Basel III, fully loaded)	%	16.3	15.8
Cost / income ratio, banking	%	54.0	62.0

Long-term rating (as at 9 August 2018)	**Fitch**	**Moody´s**	**S & P**
KBC Bank	A	A1	A+
KBC Insurance	-	-	A
KBC Group	A	Baa1	A-

Annual reports and other information about KBC are available at KBC's corporate website www.kbc.com.

ČSOB as a Controlled and Controlling Entity

Within the KBC group and the ČSOB group, ČSOB acts as both a controlled entity and a controlling entity.

ČSOB is a **controlled entity** of the sole shareholder KBC Bank NV (ID No. 90029371), or more precisely, of its shareholder KBC Group NV (ID No. 90031317). Both KBC Bank and KBC Group have their registered addresses at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium.

The control is exercised by decisions of the sole shareholder when exercising the general meeting´s competence according to the Corporations Act. Within the limits stipulated by law, the controlling entity also exercises influence through its representatives in the Supervisory Board or the Board of Directors. The control covers cooperation and coordination in the area of risk management, audit functions and prudential rules. The Board of Directors is responsible for the management of business.

ČSOB follows the legislation applicable on the territory of the Czech Republic which protects against abuse of position of the controlling entity. In particular, ČSOB activities are governed by the Corporations Act, regulatory rules for banks and tax law including transfer pricing principles. ČSOB is also subject of supervision of the CNB. The regulatory and supervisory system is supplemented by the internal control system which is secured by the Board of Directors, the Supervisory Board, the Audit Committee and specialized departments of internal audit, compliance and risk management. The Board of Directors is responsible for internal control system efficiency.

ČSOB did not hold any shares of KBC Bank or KBC Group between 1 January and 30 June 2018.

ČSOB is also a **controlling entity**. For information on companies controlled by ČSOB as at 30 June 2018 please refer to **Annex No. 2** of this Report.

ČSOB is not dependent on any entity in the concern into which ČSOB belongs.

4. MANAGING AND SUPERVISORY BODIES

ČSOB has the following bodies: General Meeting, Board of Directors, Supervisory Board, and Audit Committee. The powers and activities of ČSOB's bodies are determined in the Articles of Association of ČSOB as approved by the General Meeting. The sole shareholder (KBC Bank NV) exercises the powers of ČSOB's General Meeting.

The Board of Directors

First Name and Surname	Position	Membership since	Current Term in Office since[1]	**ČSOB's Top Management[4]** Position and Area of Responsibility
John Arthur Hollows	Chairman[2]	1. 5. 2014	2. 5. 2018[3]	Chief Executive Officer
Marek Ditz	Member	1. 1. 2013	2. 1. 2017[3]	Senior Executive Officer, Transformation
Petr Knapp	Member	20. 5.1996	22. 5. 2018[3]	Senior Executive Officer, Relationship Services
Petr Hutla	Member	27. 2. 2008	1. 3. 2017[3]	Senior Executive Officer, Credits Management
Jiří Vévoda	Member	8. 12. 2010	9. 12. 2015[3]	Senior Executive Officer, Finance Management
Heléne Goessaert	Member	1. 3. 2018	1. 3. 2018	Senior Executive Officer, Group Risk Management
Marcela Suchánková	Member	1. 3. 2017	1. 3. 2017	Senior Executive Officer, People and Communication
Jan Sadil	Member	1. 3. 2017	1. 3. 2017	Senior Executive Officer, Retail

[1] *The term in office of the members lasts four years.*
[2] *Chairman since 2 May 2014.*
[3] *Elected to a new term in office.*
[4] *In the first half of 2017, members of ČSOB's Top Management were identical with the members of the Board of Directors of ČSOB.*

For a description of areas of responsibility managed by ČSOB's Board of Directors (Top Management) **as at 30 June 2018** please refer to **ČSOB's Organisation Chart** to Annex No. 3 of this Report.

The Supervisory Board

First Name and Surname	Position	Membership since	Current Term in Office since[1]	Termination of Membership
Pavel Kavánek	Chairman[2]	1. 5. 2014	2. 5. 2018[3]	–
Franky Depickere	Member	1. 6. 2014	1. 6. 2014	–
Christine Van Rijsseghem	Member	1. 6. 2014	2. 6. 2018[3]	–
Willem Hueting	Member	1. 7. 2016	1. 7. 2016	–
Marc Wittemans	Member	1. 10. 2016	1. 10. 2016	–
Petr Šobotník	Member	1. 2. 2017	1. 2. 2017	–

[1] *The term in office of the members lasts four years.*
[2] *Chairman since 30 June 2014.*
[3] *Elected to a new term in office.*

The Audit Committee

First Name and Surname	Position	Membership since	Termination of Membership
Petr Šobotník	Chairman[1]; Independent member	1. 2. 2011	–
Ladislav Mejzlík	Independent member	27. 1. 2016	–
Willem Hueting[2]	Member	1. 7. 2016	–

[1] *Chairman since 7 April 2016.*
[2] *Acting as the Senior General Manager, Group Communities Banking (Business Unit International Markets) & Consumer Finance in the KBC Group.*

Changes in ČSOB´s Managing and Supervisory Bodies in the first half of 2017

KBC Bank as the sole shareholder of ČSOB in exercising the powers of the General Meeting decided as follows:

On 27 February 2018

- Heléne Goessaert was elected a member of ČSOB´s Board of Directors with effect from 1 March 2018 (Area of responsibility Group Risk Management).

For a description of **introducing new members of Managing and Supervisory Bodies** please refer to ČSOB´s Annual Report 2017 available at www.csob.cz, page 50.

5. INFORMATION ABOUT ČSOB SECURITIES

ČSOB's Shares

ISIN	**CZ0008000288**
Class	Ordinary shares
Type	Bearer shares
Edition	Book-entered
Number of shares	**292,750,002**
Nominal value	CZK 20
Total issue volume	CZK 5,855,000,040
Amount of share capital	**CZK 5,855,000,040**
Paid up in full	100%

KBC Bank NV, with its registered address at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium, **is the sole shareholder of ČSOB**.

ČSOB shares are not publicly tradable on any official regulated market in either an EU member state, or an EEC member state. ČSOB has not issued any convertible bonds or priority bonds as defined by Section 286 of the Act on Commercial Companies and Cooperatives (No. 90/2012 Coll.). In 1H 2018, ČSOB neither held any own shares, nor issued stock certificates.

Bonds and Investment Certificates (outstanding)

In the Czech Republic, ČSOB is an issuer of bonds issued under the ČSOB's bond issuance program.
ČSOB is issuing bonds under bond issuance program (program is lasting for 30 years) with a maximum amount of CZK 100 bn of outstanding bonds and 15-year tenor.

By 30 June 2018, ČSOB recorded the following **bond issues** in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Bonds Issued (Nominal Value)	
Dluhopisy ČSOB likvidní var 2023 6M	CZ0003704652	8. 6. 2018	CZKm	3 000.00
Dluhopisy ČSOB likvidní var 2023 12M	CZ0003704645	7. 6. 2018	CZKm	3 000.00

None of CSOB bonds is listed (publicly tradable on any official regulated market in either an EU member state, or an EEC member state).

Since 2012, ČSOB is an issuer of investment certificates issued under the certificate issuance program (public or non public) **in the Czech Republic.**

By 30 June 2018, ČSOB recorded the following **investment certificate issues** in the Czech Republic:

Issue Name	ISIN	Issue Date	Objem vydaných dluhopisů (jmenovitá hodnota)	
ČSOB Investiční certifikát XXIX. (Eurostoxx50)	CZ0000300587	15. 4. 2015	USDm	5.89
ČSOB Investiční certifikát XXX. (Utility)	CZ0000300579	15. 4. 2015	CZKm	169.35
ČSOB Investiční certifikát XXXI. (Diskont SX5E)	CZ0000300595	22. 4. 2015	CZKm	40.23
ČSOB Investiční certifikát XXXII. (Aero)	CZ0000300603	22. 4. 2015	CZKm	68.77
ČSOB Investiční certifikát XXXIV. (Defensive SX5E)	CZ0000300611	6. 5. 2015	CZKm	208.92
ČSOB Investiční certifikát XXXV. (2nd worst-Index)	CZ0000300645	20. 5. 2015	CZKm	90.05
ČSOB Investiční certifikát XXXVI. (Defensive SX5E)	CZ0000300660	3. 6. 2015	CZKm	136.37
ČSOB Investiční certifikát Unit link I.	CZ0000300652	12. 6. 2015	CZKm	157.00
ČSOB Investiční certifikát Unit link II.	CZ0000300686	10. 7. 2015	CZKm	417.00
ČSOB IC XXXVIII. (4th worst - Healthcare)	CZ0000300694	15. 7. 2015	CZKm	134.12
ČSOB IC XXXIX. (Defensive SX5E)	CZ0000300702	22. 7. 2015	CZKm	142.41
ČSOB Investiční certifikát Unit link III.	CZ0000300710	10. 8. 2015	CZKm	230.82
ČSOB Investiční certifikát Unit link IV.	CZ0000300728	10. 9. 2015	CZKm	261.82
ČSOB Investiční certifikát XL. (Eurostoxx50)	CZ0000300736	14. 10. 2015	CZKm	181.56
ČSOB Investiční certifikát XLI. (German leaders)	CZ0000300751	21. 10. 2015	CZKm	152.26
ČSOB Investiční certifikát Unit link V.	CZ0000300769	10. 11. 2015	CZKm	493.00
ČSOB Investiční certifikát XLII. (Banks Defensive)	CZ0000300785	2. 12. 2015	CZKm	176.24
CSOB IC INDEXOVÝ I.	CZ0000300777	19. 11. 2015	CZKm	391.75
ČSOB Investiční certifikát Unit link VI.	CZ0000300793	21. 12. 2015	CZKm	572.70
ČSOB Investiční certifikát XLIII. (Eurostoxx50)	CZ0000300819	9. 12. 2015	EURm	3.59
ČSOB Investiční certifikát XLIV. (Eurostoxx50)	CZ0000300827	16. 12. 2015	USDm	3.06
Defensive SX5E 4,8 2023	CZ0000300835	30. 12. 2015	CZKm	217.77
Defensive SX5E 4,8 2023 II	CZ0000300868	3. 2. 2016	CZKm	259.82
Autocall SX5E 5,9 2021	CZ0000300850	5. 2. 2016	CZKm	399.90
Participation SX5E 2021	CZ0000300843	9. 2. 2016	CZKm	62.60
ČSOB Investiční certifikát Unit link VII.	CZ0000300884	22. 2. 2016	CZKm	763.20
Participation SX7P 2021	CZ0000300892	16. 3. 2016	CZKm	39.89
ČSOB Investiční certifikát Unit link VIII.	CZ0000300900	11. 4. 2016	CZKm	194.83
ČSOB Investiční certifikát CLN 2020	CZ0000300967	11. 4. 2016	CZKm	500.00
Defensive SX5E 5 2023	CZ0000300926	13. 4. 2016	CZKm	290.16
Worst of Banks 6 2021	CZ0000300934	20. 4. 2016	CZKm	112.20
ČSOB Investiční certifikát Unit link IX.	CZ0000300959	24. 5. 2016	CZKm	191.50
Dividend basket 7 2023	CZ0000300975	18. 5. 2016	CZKm	161.35
Worst of US Dividend Basket 8 2021	CZ0000301007	22. 6. 2016	CZKm	111.60
ČSOB Investiční certifikát Unit link X.	CZ0000300983	15. 7. 2016	CZKm	124.30
Defensive SX5E 5,2 2023	CZ0000301015	22. 6. 2016	CZKm	104.77
ČSOB Investiční certifikát Unit link XI.	CZ0000301031	12. 9. 2016	CZKm	116.25
Evropská inflace a Euro Stoxx 50 2021	CZ0000301049	21. 9. 2016	CZKm	82.15
2nd Worst of IT Basket 6,5 2021	CZ0000301056	21. 9. 2016	CZKm	115.45
ČSOB Investiční certifikát Unit link XII.	CZ0000301064	24. 10. 2016	CZKm	324.95

Solactive Participation 2021	CZ0000301072	3. 11. 2016	CZKm	220.34
Defensive SX5E 4,6 2024	CZ0000301122	30. 11. 2016	CZKm	179.70
ČSOB Investiční certifikát Unit link XIII.	CZ0000301130	29. 12. 2016	CZKm	582.26
ČSOB Investiční certifikát Unit link XIV.	CZ0000301148	12. 12. 2016	CZKm	502.41
Healthcare Allergan	CZ0000301155	29. 12. 2016	CZKm	18.50
ČSOB Investiční certifikát Unit link XV.	CZ0000301189	30. 12. 2016	CZKm	129.80
ČSOB IC Unit link XVI.	CZ0000301197	10. 2. 2017	CZKm	191.23
ČSOB IC Unit link XVII.	CZ0000301239	10. 3. 2017	CZKm	125.18
Defensive Eurostoxx 4,6 2024 III.	CZ0000301254	15. 3. 2017	CZKm	308.85
ČSOB TOP 70 EVROPSKÝCH SPOLEČNOSTÍ 1	CZ0000301247	5. 4. 2017	CZKm	316.61
ČSOB Investiční certifikát Unit link XVIII.	CZ0000301304	12. 4. 2017	CZKm	103.47
NXS Momentum Fund Stars ER Participation 2022	CZ0000301296	5. 4. 2017	CZKm	917.64
ČSOB Investiční certifikát Unit link XIX.	CZ0000301338	10. 5. 2017	CZKm	137.20
ČSOB Investiční certifikát Unit link XX.	CZ0000301361	14. 6. 2017	CZKm	124.03
ČSOB Investiční certifikát Unit link XXII.	CZ0000301387	14. 7. 2017	CZKm	249.80
ČSOB Investiční certifikát Unit link XXI.	CZ0000301379	14. 7. 2017	CZKm	97.00
BNP Income Fund Stars ER 2022	CZ0000301395	19. 7. 2017	CZKm	695.00
Europe Dividend basket 7 2022	CZ0000301437	6. 9. 2017	CZKm	405.00
Defensive iStoxx Transatlantic 100 EWD 4 2024	CZ0000301486	1. 11. 2017	CZKm	200.00
ČSOB Investiční certifikát Unit link XXIII.	CZ0000301429	26. 7. 2017	CZKm	86.57
ČSOB Investiční certifikát Unit link XXIV.	CZ0000301445	6. 9. 2017	CZKm	193.20
ČSOB Investiční certifikát Unit link XXV.	CZ0000301460	6. 9. 2017	CZKm	16.74
ČSOB Investiční certifikát Unit link XXVI.	CZ0000301478	6. 9. 2017	CZKm	233.94
ČSOB Investiční certifikát Unit link XXVII.	CZ0000301536	29. 12. 2017	CZKm	550.92
ČSOB Investiční certifikát Unit link XXVIII.	CZ0000301494	10. 11. 2017	CZKm	41.83
NXS Momentum Fund Stars ER Participation 2022 II.	CZ0000301502	22. 11. 2017	CZKm	170.00
ČSOB Investiční certifikát Unit link XXIX.	CZ0000301510	14. 11. 2017	CZKm	184.63
Defensive Eurostoxx 4,6 2024	CZ0000301551	29. 12. 2017	CZKm	438.74
Europe 5 2024	CZ0000301544	29. 12. 2017	CZKm	342.71
ČSOB Investiční certifikát Unit link XXX.	CZ0000301528	29. 12. 2017	CZKm	226.57
ČSOB Investiční certifikát Unit link XXXI.	CZ0000301577	12. 2. 2018	CZKm	103.76
Best of Participation 2023	CZ0000301627	7. 3. 2018	CZKm	141.60
ČSOB Investiční certifikát Unit link XXXII.	CZ0000301635	12. 3. 2018	CZKm	96.70
Banky 5 2023	CZ0000301643	21. 3. 2018	CZKm	416.92
Defensive SX5E USD 5,4 2025	CZ0000301650	7. 3. 2018	USDm	3.11
Autocall SX5E EUR 4,6 2023	CZ0000301668	7. 3. 2018	EURm	2.00
Global Multi Asset Strategy 2023	CZ0000301676	4. 5. 2018	CZKm	336.00
Autocall Euronext France Germany Leaders 5,4 2025	CZ0000301684	10. 5. 2018	CZKm	373.00
Autocall Defensive SX5E 4,6 2025	CZ0000301692	2. 5. 2018	CZKm	181.00
Autocall Klasik iSTOXX 70 EWD5 6,2 2023	CZ0000301700	16. 5. 2018	CZKm	327.00
Evropský výběr 1	CZ0000301718	23. 4. 2018	CZKm	201.90

In July and August 2018, ČSOB issued the following **investment certificates issue** in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
World Top 200 5,0 2025	CZ0000301734	4. 7. 2018	CZKm	360.00
Top 50 Evropských společností 1	CZ0000301726	4. 7. 2018	CZKm	167.50
BNP Multi-Asset Diversified	CZ0000301759	1. 8. 2018	CZKm	200.50
Defensive SX5E 3 rok 4,6 2025	CZ0000301783	3. 8. 2018	CZKm	103.70

All ČSOB's investment certificates are unlisted (not publicly tradable on any official regulated market in either an EU member state, or an EEC member state).

The bond issuance program's prospectus and the prospectus of investment certificates, amendments thereto and pricing supplements are available at ČSOB's website www.csob.cz.

The purpose of the issuance of bonds and of investments certificates by ČSOB is mainly to enlarge the offer of investment products for the Bank´s clients.

6. ADDITIONAL INFORMATION

Decision of Sole Shareholder in Exercising the Powers of the General Meeting

in accordance with Section 12 of the Act No. 90/2012 Coll., the Corporations act

On 25 April 2018, KBC Bank NV as ČSOB's sole shareholder:

Approved Separate Financial Statements of ČSOB as at 31 December 2017 and Consolidated Financial Statements of ČSOB and its subsidiaries as at 31 December 2017 prepared in accordance EU IFRS.

Approved distribution of the non-consolidated net profit for the year 2016 in the total amount of CZK 15,356,330 ths as follows:

- The whole ČSOB's non-consolidated net profit for the year 2016 in the amount of CZK 15,356,330 ths was distributed to the shareholders.
- The dividend per share was CZK 52.46. The dividends were paid within three months since the day of the decision.

Information on Court Disputes

The most significant ČSOB's court disputes as at 30 June 2018 including the dispute amount (with accessories):

Litigation against ČSOB (the Defendant)

Counterparty of the Dispute: **ICEC-HOLDING, a.s.**, Boleslavova 710/19, Ostrava Liability: CZK 22,756 m

According to ČSOB, this legal dispute does not constitute any risk, given its absolute unreasonableness. If, however it is improbable situation, CSOB would be obliged to provide any payment on the basis of the legally binding decision in this dispute, CSOB would consider to claim the reimbursement of such payment from CNB, under the Agreement and Indemnity concluded in connection with the sell of the IPB Enterprise.

Corporate Social Responsibility Related Events in 1H 2018

Further roll-out of CSR activities continues

CSOB pillars of responsible business

Within the Environmental Responsibility pillar, ČSOB Group has radically restrained itself and, as one of the first Czech banks, will gradually phase out the financing of the coal sector and will reduce the existing coal-fired electricity exposition by 2023. Starting June 2018, we are no longer financing any new coal-fired power plants and we will also not finance any investments in existing coal-fired power plants. The joint goal of the KBC Group is to ensure by 2030 the growth of its renewable energy portfolio to more than 50% of its total portfolio in the energy sector.

Within the pillar for Longevity, we are preparing in cooperation with University of West Bohemia a new service for blind or otherwise handicapped clients, so called voice-banking. This service will allow the control over mobile banking with voice only.

Philanthropy

ČSOB in cooperation with P3 - People, Planet, Profit, o.p.s. concluded in May the fifth year of the grant procedure Stabilization of Social Enterprises with aim to support a social entrepreneurship in the Czech Republic. The six winning social enterprises split a total of CZK 1,320,000. In addition to direct financial support, each of the companies has received expert advice tailored exactly to their needs.

ČSOB with the Good Will Committee - The Olga Havel Foundation has been providing study scholarships to students with social and health disadvantages for 23 years. A further 14 students received this support. Altogether, 90 young people receive a scholarship from the Education Fund this year. ČSOB again donated the Fund the amount of CZK 1.5 million in 2018.

Employee engagement in CSR

In the May campaign, 304 ČSOB employees took part in the bike contest in 84 teams and together they ran 49,809 km. ČSOB valued these kilometers and provided 2 crowns per each kilometer to the Rozum and Cit Foundation for the purchase of bicycles for children from foster families. The total financial support was CZK 99,618.

Events after 30 June 2018

Chapter	Part
Information about ČSOB Securities	Investment certificates issues

Expected Economic and Financial Situation of the ČSOB Group in 2H 2018

The growth of the Czech economy has gradually slowed down this year, as expected, due to full production capacities and the ever-increasing shortage of employees leading to further acceleration of wage dynamics. On the demand side, the main driving force was investment and household consumption stimulated by the growth of real incomes and high consumer confidence. Despite the tightening of credit conditions, the increase in mortgage lending remains relatively high and is deepening the already existing mismatch between supply and demand on the real estate market, leading to a further rise in apartment and family house prices. Tensions on the labour market, coupled with higher inflation, have allowed the central bank to raise its main interest rate three times this year to just 1.25%. In view of the weaker the Koruna, it can be assumed that the CNB will continue to raise interest rates in the coming months as well.

The macroeconomic forecast of the ČSOB group assumes that the growth of the Czech economy will reach approximately 3.2% in 2018.

The ČSOB group net profit for 1H 2018 decreased year-on-year as a result of lower other operating income due to higher base in the previous year (one-off gain from legal case, positive valuation adjustments, sale of bonds and revenues related to the end of ČNB's currency commitment in 1H 2017), higher operating expenses and total impairments, while net interest income and net fee and commission income increased Y/Y. The net release of loan loss provisions reflects ongoing excellent loan quality and the non-performing loans ratio further improved to 2.2%.

The ČSOB group results are driven its people, products, services and innovative solutions catering for clients' needs. ČSOB is the reference on the Czech market in different aspects.

The ČSOB group will further endeavor to maintain solid profitability via business volumes growth and efficient cost control while sticking to its focus on asset quality. To cope with the challenges ahead, ČSOB will focus on bringing its clients simple and smart solution. ČSOB will further invest in the innovation of products and services needed for the sustainability and competitiveness of its business. When it comes to transformation, ČSOB focus is on digitisation and innovations that respond to the rapidly and incessantly changing market landscape as well as the expectations and growing demands of clients. To achieve this, ČSOB group will continue working in the background on more effective operations and manage costs carefully.

7. ANNEXES

No. 1 Interim Consolidated Financial Statements of ČSOB as at 30 June 2018

No. 2 Companies of the ČSOB Group

No. 3 ČSOB's Organisation Chart

8. SWORN STATEMENT

Persons Responsible for the 1H 2018 ČSOB Activity Report

hereby declare that, to their best knowledge, the **1H 2018 ČSOB Activity Report** gives a true and fair account of ČSOB and its consolidation unit's financial situation, business activities and business results achieved in the first half of 2018 as well as ČSOB and its consolidation unit's outlook for the future trends in the financial situation, business activities and business results.

In Prague, 22 August 2018

Československá obchodní banka, a. s.

John Arthur Hollows

Chairman of the Board of Directors

Jiří Vévoda

Member of the Board of Directors

Annex No. 1 to 1H 2018 ČSOB Activity Report

Interim Consolidated Financial Statements of ČSOB as at 30 June 2018

Československá obchodní banka, a. s.

Interim Consolidated Financial Statements

Half-year ended 30 June 2018

Prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union (Unaudited)

CONSOLIDATED STATEMENT OF INCOME
FOR THE 6 MONTHS ENDED 30 JUNE 2018

Prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union

(CZKm)	Note	1H 2018 IFRS 9	1H 2017 IAS 39
Interest income	5	14,930	12,733
Interest expense	6	(2,804)	(1,381)
Net interest income		**12,126**	**11,352**
Fee and commission income		5,523	4,950
Fee and commission expense		(1,496)	(1,776)
Net fee and commission income	7	**4,027**	**3,174**
Dividend income		6	8
Net gains from financial instruments at fair value through profit or loss and foreign exchange	8	1,222	3,081
Net realised gains on available-for-sale financial assets		-	455
Net realised gains on financial instruments at fair value through other comprehensive income		-	-
Income from operating lease	9	1,154	914
Expense from operating lease	9	(1,094)	(741)
Other net income	10	493	964
Operating income		**17,934**	**19,207**
Staff expenses	11	(4,151)	(3,869)
General administrative expenses	12	(3,919)	(3,548)
Depreciation and amortisation	22, 23	(699)	(659)
Operating expenses		**(8,769)**	**(8,076)**
Impairment losses	13	(405)	(238)
Share of profit of associates and joint ventures	20	352	310
Profit before tax		**9,112**	**11,203**
Income tax expense	14	(1,592)	(1,854)
Profit for the period		**7,520**	**9,349**
Attributable to:			
Owners of the parent		7,520	9,350
Non-controlling interests		-	(1)

As of 2018, the financial information is prepared in accordance with IFRS 9.

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE 6 MONTHS ENDED 30 JUNE 2018

Prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union

(CZKm)	Note	1H 2018 IFRS 9	1H 2017 IAS 39
Profit for the period		**7,520**	**9,349**
Other comprehensive income – to be reclassified to the statement of income			
Net loss on cash flow hedges		(576)	(733)
Net loss on available-for-sale financial assets		-	(549)
Net loss on financial debt instruments at fair value through other comprehensive income		(415)	-
Income tax benefit relating to components of other comprehensive income		185	224
Other comprehensive income for the period, net of tax, to be reclassified to statement of income in subsequent periods	31	**(806)**	**(1,058)**
Other comprehensive income – not to be reclassified to the statement of income			
Net gain on financial equity instruments at fair value through other comprehensive income		85	-
Income tax expense relating to components of other comprehensive income		(16)	-
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	31	**69**	**-**
Total comprehensive income for the period, net of tax		**6,783**	**8,291**
Attributable to:			
Owners of the parent		6,783	8,292
Non-controlling interests		-	(1)

As of 2018, the financial information is prepared in accordance with IFRS 9.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

Prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union

(CZKm)	Note	30-06-2018 IFRS 9	01-01-2018 IFRS 9	31-12-2017 IAS 39
ASSETS				
Cash, balances with central banks and other demand deposits	16	25,673	54,499	54,499
Financial assets held for trading	17	31,964	16,245	16,245
Financial assets held for trading pledged as collateral	17	1,598	2,097	2,097
Available-for-sale financial assets	18	-	-	29,482
Available-for-sale financial assets pledged as collateral	18	-	-	5,847
Financial assets at fair value through other comprehensive income	18	16,391	17,167	-
Financial assets at fair value through other comprehensive income pledged as collateral	18	1,731	1,681	-
Held-to-maturity investments	19	-	-	86,604
Held-to-maturity investments pledged as collateral	19	-	-	29,017
Loans and receivables	19	-	-	1,062,201
Financial assets at amortised cost	19	1,279,430	1,159,996	-
Financial assets at amortised cost pledged as collateral	19	57,840	33,182	-
Fair value adjustments of the hedged items in portfolio hedge		(4,979)	(4,298)	(4,298)
Derivatives used for hedging	21	8,993	9,113	9,113
Current tax assets		305	149	114
Deferred tax assets	14	265	400	245
Investment in associates and joint ventures	20	4,251	4,531	4,706
Property and equipment	22	10,596	11,024	11,024
Goodwill and other intangible assets	23	6,186	5,816	5,816
Non-current assets held-for-sale	24	44	42	42
Other assets	25	3,091	2,755	2,836
Total assets		**1,443,379**	**1,314,399**	**1,315,590**
LIABILITIES AND EQUITY				
Financial liabilities held for trading	26	27,167	34,606	34,606
Financial liabilities designated at fair value through profit or loss	26	12,646	9,498	9,498
Financial liabilities at amortised cost	27	1,306,741	1,163,087	1,163,087
Fair value adjustments of the hedged items in portfolio hedge		(5,369)	(3,803)	(3,803)
Derivatives used for hedging	21	11,135	10,485	10,485
Current tax liabilities		33	386	386
Deferred tax liabilities	14	1,447	1,549	1,562
Other liabilities	28	4,796	5,152	5,152
Provisions	29	900	983	914
Total liabilities		**1,359,496**	**1,221,943**	**1,221,887**
Share capital	30	5,855	5,855	5,855
Share premium		20,929	20,929	20,929
Statutory reserve		18,687	18,687	18,687
Retained earnings		37,956	45,792	46,246
Available-for-sale reserve	30	-	-	1,490
Financial assets at fair value through other comprehensive income - revaluation reserve	30	427	697	-
Cash flow hedge reserve	30	29	496	496
Shareholders' equity		83,883	92,456	93,703
Non-controlling interests, presented within equity		-	-	-
Total equity		**83,883**	**92,456**	**93,703**
Total liabilities and equity		**1,443,379**	**1,314,399**	**1,315,590**

As of 2018, the financial information is prepared in accordance with IFRS 9. Refer to the section significant accounting policies and transition disclosures for more information on the impact (Notes: 2.4, 2.5).

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 6 MONTHS ENDED 30 JUNE 2018

Prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union

(CZKm)	Attributable to equity holders of the Bank: Share capital (Note: 30)	Share premium	Statutory reserve[1]	Retained earnings	Other reserves (Note: 30)	Non-controlling interest	Total Equity
At 1 January 2017	**5,855**	**20,929**	**18,687**	**38,877**	**4,201**	**186**	**88,735**
Profit for the period	-	-	-	9,350	-	(1)	9,349
Other comprehensive income for the period	-	-	-	-	(1,058)	-	(1,058)
Total comprehensive income for the period	-	-	-	9,350	(1,058)	(1)	8,291
Dividends paid (Note: 15)	-	-	-	(10,148)	-	-	(10,148)
At 30 June 2017	**5,855**	**20,929**	**18,687**	**38,079**	**3,143**	**185**	**86,878**
At 31 December 2017	**5,855**	**20,929**	**18,687**	**46,246**	**1,986**	**-**	**93,703**
Impact of transition to IFRS 9	-	-	-	(454)	(793)	-	(1,247)
At 1 January 2018	**5,855**	**20,929**	**18,687**	**45,792**	**1,193**	**-**	**92,456**
Profit for the period	-	-	-	7,520	-	-	7,520
Other comprehensive income for the period	-	-	-	-	(737)	-	(737)
Total comprehensive income for the period	-	-	-	7,520	(737)	-	6,783
Dividends paid (Note: 15)	-	-	-	(15,356)	-	-	(15,356)
At 30 June 2018	**5,855**	**20,929**	**18,687**	**37,956**	**456**	**-**	**83,883**

[1] The statutory reserve represents accumulated transfers from retained earnings in compliance with the Statutes of the Bank. This reserve is distributable based on the decision of the Board of Directors.

As of 2018, the financial information is prepared in accordance with IFRS 9. Refer to the section significant accounting policies and transition disclosures for more information on the impact (Notes: 2.4, 2.5).

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

These interim consolidated financial statements were approved for issue by the Board of Directors on 22 August 2018 and signed on its behalf by:

John Arthur Hollows
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 6 MONTHS ENDED 30 JUNE 2018

Prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union

(CZKm)	Note	1H 2018 IFRS 9	1H 2017 IAS 39
OPERATING ACTIVITIES			
Profit before tax		**9,113**	**11,203**
Adjustments for:			
Interest income	5	(14,930)	(12,733)
Interest expense	6	2,804	1,381
Dividend income (other than from associates and joint ventures)		(6)	(8)
Non-cash items included in profit before tax		151	(572)
Net gains from investing activities		(6)	(122)
Cash flow used in operations before changes in operating assets, liabilities, income tax paid, interest paid and received and dividend received		**(2,874)**	**(851)**
Change in operating assets		(43,475)	(44,871)
Change in operating liabilities		96,384	215,116
Income tax paid		(1,991)	(1,908)
Interest paid		(2,926)	(1,609)
Interest received		15,445	13,313
Dividend received (other than from associates and joint ventures)		6	8
Net cash flows from operating activities		**60,569**	**179,198**
INVESTING ACTIVITIES			
Net cash flows (used in) / from investing activities		**(1,540)**	**15,492**
FINANCING ACTIVITIES			
Net cash flows used in financing activities		**(17,107)**	**(11,773)**
Net increase in cash and cash equivalents		**41,922**	**182,917**
Cash and cash equivalents at the beginning of the year		185,482	90,313
Net increase in cash and cash equivalents		41,922	182,917
Cash and cash equivalents at the end of the period	33	**227,404**	**273,230**

As of 2018, the financial information is prepared in accordance with IFRS 9.

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

CONDENSED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2018

Prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union

Provided below is a selection of notes to the accounts. The numbers and titles of the notes that only appear in the annual report, but not in the half-yearly reports, are shown below solely to ensure that there is a link with the annual report.

1. CORPORATE INFORMATION

Československá obchodní banka, a. s. (the Bank or ČSOB) is a Czech joint-stock company with its registered office at Radlická 333/150, Prague 5, Czech Republic; the corporate ID is 00001350. ČSOB is a universal bank having its operations in the Czech Republic and offering its domestic and foreign customers a wide range of financial services and products in Czech Crowns and foreign currencies. The parent company of the Bank is KBC Bank NV (KBC Bank), which is controlled by the KBC Group NV (KBC Group).

The main activities of the Bank include accepting deposits from the public, providing loans, investing in securities on the Bank's own account, financial leasing, payments and clearance, the issuance and administration of payment instruments, the provision of guarantees, the issuance of letters of credit, the provision of collection services, the provision of all investment service according to a special law, the issuance of mortgage bonds, financial brokerage, the provision of depository services, exchange office services (purchase of foreign exchange), the provision of banking information, trading in foreign exchange values and gold on the Bank's own account or on a client's account, the rental of safe-deposit boxes. In addition, the Bank performs activities directly related to the activities described above and activities carried out for other parties if they relate to the running of the Bank and operation of other banks, financial institutions and enterprises providing ancillary banking services, controlled by the Bank.

Furthermore, the ČSOB group (Group) (Note: 3) provides its clients with financial services in the following areas: building savings and mortgages, asset management, collective investments, pension insurance, leasing, factoring and the distribution of life and non-life insurance products.

2. ACCOUNTING POLICIES

The interim consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017.

The accounting policies and methods of computation described in Note 2.4 are adjusted to include adoption of IFRS 9, and re-designed. For the accounting policies, applicable on the comparative figures, we refer to the Group's annual financial statements as at 31 December 2017. The transition disclosures are included in Note 2.5 and additional explanations are given in the notes, where relevant.

2.1 Basis of preparation

The interim consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. Assets held for sale are measured at fair value less cost to sell if this value is lower than their carrying amount (i.e. cost less accumulated depreciation and impairment losses).

The interim consolidated financial statements are presented in millions of Czech Crowns (CZKm), which is the presentation currency of the Group.

Statement of compliance

The Group interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union (EU IFRS).

Basis of consolidation

The interim consolidated financial statements include the Bank, all subsidiary companies that are controlled by the Bank (subsidiaries), all companies jointly controlled by the Bank (joint ventures) and all companies over which the Bank has significant influence (associates). The accounting policies of subsidiaries and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

All intra-group balances, transactions, income and expenses, and gains and losses resulting from intra-group transactions are eliminated.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group controls an investee if, and only if, the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income, consolidated statement of other comprehensive income and within equity in the consolidated statement of financial position, separately from the parent shareholder's equity.

Joint ventures and associates included in the Group consolidation are accounted for using the equity method.

2.2 Significant accounting judgements and estimates

While applying the Group accounting policies, the management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant judgements and estimates are as follows:

Fair value of financial instruments (Note: 32)

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the application of mathematical models. If possible, the input to these models is taken from observable markets; if not, a degree of judgement is required to establish fair values. The judgements include considerations of credit, liquidity and model inputs such as correlation and volatility for longer-dated financial instruments.

Impairment losses on financial instruments (Note: 40)

Calculating expected credit losses (ECL) requires significant judgments on different aspects for example, but not limited to, the borrowers' financial position and repayment capabilities, the value and recoverability of collaterals, forward looking and macroeconomic information. The Group applies neutral and free from bias approach when dealing with uncertainties and making decisions based on significant judgments. The expected credit losses are calculated in a way that reflects:

- an unbiased, probability weighted amount;
- the time value of money; and
- information about the past events, current conditions and forecast economic conditions.

Management judgement is required to assess the fair value of collateral, which has a significant effect on the impairment allowance.

Goodwill impairment (Note: 23)

Goodwill is tested annually for impairment. For this purpose, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Identifying a cash-generating unit as well as determining its recoverable amount requires judgement.

Assessment of the nature of interest in Group entities

The Group considers all relevant facts and circumstances in assessing whether it has a control, joint control (and its type) or significant influence over an investee. The assessment is based on the conclusions made by taking into account the contractual arrangements with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

2.3 Changes in accounting policies

Effective from 1 January 2018

The accounting policies adopted in the preparation of the Group interim consolidated financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 December 2017, except for the adoption of the following standards, amendments and interpretations. The adoption of IFRS 9 did have a significant effect on the financial performance and position of the Group, the adoption of other standards did not have any significant effect, unless otherwise described below.

IFRS 9 Financial Instruments (2014) is effective for periods beginning on or after 1 January 2018. The accounting policies have been updated and can be found in Note: 2.4 Summary of significant accounting policies.

IFRS 15 Revenue from Contracts with Customers is effective for periods beginning on or after 1 January 2018. The key concept of the new standard is identifying separate Performance Obligations. Entities will follow a five-step model for revenue recognition:

1. Identify the contract with the customer (a contract exists only when it is 'probable' that the entity will collect the consideration);
2. Identify separate Performance Obligations in the contract (a promise to transfer good or service);
3. Determine the transaction price (only an amount not subject to subsequent future reversals);
4. Allocate the transaction price to each Performance Obligation;
5. Recognise revenue when or as each Performance Obligation is satisfied.

As the standard is not applicable to insurance contracts, financial instruments or lease contracts, the impact on the Group is not significant. The main focus was on: i) identification of performance obligations and ii) variable consideration in asset management contracts. The new requirement did not have material impact on revenue recognition.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4) is effective for annual periods beginning on or after 1 January 2018. The amendment permits insurers that meet specified criteria to apply a temporary exemption from IFRS 9. Further it permits insurers to apply the overlay approach to designated financial assets and to reclassify in specified circumstances some or all of their financial assets so that the assets are measured at fair value through profit or loss.

Clarifications to IFRS 15 (Amendment to IFRS 15) is effective for periods on or after 1 January 2018. The amendment clarifies three separate topics within the IFRS 15: how to assess control in principal versus agent considerations; when an entity's activities significantly affect intellectual property in licensing agreements and expands a definition of what "distinct goods and services" mean.

Transfers of Investment Property (Amendment to IAS 40) is effective for periods on or after 1 January 2018. The amendment clarifies the guidance on transfers to or from investment properties, in terms of the definition of changes in use.

IFRIC 22 Foreign Currency Transactions and Advance Consideration is effective for periods on or after 1 January 2018. The interpretation gives a guidance on determining a date of transaction for the purpose of determining the exchange rate in transactions involving advance consideration in foreign currency.

Annual Improvements to IFRS Standards (2014 - 2016 Cycle), issued in December 2016 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard, two of which are applicable on or after 1 January 2018 and one on or after 1 January 2017.

Effective after 1 January 2018

The following standards, amendments and interpretations have been issued and are effective after 1 January 2018. The Group has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Group financial statements.

Prepayment Features with Negative Compensation (Amendments to IFRS 9) is effective for periods beginning on or after 1 January 2019. The amendment clarifies that financial assets with contractual cash flows that are solely payments of principal and interest and prepayment features that may result in reasonable negative compensation for the early termination of the contract are eligible to be measured at amortised cost or at fair value through other comprehensive income.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) does not yet have a set effective date. The amendments clarify the accounting for transactions where a parent loses control of a subsidiary that does not constitute a business as defined in IFRS 3. The gain or loss resulting from the sale or contribution to an associate or a joint venture of assets is recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in the associate or joint venture.

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases in their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group is currently assessing the impact that IFRS 16 will have on the financial statements.

IFRS 17 Insurance Contracts is effective for annual periods beginning on or after 1 January 2021 and has not yet been endorsed by the EU. The standard establishes principles for the recognition, measurement, presentation and disclosure of issued insurance and held reinsurance contracts, life and non-life. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) is effective for periods on or after 1 January 2019. The amendment clarifies that any long-term interests in an associate or joint venture that, in substance, form a part of the entity's net investment are in scope of IFRS 9.

Plan Amendment, Curtailment or Settlement (Amendment to IAS 19) is effective for periods on or after 1 January 2019. The amendment requires that updated assumptions to determine current service cost and net interest after a plan amendment, curtailment or settlement are used.

Conceptual Framework for Financial Reporting does not have a stated effective date and the Board starts using it with immediate effect. The revised Framework changes definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure.

Amendments to References to the Conceptual Framework in IFRS Standards are effective for periods on or after 1 January 2020.

IFRIC 23 Uncertainty over Income Tax Treatments is effective for periods on or after 1 January 2019. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatment.

Annual Improvements to IFRS Standards (2015 - 2017 Cycle), issued in December 2017 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard, all of which are applicable on or after 1 January 2019.

2.4 *Summary of significant accounting policies*

The principal accounting policies applied in the preparation of these interim consolidated financial statements are set out below.

(1) Foreign currency translation

Items included in the financial statements of each of the Group's entities are initially measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the end of the reporting period. All differences are taken to Net gains/losses from financial instruments at fair value through profit or loss and foreign exchange (Net gains/losses from financial instruments at fair value through profit or loss onwards) in the statement of income with the exception of differences in foreign currency borrowing or derivatives that provide an effective hedge in the cash flow hedge of currency risk which are taken through OCI directly to equity until the hedged cash flow influences the statement of income, at which time they are recognised in the statement of income as well.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the end of the reporting period. Exchange differences from non-monetary financial assets at fair value through other comprehensive income are included in the fair value revaluation recognised in equity until the assets are derecognised or impaired.

The results and financial position of all the Group entities, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- assets and liabilities at the year-end exchange rates;
- income and expenses at the average exchange rates for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised through OCI as a separate component of equity in the Foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken through OCI to the Foreign currency translation reserve. When a foreign entity is sold, such exchange differences are recognised in the statement of income as part of the gain or loss on sale.

(2) Financial instruments - recognition and derecognition

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the financial instrument, except for "regular way" purchases and sales of financial assets (see below). A financial asset is derecognised from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or are transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset’s cash flows; or (b) retains the right to the asset’s cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Group has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

When during the term of a financial asset there is a change in the terms and conditions, then the Group assesses whether the new terms are substantially different to the original terms indicating that the rights to the cash flows of the initial instruments have expired. In case the conclusion is that the terms are substantially different then the transaction is accounted for as financial asset derecognition, which requires derecognising the existing financial asset and recognising a new financial asset based on the revised terms. Conversely, when the Group assesses that the terms are not substantially different than the transaction is accounted for as financial asset modification. The Group considers, among others, these factors:

- Significant extension of the loan term,
- Significant change in the interest rate,
- Introduction of collateral or credit enhancement, which may have an impact on credit risk,
- If the borrower is in financial difficulty, whether the modification reduces contractual cash flows to amounts the borrower is able to pay.

The effect of modification is reflected in modification gain or loss in the statement of income. The gross carrying amount of a previously recognised financial asset is recalculated in order to reflect renegotiated or otherwise modified contractual cash flows.

A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires. The Group derecognises the original financial liability and recognise a new one when the new terms are substantially different. In assessing whether terms are different, the Group compares the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, and the discounted present value of the remaining cash flows of the original financial liability. If the difference is at least 10% or more then the Group derecognises the original financial liability and recognises a new one at fair value. Even if the difference is less than 10% the Group can derecognise financial liabilities if the two liabilities are qualitatively different.

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets the Group recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the statement of financial position on the day it is physically transferred to or from the Group ("settlement date"). The date on which the Group becomes a party to the contractual provisions of a financial asset purchase or the Group loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, fair value movements between the "trade date" and "settlement date" in connection with purchases and sales are recognised in Net gains/losses from financial instruments at fair value through profit or loss and in the Fair value through other comprehensive income reserve, respectively. On the settlement date, a respective financial asset or liability is recognised in or derecognised from the statement of financial position.

(3) Financial instruments - initial recognition and subsequent measurement

Classification and measurement – financial assets

The classification of financial assets depends on the purpose for which the financial instruments were acquired and their cash flow characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition.

Classification and measurement – debt instruments

Debt instruments can be allocated into one of the following categories:

- Financial assets at fair value through profit or loss (FVPL);
- Financial assets at fair value through other comprehensive income (FVOCI);
- Financial assets at amortised cost (AC).

(i) Financial assets at fair value through profit or loss (FVPL)

- This category has three sub-categories: financial assets held for trading, financial assets mandatorily at fair value through profit or loss and financial assets designated at fair value through profit or loss (FVO);

Financial assets held for trading consist of derivatives held for trading and non-derivative financial assets held for trading.

- *Derivatives held for trading*

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency, interest rate and commodity options. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives held for trading are included in Net gains/losses from financial instruments at fair value through profit or loss.

Changes in the clean fair value (fair value less any net interest accrual) of derivatives used as economic hedges are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Net interest income/expense from these derivatives is recorded in Net interest income on a deal by deal basis.

The derivatives used as economic hedges are derivatives, which do not meet the IFRS requirements for applying hedge accounting but which the Group Asset Liability Management department uses for decreasing the interest rate risk of the Group, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

The Group occasionally purchases financial assets containing embedded derivatives. The entire hybrid asset is assessed whether its cash flows fulfil the definition of principal and interest from principal outstanding. If the criterium is met, the hybrid financial asset is not classified as at fair value through profit or loss.

In the case when the stand alone derivative does not qualify as a hedging derivative, it is designated as a trading derivative. To the extent that the Group cannot reliably identify and measure the embedded derivative, the entire hybrid asset is carried at fair value in the statement of financial position with changes in fair value reflected in the statement of income.

- *Financial instruments held for trading other than derivatives*

Financial assets held for trading other than derivatives are recorded in the statement of financial position at fair value. Changes in clean fair value are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Interest income is recorded in Net interest income using the effective interest rate method. Dividends received are recorded in Dividend income. A financial asset is classified in this category if acquired principally for the purpose of selling in the near term.

Financial assets mandatorily at fair value through profit or loss are classified into this category if their contractual terms lead to contractual cash flows, which are not solely payments of principal and interest from principal outstanding. Financial assets that are managed on the basis of fair value are classified into this category.

Financial assets designated at fair value through profit or loss (FVO) are financial assets irrevocably designated at initial recognition as at fair value, although the asset otherwise meets the requirements to be measured at AC or at FVOCI. The Standard allows this classification if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in clean fair value are recorded in Net gains/losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income using the effective interest rate method.

(ii) Financial assets at fair value through other comprehensive income (FVOCI)

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

a. the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

b. and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets at fair value through other comprehensive income are measured at fair value. Unrealised gains and losses are recognised directly in equity in the OCI reserve on an after-tax basis, until the financial asset is derecognised. When these assets are disposed of, the unrealised gain or loss recorded in the OCI reserve is reclassified to Net realised gains/losses on FVOCI financial assets. Interest income arising from FVOCI assets, calculated using the effective interest rate method, is recorded separately in Net interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(iii) Financial assets at amortised cost (AC)

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

a. the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets at amortised cost are measured at amortised cost using the effective interest rate method, except in the case of a fair value hedge of items in this category, which have to be fair valued to the extent of the hedged risk. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

When a loan is uncollectible, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures for collecting the loan have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recorded in the statement of income in Impairment losses.

As part of its treatment of defaulted loans, the Group can take over assets that were granted as collaterals. Upon repossession, the assets are valued at their presumed realisable value and booked in inventory.

Business model

The business model assessment is relevant for debt instruments to assess whether they are allowed to be measured at AC and FVOCI. In performing the assessment, the Group reviews the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

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

- how the performance of the portfolio is evaluated and reported the Board of Directors;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Contractual cash flows are solely payments of principal and interest (SPPI)

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument at initial recognition. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets which could occur when the Group begins or ceases to perform an activity that is significant to its operations (e.g.: when the Group acquires, disposes of, or terminates a business line). The reclassification takes place from the start of the first reporting period following the change.

Classification and Measurement – equity instruments

Financial equity instruments are categorised in one of the following categories:

- Mandatorily measured at fair value through profit or loss (FVPL);
- Equity instruments elected for fair value through other comprehensive income (FVOCI).

The election to include equity instruments in the FVOCI category is irrevocable on initial recognition and can be done on an investment-by-investment basis which is interpreted by the Group as share-by-share basis. Equity categorised in the FVOCI category is subsequently measured at fair value with all changes recognised in other comprehensive income and without any recycling into the income statement even when the investments is disposed. The only exception applies to the dividend income which are recognised in the income statement under the line item "Dividend Income".

Classification and measurement – financial liabilities

The Group classifies financial liabilities into three categories.

(i) Financial liabilities held for trading

Financial liabilities held for trading include derivatives held for trading and non-derivative financial liabilities held for trading.

- *Derivatives held for trading*

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency, interest rate and commodity options. Changes in the fair value of derivatives held for trading are included in Net gains/losses from financial instruments at fair value through profit or loss.

Changes in the clean fair value (fair value less any net interest accrual) of derivatives used as economic hedges are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Net interest income/expense from these derivatives is recorded in Net interest income on a deal by deal basis.

The derivatives used as economic hedges are derivatives, which do not meet the IFRS requirements for applying hedge accounting but which the Group Asset Liability Management department uses for reducing the interest rate risk of the Group, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

- *Financial instruments held for trading other than derivatives*

Financial liabilities held for trading other than derivatives are recorded in the statement of financial position at fair value. Changes in clean fair value are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Interest expense is recorded in Net interest income using the effective interest rate method. A financial liability is classified in this category if acquired principally for the purpose of repurchasing in the near term.

(ii) Financial liabilities upon initial recognition designated by the entity at fair value through profit or loss

IFRS 9 allows measuring a (group of) financial liability(s) on initial recognition at fair value, whereby fair value changes are recognized in statement of income except for fair value changes related to the changes in own credit risk which are presented separately in OCI. The fair value designation is used by the Group for the following reasons:

- Managed on a FV basis: The Group designates a financial liability or group of financial liabilities and assets at fair value when these are managed and their performance is evaluated on a fair value basis.
- Accounting mismatch: Fair value option can be used when the use eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
- Hybrid instruments: A financial instrument is regarded as a hybrid instrument when it contains one or more embedded derivatives that are not closely related to the host contract. The fair value option can be used when it is not possible to separate the non-closely related embedded derivative from the host contract and then the entire hybrid instrument can be designated at fair value.

Financial liabilities designated upon initial recognition at fair value are measured at fair value, whereby fair value changes are recognized in statement of income.

Financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in clean fair value are recorded in Net gains/losses from financial instruments at fair value through profit or loss. Interest expense is recorded in Net interest income using the effective interest rate method.

Changes in clean fair value due to own credit risk are presented separately in other comprehensive income (OCI). The remaining fair value change is reported in Net gains/losses from financial instruments at fair value through profit or loss. The amounts recognized in OCI relating to the own credit risk are not recycled to the income statement even when the liability is derecognized and the amounts are realized.

(iii) Financial liabilities measured at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

Financial liabilities are initially measured at cost, which is the fair value of the consideration received including transaction costs. Subsequently, they are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(iv) 'Day 1' profit or loss

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument, or the fair value based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and the fair value (a Day 1 profit or loss) in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of income when the inputs become observable, or when the instrument is derecognised.

(4) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (repos) remain in the statement of financial position. The corresponding cash received is recognised in the statement of financial position in Financial liabilities held for trading or Financial liabilities at amortised cost, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase price is recorded as Interest expense and is accrued over the life of the agreement.

Conversely, securities purchased under agreements to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. The corresponding cash paid is recognised in the statement of financial position in Financial assets held for trading or Financial assets at amortised cost. The difference between the purchase and resale price is recorded as Interest income and is accrued over the life of the agreement.

(5) Determination of fair value

The fair value of a financial instrument 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 (i.e. an exit price). Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or at fair value through other comprehensive income are fair valued using quoted market prices if there is a published price quotation in an active market. For financial instruments that are not traded on an active market their fair values are estimated using pricing models utilising quoted prices of instruments with similar characteristics, discounted cash flows methods or other models. Those fair value estimation techniques are significantly affected by assumptions used by the Group including the discount rate, liquidity and credit spreads and estimates of future cash flows.

(6) Impairment of financial assets

Definition of default

The Group uses the same definition for defaulted financial assets as used for internal risk management purposes and it is in line with guidance and standards of the financial industry regulators. The definition also reflects both the economic and accounting substance of default. A financial asset is considered as defaulted if one or more of the following main indicators are present:

- A significant deterioration in creditworthiness;
- The asset is flagged as a forborne asset in line with the internal policies for forbearance;
- The Group has filed for client’s bankruptcy;
- The counterparty has filed for bankruptcy or sought similar protection measures;
- The credit facility towards the customer is terminated.

The Group applies a backstop for facilities that have at least 90 days past due status. In this context a backstop is used as a final control to ensure that all the assets that should have become credit-impaired are properly identified.

General model of expected credit losses

The model for impairment of financial assets is called the Expected Credit Loss model (ECL).

The scope of the ECL model is based on the classification of financial assets. The ECL model is applicable to the following financial assets:

- Financial assets measured at amortised cost;
- Debt instruments measured at fair value through the other comprehensive income;
- Loan commitments and financial guarantees;
- Finance lease receivables; and
- Trade and other receivables.

No expected credit losses are calculated for equity investments.

Financial assets that are in scope for the ECL model carry an amount of impairments equal to the life-time expected credit losses if the credit risk has increased significantly since initial recognition.

If the credit risk has not increased significantly since initial recognition, the loss allowance equals to an amount of 12 month expected credit losses (see below for the references to the significant increase in credit risk).

12-month expected credit losses are defined as the portion of lifetime expected credit losses that represent expected credit losses that result from defaults possible within 12 months after the reporting date. Lifetime expected credit losses are expected credit losses resulting from all possible defaults over the expected life of the financial asset.

To distinguish between the different stages with regards the amount of expected credit losses, the Group uses the internationally accepted terminology for stage 1, stage 2 and stage 3 financial assets.

All financial assets at initial recognition, unless they are already credit impaired, are classified at stage 1 and carry 12-month expected credit losses. Once a significant increase in credit risk since initial recognition occurs, the asset migrates to stage 2 and carries life-time expected credit losses. Once an asset meets the definition of default it migrates to stage 3.

The expected credit losses for trade and other receivables are measured as the life-time expected credit losses.

Impairment gains and losses on financial assets are recognised under the heading “Impairments” in the statement of income.

Financial assets that are measured at amortised cost are presented on the balance sheet at their carrying amount being the gross carrying amount minus loss allowances. Debt instruments measured at fair value through other comprehensive income are presented on the balance sheet at their carrying amount being the fair value at the reporting date. The adjustment for the expected credit losses is recognised as a reclassification adjustment between the income statement and the other comprehensive income.

Significant increase in credit risk since initial recognition

In accordance to the ECL model, a financial asset attracts life-time expected credit losses once the credit risk has increased significantly since initial recognition; therefore the assessment of the significant increase in credit risk defines the staging of financial assets. The main indicators of the significant increase in credit risk are:

- Internal rating or behavioural score
- Past due information
- Changes in business, financial or economic conditions
- Expected changes to contractual framework
- External market indicators of credit risk
- Regulatory, economic and technological environment
- Change in credit management approach

The assessment of a significant increase in credit risk is a relative assessment based on the credit risk that was assigned at initial recognition. This is a multi-factor assessment, and, thus the Group has developed a multi-tier approach (MTA).

Multi-Tier Approach - Bond portfolio

For the bond portfolio the MTA consists of three tiers:

- Low credit exception: Bonds always carry 12-months expected credit losses if they have a low credit risk at the reporting date (i.e. stage 1). The Group uses the low credit risk exception for bonds which are graded as investment grade.
- Internal rating: [only applicable if the first tier is not met]. This is a relative assessment comparing the Probability of Default (PD) at initial recognition to the PD at the reporting date. Financial assets are transferred from Stage 1 to Stage 2 if the internal rating at the reporting date is at least two PD notches higher than at initial recognition (or 400% in case of pooled portfolios). The Group makes the assessment on a facility level at each reporting period.
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

If none of these triggers results in a migration to stage 2, then the bond remains in stage 1.

A financial asset is considered impaired (i.e. stage 3) as soon as it meets the definition of default.

The MTA is symmetrical, i.e. a credit that has migrated to stage 2 or 3 can return to stage 2 or 1 if the Tier that triggered the migration is not present in a subsequent reporting date.

Multi-Tier Approach - Loan portfolio

For the loan portfolio the Group uses a five-tier approach. This MTA is a waterfall approach, i.e. if after assessing the first Tier, doesn’t result in migrating to stage 2, then the second Tier is assessed and so on. At the end, if all Tiers are being assessed without triggering a migrations to stage 2, then the financial asset remains in stage 1.

- Internal rating: the internal rating is used as the main criterion for assessing the increase in credit risk. This is a relative assessment comparing the PD at initial recognition to the PD at the reporting date. Financial assets are transferred from Stage 1 to Stage 2 if the internal rating at the reporting date is at least two PD notches higher than at initial recognition (or 400% in case of pooled portfolios). The Group makes the assessment on a facility level at reach reporting period.
- Forbearance: Forborne financial assets are always considered as stage 2, unless they are already impaired. In the latter case, they migrate to stage 3.
- Days past due: The Group uses the backstop described in the standard. A financial asset that has more than 30 days past due, migrates to stage 2.
- Internal rating backstop: The Group uses an absolute level of PD as a backstop for financial assets to migrate to stage 2. This backstop corresponds to the highest PD (i.e. PD9 based on the Group internal rating) before a financial asset is considered to be impaired.
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

A financial asset is considered impaired (i.e. stage 3) as soon as it meets the definition of default.

The MTA is symmetrical, i.e. a credit that has migrated to stage 2 or 3 can return to stage 2 or 1 if the Tier that triggered the migration is not met at the reporting date.

Measurement of expected credit losses

The expected credit losses are calculated as the product of:

- probability of default (PD) reflecting the probability of borrower defaulting on its credit facility over the next 12 months (12M PD) or over the lifetime (Lifetime PD),
- estimated exposure at default (EAD) relates to the expected credit risk exposure for a facility at the moment of a potential default event over the next 12 months (12m EAD) or over its entire remaining lifetime (Lifetime EAD), and
- loss given default (LGD) reflecting the Group´s expectation of the loss as a percentage of the exposure at default (EAD). 12M LGD reflects the percentage loss if the default event occurs over the next 12 months and Lifetime LGD is the percentage loss if the default occurs over the remaining lifetime.

The expected credit losses are calculated in a way that reflect:

- an unbiased, probability weighted amount;
- the time value of money; and
- information about the past events, current conditions and forecast economic conditions.

The life-time expected credit losses represent the sum of the expected credit losses over the life time of the financial asset discounted at the original effective interest. A correction is also introduced by a factor that corrects for potential prepayments, since the potential for prepayments reduces the expected lifetime of a facility and hence the probability of having a default event during this expected lifetime. Given the fact that prepayments are limited to products with a contractual repayment scheme and that often different prepayment rates can be observed by product type, prepayments are modelled by facility type.

The 12 months expected credit losses represent the portion of the life time expected credit losses that results from a default in 12-month period after the reporting date.

The Group uses specific IFRS 9 models for PD, EAD and LGD to calculate expected credit losses. To the extent possible The Group uses similar modelling techniques that have been developed for prudential purposes (i.e. Basel models) for efficiency purposes. The Group ensures that the Basel models are adapted to be in compliance with IFRS 9, for example:

- The Group removes the conservatism which is required by the regulator for Basel models
- The Group adjusts the way that macroeconomic parameters affect the outcome to ensure that the IFRS 9 models reflect a “point-in-time” rather than “through-the-cycle” estimate (the latter is required by the regulator).
- The Group applies forward looking macroeconomic information in the models.

The Group also considers three different forward looking macro-economic scenarios with different weights in the calculation of expected credit losses. The base case macro-economic scenario represents the Group’s estimations for the most probable outcome and it also serves as a primary input for other internal and external purposes.

The forecasts of variables used in the scenarios are provided by the Group chief economist on a quarterly basis. An expert judgement is required to assess the impact of the variables on PD, EAD and LGD and is carried out by using linear regression analysis. This approach should be carried out on an appropriate level of granularity (e.g. by industry sector). Aspects that could not be incorporated in the model (e.g. because macroeconomic parameters may not have shown much variation, or only an increase/decrease in the period covered by the data) may still be incorporated in the final ECL figures through ‘management overlay’.

The maximum period for measurement of the expected credit losses is the maximum contractual period (including extensions) with the exception of specific financial assets which include a drawn and an undrawn amount available on demand which is not limited the exposure to the contractual period. Only for such assets a measurement period can extend beyond the contractual period.

Purchased or Originated Credit Impaired (POCI) assets

The Group defines POCI assets as financial assets in scope of the IFRS 9 impairment which at origination are already defaulted (i.e. meet the definition of default).

POCI assets are recognised initially at an amount net of impairments and are measured at amortised cost using a credit adjusted effective interest rate. In subsequent period any changes to the estimated lifetime expected credit losses are recognised in the income statement. Favourable changes are recognised as an impairment gain even if the lifetime expected credit losses at the reporting date is lower than the estimated lifetime expected credit losses at origination.

Interest income from assets impaired at initial recognition (POCI) is based on amortised cost (gross carrying amount minus impairment).

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due, however, the rating of the client cannot be improved only based on the restructuring. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject of an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(7) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income.

(8) Hedge accounting

The Group intends to use the option in IFRS 9 to continue with hedge accounting under IAS 39 and to await further developments at the IASB regarding macro hedging.

The Group uses instruments, designated as hedging instruments as cash flow hedges or fair value hedges to manage the Group's interest rate risk or foreign currency risk. Cash flow hedges and fair value hedges are used to minimise the variability in cash flows of interest-earning assets or interest-bearing liabilities or anticipated transactions caused by interest rate fluctuations or to minimise the variability in the fair value of asset or liability, which could affect the statement of income. Hedge accounting is used for derivatives and other financial instruments designated in this way provided certain criteria are met. The Group's criteria for the application of hedge accounting include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented at inception showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;
- the hedge is highly effective on an ongoing basis. The hedge is considered to be highly effective if the Group achieves offsetting changes in cash flows between 80% and 125% for the risk being hedged.

The Group has complied with the amended standard, taking into account the 'carved out' parts as approved by the European Commission.

(i) Cash flow hedges

The effective portion of the change in fair value of a cash flow hedging derivative is recorded in the Cash flow hedge reserve. The ineffective portion is recorded directly in Net gains/losses from financial instruments at fair value through profit or loss. Amounts in the Cash flow hedge reserve are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed the related remaining amounts in the Cash flow hedge reserve are reclassified into the statement of income in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur the related remaining amounts in the Cash flow hedge reserve are recognised immediately in the statement of income.

(ii) Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging instrument is recognised in the statement of income. Related interest income/expense from the hedging instrument is recorded in Net interest income, revaluation of the hedging instrument is recognised in Net gains/losses from financial instruments at fair value through profit or loss. Meanwhile, the change in fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged financial asset at fair value through other comprehensive income or on a separate line Fair value adjustments of the hedged items in portfolio hedge if the hedged item is financial asset or liability measured at amortised cost. The change in fair value of the hedged item and is also recognised in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. If the hedging instrument expires, is sold, terminated or exercised or if the hedge is not assessed as effective any more, then the hedge accounting is discontinued.

For fair value hedges relating to items carried at amortised cost, any adjustment to the carrying value is amortised through the statement of income over the remaining term of the hedge using the effective interest rate method. Amortisation begins as soon as an adjustment exists but no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of income.

(9) Offsetting financial instruments

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

(10) Leasing

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

(i) Group company as a lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

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

(ii) Group company as a lessor

Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are reflected as finance lease receivables in the statement of financial position in Loans and receivables. A receivable is recognised over the leasing period at an amount equaling the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in Interest income in the statement of income.

Leases, in which the Group does not transfer substantially, all the risks and benefits of ownership of the asset, are classified as operating leases. The Group leases out certain of its properties under operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned. Rental income, as well as depreciation and other expenses relating to operating lease assets are reported separately in the consolidated statement of income under Income or Expense from operating lease.

(11) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments in Stage 1 and 2 measured at amortised cost and interest bearing financial instruments classified as financial assets at fair value through other comprehensive income, interest income or expense is recorded using the effective interest rate method on their gross carrying amount.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on financial assets that are not purchase or originated credit-impaired, but subsequently have become credit-impaired financial assets, should be based on the amortised costs in subsequent periods.

Interest income from assets impaired at initial recognition (POCI) is based on amortised cost (gross carrying amount minus impairment).

Interest income and expense of interest-bearing non-derivative financial instruments in the held-for-trading portfolio designated at fair value through profit or loss portfolio, derivatives used as economic hedges and hedging derivatives are also recognised in the caption using the effective interest rate method.

(ii) Fee and commission income

Fees and commissions that are not an integral part of the effective interest rate are generally recognised on an accrual basis when the service has been provided. Origination fees for loans that are probable of being drawn down, are deferred and recognised as an integral part of the effective interest on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on the completion of the underlying transaction. Recognition of portfolio and other management advisory and service fees is based on the applicable service contracts. Asset management fees relating to investment funds are in accordance with IFRS 15 accrued over the period for which the service is provided and only to the extent, where a significant reversal of revenue is not probable. Commissions from sales of insurance products are based on the applicable contract and accrued over the contractual period.

(iii) Dividend income

Revenue is recognised when the Group's right to receive a payment is established.

(iv) Net gains / losses from financial instruments at fair value through profit or loss

Net gains / losses from financial instruments at fair value through profit or loss include all gains and losses from changes in the clean fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss except for trading derivatives that are not used as economic hedges, where the interest income/expense is also included. This caption also includes net gains from fair value hedging constructions (revaluation of hedging and hedged items) and any ineffectiveness recorded in cash flow hedging transactions.

(12) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks, loans and advances (measured at amortised cost) to credit institutions and central banks and financial liabilities at amortised cost to credit institutions and central banks. Only highly liquid transactions contracted with general government bodies (reverse repo / repo operations) are assessed by the Group as cash equivalents.

(13) Investments in associates and joint ventures

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group’s share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of income reflects the Group’s share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group’s OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group’s share of profit or loss of an associate and a joint venture is shown on the face of the statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as ‘Share of profit of associates and joint ventures’ in the statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(14) Property and equipment

Property and equipment includes Group occupied properties, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation and impairment if any. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	30 years
IT equipment	4 years
Office equipment	10 years
Other	4-30 years

Gains and losses on disposals are determined by comparing the proceeds received in the transaction with the carrying amount of the asset. The resulting gains and losses are included as a net amount in Other net income.

Property and equipment is reviewed for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell and value in use.

When it is highly probable that an asset will be sold, the asset is classified in Non-current assets held-for-sale at the lower of its carrying amount and fair value less costs to sell.

(15) Business combinations and goodwill

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the total of the fair values of assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Non-controlling interests in the acquirees are measured at the proportionate share of the acquiree’s recognised net identifiable assets. Any acquisition-related costs are recognised in the statement of income when they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill as of the acquisition date is measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest over the net of the identifiable assets acquired and the liabilities assumed at the date of acquisition.

If a bargain purchase is made, in which the net of the acquisition-date amounts of identifiable assets acquired and liabilities assumed is larger than the aggregate of the consideration transferred and the amount of non-controlling interest in the acquiree, the resulting gain is recognised in the statement of income at the date of acquisition.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment losses relating to goodwill cannot be reversed in future periods.

The pooling of interest method of accounting is used to account for the business combination of entities or businesses under common control. It means a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination.

The assets and liabilities of the combining entities are reflected at their carrying amounts and no new assets and liabilities are recognised at the date of combination. No new goodwill is recognised as a result of the combination.

Any difference between the consideration paid and the carrying amounts of assets and liabilities acquired is reflected through equity.

The income statement reflects the results of the combining entities only since the date, when the control was obtained by the Group.

(16) Intangible assets

Intangible assets include software, licences, customer relationship and other intangible assets. A core system is a large-scale software application that performs important strategic group objectives.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are carried at cost less accumulated amortisation and impairment, if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The amortisation of software and other intangible assets is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Core systems	8 years
Other software	4 years
Other intangible assets	5 years

Amortisation of the customer relationship is calculated using the diminishing balance method over its economic useful life. The economic useful life is the period over which the Group receives significant cash flows from the intangible assets.

Gains and losses on disposals are determined by comparing proceeds received in the transaction with the carrying amount of the assets. The resulting gains and losses are included as a net amount in Other net income.

(17) Financial guarantees

In the ordinary course of business, the Group provides financial guarantees consisting of letters of credit and letters of guarantee. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. At the end of each reporting period, financial guarantees are measured in the financial statements at the higher of the amortised premium and the loss allowance. Fees are recognised in the statement of income in Fee and commission income. Any increase or decrease in the provision relating to financial guarantees is included in Impairment losses.

(18) Employee benefits

Retirement benefits

Pensions are provided by the Czech Republic to resident employees financed by salary-based social security contributions of the employees and their employers.

Certain Group companies contribute to a defined contribution retirement benefit scheme for participating employees, in addition to the employer social security contributions required by the law in the Czech Republic. Contributions are charged to the statement of income as they are made.

Termination benefits

Employees dismissed by their employer are entitled to termination benefits equal to or less than three times the employees's month's average salary in accordance with the Czech employment law. Employees employed over ten years are entitled to additional termination benefits, which are scaled in accordance of the years of service. Termination benefits are recognised in the statement of income based on the approval of the restructuring programme implementation.

(19) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(20) Income tax

There are two components of income tax expense: current and deferred. Current income tax expense approximates amounts to be paid or refunded for taxes for the appropriate period.

Deferred tax assets and liabilities are recognised due to differences between the tax bases of assets and liabilities and their respective carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and the taxable profit will be available against which the temporary differences can be utilised.

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset in the financial statements where a right of set-off exists.

Deferred tax related to the fair value movements of cash flow hedges and financial assets at fair value through other comprehensive income, which are charged or credited to OCI, is also credited or charged to OCI and is subsequently recognised in the statement of income together with the deferred gain or loss.

The Group records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities for each separate consolidated entity.

(21) Share capital and reserves

The issued capital (registered, subscribed and paid) as at the end of the reporting period is accounted for at an amount recorded in the Commercial register.

The statutory reserve fund is accumulated in compliance with the Statutes of the Bank and its use is limited by the Articles of association or Statutes. The fund is distributable based on the decision of the Board of Directors.

Dividends are recognised after they have been ratified by the resolution of the sole shareholder.

(22) Fiduciary activities

The Group commonly acts in fiduciary activities that result in the holding or placing of assets on behalf of individuals and institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

(23) Operating segments

Operating segments are components of the Group that engage in business activities from which they earn revenues and incur expenses and whose operating results are regularly reviewed on the Group level to assess their performance. Discrete information is available for each operating segment.

2.5 Comparative balances

Until 31 December 2017, the Group measured its financial assets and liabilities according to IAS 39 (Financial instruments: Recognition and measurement). On 1 January 2018, a new accounting standard IFRS 9 (Financial instruments) on the classification and measurement of financial instruments was implemented. As a result, consolidated statement of financial position of the Group significantly changed. The accounting policies, as described in note 2.4, have been adjusted and redesigned to reflect IFRS 9 requirements. For the accounting policies, as applicable on the comparative figures, we refer to the 2017 annual report of the Group.

The impact of the implementation of IFRS 9 on the consolidated statement of financial position can be summarized as follows:

1/ Classification and measurement (IFRS 9, Phase I)

- Financial assets held for trading remained a part of Financial assets at fair value through profit or loss, sub-category Financial assets held for trading. There is no impact on consolidated equity of the Group;
- Available-for-sale assets in the amount of CZK 18,848 m were transferred to the portfolio of Financial assets at fair value through OCI. Assets recognized under both categories are measured at fair value. Changes of their fair value are recognized as revaluation reserve reported as part of other comprehensive income. Thus, there is no impact on consolidated equity;

  Remaining part of the portfolio of Available-for-sale assets in the amount of CZK 16,481m was shifted to the category of Financial assets at amortised cost. Unrealised gains / losses related to these assets were reversed and adjusted the other comprehensive income;
- Financial assets previously classified as Held-to-maturity investments and Loans and receivables were shifted in its entirety to the category of Financial assets at amortised cost. The ‘frozen reserve’, related to the debt securities historically reclassified from Available-for-sale assets to Held-to-maturity investments, was reversed and adjusted other comprehensive income;
- IFRS 9, phase I did not impact financial liabilities of the Group.

2/ Impairment (IFRS 9, Phase II)

The implementation of the ECL model resulted in an increase of accumulated impairment losses on financial debt instruments. Such an increase is reflected in the consolidated equity as a decrease of retained earnings.

IFRS 9, Phase II impacted financial instruments reported under the following categories of the consolidated statement of financial position:

- Financial assets at fair value through OCI. On 1 January 2018, an ECL was booked on the debt securities included in FVOCI portfolio with the negative impact on retained earnings. At the same time, unrealised losses in the amount of ECL were reversed from the OCI. Thus, there is no impact on the carrying amount of these assets and on the consolidated equity;
- Financial assets at amortised cost;
- Investments in associates and joint ventures. An initial ECL calculation impacted net asset value of the associated companies and joint venture entities which are included in the consolidated statement of financial position using the equity method of consolidation. As a result, the Group’s investment in associates and joint ventures decreased with the negative impact on retained earnings;
- Other assets;
- Provisions for loans commitments and guarantees.

A reconciliation of the selected items of the consolidated statement of financial position as at 31 December 2017 as reported according to IAS 39 and at 1 January 2018 as reported according to IFRS 9 is provided in the transition disclosure table below:

	Financial assets held for trading (incl. pledged assets)	Available-for-sale financial assets (incl. pledged assets)	Held-to-maturity investments (incl. pledged assets)	Loans and receivables	Investment in associates and joint ventures	Other assets	Provisions for loan commitments and guarantees	Total
Assets and liabilities as at 31 December 2017 (carrying amount before IFRS 9 application)	18,342	35,329	115,621	1,062,201	4,706	2,836	466	
Financial assets held for trading								
At amount classified before IFRS 9 application	18,342	-	-	-	-	-	-	18,342
Remeasurement due to reclassification	-	-	-	-	-	-	-	-
At amount according to IFRS 9 on 1 January 2018	**18,342**	**-**	**-**	**-**	**-**	**-**	**-**	**18,342**
Financial assets FVOCI								
At amount classified before IFRS 9 application	-	18,848	-	-	-	-	-	18,848
Remeasurement due to reclassification	-	-	-	-	-	-	-	-
At amount according to IFRS 9 on 1 January 2018	**-**	**18,848**	**-**	**-**	**-**	**-**	**-**	**18,848**
Financial assets at amortised cost								
At amount classified before IFRS 9 application	-	16,481	115,621	1,062,201	-	-	-	1,194,303
Remeasurement due to reclassification	-	(499)	(238)	-	-	-	-	(737)
Remeasurement due to impairment	-	-	(24)	(364)	-	-	-	(388)
At amount according to IFRS 9 on 1 January 2018	**-**	**15,982**	**115,359**	**1,061,837**	**-**	**-**	**-**	**1,193,178**
Investments in associates and joint ventures								
At amount classified before IFRS 9 application	-	-	-	-	4,706	-	-	4,706
Remeasurement due to reclassification	-	-	-	-	(72)	-	-	(72)
Remeasurement due impairment	-	-	-	-	(103)	-	-	(103)
At amount according to IFRS 9 on 1 January 2018	**-**	**-**	**-**	**-**	**4,531**	**-**	**-**	**4,531**
Other assets								
At amount classified before IFRS 9 application	-	-	-	-	-	2,836	-	2,836
Remeasurement due to reclassification	-	-	-	-	-	-	-	-
Remeasurement due to impairment	-	-	-	-	-	(81)	-	(81)
At amount according to IFRS 9 on 1 January 2018	**-**	**-**	**-**	**-**	**-**	**2,755**	**-**	**2,755**
Provisions								
At amount classified before IFRS 9 application	-	-	-	-	-	-	466	466
Remeasurement due to reclassification	-	-	-	-	-	-	-	-
Remeasurement due to impairment	-	-	-	-	-	-	69	69
At amount according to IFRS 9 on 1 January 2018	**-**	**-**	**-**	**-**	**-**	**-**	**535**	**535**

3. SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

The scope of the consolidation includes 27 companies. Ownership of the Group (%) in significant companies was as follows:

Name	Abbreviation	Country of incorporation	% 30-06 2018	% 31-12 2017
Subsidiaries				
Bankovní informační technologie, s.r.o.	BANIT	Czech Republic	100.00	100.00
ČSOB Advisory, a.s.	ČSOB Advisory	Czech Republic	100.00	100.00
ČSOB Factoring, a.s.	ČSOB Factoring	Czech Republic	100.00	100.00
ČSOB Leasing, a.s.	ČSOB Leasing	Czech Republic	100.00	100.00
ČSOB Leasing pojišťovací makléř, s.r.o.	ČSOB Leasing pojišťovací makléř	Czech Republic	100.00	100.00
ČSOB Penzijní společnost, a. s., a member of the ČSOB group	ČSOB PS	Czech Republic	100.00	100.00
Hypoteční banka, a.s.	Hypoteční banka	Czech Republic	100.00	100.00
Patria Corporate Finance, a.s.	Patria CF	Czech Republic	100.00	100.00
Patria Finance, a.s.	Patria Finance	Czech Republic	100.00	100.00
Radlice Rozvojová, a.s.	Radlice Rozvojová	Czech Republic	100.00	100.00
Ušetřeno.cz, s.r.o.	Ušetřeno	Czech Republic	100.00	-
Ušetřeno.cz finanční služby, a.s.	Ušetřeno finanční služby	Czech Republic	100.00	-
Joint venture				
Českomoravská stavební spořitelna, a.s.	ČMSS	Czech Republic	55.00	55.00
Associates				
ČSOB Asset Management, a.s., investment company	ČSOB AM	Czech Republic	40.08	40.08
ČSOB Pojišťovna, a.s., a member of the ČSOB holding	ČSOB Pojišťovna	Czech Republic	0.24	0.24

In April 2018, ČSOB group purchased 100% share in entities “Ušetřeno.cz” and “Ušetřeno.cz finanční služby”. The investment is a new interest of the Group and represents the largest services comparator website in the Czech Republic. Both entities are controlled by the Group and have been fully consolidated since 1 April 2018. The acquisition cost in the amount of CZK 322 m consists of cash paid of CZK 177 m and of estimated fair value of contractual future cash outflows (‘earn-out’) of CZK 145 m. Balance of the earn-out payment depends on the business performance of the company in next 4 years.

Set out below is an analysis of the financial effect of the business combination of the Ušetřeno sub-group into the consolidated financial statements of the Group as at 1 April 2018:

Assets acquired and liabilities assumed

(CZKm)	1 April 2018
ASSETS	
Cash, balances with central banks and other demand deposits	13
Property and equipment	3
Other intangible assets	124
Other assets	33
Total assets	**173**
LIABILITIES	
Other liabilities	30
Total liabilities	**30**
Total identifiable net assets	**143**
Goodwill	179
Acquisition value	**322**

More information regarding the scope of consolidation is available in the 2017 annual report.

4. SEGMENT INFORMATION

The Group's primary segment reporting is by customer segment.

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting (controlling) structure. For each of the strategic business units, the Group's management reviews internal management reports on a quarterly/monthly basis.

Management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the separate financial statements. Income tax is allocated to operating segments, but is managed on a Group basis.

Definitions of customer operating segments:

Retail: Private individuals and entrepreneurs, except of private banking customers that are reported as a part of Relationship services. This segment contains customers' deposits, consumer loans, overdrafts, payment solutions including payment cards, pension funds, mutual funds and asset management and other transactions and balances with retail customers. Margin income from operations with retail clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds).

Relationship services: Corporate companies with a turnover of greater than CZK 300 m, SME companies with a turnover of less than CZK 300 m, private banking customers with financial assets above CZK 10 m, financial and public sector institutions. This segment contains customers' deposits, loans, overdrafts, payment solutions including payment cards, leasing and other transactions and balances with corporate, SME customers and private banking customers. Margin income from the operations with corporate, SME clients and private banking clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions or trading with bonds).

Financial markets: This segment contains investment products and services to institutional investors and intermediaries and fund management activities and trading included in dealing services.

Specialised banking: This segment contains mortgages, building savings and building savings loans.

Group Centre: The Group Centre segment consists of positions and results of Asset Liability Management (ALM), the Group's yield on real equity consisting of an interest charge on capital provided to subsidiaries which are a part of the Relationship services and Specialised banking segment, the results of the reinvestment of free equity of ČSOB and items not directly attributable to other segments.

Segment reporting information by customer segments for 2018

(CZKm)	Retail	Relationship services	Financial markets	Specialised banking	Group Centre	**Total**
Statement of income for the 1H 2018						
Net interest income	3,801	4,636	661	2,018	1,010	**12,126**
Net fee and commission income	1,614	1,708	206	248	251	**4,027**
Dividend income	-	-	-	-	6	**6**
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange	34	785	772	4	(373)	**1,222**
Net realised gains on financial instruments at fair value through OCI	-	-	-	-	-	**-**
Income from operating lease	-	1,154	-	-	-	**1,154**
Expense from operating lease	-	(1,094)	-	-	-	**(1,094)**
Other net income	30	44	5	16	398	**493**
Operating income	**5,479**	**7,233**	**1,644**	**2,286**	**1,292**	**17,934**
of which:						
External operating income	*2,711*	*6,000*	*1,644*	*3,406*	*4,173*	***17,934***
Internal operating income	*2,768*	*1,233*	-	*(1,120)*	*(2,881)*	**-**
Depreciation and amortisation	(21)	(30)	(10)	(35)	(603)	**(699)**
Other operating expenses	(3,402)	(2,216)	(219)	(523)	(1,710)	**(8,070)**
Operating expenses	**(3,423)**	**(2,246)**	**(229)**	**(558)**	**(2,313)**	**(8,769)**
Impairment losses	37	(579)	-	58	79	**(405)**
Share of profit of associates and joint ventures	44	-	-	308	-	**352**
Profit before tax	**2,137**	**4,408**	**1,415**	**2,094**	**(942)**	**9,112**
Income tax (expense) / benefit	(427)	(853)	(270)	(342)	300	**(1,592)**
Segment profit	**1,710**	**3,555**	**1,145**	**1,752**	**(642)**	**7,520**
Attributable to:						
Owners of the parent	1,710	3,555	1,145	1,752	(642)	**7,520**
Non-controlling interest	-	-	-	-	-	**-**

Segment reporting information by customer segments for 2017

(CZKm)	Retail	Relationship services	Financial markets	Specialised banking	Group Centre	**Total**
Statement of income for the 1H 2017						
Net interest income	3,487	4,302	67	2,282	1,214	**11,352**
Net fee and commission income	1,131	1,298	287	304	154	**3,174**
Dividend income	-	-	-	-	8	**8**
Net gains / (losses) from financial instruments at fair value through profit or loss and foreign exchange	271	955	1,664	(58)	249	**3,081**
Net realised gains on available-for-sale financial assets	-	-	-	-	455	**455**
Income from operating lease	-	914	-	-	-	**914**
Expense from operating lease	-	(741)	-	-	-	**(741)**
Other net income	33	73	11	10	837	**964**
Operating income	**4,922**	**6,801**	**2,029**	**2,538**	**2,917**	**19,207**
of which:						
External operating income	*2,385*	*5,758*	*2,029*	*3,365*	*5,670*	***19,207***
Internal operating income	*2,537*	*1,043*	-	*(827)*	*(2,753)*	**-**
Depreciation and amortisation	(16)	(27)	(8)	(30)	(578)	**(659)**
Other operating expenses	(3,176)	(2,095)	(220)	(513)	(1,413)	**(7,417)**
Operating expenses	**(3,192)**	**(2,122)**	**(228)**	**(543)**	**(1,991)**	**(8,076)**
Impairment losses	94	(4)	(2)	(18)	(308)	**(238)**
Share of profit of associates and joint ventures	34	-	-	276	-	**310**
Profit before tax	**1,858**	**4,675**	**1,799**	**2,253**	**618**	**11,203**
Income tax (expense) / benefit	(353)	(888)	(342)	(428)	157	**(1,854)**
Segment profit	**1,505**	**3,787**	**1,457**	**1,825**	**775**	**9,349**
Attributable to:						
Owners of the parent	1,505	3,787	1,457	1,826	775	**9,350**
Non-controlling interest	-	-	-	(1)	-	**(1)**

Interest income and interest expense are not presented separately since the Group assesses the performance of the segments primarily on the basis of the net interest income.

Intersegment transactions are transactions conducted between the different primary segments on an arm's length basis.

The Group operates predominantly in the Czech Republic.

5. INTEREST INCOME

(CZKm)	1H 2018	1H 2017
Cash balances with central banks	55	47
Financial assets at amortised cost, incl. assets pledged as collateral		
Credit institutions	3,234	-
Other than credit institutions	9,770	-
Loans and receivables, incl. assets pledged as collateral		
Credit institutions	-	241
Other than credit institutions	-	7,526
Financial assets at fair value through other comprehensive income, incl. assets pledged as collateral	261	-
Available-for-sale financial assets, incl. assets pledged as collateral	-	696
Held-to-maturity investments, incl. assets pledged as collateral	-	2,250
Financial assets held for trading, incl. assets pledged as collateral (Note: 8)	157	108
Derivatives used as economic hedges (Note: 8)	114	113
Derivatives used for hedging (Note: 8)	856	955
Negative interest from financial liabilities measured at amortised cost	482	794
Negative interest from financial liabilities measured at fair value (Note: 8)	1	3
	14,930	**12,733**

6. INTEREST EXPENSE

(CZKm)	1H 2018	1H 2017
Financial liabilities at amortised cost		
Credit institutions	583	175
Other than credit institutions	1,249	271
Debt instruments in issue	344	156
Discount amortisation on other provisions (Note: 29)	6	2
Financial liabilities held for trading	238	182
Financial liabilities designated at fair value through profit or loss	46	10
Derivatives used as economic hedges	178	53
Derivatives used for hedging	160	528
Negative interest from financial assets measured at fair value (Note: 8)	-	4
	2,804	**1,381**

7. NET FEE AND COMMISSION INCOME

(CZKm)	1H 2018	1H 2017
Fee and commission income		
Payment services	3,158	2,629
Administration of credits	894	1,032
Collective investments	443	410
Securities	144	147
Custody	98	100
Asset management	17	38
Other	769	594
	5,523	**4,950**
Fee and commission expense		
Payment services	1,013	889
Retail service fees	167	504
Commissions to agents	57	54
Other	259	329
	1,496	**1,776**
Net fee and commission income	**4,027**	**3,174**

A change in presentation was made with regard to income received from margins earned on FX transactions carried out by the network for clients ('Network income'). In 1H 2018, network income was shifted from Net gains from financial instruments at fair value through profit or loss to Net fee and commission income (Payment services) since the new presentation better reflects the business reality. The prior year balances were not restated. In 1H2017 the balance represented CZK 478 m.

In 2018, a new 10-year partnership agreement between ČSOB and Česká Pošta (Czech Post) became effective. The aim of the contract is prolongation and intensification of the mutual cooperation and ČSOB became the Czech Post's sole partner in providing banking and insurance services from 1 January 2018. New conditions of the contract impacted classification of expenses paid for the services included in Fee and commission expense and in General administrative expenses (Note: 12).

8. NET GAINS FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FOREIGN EXCHANGE

Net gains from financial instruments at fair value through profit or loss and foreign exchange, as reported in the statement of income, do not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. Net gains from financial instruments at fair value through profit or loss and foreign exchange and the related net interest income are set out in the table below to provide a fuller presentation of the net result from financial instruments at fair value through profit or loss of the Group:

(CZKm)	1H 2018	1H 2017
Net gains from financial instruments at fair value through profit or loss and foreign exchange - as reported	**1,222**	**3,081**
Net interest income (Notes: 5, 6)	507	402
	1,729	**3,483**
Financial instruments held for trading		
Interest rate contracts	772	475
Foreign exchange	(1,371)	6,704
Equity contracts	(161)	292
Commodity contracts	5	6
	(755)	7,477
Financial instruments designated at fair value through profit or loss		
Financial liabilities designated at fair value through profit or loss	272	(7)
	272	(7)
Exchange differences revaluations	2,212	(3,987)
Financial instruments at fair value through profit or loss and foreign exchange	**1,729**	**3,483**

9. NET RESULT FROM OPERATING LEASE

(CZKm)	1H 2018	1H 2017
Income from operating lease		
Revenues from operating leases	320	454
Revenues from disposal of assets under operating leases	574	435
Revenues from other services relating to operating leases	260	25
	1,154	**914**
Expense from operating lease		
Depreciation of assets under operating leases	(255)	(198)
Expenses from disposal of assets under operating leases	(597)	(358)
Other services relating to operating leases	(242)	(185)
	(1,094)	**(741)**

10. OTHER NET INCOME

(CZKm)	1H 2018	1H 2017
Services provided to the parent and to entities under common control		
ICT services	302	276
Other services (excluding ICT)	76	43
Net gain on disposal of investments measured at amortised cost	19	-
Other services provided by ČSOB Leasing	9	23
Net gain on disposal of held-to-maturity investments	-	126
Other	87	496
	493	**964**

At 30 June 2017, a gain in the amount of CZK 372 m realized from a historical legal case is included in Other.

11. STAFF EXPENSES

(CZKm)	1H 2018	1H 2017
Wages and salaries	2,950	2,754
Salaries and other short-term benefits of senior management	46	45
Social security charges	982	936
Pension and similar expense	84	68
Other	89	66
	4,151	**3,869**

More information is available in the 2017 annual report.

12. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	1H 2018	1H 2017
Information technologies	1,210	1,133
Contribution to the Single Resolution Mechanism	568	546
Marketing	281	271
Rental expenses on land and buildings - minimum lease payments	271	279
Retail service fees	255	74
Other building expenses	234	221
Professional fees	231	213
Communication	201	190
Deposit Insurance Premium and contribution to the Securities Traders Guarantee fund	189	169
Travel and transportation	84	81
Administration	81	111
Payment cards and electronic banking	61	111
Training	41	36
Insurance	23	20
Car expenses	14	13
Other	175	80
	3,919	**3,548**

As a result of the new 10-year partnership agreement between ČSOB and Czech Post, proportion of expenses paid for the services of Czech Post included in Fee and commission expense (Note: 7) and in General administrative expenses changed.

13. IMPAIRMENT LOSSES

(CZKm)	1H 2018	1H 2017
Impairment of financial assets at amortised cost (Note: 18)	65	-
Impairment of loans and receivables (Note: 18)	-	136
Provisions for loan commitments and guarantees	17	(309)
Impairment of financial assets at fair value through OCI	1	-
Impairment of property, plant and equipment	(293)	(65)
Impairment of intangible assets	-	1
Impairment of other assets	(195)	(1)
	(405)	**(238)**

In 1H2018, impairment losses increased mainly due to the revaluation of tangible fixed assets (mainly cars) leased to customers under operating leases.

14. INCOME TAX

The components of income tax expense for the periods ended 30 June 2018 and 2017 are as follows:

(CZKm)	1H 2018	1H 2017
Current tax expense	1,453	1,616
Previous year over accrual	(7)	(23)
Net provisions for tax disputes	(42)	(20)
Deferred tax expense relating to the origination and reversal of temporary differences	188	281
	1,592	**1,854**

More information is available in the 2017 annual report.

15. DIVIDENDS PAID

Dividends are not accounted for until they have been ratified by a Resolution of the sole shareholder on a profit distribution.

Based on a sole shareholder decision from 25 April 2018, a dividend of CZK 52.46 per share was paid for 2017, representing a total dividend of CZK 15,356 m.

Based on a sole shareholder decision from 27 April 2017, a dividend of CZK 34.66 per share was paid for 2016, representing a total dividend of CZK 10,148 m.

16. CASH, BALANCES WITH CENTRAL BANKS AND OTHER DEMAND DEPOSITS

(CZKm)	30-06-2018	31-12-2017
Cash (Note: 33)	8,717	9,745
Mandatory minimum reserves (Notes: 33, 34, 40)	8,600	12,831
Other balances with central banks (Notes: 33, 34, 40)	5,917	30,435
Other demand deposits in credit institutions (Notes: 33, 34, 40)	2,439	1,488
	25,673	**54,499**

The Czech National Bank (CNB) pays interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate. The Group is obliged to keep the balance of mandatory minimum reserve, however it is allowed to use the reserve for a liquidity management purposes during the month. Given that fact, mandatory minimum reserve is assessed to be a cash equivalent by the Group.

Other balances with central banks contain overnight loans provided to central bank in the amount of CZK 3,300 m at 30 June 2018 (31 December 2017: CZK 27,250 m).

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	30-06-2018	31-12-2017
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 36)	1,369	39
Money market placements	1	-
Debt instruments		
General government	13,521	1,047
Credit institutions	2,235	2,263
Corporate	129	430
Derivative contracts (Note: 21)		
Trading derivatives	14,533	12,224
Derivatives used as economic hedges	171	233
Equity securities		
Credit institutions	5	-
Corporate	-	9
	31,964	**16,245**
Financial assets held for trading pledged as collateral		
Debt instruments		
General government	1,598	2,097
	1,598	**2,097**
Financial assets at fair value through profit or loss	**33,562**	**18,342**

Included within Financial assets at fair value through profit or loss are debt securities pledged as collateral in repo transactions or securities lending. Under the terms and conditions of the pledge in repo transactions or securities lending, the transferee has a right to sell or repledge the collateral.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(CZKm)	30-06-2018	31-12-2017
Financial assets at fair value through other comprehensive income		
Debt securities classified as stage 1		
General government	14,295	-
Credit institutions	1,143	-
Corporate	415	-
Equity securities		
Corporate	538	-
	16,391	**-**
Financial assets at fair value through other comprehensive income pledged as collateral		
Debt securities classified as stage 1		
General government	1,731	-
	1,731	**-**
Available-for-sale financial assets		
Debt securities		
General government	-	27,357
Credit institutions	-	1,248
Corporate	-	417
Equity securities		
Corporate	-	460
	-	**29,482**
Available-for-sale financial assets pledged as collateral		
Debt securities		
General government	-	3,893
Credit institutions	-	1,954
	-	**5,847**

Included within Financial assets at fair value through other comprehensive income pledged as collateral are debt securities pledged as collateral in repo transactions in the amount of CZK 1,396 m (2017: CZK 5,550 m) or securities lending in the amount of CZK 335 m (2017: CZK 297 m).
Under the terms and conditions of the pledge in repo transactions or securities lending, the transferee has a right to sell or repledge the collateral.

More information is available in the 2017 annual report.

19. FINANCIAL ASSETS AT AMORTISED COST

	30-06-2018			
(CZKm)	Stage 1	Stage 2	Stage 3	Total
Financial assets at amortised cost				
Debt securities				
General government	73,912	-	-	73,912
Credit institutions	4,399	-	-	4,399
Other legal entities	5,692	326	-	6,018
Debt securities – gross carrying amount	84,003	326	-	84,329
Allowance for impairment losses	(4)	(16)	-	(20)
	83,999	310	**-**	**84,309**
Loans and advances				
Central banks	593,092	-	-	593,092
General government	5,330	297	16	5,643
Credit institutions	6,592	632	-	7,224
Other legal entities	210,387	22,984	6,366	239,737
Private individuals	340,370	12,234	6,072	358,676
Loans and advances – gross carrying amount	1,155,771	36,147	12,454	1,204,372
Allowance for impairment losses	(658)	(1,312)	(7,281)	(9,251)
	1,155,113	**34,835**	**5,173**	**1,195,121**
Total financial assets at amortised cost	**1,239,112**	**35,145**	**5,173**	**1,279,430**
Financial assets at amortised cost pledged as collateral				
Debt securities				
General government	55,859	-	-	55,859
Credit institutions	1,981	-	-	1,981
Debt securities – gross amount	57,840	-	-	57,840
Allowance for impairment losses	-	-	-	-
Total financial assets at amortised cost pledged as collateral	**57,840**	**-**	**-**	**57,840**

(CZKm)	31-12-2017 Held-to-maturity investments	Loans and receivables	Total
Financial assets at amortised cost			
Debt securities			
Central banks	-	-	-
General government	84,455	160	84,615
Credit institutions	1,317	3,127	4,444
Other legal entities	834	5,274	6,108
Debt securities – gross carrying amount	86,606	8,561	95,167
Allowance for impairment losses	(2)	(1)	(3)
	86,604	**8,560**	**95,164**
Loans and advances			
Central banks	-	475,047	475,047
General government	-	5,874	5,874
Credit institutions	-	5,678	5,678
Other legal entities	-	228,144	228,144
Private individuals	-	347,928	347,928
Loans and advances – gross carrying amount	-	1,062,671	1,062,671
Allowance for impairment losses	-	(9,030)	(9,030)
	-	**1,053,641**	**1,053,641**
Total financial assets at amortised cost	**86,604**	**1,062,201**	**1,148,805**
Financial assets at amortised cost pledged as collateral			
Debt securities			
General government	29,017	-	29,017
Debt securities – gross amount	29,017	-	29,017
Allowance for impairment losses	-	-	-
Total financial assets at amortised cost pledged as collateral	**29,017**	**-**	**29,017**

Balances with central banks contain reverse repo transactions provided to central bank in the amount of CZK 593,092 m at 30 June 2018 (31 December 2017: CZK 475,047 m).

Included within Financial assets at amortised cost pledged as collateral are debt securities pledged as collateral in repo transactions in the amount of CZK 32,741 m (2017: CZK 15,753 m) or securities lending in the amount of CZK 25,099 m (2017: CZK 13,264 m). Under the terms and conditions of the pledge in repo transactions or securities lending, the transferee has a right to sell or repledge the collateral.

In June 2013, a part of the portfolio of debt sovereign bonds was transferred from the Available-for-sale financial assets to the portfolio of Held-to-maturity investments. Unrealised gains from the bonds at the date of the transfer ('frozen reserve') remained a part of the Available-for-sale reserve and was amortised to the interest income until the end of 2017. As part of the transition procedure, when IFRS 9 was implemented in the Group at the beginning of 2018, the remaining unamortised balance of the frozen reserve in the amount of CZK 238 m (Note: 2.5) was reversed from the equity of the Group. Accordingly, carrying amount of the transferred bonds was adjusted.

As at 30 June 2018, the Group possessed assets (mainly cars related to leased assets) with an estimated value of CZK 44 m (2017: CZK 42 m), which the Group is in the process of selling.

20.INVESTMENT IN ASSOCIATES AND JOINT VENTURES

Note available in the annual report only.

21.DERIVATIVE FINANCIAL INSTRUMENTS

Note available in the annual report only.

22.PROPERTY AND EQUIPMENT

Note available in the annual report only.

23.GOODWILL AND OTHER INTANGIBLE ASSETS

Note available in the annual report only.

24. NON-CURRENT ASSETS HELD-FOR-SALE

Note available in the annual report only.

25.OTHER ASSETS

Note available in the annual report only.

26.FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	30-06-2018	31-12-2017
Financial liabilities held for trading		
Short positions	7,512	12,952
Derivative contracts (Note: 21)		
Trading derivatives	11,797	13,867
Derivatives used as economic hedges	35	-
Term deposits	704	362
Repo transactions	2,375	2,108
Bonds and investment certificates issued	4,744	5,317
	27,167	**34,606**
Financial liabilities designated at fair value through profit or loss		
Investment certificates issued	10,111	9,498
Non-convertible bonds	2,535	-
	12,646	**9,498**
Financial liabilities at fair value through profit or loss	**39,813**	**44,104**

27.FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	30-06-2018	31-12-2017
Deposits received from credit institutions		
Current accounts and overnight deposits	17,983	36,196
Term deposits	47,832	10,296
Repo transactions	35,564	22,011
	101,379	**68,503**
Deposits received from other than credit institutions		
Current accounts and overnight deposits	539,919	506,522
Term deposits	40,700	11,806
Savings deposits	215,580	214,976
Pension funds clients deposits	45	51
Repo transactions	81,821	-
Other deposits	14,753	11,093
	892,818	**744,448**
Debt securities in issue		
Bonds issued	11,502	13,251
Promissory notes	301,042	336,885
	312,544	**350,136**
Financial liabilities at amortised cost	**1,306,741**	**1,163,087**

28. OTHER LIABILITIES

Note available in the annual report only.

29. PROVISIONS

Note available in the annual report only.

30. SHARE CAPITAL AND OTHER RESERVES

As at 30 June 2018, the total authorised share capital was CZK 5,855 m (31 December 2017: CZK 5,855 m) and comprised of 292,750,002 ordinary shares with a nominal value of CZK 20 each (31 December 2017: 292,750,002 ordinary shares with a nominal value of CZK 20 each) and is fully paid up.

No Treasury shares were held by the Group at 30 June 2018 and 31 December 2017.

On 30 June 2018, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100 % (31 December 2017: 100%). On the same date, KBC Bank was controlled by the KBC Group and therefore KBC Group was the company indirectly exercising ultimate control over the Bank.

Other reserves

The movement of Other reserves in 2018 and 2017 are as follows:

(CZKm)	Financial assets at fair value through OCI - revaluation reserve	Available-for-sale reserve	Cash flow hedge reserve	Total
At 1 January 2017	**-**	**2,228**	**1,973**	**4,201**
Other comprehensive income (Note: 31)	-	(464)	(594)	(1,058)
At 30 June 2017	**-**	**1,764**	**1,379**	**3,143**
At 31 December 2017	**-**	**1,490**	**496**	**1,986**
Impact of transition to IFRS 9	697	(1,490)	-	(793)
At 1 January 2018	**697**	**-**	**496**	**1,193**
Other comprehensive income (Note: 31)	(270)	-	(467)	(737)
At 30 June 2018	**427**	**-**	**29**	**456**

31. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Note available in the annual report only.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 30 June 2018 and 31 December 2017:

	30 June 2018			
(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	1,370	-	1,370
Debt instruments	12,475	478	2,932	15,885
Equity securities	5	-	-	5
Derivative contracts	-	14,196	508	14,704
Financial assets held for trading pledged as collateral				
Debt instruments	1,598	-	-	1,598
Financial assets at fair value through other comprehensive income				
Debt securities	14,372	228	1,253	15,853
Equity securities	-	-	538	538
Financial assets at fair value through other comprehensive income pledged as collateral				
Debt securities	941	-	790	1,731
Fair value adjustments of the hedged items in portfolio hedge	-	(4,979)	-	(4,979)
Derivatives used for hedging	-	8,993	-	8,993
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Short positions	7,512	-	-	7,512
Derivative contracts	-	11,494	338	11,832
Term deposits	-	704	-	704
Repo transactions	-	2,375	-	2,375
Bonds issued	-	-	4,744	4,744
Financial liabilities designated at fair value through profit or loss				
Debt instruments	-	-	12,646	12,646
Fair value adjustments of the hedged items in portfolio hedge	-	(5,369)	-	(5,369)
Derivatives used for hedging	-	11,135	-	11,135

(CZKm)	31 December 2017 Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	39	-	39
Debt instruments	133	318	3,289	3,740
Equity securities	9	-	-	9
Derivative contracts	-	12,257	200	12,457
Financial assets held for trading pledged as collateral				
Debt instruments	1,900	197	-	2,097
Available-for-sale financial assets				
Debt securities	27,446	231	1,345	29,022
Equity securities	-	-	460	460
Available-for-sale financial assets pledged as collateral				
Debt securities	3,118	-	2,729	5,847
Fair value adjustments of the hedged items in portfolio hedge	-	(4,298)	-	(4,298)
Derivatives used for hedging	-	9,113	-	9,113
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Short positions	12,952	-	-	12,952
Derivative contracts	-	13,787	80	13,867
Term deposits	-	362	-	362
Repo transactions	-	2,108	-	2,108
Bonds issued	-	5,317	-	5,317
Financial liabilities designated at fair value through profit or loss				
Debt instruments	-	2,545	6,953	9,498
Fair value adjustments of the hedged items in portfolio hedge	-	(3,803)	-	(3,803)
Derivatives used for hedging	-	10,485	-	10,485

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of financial assets which are recorded at fair value using valuation techniques based on non-market observable inputs:

(CZKm)	Financial assets held for trading		Available-for-sale financial assets / Financial assets at fair value through OCI (incl. assets pledged as collateral)		Total
	Debt securities	Financial derivatives	Debt securities	Equity securities	
At 1 January 2017	**3,382**	**100**	**4,427**	**416**	**8,325**
Total gains (losses) recorded in profit or loss	(151)	59	(95)	-	(187)
Total gains recorded in other comprehensive income	-	-	(99)	23	(76)
Purchases	724	77	55	-	856
Sales	(78)	-	-	-	(78)
Settlements	-	(62)	-	-	(62)
At 30 June 2017	**3,877**	**174**	**4,288**	**439**	**8,778**
Total gains or (losses) recorded in profit or loss related to assets held at the end of the reporting period	(175)	(3)	(95)	-	(273)
At 31 December 2017	**3,289**	**200**	**4,074**	**460**	**8,023**
Impact of transition to IFRS 9	-	-	(2,067)	-	(2,067)
At 1 January 2018	**3,289**	**200**	**2,007**	**460**	**5,956**
Total gains (losses) recorded in profit or loss	34	37	16	-	87
Total gains recorded in other comprehensive income	-	-	(148)	77	(71)
Transfers into level 3	-	343	-	-	343
Purchases	47	-	168	1	216
Sales	(438)	-	-	-	(438)
Settlements	-	(72)	-	-	(72)
At 30 June 2018	**2,932**	**508**	**2,043**	**538**	**6,021**
Total gains or (losses) recorded in profit or loss related to assets held at the end of the reporting period	36	37	16	-	89

The following table shows the reconciliation of the opening and closing amount of financial liabilities which are recorded at fair value using valuation techniques based on non-market observable inputs:

	Financial liabilities held for trading		Financial liabilities designated at fair value through profit or loss	Total
(CZKm)	Financial derivatives	Bonds issued	Investment certificates	
At 1 January 2017	**142**	**-**	**-**	**142**
Total losses recorded in profit or loss	(27)	-	-	(27)
Purchases	42	-	-	42
Settlements	(61)	-	-	(61)
At 30 June 2017	**96**	**-**	**-**	**96**
Total losses recorded in profit or loss related to liabilities held at the end of the reporting period	(88)	-	-	(88)
At 1 January 2018	**80**	**-**	**6,953**	**7,033**
Total losses recorded in profit or loss	133	-	(163)	(30)
Transfers into level 3	179	4,744	2,592	7,515
Purchases	-	-	4,542	4,542
Settlements	(54)	-	(1,278)	(1,332)
At 30 June 2018	**338**	**4,744**	**12,646**	**17,728**
Total losses recorded in profit or loss related to liabilities held at the end of the reporting period	133	(176)	(244)	(287)

Management considers the value of the credit spread included in the discount factor applied on estimated future cash flows from the mortgage bonds as a key assumption not derived from observable market inputs which is influencing the fair value of Level 3 financial instruments.

As at 30 June 2018, an increase / (decrease) of the credit spread by 50 basis points would (decrease) / increase the fair value of the mortgage bonds and bonds issued by ČEB included in level 3 by CZK 36 m and CZK 34 m, respectively. Such a change in the credit spread is based on the variability of bond quotes that were observed by the management on the market.

Investment certificate is a financial liability composed of term deposit and index linked option/swap. The Group valuates the certificates using valuation of the underlying option/swap component in combination with the calculation of the deposit component value. Valuation of the embedded derivative is based on model using market unobservable inputs, and as a consequence, the investment certificates are classified as Level 3 financial instruments.

Issued bonds held for trading are hybrid financial liabilities composed of the floating coupon rate bond and callable / puttable option. Valuation of the embedded derivative is based on model using market unobservable inputs, and as a consequence, the bonds are classified as Level 3 financial instruments.

Management believes that reasonably possible changes in other market non-observable inputs in the valuation models used would not have a material impact on the estimated fair values.

Transfers between Level 1 and 2 of the fair value hierarchy for financial instruments

There were no transfers between a group of financial instruments with a market quoted price (level 1) and those for which the fair value is calculated using valuation techniques based on market observable inputs (level 2) in 1H 2018 and 1H 2017.

More information is available in the 2017 annual report.

33. ADDITIONAL CASH FLOW INFORMATION

Analysis of the balances of cash and cash equivalents as shown in the statement of financial position

(CZKm)	30-06-2018	31-12-2017
Cash, balances with central banks and other demand deposits (Note: 16)	25,673	54,499
Loans and advances to credit institutions and central banks	593,206	477,454
Financial liabilities at amortised cost to credit institutions and central banks	(64,276)	(36,324)
Financial liabilities at amortised cost - repo transactions with general government bodies	(27,116)	-
Financial liabilities at amortised cost - promissory notes issued to credit institutions	(300,083)	(310,147)
Cash and cash equivalents	**227,404**	**185,482**

More information is available in the 2017 annual report.

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Note available in the annual report only.

35. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent assets

Information available in the annual report only.

Contingent liabilities and commitments

The contingent liabilities and commitments at 30 June 2018 and 31 December 2017 are as follows:

	30-06-2018				31-12-2017
(CZKm)	Stage 1	Stage 2	Stage 3	Total	Total
Loan commitments – irrevocable	120,195	6,391	331	126,917	125,527
Loan commitments – revocable	47,805	5,660	285	53,750	52,272
Financial guarantees	27,287	8,284	1,713	37,284	32,879
Other commitments	856	1,286	57	2,199	1,340
	196,143	**21,621**	**2,386**	**220,150**	**212,018**
Provisions for loan commitments and guarantees (Note: 29)	171	51	308	530	466

The contractual amounts described above represent the maximum credit risk that would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements.

Litigation

Information available in the annual report only.

Taxation

Information available in the annual report only.

Operating lease commitments (Group is the lessee)

Information available in the annual report only.

Operating lease receivables (Group is the lessor)

Information available in the annual report only.

36. REPURCHASE AGREEMENTS AND COLLATERAL

The following table shows an analysis of the loans the Group has made to counterparties in reverse repurchase agreements and loans, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, according to the lines of the statement of financial position in which they are included:

(CZKm)	30-06-2018	31-12-2017
Financial assets		
Financial assets held for trading	1,369	39
Financial assets at amortised cost	596,325	-
Loans and receivables	-	478,202
	597,694	**478,241**

Under reverse repurchase agreements, the Group obtains legal ownership of the respective collateral received and, thus, is permitted to use the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

Under loans, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral (collaterals of factoring loans), the Group obtains legal ownership of the respective collateral received and, thus, is permitted to use the same collateral. The Group has no obligations to return collateral to the borrower of the funds on maturity.

The fair value of financial assets accepted as collateral as at 30 June 2018 was CZK 624,925 m, of which CZK 100,700 m has been either sold or repledged (31 December 2017: CZK 495,932 m and CZK 30,703 m, respectively).

The following table shows an analysis of the loans the Group has received from counterparties in repurchase agreements according to the lines of the statement of financial position in which they are included:

(CZKm)	30-06-2018	31-12-2017
Financial liabilities		
Financial liabilities held for trading	2,375	2,108
Financial liabilities at amortised cost	117,385	22,011
	119,760	**24,119**

The Group contracts repo operations under the standard conditions currently applied on the market. Amounts of financial assets pledged as collateral in repo transactions and securities lending are described in Financial assets at fair value through profit or loss (Note: 17), and Financial assets at fair value through other comprehensive income (Note: 18) and Financial assets at amortised cost (Note: 19).

37. OFFSET FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Note available in the annual report only.

38. RELATED PARTY DISCLOSURES

In 1H 2018, volume of transaction with related parties significantly increased compared to 2017. The outstanding balances of assets and liabilities with counterparty KBC Bank are as follows: reverse repo transactions CZK Nil m (31 December 2017: CZK Nil), repo transactions CZK 22,379 m (31 December 2017: CZK 22,011 m) and promissory notes issued CZK 297,205 m (31 December 2017: CZK 317,254 m).

More information on related party transaction is available in the 2017 annual report.

39. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the end of the reporting period.

40. RISK MANAGEMENT

Note available in the annual report only.

41. CAPITAL

Note available in the annual report only.

Annex No. 2 to 1H 2018 ČSOB Activity Report

Companies of the ČSOB group (as at 30 June 2018)

ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital	Share of ČSOB in: Registered Capital – Total	Registered Capital – Direct	Registered Capital – Indirect	Voting Rights	Indirect Share of ČSOB via	Cons. EU IFRS
			CZK	%	%	%	%		Y/N
Controlled Companies									
63987686	**Bankovní informační technologie, s.r.o.** Automated data processing and software development; creation of a network of payment card reading terminals	Praha 5, Radlická 333/150	20,000,000	100.00	100.00	none	100.00	none	Y
27081907	**ČSOB Advisory, a.s.** Activity of entrepreneurial, financial, economic and organisation advisors	Praha 5, Radlická 333/150	2,000,000,000	100.00	100.00	none	100.00	none	Y
45794278	**ČSOB Factoring, a.s.** Factoring and related services	Praha 10, Benešovská 2538/40	70,800,000	100.00	100.00	none	100.00	none	Y
63998980	**ČSOB Leasing, a.s.** Leasing	Praha 4, Na Pankráci 310/60	3,050,000,000	100.00	100.00	none	100.00	none	Y
27151221	**ČSOB Leasing pojišťovací makléř, s.r.o.** Insurance broker	Praha 4, Na Pankráci 60/310	2,000,000	100.00	none	100.00	100.00	ČSOB Leasing	Y
61859265	**ČSOB Penzijní společnost, a. s., a member of the ČSOB group** Pension insurance	Praha 5, Radlická 333/150	300,000,000	100.00	100.00	none	100.00	none	Y
61251950	**Eurincasso, s.r.o.** Activity of economic and organisation advisors; recovery of receivables	Praha 10, Benešovská 2538/40	1,000,000	100.00	none	100.00	100.00	ČSOB Factoring	Y
13584324	**Hypoteční banka, a.s.** Mortgage banking	Praha 5, Radlická 333/150	5,076,336,000	100.00	100.00	none	100.00	none	Y
02623111	**SousedeCZ s.r.o.** Development of housing community network	Praha 5, Radlická 333/150	10,000	100.00	none	100.00	100.00	Hypoteční banka	Y
00000949	**MOTOKOV a.s. in liquidation** Wholesale of machines and technical equipment	Praha 5, Radlická 333/150	62,000,000	70.09	0.50	69.59	70.09	ČSOB Advisory	Y
26455064	**Patria Finance, a.s.** Securities trader	Praha 1, Jungmannova 745/24	150,000,000	100.00	100.00	none	100.00	none	Y
25671413	**Patria Corporate Finance, a.s.** Brokerage activities in financial consulting	Praha 1, Jungmannova 745/24	1,000,000	100.00	100.00	none	100.00	none	Y
05154197	**Patria investiční společnost, a.s.** Management of investment funds	Praha 1, Jungmannova 745/24	10,000,000	100.00	100.00	none	100.00	none	Y
00604054	**Burza cenných papierov v Bratislave, a.s.** Stock exchange activity	SR, Bratislava, Vysoká 17	296,756,208	11.77	11.77	none	11.77	none	Y
02451221	**Radlice Rozvojová, a.s.** Real estate activity; rent of flats and non-residential spaces	Praha 5, Radlická 333/150	186,000,000	100.00	100.00	none	100.00	none	Y
27388239	**Top-Pojištění.cz s.r.o.** Arranging insurance	Praha 4, Lomnického 1705/9	200,000	100.00	100.00	none	100.00	none	Y
24684295	**Ušetřeno.cz, s.r.o.** arranging loans, real estate activity	Praha 4, Jemnická 1138/1	1,000,000	100,00	100,00	none	100,00	none	Y
28188667	**Ušetřeno.cz Finanční služby, a.s.** arranging loans	Praha 4, Jemnická 1138/1	2,000,000	100,00	none	100,00	100,00	Ušetřeno.cz	Y

Joint Venture									
49241397	**Českomoravská stavební spořitelna, a.s.** Building savings bank	Praha 10, Vinohradská 3218/169	1,500,000,000	55.00	55.00	none	55.00	none	Y
Others									
26199696	**CBCB – Czech Banking Credit Bureau, a.s.** Software development, IT advisory, data processing, network administration databank services	Praha 4, Na Vítězné pláni 1719/4	1,200,000	20.00	20.00	none	20.00	none	Y
28985362	**ENGIE REN s.r.o.** Production and sale of electricity from the solar irradiation	Praha 4, Lhotecká 793/3	186,834,000	42.82	42.82	none	42.82	none	Y
25677888	**ČSOB Asset Management, a.s., investment company**[1)] Collective investment and asset management	Praha 5, Radlická 333/150	499,000,000	40.08	40.08	none	40.08	none	Y
45534306	**ČSOB Pojišťovna, a. s, a member of the ČSOB holding**[2)] Insurance company	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	2,796,248,000	0.24	0.24	none	40.00	none	Y
27479714	**ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB holding** Insurance brokerage	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	400,000	0.24	none	0.24	0.00	ČSOB Pojišťovna	Y
24776815	**STRM Delta, a.s.** Rent of flats and non-residential spaces	Praha 1, Vladislavova 1390/17	2,001,387	0.24	none	0.24	0.00	ČSOB Pojišťovna	Y
05815614	**Pardubická Rozvojová, a.s.** Rent of flats and non-residential spaces	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	2,000,000	0.24	none	0.24	0.00	ČSOB Pojišťovna	Y
45316619	**IP Exit, a.s.**[3)] – in bankruptcy No activity	Praha 1, Senovážné náměstí 32	13,382,866,400	85.63	71.29	14.34	85.63	ČSOB Advisory, ČSOB Pojišťovna	Y
63078104	**Premiéra TV, a.s.** No activity	Praha 8, Pod Hájkem 1	29,000,000	29.00	29.00	none	29.00	none	Y
26439395	**První certifikační autorita, a.s.** Certification services and administration	Praha 9 - Libeň, Podvinný mlýn 2178/6	20,000,000	23.25	23.25	none	23.25	none	Y
	Other companies where ČSOB has a share in registered capital / voting rights under 10%.								N

Prudential consolidation (Decree No. 163/2014 Coll.)

1) *Shares in registered capital: ČSOB 40.08%, KBC Participations Renta C 59.92%;*
shares in voting rights: ČSOB 40.08%, KBC Participations Renta C 59.92%.

2) *Shares in registered capital: ČSOB 0.24%, KBC Insurance 99.76%;*
shares in voting rights: ČSOB 40%, KBC Insurance 60%.

3) *Shares in registered capital: ČSOB 71.29%, ČSOB Advisory 14.34%, ČSOB Pojišťovna 0.11%;*
shares in voting rights: ČSOB 71.29%, ČSOB Advisory 14.34%.

Changes as at 30.6.2018

Ušetřeno.cz, s.r.o. - Acquisition of share in this company as of 3.4.2018

Annex No. 3 to 1H 2018 ČSOB Activity Report

ČSOB Organisation Chart (as at 30 June 2018)